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Lasertec Lasertac Corporation (Securities Code: 6920 JASDAQ)

Summary of Interview with President Watakabe

In way of following up the interim business results meeting on February 18, we interviewed Lasertec Corporation President Watanabe. The following is a summary of the interview conducted on March 24, 2009:

- Q. You've worked in the semiconductor business for quite some time. While the toll of the global financial and economic crisis on the semiconductor industry has been enormous, one cannot underestimate the concurrent impact of the mid- to long-term structural changes that the industry is undergoing. What are some of your perspectives over the mid- to long-term on the industry in transition?
- A. The semiconductor industry has a history spanning 60 years, of which the last three decades belong to the LSI era. While the chip market has traditionally been driven by generational changes of the silicon cycle that lasted three to four years, this growth cycle was disrupted from around ten years ago, when the memory market was marked by great turmoil as the Japanese DRAM suppliers withdrew from the market. The market structure in which the fabrication cost per bit had been reduced by some 24% per year through volume fabrication had thus collapsed, putting an end to a lucrative and robust product cycle, and older-generation memory chips continued to be sold despite their technical obsolescence. It spelled the demise of the so-called Moore's Law. In addition, while unit prices per bit have fallen sharply, development costs for leading-edge technologies and capital investment have soared in the pursuit of greater microminiaturization. This trend, in my view, has forced semiconductor company executives to focus on strategies that deliver tangible results from as small an investment as possible. In addition, chipmakers no longer extend financial support to develop systems to advance microminiaturization that are more expensive and do not lead directly to performance upgrades or application development. These industry-level changes have also affected the course of systems development. The semiconductor industry, however, has not totally abandoned the pursuit of advanced research and greater microminiaturization; rather, such work, as I see it, will be largely collaborative, with the major chipmakers partnering in consortiums and other joint ventures.

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- Q. With the pursuit of greater miniaturization losing momentum, what choices must semiconductor equipment suppliers make to deal with the trend?
- A. Although the semiconductor market is in the midst of a major structural shift, the industry itself remains in a growth phase and the scope of semiconductor applications is expanding even further. For example, the knowledge base created through liquid crystal and semiconductor applications are being spun off for medical instruments and photovoltaic-related devices, while a market for peripheral semiconductor devices such as power ICs is emerging. Moreover, we see a greater number of applications using SOC (system-on-chip) technology, which integrates multiple functions on a single chip. As with DRAMs, however, the SOC business risks becoming unprofitable if a large number of players enter the fray. I believe that not only the imperative to pursue advanced research and microminiaturization, but the development of new products for a broader array of applications, will grow in importance. I also expect the drive for leading-edge technological development carried out on a consortium basis, which I mentioned earlier, will spill over to the realm of wafer technology as well. Research to improve productivity, including ways to prevent wafer warping and DSV (digital sum value control technology to suppress low frequency components of modulated signals), will become equally important.

Personally, I feel the development of optical and optical-source technologies used for photolithographic equipment are vital. I believe ultraviolet technology will occupy a central position in this effort. This excludes vacuum ultraviolet rays because they are difficult to handle, while the wavelength of x-rays are too short and application hurdles too tall. The use of liquid immersion technology in the latest photolithographic systems makes eminent sense. To achieve higher levels of microminiaturization, it's best to develop technologies that are easy to use based on light, which is easy to control—it's that kind of thinking that I believe will be necessary in technology development in the years to come.

- Q. Because the choice, for example, of a specific optical wavelength to be used in developing photolithographic systems is crucial strategically, the decision-making of senior management plays a significant role. It is essential, then, to review the past in a clear, objective manner. What are your views on developing capable leaders in the semiconductor industry in the years ahead?
- A. As you pointed out, it is imperative for management to learn from the past and not repeat the mistakes that were made. With this lesson learned and the technology roadmap firmly understood, then it becomes easier to judge which technologies are viable and which are not. Every year, our Company holds a training course to study the history of the semiconductor business. The more the industry evolves, the more it undergoes structural segmentation. Given this situation, it is vital to

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have the ability to perceive these structural changes of the industry in their totality. It is crucial, then, to be able to develop such men and women.

Japanese management differs in the way it engages in business from that practiced in Europe and the United States. As is often cited, management in Japan has a stronger technology orientation. In contrast, U.S. and European executives tend to place greater emphasis on the business dimension to secure profitability. Take the case of ASML, the Dutch photolithographic equipment manufacturer whose business model is based on assembly, they procure materials and components worldwide and assemble them into simple, easily assembled systems. They differentiate themselves from competitors through their design capability, which focuses on improved yields and higher productivity. By purchasing the least costly materials and components and providing client chip companies with quality products, they have expanded market share. Japanese companies, on the other hand, tend to over-engineer their products to deliver superior performance. Such over-engineering arises from the companies' technological strengths, but unfortunately, precision engineering is only needed in a small number of production processes.

We need to aggressively adopt the superior elements of management practiced in both Japan and abroad, and strive to enhance profitability. This also holds true for our human resources development initiatives.

- Q. Given the views you stated above, how do you see the business strategy and corporate direction of your Company in the future?
- A. With the onset of the global financial and economic crisis, coupled with ongoing structural changes in the semiconductor industry, the needs of our clients have begun to change, which in turn have brought about changes in our Company as well. Among the things we've begun to do, to cite several examples: redesign our systems based on a fundamental understanding of essential needs; extend our parts procurement network on a global basis; and improve the efficiency of our logistics system. We are also reinforcing our sales force and engaging in initiatives to build customer confidence. For example, a client's development team may find it crucial to deepen a small-diameter hole of a silicon through-hole electrode, while its production team assigns paramount importance to raising batch yields. An aggregation of client needs thus occurs in the field, where a prototype that is being developed readily lends itself to user-friendly mass production. This aggregation process of realistic solutions is vital to product development. A sales force that works to aggregate client needs will be effective. Our WASAVI series patterned wafer inspection system can be counted among the products we developed in this manner. The application of optical technology to the wafer business represents one example in which we worked closely with our major clientele to enter a new market.

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As I see it, FY6/09 and the following fiscal year are crucial for our Company. We must determine which technological direction to take and execute product development on a timely, opportunistic manner that leads to business results. To achieve this, we are in the process of transforming our corporate mindset, to wean us from becoming crippled by past cases of success, to think outside the box and do the things that the conglomerates cannot do. In the past, we had a tendency of building in too many functions into a product as a result of paying too much attention to the whims of our clients, and the product would consequently become more susceptible to malfunctions. Today, we are in the midst of institutionalizing the capacity to aggregate our clients' needs and, by identifying the key common denominators, transform them into reality. In other words, we are setting up a system that is structurally simple, thereby enabling us to reduce costs, yet concurrently enhance quality.

I expect it will take a year before the changes in design and manufacturing that we've adopted will deliver better performance. The cost reductions that are achieved are likely to be two to three times greater than traditional cost reduction schemes. We have grown in size over the past several years. With the number of employees rising to more than 200, administrative costs have correspondingly increased. At the same time, however, we now employ more people than ever who possess the creativity to break through the confines of conventional thinking. Moving forward, our Company is committed to technology advancement, specializing in optical technologies as a core strength, while creating new markets and businesses. We will aggressively increase the number of clients that are attracted by our unique and exciting technology strengths.

End

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