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Disclaimer Concerning Forward-looking Statements

This booklet contains forward-looking statements that are based on Advantest’s current plans, estimations, strategies, and assumptions, and all statements not concerning historical facts are forward-looking statements on future performance. These are based on the judgments and assumptions made by the Company’s management based on information available at the time of the publication of the booklet.

Fluctuations occur in the semiconductor test system business that is Advantest’s principal line of business. Furthermore, significant elements that may impact performance include economic trends, sudden fluctuations in exchange rates and intensification of competition, and the risk of disaster. Due to these risks and uncertainties, the future performance of the Company may significantly differ from the details described in this booklet.

Therefore, the Company does not provide any assurances that the targets set in this booklet will be achieved.

Period and Scope of Report

The period covered by this report is the fiscal year 2018 (from April 1, 2018 to March 31, 2019). However, the periods before and after this period are also mentioned where necessary.

The scope (boundary) of data collection is all consolidated financial results unless stated otherwise.
Introduction

The Advantest Way

The technologies used in semiconductors and electronics are constantly evolving. To ensure consistent quality, the technology for testing and measuring semiconductors and electronics must always remain ahead of device development.

In the 65 years since Advantest was founded, we have continued to contribute to the advancement of society through quality assurance of electronics by developing and providing the cutting-edge measurement technologies required by the industries we serve at each point in time.

The environment surrounding the Company’s business is constantly undergoing intense change. The semiconductor industry changes, and technology evolves, at breakneck speed, and the expectations placed on the Company are also being significantly transformed by the acceleration of movements aimed at resolving global social issues.

Taking account of such social trends, the Company reviewed its corporate philosophy from the ground up and began implementing the new Advantest Way in July 2019.

This new Advantest Way is the cornerstone for pulling together the 5,000 employees of the Company working around the globe, and aims to refine the Company’s measurement technologies and resolve customers’ issues by providing products utilizing these technologies, ensuring that our company is one that customers need. Furthermore, by expanding the reach of our products, we will also contribute to creating a safer and more secure society, which is an underlying issue for our customers. Also, as a result of this, we will realize mid/long-term improvement of the corporate value of our Company.

Structure of the Advantest Way

The top three layers of the cone represent Advantest’s identity.

The three components at the base represent the foundations of the top three layers. (An overall view of the Mid/Long-Term Management Policy is shown in detail on page 27)

1. Mission: Why do we exist
   Enabling Leading-Edge Technologies
   We will continuously improve ourselves so that we can offer products and services that will satisfy our customers worldwide, and contribute to the development of our society through the development of the most advanced technologies.

2. Vision: What we want to be
   Adding Customer Value in an Evolving Semiconductor Value Chain
   Advantest will further contribute to the semiconductor industry by enriching, expanding, and integrating our test and measurement solutions throughout the entire semiconductor value chain.

3. Core Values: What we value most
   - Integrity* means honesty and truthfulness.
     - When you have integrity, it means being open, honest, and respectful at all times with all stakeholders.
   The value of Integrity can serve as a common thread uniting people of diverse cultures, religions, and viewpoints, and it is Advantest’s core value globally. The nine letters of INTEGRITY are the first letters of the following values that we consider important for us.

4. ESG For Sustainability
   We have distilled our initiatives for the sustained growth of the Company and society derived from the three perspectives of Environment (E), Social (S), and Governance (G) into seven statements.
   * See the Company’s webite for details.

5. Guiding Principle: Quest for the Essence
   We will invariably pursue the sources of phenomena and seek their essence, so that we can find the correct solutions.

6. Ethical Standards
   All officers and employees make a pledge to uphold the 17 items concerning laws, norms, and morals that we defend as members of society and business people.
   * See the Company’s website for details.
**Advantest’s 65-year History**

Since 1954, Advantest has provided leading-edge support to the high-tech industry with measurement solutions that enable inspired engineering and promote technological progress.

Our advanced technologies and services meet the needs of customers in diverse sectors, while contributing to the safety, security and comfort of end users around the globe.

At Advantest, we believe that reliability is the key to enhancing corporate value through sustainable growth.

### 1954-1970

**BUILDING FOUNDATIONS**

with electronic measurement technology

- 1954: Takeda Riken Industries is founded with four employees. The company’s first product is the Micro Micro Ammeter.
- 1957: Electronic Counter for measuring frequency becomes a hit product.
- 1963: The company launches the Digital Multimeter, the first Japan-made digital voltmeter. The company becomes known as “Takeda Riken, the digital counter company.”

The history of Advantest began in a 10 square-meter office and a 13-square-meter workshop in a corner of Tokyo. The company’s marketing strategy of gaining a first-mover advantage by releasing products utilizing creative technologies in niche markets, along with the growth of the Japanese electronics industry, led to steady growth from the time the company was founded.

### 1971-1980

**Aiming for further growth**

through expansion into the semiconductor test equipment market

- 1972: The company launches the first Japanese-made 10 MHz high-speed IC test system.
- 1979: The company launches a VL8 test system with a test frequency of 100 MHz, boasting the highest performance in the world.

When the semiconductor industry was still in its infancy, the company invested heavily in the development of semiconductor test equipment. Overcoming numerous difficulties such as technical problems and managerial crises, the company succeeded in developing a test system with world-class performance. It was very well received at ITC, an international test conference, which led to subsequent business success.

### 1981-2000

**Top of the industry and out into the world**

- 1982: The company establishes a local subsidiary in the United States, and facilities are later established elsewhere around the world.
- 1985: Company’s name is changed to Advantest Corporation.
- 1997: The company is ranked first in the “Nikkei Ranking of Excellent Companies.”

Backed by a high level of technology, the company’s semiconductor test equipment is supported by users worldwide. The company became the world’s leading semiconductor test equipment maker by market share in 1985 and was listed on the First Section of the Tokyo Stock Exchange that year. In the 1990s, the semiconductor industry grew rapidly due to the explosive spread of personal computers and the Internet. The company also experienced significant growth in earnings.

### 2001-2018

**Adapting to Changing Times**

with customers

- 2003: Acquires Japan Engineering Co., Ltd.
- 2008: Acquires Credence Systems GmbH.
- 2011: Acquires major semiconductor test equipment provider Veigy Ltd.
- 2018: Announces a Mid/Long-Term Management Policy
- 2019: Acquires semiconductor system level test business from Astronics Corporation

As the semiconductor industry underwent significant structural changes including specialization in design and manufacturing, the company executed numerous proactive moves such as M&A. In 2011, the company acquired Veigy, a major semiconductor test equipment manufacturer, establishing a broad and robust customer base. In 2018, the Mid/Long-Term Management Policy was announced, with the aim of creating new value in the semiconductor value chain.

**Introduction**

Overview Strategy Sustainability Governance Information
# Highlights in FY2018

## Consolidated Financial and Non-Financial Highlights

**(Each fiscal year begins on April 1)**

### Financial Highlights

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<tbody>
<tr>
<td>Net Sales (Billion yen)</td>
<td>159.9</td>
<td>155.9</td>
<td>162.1</td>
<td>163.8</td>
<td>163.8</td>
</tr>
<tr>
<td>Operating income (Billion yen)</td>
<td>13.9</td>
<td>12.6</td>
<td>12.8</td>
<td>10.2</td>
<td>10.2</td>
</tr>
<tr>
<td>Profit ratio (Billion yen/%)</td>
<td>8.9</td>
<td>9.2</td>
<td>7.6</td>
<td>6.8</td>
<td>10.3</td>
</tr>
<tr>
<td>Basic earnings per share (EPS) (Yen)</td>
<td>38.35</td>
<td>31.2</td>
<td>41.4</td>
<td>14.2</td>
<td>16.8</td>
</tr>
<tr>
<td>Free cash flow (Billion yen)</td>
<td>23.2</td>
<td>12.3</td>
<td>15.4</td>
<td>18.3</td>
<td>25.9</td>
</tr>
<tr>
<td>Total assets/shareholders' equity/ROE</td>
<td>304.6</td>
<td>293.5</td>
<td>295.5</td>
<td>296.9</td>
<td>309.7</td>
</tr>
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### Non-Financial Highlights

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<tbody>
<tr>
<td>Number of employees</td>
<td>4,251</td>
<td>4,149</td>
<td>4,176</td>
<td>4,620</td>
<td>4,744</td>
</tr>
<tr>
<td>Female employees as percentage of total workforce (%)</td>
<td>18.0</td>
<td>17.5</td>
<td>16.9</td>
<td>16.9</td>
<td>17.3</td>
</tr>
<tr>
<td>Occurrence rate of occupational accidents (Japan) (Frequency)</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Rate of improvement in per-unit energy consumption (Japan) (%)</td>
<td>15.6</td>
<td>19.6</td>
<td>18.9</td>
<td>12.0</td>
<td>12.0</td>
</tr>
<tr>
<td>Number of alleged incidents of dishonest acts (number of incidents)</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Number of patents (Patents)</td>
<td>3,201</td>
<td>2,971</td>
<td>2,743</td>
<td>2,687</td>
<td>2,531</td>
</tr>
</tbody>
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### Notes

- **R&D expenses/capex**: 29.9% YoY
- **Dividends per share**: 37.9% YoY
- **Growth in income also returned to shareholders**: 131.1% YoY
- **Net income/profit ratio**: 57.0% YoY
- **Steadily increasing**: 196.6% YoY
- **Operating income operating income margin**: 22.9% YoY
- **Significant increase achieved due to increased revenue**: 164.1% YoY
- **Steady expansion of Strategic R&D expenses/capex**: +196.6% YoY
- **Steadily increasing**: +19.8% YoY
- **Basic earnings per share (EPS)**
- **Free cash flow**
- **Number of personnel**: 4,744
- **Number of employees**: 4,744
- **Number of personnel**: 4,721
- **Number of employees**: 4,565
- **Number of personnel**: 4,638

**Source**: ADVANCE CORPORATION Annual Report 2019
“FY2018 was a good first year for achievement of the Mid/Long-Term Management Plan”

The fiscal year ended March 31, 2019, was an important year for gaining certainty about future growth. We achieved record levels of both sales and net income, and the tailwind provided by the market environment was not the only reason for this success. It was the result of progressively strengthening the SoC tester business in our core semiconductor testing business since the acquisition of Verigy in 2011. At the start of the fiscal year, we announced the first Grand Design (Mid/Long-Term Management Policy) since Advantest was founded. We are now making strong first steps towards achievement of our ten-year goals.

The semiconductor market has reached an inflection point, propelling the Advantest Group as well as the industry into new territory. The volume of data generated by new technologies such as AI, the IoT, and 5G (5th-generation mobile communications systems) has exceeded our expectations, and this explosion of data is predicted to propel the semiconductor market and thereby the semiconductor tester market to a new stage of growth.

Overseas companies have joined the Group through previous M&A deals, and overseas business now accounts for more than 95% of net sales, transforming the Group into an organization made up of members with more diverse backgrounds than at any time since Advantest was founded. We therefore resolved to internally and externally indicate our mid/long-term management direction and goals, and how Advantest will grasp the coming opportunities for growth that accompany change. Our announcement of a Grand Design looking ten years ahead was based on the desire to have our diverse employees work as a team and move together toward the same goal.

During the period until 2027, there will undoubtedly be ups and downs in market conditions and performance due to the nature of the semiconductor market. Prior to the announcement of this Mid/Long-Term Management Policy, there were already signs of trade friction between the United States and China. However, I believe that the evolution and increase in demand for semiconductors used in a variety of aspects of our lives for the improvement of quality of life and the advancement of society cannot be stopped by anyone. In this sense, no matter what happens, semiconductors will be built somewhere by someone, and will need to be tested somewhere by someone. The Grand Design estimates that the growth rate of the semiconductor market over ten years will be the same as the growth rate of global GDP at 4%, and establishes a base scenario that the semiconductor tester market will also grow at a rate of 4%, and a conservative scenario of zero growth.

FY2018 Results

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>282.5bn</td>
<td>UP 36.3% year-on-year</td>
</tr>
<tr>
<td>Operating income</td>
<td>64.7bn</td>
<td>UP 2.6 times year-on-year</td>
</tr>
<tr>
<td>Operating margin</td>
<td>22.9%</td>
<td>UP 11.1 points year-on-year</td>
</tr>
<tr>
<td>Net income</td>
<td>57.0bn</td>
<td>UP 3.1 times year-on-year</td>
</tr>
<tr>
<td>ROE</td>
<td>35.3%</td>
<td>UP 19.8 points year-on-year</td>
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Advantest’s future business model as depicted in the Grand Design

Future challenges

Advantest’s core business has shifted with the times, from the electronic measurement instruments business until the 1980s, to the semiconductor tester business since the 1990s. However, even if the content of our business changes, we have consistently utilized our core measurement technologies based on our management philosophy of contributing to the advancement of society through advanced technology. The vision presented in our Grand Design reafirms this management philosophy and applies it specifically to the semiconductor tester business, which will be our focus over the next ten years.

Capture of adjacent businesses centered on test solutions

The semiconductor tester business is surrounded by businesses that Advantest has not placed much emphasis upon in the past, and many related businesses that we have not worked on. If we not only delve deeper into our core tester business but also provide our customers with test solutions in adjacent areas and all related businesses, we will be able to further increase customer loyalty to the Company and achieve greater growth.

Semiconductor applications are no longer limited to familiar electronic devices, but are expanding to social infrastructure such as transportation systems, telecommunications, medicine, finance and energy systems. A wide variety of semiconductors now have higher performance, meaning stringent and difficult tests are needed to ensure their reliability. Not many companies can meet the various needs of customers. Our vision of expanding business in the continually evolving semiconductor value chain also makes it possible to meet the expectations of customers.

Increasing the value of after-sales services

As long as the test business involves both the development of semiconductor tester hardware and the sale of software, ups and downs affect by the capital investment budgets of customers cannot be avoided. Our current business model is operating smoothly, but we would like to move closer to a stable business model that minimizes the impact of ups and downs on performance. The impact of fluctuations can definitely be reduced if we can turn services into subscriptions. Our customers are all enormous companies that are accustomed to treating tester equipment and software as fixed assets. Although we have commenced “Test as a service” initiatives and these have been implemented in some areas, we are prepared for the broader spread and transition to take time. Meanwhile, we also intend to focus on the sale of consumables that support stable revenue. Advantest has many points of contact with customers, so we know what kind of consumables they require, and this is a strength we can leverage.

We have presented six commitments for the realization of our vision. These six are interrelated. In particular, 1, 2 and 3 overlap with our current core competencies (see page 15 of the report for details) and are points that we wish to further strengthen over the next decade. For this, we emphasize a commitment to being a “learning organization.”

Until now, Advantest has had an “in-house” mindset of establishing the necessary knowledge within the company. However, in order to realize the Grand Design, we must move with greater agility to acquire new markets, and respond to trends in technological innovation. We will proceed to create value through partnerships, etc. by working with external companies that possess knowledge about AI, etc. that Advantest does not have. Furthermore, we want our employees to adapt a posture of learning about future businesses through their dealings with customers that possess the latest technology.

Meanwhile, we also recognize that our robust financial base is the reason we were able to overcome the crisis of sales being reduced by one-fifth in the past and survive while many competitors went under, and we affirm that maintaining our financial base is a necessary condition for future business growth.

Four growth strategies aimed at realization of the Grand Design

Strengthening of personnel and organizations supporting business growth

In order to achieve the revenue scenario outlined in the Grand Design, we will execute growth strategies under four themes: “reinforce core business,” “invest strategically,” “seek operational excellence,” “explore value to reach a higher level,” and “pioneer new business fields.”
**CEO Message**

**Message from the CEO**

**Grand Design Strategies**

1. Reinforce core businesses, invest strategically
2. Seek operational excellence
3. Explore value to reach a higher level
4. Pioneer new business fields

“Our priorities for strategic growth investment are as follows: capital investment, development investment, and the greatest investment of all, human resources.”

“Our tester business has reached its current scale after 30 years. We will utilize electronic measurement technology to carefully develop new businesses.”

Strengthening our core semiconductor tester business and capturing adjacent businesses is the main objective of the Grand Design. As part of this, we have fully integrated our tester development organization and processes, which were previously broken up by product and region. The aim is to reduce development time by streamlining the development process.

In fact, Advantest has little need to make large capital investments for increasing production, and investment in development materials is not very large either. Conversely, human resource investment accounts for a large percentage.

Advantest has made personnel cuts on three occasions during the dot-com crash and the global financial crisis in the 2000s. We have had a very cautious approach to personnel increases, and have conducted business with a very lean organization.

However, the SoC tester business that the Company has been strengthening requires, by its nature, development of testers, promotion, and ongoing after-sales customer support. In addition to the wide diversity of SoC products, it is necessary to deal with a large number of locations operated by diverse overseas customers. For this reason, it is essential for us to add system engineers, application engineers and field service personnel. Since this is a business model that does not work without people, we have already bolstered our ranks this fiscal year. Looking ahead, we will focus on securing engineering personnel with different skills than in the past to provide new solutions in areas such as 5G.

Seeking operational excellence is a decision to aim to improve the efficiency and quality of management and internal processes, inevitably through trial and error, because there are almost no precedents for business models in the tester business characterized by large fluctuations in demand. We will proceed with initiatives tailored to Advantest’s unique value creation, such as business management based on ROC (Return on invested capital), improvement of business efficiency through the utilization of IT, and improvement of the working environment.

Exploring value to reach higher is a theme related to the transformation of our business model. We will increase services with greater growth and profitability by promoting the service model, while utilizing knowledge from outside the company to expand our solutions portfolio through the introduction of new technologies such as AI and data analysis. In 2018, we launched an organization called the Applied Research & Venture Team with the aim of obtaining knowledge that will lead to future growth, and established a structure for promoting collaboration with universities and research institutes worldwide.

Pioneering new business fields is a theme that will open up business in areas other than semiconductor testing, such as utilizing Advantest’s electronic measurement technology in medical devices and biotechnology equipment. We have established a department called the New Concept Product Initiative to conduct these initiatives.

Contribute to a sustainable society through business

Strengthening our foundation for enhancement of long-term corporate value by building up our ESG track record

We believe that our main contribution to society is, above all else, ensuring the safety and reliability of semiconductors that form the foundation of social infrastructure through our tester business. I occasionally bring up the phrase “Tested by Advantest” to communicate to employees that the expansion of our business will make the world a safer and better place.

The Company’s environmental initiatives also have a similar aspect. Advantest’s business activities themselves do not have a very large impact on the environment, and the development and production of tester equipment does not directly pollute the water or air. For this reason, the Group emphasizes indirectly reducing our impact on the environment through the development of products that lead to reduced energy consumption by customers.

In addition, we have also continually taken initiatives related to human financing. As mentioned earlier, we have been through some tough periods over the past 20 years in terms of revenue when our net sales, after peaked at 250 billion yen, shrank by one-third and nearly one-fifth. Even under these circumstances, we have supported activities leading to the development and improvement of human resources in the Japanese semiconductor industry as a whole, such as donating to the University of Tokyo VLSI Design and Education Center (VDIEC), supporting semiconductor engineer examinations through the Power Device Enabling Association, and providing support for the publication of research by junior technical colleges at SEMICON Japan. We also hold science classes for elementary school students every year at our Gunma R&D Center and in Sendai, where we have a research facility. It is our desire to help more people find meaning and develop their potential in the semiconductor industry and related areas.

We are continuing to strengthen our corporate governance. Regarding the diversity of our Board of Directors, we have already appointed non-Japanese directors and a female director, and make a point of providing an environment for open and vigorous discussion. Approximately half of the company’s executive officers are non-Japanese nationals. One challenge we face is determining how to increase effectiveness as we establish this structure. In risk management, we also recognize that there are more risks that we need to address when conducting global business (see page 39 for details). We intend to establish a structure for companywide initiatives.

On July 1, 2019, the date when we celebrate the anniversary of the founding of the company, we updated the Advantest Way, which is the foundation of the Group’s corporate culture. We also used English to establish “INTEGRITY” as our new core value to ensure it can be easily shared among the 5,000 members of the Group in Japan and overseas. We will focus on upgrading Advantest’s corporate culture to motivate employees to achieve our Grand Design.

I know that our stakeholders can expect Advantest to create ample value in the future.
Advantest’s Business Model for Making Continuous Contributions to Customers and Society

The performance of semiconductors is constantly evolving. Semiconductor test technology enables the efficient visualization of semiconductor performance and reliability by measuring electricity, an invisible phenomenon, which determines performance with a high level of precision. The value of test technology changes with the times, but the test process has been important since the dawn of the semiconductor market, and Advantest’s core business model has remained essentially unchanged.

**Long-term Management Policy Grand Design (FY2018-FY2027)**

- **Mid-Term Management Plan (FY2018-FY2020)**
  - Semiconductor tester sales to customers: Approx. 1,800 units
  - Products certified as green products: over 90%
  - Dividends to shareholders: 92 yen per share
  - Free cash flow: 28.9 billion yen

**Output**

- Semiconductor testers
- Peripheral devices / consumables
- Mechatronics
- Field Service Solution

**Input**

- Semiconductor test technology enables the efficient visualization of semiconductor performance and reliability by measuring electricity, an invisible phenomenon, which determines performance with a high level of precision.

**Foundation and competitive advantages underlying Advantest’s growth**

- Partnerships and protective business moats created by the industry’s largest customer base and an amassed wealth of tangible and intangible assets originating from Advantest that are held by customers
- Ability to offer comprehensive solutions related to high-precision electronic measurement technology and test with a track record of over 50 years, and a correspondingly rich product portfolio covering all kinds of semiconductor test

**Corporate Governance**

- A sound financial base, and the R&D activities that this enables from a long-term perspective (R&D expenses: 37.9 billion yen (FY2018 actual))
During FY2018, the global economy has so far maintained its growth trajectory overall and demand for performance improvements in electronic end-products such as data servers, smartphones, displays, and car electronics has remained steady, promoting improved performance, reliability and an increase in the production volumes of the semiconductors used in these products. On the other hand, concerns about the future of the global economy have grown since the autumn of 2019 due to the expansion of protectionist trade policies, among other factors. Reflecting trends in the global economy, the sense of a slowdown in data center investment and in smartphones—the markets that have led the growth of semiconductors and related industries for the last few years—has intensified. As a result, major semiconductor manufacturers have cut back on their capital investment plans and moved towards substantial inventory adjustments.

In this business environment, Advantest expanded our market share by demonstrating our strength as the vendor with the most comprehensive product portfolio in the semiconductor test equipment industry, and capturing demand for new products from a broad range of customers. Furthermore, profitability also substantially improved through endeavors to maintain and improve the efficiency of business operations as sales grew.

At present, many semiconductor manufacturing sites are concentrated in Asian countries due to the horizontal specialization of design and manufacturing in the semiconductor market. Reflecting this industry trend, sales to Asia accounted for a large portion of Advantest’s sales in FY2018. In particular, sales increased in Taiwan, China, and South Korea, where there are many large producers of SoC semiconductors.

### Sales Conditions by Region (by Destination)

At present, many semiconductor manufacturing sites are concentrated in Asian countries due to the horizontal specialization of design and manufacturing in the semiconductor market. Reflecting this industry trend, sales to Asia accounted for a large portion of Advantest’s sales in FY2018. In particular, sales increased in Taiwan, China, and South Korea, where there are many large producers of SoC semiconductors.
Despite the trend towards inventory adjustments in the semiconductor market, semiconductor manufacturers maintained production at high levels, resulting in stable demand for our maintenance services. As a result, segment income for this division was also stable.

In February 2019, Advantest completed its acquisition of the system level test business of US-based Avantest Corporation for USD 100 million, and the results of that business are recorded in this segment. The impact of the acquisition on results for FY2018 was minor.

In this segment, sales of device interface products, which are closely linked to our memory test business, were strong, buoyed by a high level of investment in test equipment by memory semiconductor manufacturers. However, sales softened in our non-semiconductor business, which provides measurement instruments for advanced manufacturing processes, owing to the timing of major semiconductor manufacturers’ process shrink investment schedules. Furthermore, the segment continued to record a segment loss due to an increase in the cost of sales.
Our Products & Services

Product Portfolio

Semiconductor & Component Test System Business

This division provides test systems that automatically perform electrical tests of semiconductors to evaluate quality, performance and reliability. This is the company’s main business, which has secured the world’s leading market share.

SoC Test Systems

These utilize a modular structure enabling changes in system configuration through board replacement to perform a wide range of tests on diverse SoC devices.

Main target devices

<table>
<thead>
<tr>
<th>Application processors</th>
<th>Display driver ICs</th>
</tr>
</thead>
<tbody>
<tr>
<td>I/Os for communication devices</td>
<td>MCUs and standard logic ICs</td>
</tr>
<tr>
<td>High-performance computing (HPC)</td>
<td>Power management ICs (PMIC)</td>
</tr>
<tr>
<td>CMOS image sensors</td>
<td>Analog / mixed-signal ICs</td>
</tr>
</tbody>
</table>

Multiple module boards with separate electronic measurement capabilities are housed in the test head.

By changing the combination of modules, diverse devices can be tested with a single test system.

Memory Test Systems

These specialize in testing memory semiconductors and maximize testing efficiency by simultaneously measuring a large number of semiconductors at high speed. Advantest’s line-up also includes burn-in systems for simultaneously conducting burn-in tests to identify initial failures of semiconductors.

Main target devices

| DRAM | Non-volatile memory |

SoC Test Systems

| T6391 Test System |
| T5830 Memory Test System for High-speed DRAM Test |
| T5300 Memory Test System for High-speed Non-Volatile Memory Test |

Nanotechnology Products

Semiconductor circuits are written on wafers and measured using electron beams. This contributes to the miniaturization of circuits in advanced semiconductor wafer processes.

Leading Edge Products

These systems test semiconductor devices on a product and system level. SLT meets new testing demands for increasingly complex electronic devices, and Advantest’s testing and measurement solutions expand the overall semiconductor value chain.

SoC Test Systems

| T5503HS2 Memory Test System for High-speed DRAM Test |

Test Handlers

These rapidly transport semiconductor packages to test systems, and automatically separate defective and non-defective products according to test results. They provide the precise transport positioning that supports the miniaturization of semiconductors, and high-speed test temperature control functionality.

Device Interfaces

This is a collective term referring to the tools for electrically and mechanically connecting semiconductors to test systems. Demand for these products arises when changing the type of test device or when the device interface itself is subject to wear.

Non-volatile memory

Field Services

Engineers worldwide provide support for customer needs ranging from the installation, maintenance and repair of systems to the improvement of operating rates and throughput.

Leasing and Sales of Used Products

We offer the added value that only a tester manufacturer can provide, such as refurbishing used products to the same level as new products, high-quality relocation and launch, and the addition of functions.

Main target devices

| DRAM | Non-volatile memory |

Device Interfaces

| F7000 EB (Electron Beam) Lithography System |

T5830 Memory Test System for High-speed Non-Volatile Memory Test
Semiconductors are integrated into innumerable widely-used end products. During the semiconductor test process, test systems pass high-precision electrical signals through devices to test whether they work properly and have the required performance and durability.

Semiconductors driving social evolution

Semiconductor growth has been supported by Moore's law and the consequent reduction of chip size, increased speed of operation, and reduced power consumption. In addition, these advances have greatly contributed to progress in the functionality and performance of electronics. In the future, innovative technologies such as EUV lithography (technology for writing circuits using extremely short ultraviolet wavelengths) and 3D layering of circuits will further increase the performance of semiconductors, expanding their applications yet more.


Semiconductors can be broadly classified into memory devices, for storing data, and system-on-chip devices (SoCs,) which refers to devices other than memory for uses such as computation, communications, data sensing, and audio. Many SoCs incorporate various functions into a single semiconductor. The types of semiconductors and corresponding testers are described below.

Memory Semiconductors

Semiconductors specializing in storing and remembering data.

- **Non-volatile memory**
  - Used as memory for computers and smartphones due to its ability to retain data even when the power is cut.
  - The most common type of NVM is NAND flash memory, and there are also devices called NOR that are used for storing software, etc.

- **DRAM**
  - Capable of high-speed operation and mainly used as the memory of computers and smartphones. While DRAM operates at high speed, data is lost if the power is cut.

[Corresponding testers] T5503HS2, T5830, T5833, B6700, etc.

SoC Semiconductors

Semiconductors that perform various processing tasks such as computation, communication, data sensing, and audio. Many SoCs incorporate various functions into a single semiconductor. The types of SoCs and corresponding testers are described below.

- **Application processors (AP)**
  - Control the main operations of smartphones.

- **ICs for communication devices**
  - A general term for baseband processors and RF transceivers for wireless communication of data.

- **Microprocessors/Microcontrollers (MPU/MCU)**
  - Controllers for various devices such as servers, personal computers, and automobiles.

- **GPUs**
  - Excellent for high-speed graphic processing for games, etc., and also used in AI due to their high computational performance.

- **CMOS image sensors**
  - Convert different strengths of light into electrical signals to create images. They are the semiconductors that provide camera functions.

- **Display driver ICs (DDI)**
  - Control the displays of devices such as smartphones and televisions.

[Corresponding testers] V93000, T2000, T6391, etc.
The Role of Semiconductor Testers

Semiconductor testers breathe life into semiconductors made through a long process of design, simulation, characterization and manufacturing by passing high-precision electrical signals through them to test whether they work and also whether they have the prescribed performance and durability, therefore our business opportunities widely come from design to mass production of semiconductors. This is aimed at not only sorting out good devices from defective ones, but also improving customer value by contributing to their time to market as product cycles grow shorter and volume at launch increases for end-products such as smartphones.

Drivers of the Semiconductor Tester Business

Semiconductor tester business opportunities are mainly driven by the following factors.

1. Expansion of semiconductor production volume (capacity buys)
2. Evolution of semiconductor technology/migration to next-generation standards (technology buys)
3. Digital Transformation (expand to car electronics, IoT)
4. Increasing demand on reliability of semiconductor as a part of social infrastructure

Contribution to Time to Market

Contribution to Time to Volume

Contribution to Time to Quality

Tester Markets and Sales

(Source: VLSI Research, Advantest)
Our strategy

Overview of the Mid/Long-Term Management Policy (FY2018-FY2027)

We announced our Mid/Long-Term Management Policy in April 2018. This comprises our Grand Design (next ten years) and the Mid-term Plan (initial three years). The progress of the digital transformation, which gives semiconductors a greater role in society, is dramatically changing Advantest’s business environment, and we expect demand for semiconductors will increase in the future. The Management Policy was established to ensure that we capture these business opportunities.

| Business Environment (Megatrends and Changes in the Semiconductor Test Market) |

Rapid population growth, urbanization, and globalization, in addition to climate change and security issues, are giving rise to serious social problems today. The “digital revolution” uses semiconductors to solve these social problems, and is driven by the spread and penetration of active technology and processing of so-called Big Data. As shown in Figure 2, the volume of data creation is expected to grow at an accelerating rate in the future, and this data explosion will open new vistas for the semiconductor industry.

In the past, demand for semiconductors was driven by demand for end products such as mainframe computers, digital cameras, personal computers, and smartphones. However, future demand for semiconductors will mainly be supported by data itself, rather than hardware terminals. As semiconductors handling data—a source of value—become more sophisticated and more complex with larger capacities, which will require reinforcement of testing (more test items and longer test times).

In short, the rapidly growing volume of data due to the data explosion will drive semiconductor production volumes, and along with the need for higher reliability due to semiconductors becoming more complex and sophisticated, this will lead to further growth of semiconductor market.

| Grand Design |

Our Grand Design is a ten-year management policy for ensuring that the above megatrends can be linked to acquiring business opportunities. Its vision statement is “Adding Customer Value in an Evolving Semiconductor Value Chain.” Currently, our business domain is testers and test environments for the semiconductor production test market, as shown in Figure 1. We will grow our business by expanding into peripheral markets such as upstream design and evaluation processes and downstream product and system-level processes.

We have established six “commitments” as strategic guidelines for realizing this vision.

1. Be the No.1 provider of test & measurement solutions
2. Partner with leading-edge customers
3. Develop leading-edge technologies
4. Attract and retain the best talent in the industry
5. Learning organization
6. Improve financial KPI and increase corporate value

We have also formulated four strategies for the achievement of the vision.

| Growth Scenarios |

We think the semiconductor market will grow at a rate of 4% per year over the next 10 years based on various market surveys. We also assume that the size of the semiconductor tester market will similarly grow at a rate of 4% per year, and that we can reach net sales of 400 billion yen per year a decade from now in FY 2027, considering the strengthening and expansion of our core business as well as the acquisition of peripheral markets by means including M&A. This is our base scenario. In addition, we have considered a conservative case in which we think we can aim for sales of 300 billion yen even if the tester market does not grow, although the semiconductor market does. In either case, we aim to expand our market share in the tester market by one point every year by focusing on future growth fields and strengthening partnerships with customers.

The above is our long-term Grand Design forecasting the next ten years. Our Mid-Term Plan details concrete plans that apply to the initial three years, starting in 2018. This is introduced on the following page.
Mid-Term Plan (FY2018-FY2020)

We have formulated and are executing a Mid-Term Plan for the next three years in order to realize our Grand Design (Long-Term Management Policy).

Approach to the Mid-Term Plan

As mentioned when describing the Grand Design, we forecast substantial growth in tester demand over the next ten years, but the semiconductor manufacturing equipment industry tends to have cyclical growth in which it undergoes repeated ups and downs rather than steady annual growth. For this reason, we have established a target for average growth over three years instead of establishing numerical targets for each fiscal year in our initial Mid-Term Plan starting in FY2018. We have assumed the above conservative case and base scenario. As mentioned earlier (p.28), we have assumed that we will increase our market share at a rate of one point every year under both scenarios.

The Advantest's strengths to increase our share in the semiconductor tester market are as follows.

- Highly scalable modular architecture platforms
- Dominant position in growth areas
- Unparalleled customer base nurtured over many years
- Greater presence in the growing Asia market
- We offer complete test environments including device I/F peripherals
- Global No.1 Product Portfolio
- Global No.1 Customer Base
- Total Test Solutions Including Peripherals, Global Support

Management Metrics (KPIs)

Keeping in mind improvement of corporate value while remaining aware of both improvement in profit and loss and efficient utilization of capital, Advantest has determined key management metrics during the Mid-Term Plan period: sales, operating margin, return on equity (ROE), and earnings per share (EPS).

Each of these KPIs (three-year averages) are shown below. (Reference: actuals for the year ended March 31, 2019, greatly exceeded all KPIs in the base scenario, making it a solid first year.)

<table>
<thead>
<tr>
<th>Management Metrics</th>
<th>Conservative Case</th>
<th>Base Scenario</th>
<th>Result of FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yearly tester market growth ratio</td>
<td>FY15-17 Avg.</td>
<td>FY18-20 Avg.</td>
<td>Result of FY18</td>
</tr>
<tr>
<td>Sales (Billion yen)</td>
<td>230.0</td>
<td>250.0</td>
<td>292.5</td>
</tr>
<tr>
<td>Operating margin</td>
<td>18%</td>
<td>17%</td>
<td>22.9%</td>
</tr>
<tr>
<td>ROE</td>
<td>18%</td>
<td>18%</td>
<td>36.3%</td>
</tr>
<tr>
<td>EPS</td>
<td>¥135</td>
<td>¥170</td>
<td>¥202</td>
</tr>
</tbody>
</table>

Main Initiatives

- **Semiconductor and Component Test System Segment**
  - Pioneering the capture of the wave of increasingly complex and sophisticated next-generation test demand for applications such as HPC (High-Performance Computing) and 5G communication
  - Maintaining a robust business foundation in DRA (Dynamic Random Access) and NVM (Non-volatile Memory)

- **Mechatronics System Segment**
  - Expansion of sales opportunities by providing solutions integrated with testers, and catering to demand for advanced test environments

- **Services, Support and Others**
  - Increased post-sales revenue through initiatives such as catering to the need for factory automation, expansion of SSD tester sales, and expansion into peripheral markets through M&A

- **Strengthening Business Management**
  - Strengthening business management and introducing business management and evaluation tools based on ROIC (return on invested capital ratio) for internal business performance evaluation

Financial Policy & Shareholder Returns

Sustaining a Healthy Financial Status

- Stable Free Cash Flow
  - Create ¥85B – ¥100B of cash flow in 3 years

Minimum Cash Reserves

- Hold ¥50B – ¥60B for stable business

R&D Investments

- Continuous R&D investments of more than ¥30B annually

M&A Investment Frame

- ¥100B

Shareholders Return

- Enhance Corporate Value through Mid-Term Investment

R&D Investments

- Diversity of Board of Directors (nationality, gender)

Enhance Corporate Governance

- Start performance-based stock remuneration plan

Internal Business Management

- Introduction of ROIC-based tools for internal business management

Human Resources Investment

- Foster global, frontier personnel

- Innovative workstyles

Towards the Next Level

- Next wave business research team creation

- Greater involvement with customer processes in search of test solutions for each process

- AI data analysis introduction and utilization

- Explore ways to win more recurring business
Financial Strategy

Financial Strategy - CFO Message

Implementing a rapid-response financial strategy while balancing offense and defense

Since joining Advantest in 1983, in addition to my eight years working overseas, I have worked mainly in the accounting department as well as human resources and the general affairs department of our administrative division. Generally, the administrative division tends to have a conservative approach in terms of doing things as they have been done in the past, but mindful of the Company’s guiding principle of “Quest for the Essence,” I consciously aimed to incorporate ideas and initiatives not previously used within the Company, such as a performance evaluation system based on return on invested capital (ROIC), an accounting system using a single global platform, and a global cash management system, while considering trends in society at large. Our basic financial policy is to maximize cash flow by seeking profitability and efficiency based on ROIC, with the basic stance of determining the direction of our corporate management according to “The Advantest Way,” which defines the Company’s mission, vision, and core values founded upon the continuation of the Company’s business to support the quality assurance of semiconductors, which can now be considered social infrastructure. I believe that our greatest challenge is to further increase shareholder value by sharing our business profits with stakeholders as shareholder returns while also allocating it to activities for growing our business and fulfilling our responsibilities to society. As the CFO of Advantest, my specific roles are to increase corporate value through evaluating our business, and to allocate and manage assets for global development, evaluating new investments such as M&A and new developments, and to engage with institutional investors. I constantly seek the best approach to increase Advantest’s corporate value and adopt strategies that meet the needs of the moment.

Basic Financial Policy and My Role as CFO

Financial Approach for the Grand Design

In April 2018, the Company announced its Grand Design for the next decade. As depicted in the Grand Design, semiconductor applications and demand are rapidly expanding, backed by the data explosion, and this is establishing an environment for further growth of the Company’s...

Enhance corporate value

The Advantest Way

Maximization of cash flow

- Revenue per employee
  - Target: 50 million yen
- Cash Flow Conversion Cycle
  - Target: 100 days
- Shareholder returns
  - Dividends
  - Purchase of treasury stock
- Growth
  - Research and development investment
  - M&A
- Efficiency
  - ROIC
  - Target: Positive spread

Financial soundness for business continuity
Advantest Corporation

Introduction Overview Sustainability Governance Information

Strategy

Financial Strategy

Financial Strategy-CFO Message

P/L model on a level of 300 billion yen in sales for achieving mid/long-term targets

| Net Sales | 300 billion yen (100%) |
| Cost of sales | 138 billion yen (46%) |
| Gross profit | 162 billion yen (54% of sales) |
| SG&A | 96 billion yen (32% of sales) |
| Operating income | 66 billion yen (22% of sales) |

Execution of Mid/Long-Term Investment while Maintaining a Sound Financial Base

In the Mid-Term Management Plan ending in the fiscal year ending March 31, 2021, which was announced as a milestone for the grand Design for the next decade, sales, operating income margin, return on equity (ROE), and earnings per share (EPS) are managed as the four KPIs intended to promote the improvement of P/L for the period and the efficient utilization of capital. In particular, we are strongly aware that ROE should exceed the cost of shareholders’ equity, meaning that the equity spread must be positive. For this reason, we have adopted the ROIC approach in the evaluation of products, and specifically require that each product is not only profitable, but has profitability that exceeds a certain hurdle rate in relation to the assets used. The figures for the hurdle rate of each product are obtained by adding the spread covering costs not directly generating profit to the weighted average cost of capital (WACC) based on the cost of shareholders’ equity, and must be higher than the WACC required for the Company as a whole. If a product does not exceed the hurdle rate, we implement measures to improve profitability such as expanding sales, reducing costs, and lowering expenses, in addition to checking and making improvements to ensure that assets such as equipment and inventories are not excessive. This has the same meaning as improving profitability, the asset turnover ratio, and leverage, which are all elements of ROE, and in particular profitability and the asset turnover ratio, which ultimately leads to the improvement of companywide ROE.

To maintain a sound financial base, we aim to generate 85 to 100 billion yen in free cash flow over the three years of the Mid-term Plan, retain 50 to 60 billion yen in net cash to respond to short-term risks, and prioritize the utilization of excess funds in business investment such as investment in growth and M&A. With regard to the Company’s global asset distribution and management, we will utilize cash pooling to facilitate the availability of funds in regions where they are required while taking care to ensure funds are not lost due to currency fluctuations by utilizing currency hedging, etc.

We intend to continually invest over 30 billion yen per year in research and development, and have established a framework for 100 billion yen in M&A investment aimed at expanding our capability to provide solutions in the semiconductor value chain. Evaluation of M&A deals and development projects is carried out by determining recoverability of funds using a certain hurdle rate in the same manner as ROIC to guard against investment losses.

Furthermore, in addition to improving profitability by expanding sales, reducing the cost of sales, and cutting costs, we are taking steps to quickly amass funds by increasing efficiency with an awareness of ROIC and the cash conversion cycle (CCC). Shortening the number of days in the CCC will enable us to quickly utilize funds, begin investing in development earlier, and create a virtuous cash cycle for improving profitability, which results in an advantage over our competitors.

Investment in the Future

To increase corporate value, we will actively invest in intangible assets and particularly in personnel and in research and development as appropriate for our business aims. We will continue to invest more than 30 billion yen per year in research and development, which is the source of our competitiveness. Investment in development aimed at expanding our wide product lineup is essential for maintaining our advantage over the competition and for remaining the leading company in the semiconductor tester industry. In addition, we anticipate that it will become more difficult to secure the necessary human resources in the future, amid concerns about the global aging of society. We plan to actively invest in securing and developing human resources inside and outside the Company, including engineers who support our relationships with customers. Furthermore, there are also concerns about the enormous cost of maintaining existing IT systems and the prospect of the systems themselves becoming obsolete due to technological advances. We will remain conscious of the digital transformation as we implement plans to upgrade our IT resources, including production systems and internal infrastructure.

Increase Shareholder Value

Advantest is engaged in improving ROE in order to achieve a positive equity spread, and lowering the cost of capital can have a significant impact on a positive equity spread. The semiconductor sector tends to have larger fluctuations in stock price than the stock market as a whole, so the industry tends to have a high cost of capital. The Company’s sales are also affected by customers’ enthusiasm for capital investment, which is influenced by economic trends, but we are attempting to stabilize performance to a greater extent through steps such as strengthening our subscription base with annual maintenance contracts. Performance has also deteriorated in the past due to the impairment of assets, and we are raising awareness of excess assets by ensuring the ROIC approach permeates throughout the Company.

With regard to increasing shareholder returns, we are always mindful of the potential of means utilizing the purchase of treasury stock, but we believe that corporate value can best be realized by expanding the Company’s business based on the idea that the semiconductor industry is a growth industry and not one that is mature. Dividends are paid based on a policy linked to performance in the same manner as bonuses for employees, who are also stakeholders, and we wish to increase dividends to all our shareholders as a result of future growth of the Company.
Research and Development: Focusing on “Waves”

Catching the Waves of Technology & Further Building on Our Strengths

Our corporate mission is “Enabling Leading-Edge Technologies.” This is both a source of pride and a responsibility for our R&D division. It is important to constantly hone and amass state-of-the-art technologies, but we do not consider our business successful until our technologies are commercialized, or packaged as solutions, and accepted by the customers (markets) that need them at a sufficiently large scale. It is the mission of the business unit to quickly and accurately identify these business opportunities and to successfully capture them by incorporating them into our development planning, where the R&D division is responsible for giving shape to these dreams.

Hans-Juergen Wagner
Director & Managing Executive Officer
Test Technology
Leader, ATE Business Group

Separately from economic fluctuations, the evolution of semiconductor manufacturing technology and increases in production volumes have become the growth drivers of the semiconductor testing business. They generate sequential “waves” of progress. With the progress of semiconductor process shrink, semiconductors become more complex, more functional, more high-performance and lower cost. New integration and packaging technologies are developed to implement these advances, and new markets and business models are created by end-products that hitherto did not exist. At the same time, technological innovation and the shifting roster of players cause dynamic changes in the supply chain. These big changes drive future innovations and the creation of new products and new markets. This is what we mean by “waves.” In order to quickly and accurately catch these waves, collaboration with customers who lead the industry in terms of products and technology is essential. The challenges these leading customers face, in terms of their advancements, investment scale, and impact on existing markets and supply chains, serve as Advantest’s compass as we seek to capture the profit opportunities generated by coming waves and set the direction of our R&D accordingly. This business unit’s most important mission is to collaborate with these leading customers and develop concrete development plans for commercializing the solutions that meet their needs.

Catching the waves of technology in partnership with our leading customers

Reinforcing our strengths

Our core business is ATE (Automated Test Equipment), which includes handlers and device interface products. In CY2018, we held the No.1 market share in the global ATE industry. We are extremely proud of this accomplishment and of the product portfolio and customer base that supports it. Further strengthening our ATE business unit is Advantest’s top priority in terms of revenue sources and as a driving force for enhancement of our corporate value. Since our acquisition of Verigy in 2011, our V93000 development division and T2000 and memory tester development divisions had been separated, but in FY2018 we consolidated these divisions into a single organization. This will have a significant effect on the sharing of technologies and will reduce development times, and we are already developing a global personnel rotation system to better cross-fertilize our R&D projects. Major achievements from FY2018 through the beginning of FY2019 include:

1. Launch of a new memory burn-in tester family for NAND flash and DRAM (model name B6700 series)
2. Expanding the served markets of the V93000 to include power and automotive devices (AV64 & FVN16)
3. Launch of a system-level test system for high-speed NAND (T5851 STM16G)
4. Delivery of a test solution for 5G-NR devices (V9300 0 Wave Scale Millimeter Solution)
5. Expanding the served markets of the V93000 to include chip makers’ process monitoring and development processes (V93000 SMU8)

Capture of related markets

As we explained in our Grand Design, which was announced in April last year, we believe there exist untapped markets in proximity to our core business that can be developed by utilizing our measurement technology. Our $135M acquisition of the SLT (System Level Test) business of Astronics, announced in February 2019, is one of our planned measures to expand our business to these related markets. Furthermore, in July 2018, we established our new ARTeam (Applied Research & venture Team), which has an organizational structure that transcends our R&D division, to sensitively capture the opportunities generated by new waves of technology in our core business as well as related markets and incorporate them into our R&D planning. The ARTeam gathers together both highly capable engineers and individuals with entrepreneurial gifts and insight. Collaborations with universities and research institutes will be another way that we aim to expand our expertise and contribute added value to our customers.
Aiming to Develop Talented Human Resources at the Cutting Edge of the Industry

We will develop and utilize global human resources in a global system within a new corporate culture

Employees are Indispensable Assets

Advantest’s employees are our greatest assets, driving the growth and expansion of the semiconductor value chain. Therefore, it is essential that we secure the best human resources in the market and continue to retain them by providing competitive remuneration and exciting opportunities to grow and prosper as a global organization. In particular, we believe in the value of long-term employment. For this reason, we place importance on increasing job satisfaction and providing a pleasant working environment and are committed to achieving this. As a result, the German office of Advantest was chosen as one of the top 100 “Best places to work in Germany 2019” by the internationally-renowned consulting firm Great Place to Work®. In the United States, smart watches were distributed to employees to enable them to better communicate, collaborate with colleagues, customers, and partners to hold workshops for providing deeper understanding among all employees to enable them to better communicate, progress with their work, and improve by learning from others.

Culture that Brings Out the Capabilities of Employees

Advantest places importance on providing training opportunities to all employees who are motivated to continue learning and growing. At the same time, we actively create opportunities for employees to enhance their own strengths and address their weaknesses. Through this training and growth, Advantest employees are encouraged to make decisions independently. Advantest is proud to have a stance of not only achieving success, but also learning and improving through failure. By encouraging such training, growth, and independence, we enable every single employee to contribute to the success of Advantest.

Employee Engagement

Advantest is continually striving to establish a culture in which all employees are recognized for their value, respected, and able to work toward common goals. In 2018, 91% of employees participated in a global employee engagement survey. As a result, we were able to learn how employees feel about their work and workplaces and gained hints about what kind of support the company can provide.

Since the beginning of FY2019, Advantest has been working to improve engagement globally, in each country and in each division. Furthermore, based on the results of the employee engagement survey, Advantest has come to realize that we should engage in a global reform of our corporate culture over several years. Our new corporate culture is expressed by the word “INTEGRITY,” taking the first letter of nine phrases that define the values we should emphasize in all our actions within the Company and on behalf of the Company.

Along with this reform of corporate culture, we will collaborate with colleagues, customers, and partners to hold workshops for providing deeper understanding among all employees to enable them to better communicate, progress with their work, and improve by learning from others.

Global Human Resource Management

Advantest allocates human resources strategically to provide support to our global customer base. The Company’s global presence and influence is one of the keys to our success. For many years, a large portion of our revenue has come from customers outside Japan. At present more than 95% of sales originate outside Japan. Addressing this reality, 48% of our total of 4,936 employees are based in various locations worldwide to provide support to our customers. Advantest’s utilization of global human resources can be clearly seen in our commitment to promoting local employees to presidents of local subsidiaries and executive officers, resulting in 42% of the Company’s executives hailing from outside Japan.

In order to fairly treat and assess our employees worldwide, Advantest has unified qualification systems and personnel evaluation systems, in addition to having a common global bonus system as an incentive for the distribution of profit. Furthermore, a performance-based stock remuneration system was introduced last fiscal year as a common global mid- to long-term incentive-based remuneration system. These forms of performance-based remuneration are calculated based on performance of the personnel in the production division. Furthermore, in FY2019, we established a new corporate culture that brings out the capabilities of employees. Therefore, it is essential that we secure the best human resources in the market and continue to retain them by providing competitive remuneration and exciting opportunities to grow and prosper as a global organization. In particular, we believe in the value of long-term employment. For this reason, we place importance on increasing job satisfaction and providing a pleasant working environment and are committed to achieving this. As a result, the German office of Advantest was chosen as one of the top 100 “Best places to work in Germany 2019” by the internationally-renowned consulting firm Great Place to Work®.

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Advantest places importance on providing training opportunities to all employees who are motivated to continue learning and growing. At the same time, we actively create opportunities for employees to enhance their own strengths and address their weaknesses. Through this training and growth, Advantest employees are encouraged to make decisions independently. Advantest is proud to have a stance of not only achieving success, but also learning and improving through failure. By encouraging such training, growth, and independence, we enable every single employee to contribute to the success of Advantest.

Employee Engagement

Advantest is continually striving to establish a culture in which all employees are recognized for their value, respected, and able to work toward common goals. In 2018, 91% of employees participated in a global employee engagement survey. As a result, we were able to learn how employees feel about their work and workplaces and gained hints about what kind of support the company can provide.

Since the beginning of FY2019, Advantest has been working to improve engagement globally, in each country and in each division. Furthermore, based on the results of the employee engagement survey, Advantest has come to realize that we should engage in a global reform of our corporate culture over several years. Our new corporate culture is expressed by the word “INTEGRITY,” taking the first letter of nine phrases that define the values we should emphasize in all our actions within the Company and on behalf of the Company.

Along with this reform of corporate culture, we will collaborate with colleagues, customers, and partners to hold workshops for providing deeper understanding among all employees to enable them to better communicate, progress with their work, and improve by learning from others. Furthermore, in FY2019, we established a new corporate culture that brings out the capabilities of employees. Therefore, it is essential that we secure the best human resources in the market and continue to retain them by providing competitive remuneration and exciting opportunities to grow and prosper as a global organization. In particular, we believe in the value of long-term employment. For this reason, we place importance on increasing job satisfaction and providing a pleasant working environment and are committed to achieving this. As a result, the German office of Advantest was chosen as one of the top 100 “Best places to work in Germany 2019” by the internationally-renowned consulting firm Great Place to Work®. In the United States, smart watches were distributed to employees to enable them to better communicate, collaborate with colleagues, customers, and partners to hold workshops for providing deeper understanding among all employees to enable them to better communicate, progress with their work, and improve by learning from others.
Approach to Risk Management

Risk Management

Advantest implements continuous strategic risk management in response to the global, diversifying risks we face.

**Basic Approach**

Advantest faces diverse risks arising from both internal and external factors as in the course of our global business. The Company aims to curb risks and minimize damage by predicting major risks that may cause significant harm to the Company’s business activities, corporate management, performance, shareholder value, or external reputation, analyzing their impact and continuously taking appropriate steps to address them.

**Internal Control**

Advantest has established an Internal Control Committee to oversee the internal control activities of the Advantest Group. The Internal Control Committee is made up of the heads of business divisions, corporate divisions, and major overseas affiliates, and is chaired by the President.

The members of the committee periodically conduct risk assessments in their own units, and conduct appropriate risk management through activities to recognize and assess potential risks in the management environment, business activities, and the company’s assets, as well as through improvement activities. The Internal Control Committee conducts risk monitoring for the Group as a whole once every six months, and assesses and takes steps to address major risks.

**Major Risks and Countermeasures**

<table>
<thead>
<tr>
<th>Major Risks</th>
<th>Major Countermeasures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Significant demand volatility in the semiconductor industry</td>
<td>We are building a structure capable of responding to fluctuations in demand by reinforcing our service business, expanding into areas outside the semiconductor industry, and promoting outsourcing of production.</td>
</tr>
<tr>
<td>2 Global economic and political impact of conducting business worldwide</td>
<td>Keeping an eye on the trend of the world economy and international politics and putting the first priority on customer value when taking any business activity.</td>
</tr>
<tr>
<td>3 Reduction of market share due to possible inability to deliver new products meeting customers' requirements in a timely manner</td>
<td>We are striving to quickly ascertain the needs of customers through close communication with them.</td>
</tr>
<tr>
<td>4 Missed opportunities due to dependence on a limited number of suppliers</td>
<td>We are standardizing components and design, and building a structure that is not dependent on specific suppliers.</td>
</tr>
<tr>
<td>5 Reduction of market share due to intense competition</td>
<td>We are endeavoring to ensure our products remain competitive by providing unique functions and high added-value solutions.</td>
</tr>
<tr>
<td>6 High dependence on sales to largest customers</td>
<td>We are aiming to secure a broad customer base by developing new customers.</td>
</tr>
<tr>
<td>7 Price pressure on product lines</td>
<td>We are endeavoring to maintain appropriate pricing for our products by providing unique functions and high added-value solutions.</td>
</tr>
<tr>
<td>8 Impact of exchange rate fluctuations on profitability</td>
<td>We are endeavoring to limit the impact of fluctuations in exchange rates by adjusting the balance of currencies held.</td>
</tr>
<tr>
<td>9 Recovery of development costs for new products</td>
<td>We are seeking to improve the recovery of costs through stronger marketing and versatile product development.</td>
</tr>
<tr>
<td>10 Limited sales opportunities due to key market concentration</td>
<td>We are aiming to expand the scope of our business through steps such as the development of new businesses and M&amp;A.</td>
</tr>
<tr>
<td>11 Significant impairment losses on goodwill and intangible assets</td>
<td>When acquiring assets through methods such as M&amp;A, we consider the cost of capital in our investment decisions.</td>
</tr>
<tr>
<td>12 Suspension of business operations due to natural disasters or cyber attack against our IT systems</td>
<td>In addition to formulating a business continuity plan, we are endeavoring to ensure business operations are not impeded by adopting steps such as diversifying production locations and external suppliers, and utilizing distributed cloud storage of data.</td>
</tr>
<tr>
<td>13 Recovery of capital expenditure</td>
<td>We consider the ability to recover expenditures based on the cost of capital in our investment decisions.</td>
</tr>
<tr>
<td>14 Decline of reputation or brand power due to product defects, etc.</td>
<td>We are striving to provide highly reliable products by conducting reviews in the design phase and implementing cross-checks by the Quality Assurance Division.</td>
</tr>
<tr>
<td>15 Incurring costs to comply with more stringent regulations for chemical substances</td>
<td>In addition to monitoring trends in environmental regulations for chemical substances, we are investigating alternative technologies.</td>
</tr>
<tr>
<td>16 Infringement of intellectual property by our employees or by 3rd party</td>
<td>Provide training to employees, and confirm whether there is any issue on IP at the time of recruitment.</td>
</tr>
<tr>
<td>17 Shortage of highly specialized personnel</td>
<td>We are aiming to secure a stable pool of talent through measures such as the establishment of a mid/long-term recruitment plan and global rotation of personnel.</td>
</tr>
<tr>
<td>18 Operational degradation due to legacy IT system</td>
<td>Keep recruiting and retaining talented IT engineers, and regularly monitoring the gap between current IT environment and advanced IT technology.</td>
</tr>
</tbody>
</table>
Sustainability

Materiality for Enhancing Sustainability

Based on a long-term perspective, we consider our business and CSR activities to be the natural starting point for us to contribute to solving the various challenges of modern society through our measurement technologies. While bearing this in mind, we will fulfill our dual responsibilities to improve corporate value by generating profit and to contribute to the development of a sustainable society through all our corporate activities, including our supply chain.

Our Approach to Materiality

In recent years, the roles and scope of information technologies have expanded, generating enormous volumes of data. Furthermore, we have entered an era when even greater reliability is required than in the past in areas supporting people’s lifestyles, such as data centers, automobiles, and medicine.

The role of semiconductors will become increasingly important in solutions for global social issues. Advantest will contribute to greater safety, security, and comfort for society and to creating a sustainable future through semiconductor test supporting devices with high reliability, increased functionality, and increased capacity.

Based on this approach, Advantest believes that it is vitally important to first identify the impacts that the Company’s operations have on society and the problems that society expects us to help solve, as a basis for clarifying the key issues that we need to address in our CSR activities, so that we can then go on to implement effective management based on specific key performance indicators (KPIs).

Identifying Materiality

Assessment criteria were formulated in light of GRI standards, SASB code of conduct requirements, industry standards such as SASB and international disclosure standards in addition to the content of surveys submitted by customers and investors, giving consideration to consistency with respect to the Company’s boundaries and business risks.

CSR Working Group members, representatives of relevant departments, and responsible directors examined materiality in terms of both the level of importance as viewed by stakeholders, and the degree of importance to the Advantest Group.

The identified materiality items were determined after being discussed at the Managing Executive Officers Committee. One or two specific activity indicators and KPIs were set for each materiality aspect.

Sustainable Development Goals

The sustainable development goals (SDGs) were adopted by the United Nations in 2015 as common global goals to achieve a better future by, for instance, responding to climate change and eradicating poverty.

Implementation System

The Advantest Group has established the CSR & Environmental Affairs Promotion Office directly under the Board of Directors. The CSR & Environmental Affairs Promotion Office has the function of investigating sustainability trends, clearly defining sustainability issues that should be addressed, and promoting their resolution throughout the Company.

Advantest’s Organization for Promoting CSR (1-2)

*1: CSR management activities related to each region are to be promoted by subsidiaries in each region.
*2: Global CSR initiatives and CSR activities related to business operations (e.g. compliance, customer relations, quality assurance, human rights, environment) are to be promoted by the CSR Working Group.

Identified materiality

The importance for the Company and society are as follows

Items identified as important areas

- Biodiversity
- Environment in general
- Local communities
- Water
- Supplier environmental assessment
- Supplier labor practices assessment
- Supplier human rights assessment
- Anti-competitive behavior
- Assessment of supplier impact on society
- Material
- Complaint processing policy related to the environment
- Labor/Management relations
- Gender equality
- Complaint processing policy related to labor practices
- Non-discrimination
- Freedom of association and collective bargaining
- Child labor
- Forced or compulsory labor
- Security practices
- Rights of indigenous peoples
- Human rights assessment
- Complaint processing policies related to human rights
- Complaint processing policies related to the impact on society
- Marketing communications
- BCP
- Local presence
- Indirect economic impacts
- Procurement practices
- Public policy
- Transportation and movement
- Labeling of products and services

Items identified as the most important areas

- Economic performance
- Energy
- Emissions
- Products and services
- Occupational health and safety
- Conflict minerals
- Hazardous substances
- Intellectual property rights protection
- Compliance (environment)
- Employment
- Anti-corruption and legal
- Compliance (society)
- Customer health and safety
- Customer privacy
- Compliance (product liability)

Importance for the Company
Sustainability Goals (Materiality)

Advantest contributes to the safety, security, and comfort of people around the world and helps to create a sustainable future through semiconductor test supporting a wide range of end products.

<table>
<thead>
<tr>
<th>Category</th>
<th>Identified materiality</th>
<th>KPIs</th>
<th>Material Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Performance</td>
<td>Net sales, operating profit margin, ROE, EPS</td>
<td>We consider economic performance metrics such as net sales, operating income, ROE, and EPS our foundation and the most important factor to our ongoing corporate activities.</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>Rate of improvement in energy intensity</td>
<td>Advantaged considers efficient energy use an important CSR activity for the global environment.</td>
<td></td>
</tr>
<tr>
<td>Emissions</td>
<td>GHG emissions (Scope 1/2)</td>
<td>We consider efforts to reduce the emissions through more efficient energy use to be vital, as efforts to reduce greenhouse gases, which should be conducted worldwide, are indispensable to our business activities.</td>
<td></td>
</tr>
<tr>
<td>Discharged water and waste</td>
<td>Waste recycling rate</td>
<td>We promote 3R (Reduce, Reuse, Recycle) for resources based on the belief that contributing to a recycle-oriented society is part of our corporate social responsibility, and this posture waste-reduction measures as an important issue.</td>
<td></td>
</tr>
<tr>
<td>Hazardous substances</td>
<td>Percentage of suppliers covered by hazardous substance surveys</td>
<td>Advantaged places great importance on compliance with all addictions and revisions of electrical and electronic regulations, including the RoHS Directives.</td>
<td></td>
</tr>
<tr>
<td>Products and services</td>
<td>Percentage of products meeting in-house green products criteria</td>
<td>Advantaged products generate various small and large environmental impacts through their use. Green products, which reduce environmental impact, are important for us not only because they address environmental issues but also as messaging that conveys the quality of our products.</td>
<td></td>
</tr>
<tr>
<td>Compliance (environment)</td>
<td>Number of cases of environmental compliance</td>
<td>Our business activities have a range of impacts on the environment. In order for us to achieve responsible, continuous development, it is important that we share environmental information with stakeholders and reflect this in our environmental management.</td>
<td></td>
</tr>
<tr>
<td>Supplier environmental assessment</td>
<td>Percentage of new materials that were screened using environmental impact criteria</td>
<td>Advantaged emphasizes the development of high-quality green products by working from the perspective of environmental conservation in parts procurement, materials, and manufacturing processes.</td>
<td></td>
</tr>
<tr>
<td>Conflict minerals</td>
<td>We ensure our use of materials with a low risk of conflict mineral associations by asking business partners to ensure transparency in regard to the sources of materials and components, etc., and by working together with industry organizations to investigate information relating to conflict minerals (i.e. mineral processing firm information).</td>
<td>Complying with the Dodd-Frank Wall Street Reform and Consumer Protection Act, but are also a major problem faced by society as a whole. Advantaged is in no longer subject to the Dodd-Frank Wall Street Reform and Consumer Protection Act, having detailed our corporate stock in the United States in April 2016. However, Advantaged remains aware of the importance of the conflict minerals issue, which also has deep ties to efforts conducted by the entire industry.</td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>Percentage of employees returning to work after childbirth and/or childcare leave</td>
<td>The heart of corporate activities is people. Advantaged employs diverse human resources and considers the provision of a workplace where employees can reach their full potential to be an important measure for improving corporate value.</td>
<td></td>
</tr>
<tr>
<td>Occupational health and safety</td>
<td>Occupational accident rate</td>
<td>Advarntest sees employee safety and health assurance as vital to executing our business activities, and recognizes the need to continually raise awareness.</td>
<td></td>
</tr>
<tr>
<td>Training and education</td>
<td>Average number of hours of training per employee per year</td>
<td>To enhance corporate value, we need to ensure that employees clearly understand their roles and make an effort to develop their capabilities. We recognize training and development as an important CSR theme based on these needs.</td>
<td></td>
</tr>
<tr>
<td>Diversity and equal opportunity</td>
<td>Female employees as percentage of total workforce</td>
<td>Advantaged recognizes the acceptance of employee diversity, the elimination of discrimination, the facilitation of each individual to reach their full potential, and the provision of a workplace open to all employees to ensure employee participation as vital to earning trust from society and improving corporate value.</td>
<td></td>
</tr>
<tr>
<td>Supplier labor practices assessment</td>
<td>Percentage of new suppliers that were screened using labor practices criteria</td>
<td>Advantaged considers it important for a broad range of stakeholders, including our business partners, to attain human rights and ethical labor practices in the conduct of our business.</td>
<td></td>
</tr>
<tr>
<td>Non-discrimination</td>
<td>Number of complaints submitted to the helpline that are properly resolved</td>
<td>Advantaged considers the elimination of discrimination based on age, gender, nationality, religion, or any other characteristic to be vital to enthusiastic employee participation and motivation worldwide.</td>
<td></td>
</tr>
<tr>
<td>Supplier human-rights assessment</td>
<td>Percentage of new suppliers that were screened using human rights criteria</td>
<td>Advantaged recognizes the influence we can exert to protect human rights in the context of parts, materials and manufacturing processes, and considers this a vital responsibility, extending to our suppliers.</td>
<td></td>
</tr>
<tr>
<td>Anti-corruption</td>
<td>Number of confirmed incidents of improper behavior</td>
<td>Legal compliance and governance is the basis of our corporate activities. We recognize the elimination of acts that will truly damage the trust of our stakeholders such as bribery and corruption to be our greatest corporate social responsibility.</td>
<td></td>
</tr>
<tr>
<td>Compliance with anti-monopoly legislation</td>
<td>Number of incidents relating to relevant legislation</td>
<td>Advantaged considers the elimination of anticompetitive practices vital to earning trust from society.</td>
<td></td>
</tr>
<tr>
<td>Compliance (society)</td>
<td>Percentage of non-compliance instances relating to social issues</td>
<td>Advantaged considers social responsibility based on ethical concerns held by each and every employee to be vital to earning the trust and faith of our stakeholders.</td>
<td></td>
</tr>
<tr>
<td>Supplier assessment for impact on society</td>
<td>Percentage of new suppliers that were screened using criteria for impact on society</td>
<td>Advantaged recognizes that compliance issues and adherence to social norms in parts, materials and manufacturing processes impacts the company, and we emphasize the fulfillment of our social responsibility throughout the entire supply chain, including all of our business partners.</td>
<td></td>
</tr>
<tr>
<td>Customer health and safety</td>
<td>Number of instances of non-compliance with in-house safety standards</td>
<td>Modern society views product safety as being of increasing importance. We recognize the necessity of ongoing efforts to more readily respond to this societal expectation.</td>
<td></td>
</tr>
<tr>
<td>Customer privacy</td>
<td>Number of complaints relating to information security</td>
<td>Information that we receive from our customers and business partners needs to be protected, and it is also thus an institutional asset for the company. We recognize the protection and management of this information as vital.</td>
<td></td>
</tr>
<tr>
<td>Intellectual property rights protection</td>
<td>Percentage of employees who have undergone e-learning training relating to intellectual property rights protection</td>
<td>The strength of Advantaged is in our state-of-the-art technological capabilities. Therefore, we believe protecting our intellectual property as the source of our competitiveness is vital to our continued existence as an enterprise.</td>
<td></td>
</tr>
<tr>
<td>Compliance (products/services)</td>
<td>Percentage of employees who have undergone e-learning training relating to intellectual property rights protection</td>
<td>Advarntest sees employee safety and health assurance as vital to executing our business activities, and recognizes the need to continually raise awareness.</td>
<td></td>
</tr>
</tbody>
</table>

Sustainable Development Goals (SDGs)

The Sustainable Development Goals were adopted by all 193 members of the United Nations in September 2015 with the aim of resolving social issues such as poverty, inequality, biodiversity losses, and climate change, in order to create a better future and protect our planet.

If the entire world addresses the 17 goals and 169 targets listed in the SDGs, we can overcome the enormous challenge of creating a world where “nobody is left behind.”

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Sustainable Development Goals (SDGs)
The Advantest Group is building a framework to better promote our global environmental initiatives. Through its business activities, the Advantest Group contributes to the sustainable development of society. We also strive for environmental protections such as measures against climate change and conservation of biodiversity, and use renewable resources such as energy and water resources to actively participate in the environmental conservation activities below together with all our employees, reinforcing our identity as an enterprise that deserves society’s trust.

Materiality Focus

1. Environment

Advantest Group Environmental Policy

Through its business activities, the Advantest Group contributes to the sustainable development of society. We also strive for environmental protections such as measures against climate change and conservation of biodiversity, and use renewable resources such as energy and water resources to actively participate in the environmental conservation activities below together with all our employees, reinforcing our identity as an enterprise that deserves society’s trust.

Materiality Focus

Environmental Management System

1. Promoting Environmental Management
   - By maintaining our environmental management system, we promote global environmental conservation efforts that achieve environmental targets set for both our business activities and environmental concerns.

2. Reducing of Customers’ Environmental Burden
   - We promote energy conservation, improved recyclability, and the elimination of hazardous substances to provide environmentally-friendly products and services that contribute to our customers’ reduction of their environmental footprints, giving consideration to the life cycle of our products from materials procurement to waste disposal.

3. Better Workplace Procedures
   - We continually improve our work procedures to hone our environmental performance by creating environmentally friendly products.

4. Environmental Protection and Sustainable Use of Resources
   - By being alert to the environmental impact of our business activities, we strive to protect the environment through measures ranging from climate change prevention to the conservation of biodiversity, as well as sustainable use of resources such as energy and water.

5. Complying with Environmental Laws and Regulations and Preventing Pollution
   - Upholding all environmental laws and regulations and voluntary standards, we protect nature and shield our neighbors from environmental pollution and health hazards caused by chemical substances, waste, and other contaminants.

Framework to Promote Environmental Management

The Advantest Group is building a framework to better promote our global environmental initiatives.

Green Products

Basic Stance

Contributing to the sustainable development of society and conducting environmentally-friendly business operations are essential issues that need to be addressed in modern business management. The Advantest Group works to develop products from the perspective of environmental conservation while prioritizing high precision and high quality, and certifies as green products those products that are environmentally-friendly in terms of the three key aspects of energy and resource saving, improving recyclability, and elimination of hazardous substances.

Development Flow of Green Products

At the Advantest Group, all new products undergo a product environmental assessment. During the product environmental assessment, products are assessed from various aspects, including energy-saving, reducing the number of components, size reduction, recyclable design, and elimination of hazardous substances. Products that meet the Voluntary Standards for Green Products defined by Advantest are certified as green products and are awarded an Eco Label (type II).
Materiality Focus

Society

Diversity and Equal Opportunity

Advantest is supported by a variety of stakeholders including customers, employees, and local communities, and has a social responsibility toward all of them. We implement management activities based on identified materiality aspects (see p. 43-44) relating to society.

Diversity Management

Advantest celebrates the diversity of its workforce and strives to create a workplace where every employee can achieve their potential and participate to the fullest. We respect individual differences while striving to facilitate a corporate climate where everyone can reach their full potential and actively participate with their own unique personality and skills.

Recruitment and Use of Global Human Resources

Business has become more global in recent years, and we aim to secure personnel who understand other cultures, have high-level communication skills, and are able to execute business on the global stage. Specifically, we are putting more effort into building human resource systems from a worldwide perspective as well as taking a global perspective when hiring, developing, and assigning human resources throughout the entire Group. We use personnel rotation and exchanges with overseas affiliates to promote globalization in our corporate structure. Through everyday business and training in both organizations, technology and know-how are shared, allowing each employee to learn more advanced technology plus adaptive skills for a diverse business environment.

Number of employees by region 2017-2019 (Employee headcounts are as of March 31 each year)

<table>
<thead>
<tr>
<th>Region</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>620 (15%) including 108 women</td>
<td>536 (11%) including 65 women</td>
<td>529 (12%) including 84 women</td>
</tr>
<tr>
<td>Europe</td>
<td>741 (15%) including 129 women</td>
<td>705 (15%) including 125 women</td>
<td>687 (15%) including 113 women</td>
</tr>
<tr>
<td>Asia</td>
<td>1,007 (20%) including 238 women</td>
<td>987 (19%) including 217 women</td>
<td>847 (19%) including 187 women</td>
</tr>
</tbody>
</table>

Global Human Resources Activities

Advantest engages in a wide range of initiatives both on a worldwide basis and tailored to each country’s conditions to develop global and frontier human resources.

In terms of specific activities, regular Global HR Meetings are held to share our HR status and efforts in each country and to create a place for debate about solving personnel issues shared throughout the Group.

Respecting and Protecting Human Rights

The Corporate Ethics Office and the Compliance Committee lead Advantest’s initiatives to promote and set policies on human rights issues and deal with inquiries and complaints about discriminatory treatment.

We share the Advantest Supply Chain CSR Promotion Guidebook with our suppliers, and endeavor to ensure that they are fully aware of the need to respect human rights (including the prohibition of forced labor, child labor, and discrimination).

Creating a Workplace that Respects Human Rights

Advantest believes considerations for human rights are a vital element in expanding businesses globally. We support international standards related to human rights such as the Universal Declaration of Human Rights and respect basic human rights, based on the laws and regulations in each country and region.

Furthermore, in addition to being a signatory to the United Nations Global Compact, which is a worldwide initiative advocated by the United Nations, we are a member of Global Compact Network Japan, which is the local network in Japan. We support the UN Global Compact’s Ten Principles, which are universal principles to be observed by companies in the four areas of human rights, labor, the environment, and anti-corruption, and are promoting initiatives in each of these areas. Moreover, “The ADVANTEST Way,” which is the foundation of the Company’s corporate culture, also specifies a policy for the protection of human rights that prohibits discrimination on grounds such as race, gender, age, nationality, religion, social standing, physical disability, illness, and sexual orientation. We have also established a manual for human rights and anti-discrimination and prevention guidelines for harassment, which promotes protection and respect for human rights.
Materiality Focus 3 - Governance

Corporate Ethics and Compliance with Laws and Regulations

Companies aiming for sustainable growth need employees who fulfill their social responsibilities and who possess a strong sense of ethics. They also need to earn the trust of stakeholders. Based on this belief, Advantest has established The ADVANTEST Way, which lays out our management direction and policy and indicates our Corporate Mission, Mission, Core Value, Guiding Principle, ESG for Sustainability and Ethical Standards for employees to enhance their ethical awareness.

Compliance Promotion System

Advantest gives guidance and advice to all Group employees to ensure that they fully understand and comply with the "The ADVANTEST Way & Code of Conduct," and has established a global management structure.

Also, as a member of the international community, we regularly conduct compliance audits through our global audit teams in order to ensure that we follow the different laws and regulations in each country and carry out our business activities appropriately.

Compliance Education

Through cooperation between Advantest’s audit teams and the legal affairs departments, we are working to strengthen training activities related to national laws and regulations. In addition, to ensure employee commitment in regard to compliance matters, we are implementing regular e-learning sessions for all Group employees on “The ADVANTEST Way & Code of Conduct” and on the subject of "anti-corruption and anti-bribery."

In FY2018, all of our Group employees took e-learning education and agreed to adhere to compliance.

Materiality Related to Compliance

Compliance is the most important issue in management and is a basic premise of conducting business activities. Advantest has presented standards of behavior in "The ADVANTEST Way" to enable each employee to execute their social responsibility with a strong ethical perspective, and is striving to raise awareness among all employees of the Group.

<table>
<thead>
<tr>
<th>Materiality</th>
<th>Comparison KPI</th>
<th>Material Reasons</th>
<th>Responsible department/division</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental aspects</td>
<td>Number of alleged violations of environmental laws and regulations: 0</td>
<td>Work to prevent grave legal violations related to the environment before they happen</td>
<td>CSR &amp; Environmental Affairs Promotion Center/Environmental Management Officer</td>
</tr>
<tr>
<td>Non-discrimination</td>
<td>Number of complaints submitted to the helpline that are properly resolved: All</td>
<td>Aim to eliminate discrimination based on age, gender, nationality, religion, or any other characteristic to facilitate enthusiastic employee participation and motivation worldwide</td>
<td>Corporate Ethics Office, Compliance Committee</td>
</tr>
<tr>
<td>Corruption Prevention</td>
<td>Number of alleged incidents of dishonest acts: 0</td>
<td>Eliminate acts that will truly damage the trust of our stakeholders such as bribery and corruption</td>
<td>Legal Department</td>
</tr>
<tr>
<td>Antitrust Act</td>
<td>Number of legislative actions: 0</td>
<td>Eliminate anticompetitive practices and promotion of fair trade practices</td>
<td>Legal Department</td>
</tr>
<tr>
<td>Social Compliance</td>
<td>Number of alleged violations of laws and regulations: 0</td>
<td>Execute social responsibility with a strong ethical perspective</td>
<td>Corporate Ethics Office, Compliance Committee</td>
</tr>
</tbody>
</table>

Social Responsibility in the Supply Chain

Advantest has published our Procurement Policy and the Advantest CSR Procurement Guidebook on its homepage as a way of fulfilling our social responsibility in a supply chain that includes all of our business partners, and we ask these business partners to adhere to relevant laws and ordinances as well as social norms.

We carry out an annual CSR questionnaire for the business partners who largely impact procurement of Advantest. We devise the questions and conduct this survey to match the perception of all of our business partners by re-examining the priority issues of our Company and questions every year based on an analysis of the assessment results for the previous year with a focus on the Advantest CSR Procurement Guidebook. Furthermore, by compiling the answers for each business partner to provide feedback independently about areas that have been highly evaluated and areas where improvements are requested, we are building relationships in which we will grow together with these business partners.
Corporate Governance

Basic Views

Advantest's corporate mission is “Enabling Leading-Edge Technologies”, Advantest constantly encourages self-study and carries out cutting-edge technological development to provide technologies, products and services that will satisfy customers around the world.

In accordance with the corporate mission of the preceding paragraph, and in response to the mandate from stakeholders, Advantest aims to achieve a sustainable level of business development of the Advantest Group and to enhance corporate value over the mid-to-long term. To that end, Advantest will establish a fair and efficient and transparent governance system. Above is a basic view on Advantest’s corporate governance.

Advantest discloses the “Corporate Governance Basic Policy” at the following website.

Corporate Governance Scheme

General Meeting of Shareholders

Corporate Governance Initiatives

June 2003 • Introduction of executive officer system
February 2006 • First meeting of Nomination and Compensation Committee
June 2009 • Adoption of Retirement Benefits System for directors • First election of outside directors
June 2011 • First election of a non-Japanese director
June 2015 • Transition to Company with an Audit & Supervisory Committee system
January 2017 • Majority of members of Nomination and Compensation Committee must be outside directors
June 2018 • First election of a female director • Introduction of stock compensation plan and review of stock option compensation system
**Board of Directors**

1. **Yoshiaki Yoshida**
   - Representative Director, President and CEO
   - Appointed: 2013
   - Date of birth: February 8, 1958
   - Nationality: Japan
   - Number of shares held: 47,363

2. **Osamu Karatsu**
   - Director
   - Appointed: 2012
   - Date of birth: April 25, 1947
   - Nationality: Japan
   - Number of shares held: 2,864

3. **Toshimitsu Urabe**
   - Director
   - Appointed: 2019
   - Date of birth: October 2, 1954
   - Nationality: U.S.A.
   - Number of shares held: 0

4. **Nicholas Benes**
   - Director
   - Appointed: 2012
   - Date of birth: September 1, 1949
   - Nationality: Japan
   - Number of shares held: 0

5. **Hans-Juergen Wagner**
   - Director, Managing Executive Officer
   - Appointed: 2017
   - Date of birth: January 19, 1960
   - Nationality: Germany
   - Number of shares held: 0

6. **Soichi Tsukakoshi**
   - Director, Managing Executive Officer
   - Appointed: 2017
   - Date of birth: February 1, 1960
   - Nationality: Japan
   - Number of shares held: 4,712

7. **Atsushi Fujita**
   - Director, Managing Executive Officer
   - Appointed: 2019
   - Date of birth: November 15, 1969
   - Nationality: Japan
   - Number of shares held: 2,100

8. **Yuichi Kurita**
   - Director, Managing Executive Officer
   - Appointed: 2015
   - Date of birth: July 28, 1949
   - Nationality: Japan
   - Number of shares held: 11,349

9. **Tsuneo Murata**
   - Director, Standing Audit & Supervisory Committee Member
   - Appointed: 2018
   - Date of birth: September 27, 1959
   - Nationality: Japan
   - Number of shares held: 344

10. **Kouichi Nanba**
    - Director, Standing Audit & Supervisory Committee Member
    - Appointed: 2019
    - Date of birth: September 1, 1949
    - Nationality: Japan
    - Number of shares held: 0

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**Qualifications for Appointment, Committee Positions and Attendance Rate**

<table>
<thead>
<tr>
<th>Name</th>
<th>Position and assignment</th>
<th>Qualifications for Appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yoshiaki Yoshida</td>
<td>Representative Director, President and CEO</td>
<td>After his duties as the representative director of a subsidiary of Advantest, executive vice president of the Corporate Planning Group, executive vice president of the Corporate Relations Group, and executive vice president, Nanotechnology Business Group, Mr. Yoshiaki Yoshida has been serving as Representative Director, President and CEO of the Company since January 2017. He has a wealth of knowledge and experience concerning the Company’s business and corporate management. Thus, Advantest believes that he is a suitable person to realize sustainable enhancement of corporate value.</td>
</tr>
<tr>
<td>Osamu Karatsu</td>
<td>Deputy Director</td>
<td>Mr. Osamu Karatsu has a wealth of knowledge and experience as a semiconductor specialist. This will contribute to the sustainable enhancement of corporate value of Advantest and the effectiveness of the Board of Directors as it reflects his insights on the industry in which Advantest belongs in the management of the Advantest group. Thus, Advantest believes that he is a suitable person as an outside director.</td>
</tr>
<tr>
<td>Toshimitsu Urabe</td>
<td>Deputy Director</td>
<td>Mr. Toshimitsu Urabe has extensive management experience at a leading Japanese general trading company, particularly extensive experience in the United States and Asia, experience in business investment decisions, etc., and extensive experience in administrative management by example human resources. This will contribute to the sustainable enhancement of corporate value of Advantest and the effectiveness of the Board of Directors as it reflects his insights in the global management of the Advantest group. Thus, Advantest believes that he is a suitable person as an outside director.</td>
</tr>
<tr>
<td>Nicholas Benes</td>
<td>Deputy Director</td>
<td>Mr. Nicholas Benes has extensive knowledge and experience about corporate governance matters, and experience in investment banking including M&amp;A transactions. This will contribute to the sustainable enhancement of corporate value of Advantest and the effectiveness of the Board of Directors as it reflects his insights on corporate governance and the perspectives of shareholders, and reflects them in the global management of the Advantest group. Thus, Advantest believes that he is a suitable person as an outside director.</td>
</tr>
<tr>
<td>Hans-Juergen Wagner</td>
<td>Director, Managing Executive Officer</td>
<td>Mr. Hans-Juergen Wagner has a wealth of knowledge concerning the market trend of ASE business, the Company’s core business, and technological development. He also has strong relationships with customers around the world. Thus, Advantest believes that he is a suitable person for further globalisation of the Board of Directors.</td>
</tr>
<tr>
<td>Soichi Tsukakoshi</td>
<td>Director, Managing Executive Officer</td>
<td>Mr. Soichi Tsukakoshi has been engaged in marketing and marketing operations. After his duties as Senior Vice President of the Sales Group, he currently serves as Executive Officer of the Production Group. He has a wealth of knowledge and experience concerning sales and marketing as well as production. Thus, Advantest believes that he is a suitable person to realize sustainable enhancement of corporate value through enhancement of efficiency of manufacturing and supply chain optimisation.</td>
</tr>
<tr>
<td>Atsushi Fujita</td>
<td>Director, Managing Executive Officer</td>
<td>Mr. Atsushi Fujita has been engaged in corporate administration, mainly finance and accounting, for many years, including assignments in the US and Germany, and has gained a wealth of knowledge and experience concerning the Advantest Group’s business and corporate management. Thus, Advantest believes that he is a suitable person to realize sustainable enhancement of corporate value.</td>
</tr>
<tr>
<td>Yuichi Kurita</td>
<td>Director, Standing Audit &amp; Supervisory Committee Member</td>
<td>Mr. Yuichi Kurita has many years of experience in finance and corporate management and has a wealth of knowledge and experience concerning finance and accounting. He served as a director and an audit and supervisory board member of this Company. Currently serving as a director who is a standing audit and supervisory committee member, he is striving to enhance supervision and oversight and corporate governance. In view of his achievements, Advantest believes that he is a suitable person to enhance supervision and oversight functions.</td>
</tr>
<tr>
<td>Tsuneo Murata</td>
<td>Deputy Director, Standing Audit &amp; Supervisory Committee Member</td>
<td>Mr. Tsuneo Murata has practical experience as an executive at private companies and the Japan Pension Service. In addition, he is familiar with compliance measures and corporate governance as a legal manager. Furthermore, he has abundant experience of auditing as an auditor at Japan Pension Service and Japan Finance Corporation. This will contribute to the enhancement of the audit and supervision of the Advantest group as we absorb his insights stemming from his corporate legal and auditing knowledge and experience and reflect them in the audit and supervision of the Advantest group. Thus, Advantest believes that he is a suitable person to enhance supervision and oversight functions.</td>
</tr>
<tr>
<td>Kouichi Nanba</td>
<td>Deputy Director, Standing Audit &amp; Supervisory Committee Member</td>
<td>Mr. Kouichi Nanba has not been directly involved in the management of a company in the past, but he has a wealth of experience and a high level of expertise in law and compliance, after serving as a judge mainly in charge of civil cases for many years, and engaging in the practice of corporate legal affairs as a lawyer. This will contribute to the enhancement of the audit and supervision of the Advantest group as we absorb his insights and reflect them in the audit and supervision of the Advantest group. Thus, Advantest believes that he is a suitable person as an outside director.</td>
</tr>
</tbody>
</table>

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*From the close of the General Meeting of Shareholders in 2019 to the close of the General Meeting of Shareholders in 2019*
Messages from Outside Directors

Deepening and implementation of the Grand Design

"Measurement technology adds value to things." I heard these words directly from Kuo Takeda, the founder of Advan-test (then known as Takedaiken Co., Ltd.). Measurement is an activity that seems to be passive at first glance, but it is actually a concept imbued with insight and pride, which is the origin of value in an industrial society. Even today, measurement is the principle that expresses the basis of our business, and it is a living thing.

As the times change, and the content of measurement technology also changes in step with technological progress, the objects of the value it produces have become more diverse and complex. Advan-test’s Grand Design was developed for this situation to point out the way we should go. By continuing to deepen and implement these guide- lines, we will be able to see what kind of markets we should target next, our role and strategy, and how to develop the products and services we offer. The Grand Design also shows where our governance should be focused and how to proceed with necessary M&A or collaborations with other companies.

In addition to participating in management decisions through consideration of short- and medium-to-long-term issues, I hope to contribute to the development of Advan-test’s business through discussions of the deepening and implementation of the Grand Design by offering the perspective of an independent director, as well as the resources of my personal networks, and information that is hard for corporate executives and the company’s ordinary sources to acquire.

Constructive suggestions and advice from knowing actual conditions in the workplace

Vibrant discussion takes place in every meeting of Advan-test’s Board of Directors, and reports on efforts to address the homework from the previous meeting are made at the start of the next meeting in an effort to make improvements through POCA to ensure these discussions do not simply end there.

I think the role of an Outside Director is to properly pro- vide the necessary opinions even if they may be some- thing management does not want to hear. I keep in mind that the inaction of “see no evil, hear no evil, speak no evil” is unacceptable, and place importance on offering opin- ions on both positive and negative aspects from a risk management perspective.

In order to ensure corporate governance functions properly, it is very important to know about actual condi- tions in the workplace, even from the position of an Out- side Director. Every year, Advan-test provides all Directors with the opportunity to tour overseas business sites and conduct off-site meetings. Furthermore, Outside Directors who are members of the Audit and Supervisory Commit- tee can also accompany on-site audits by Standing Audit and Supervisory Committee Members to check conditions and things that they notice in the business workplace, leading to constructive suggestions and advice.

With the aim of steadily achieving the Grand Design and the Mid-Term Plan formulated last year, I would like to contribute to the enhancement of the company’s corpo- rate value and improve the soundness and transparency of management to further enhance the company’s strengths—an industry-leading product portfolio, a strong customer base, and its ability to provide global support and comprehensive business planning, IT, and finance, and have done business with companies in the United States, Hong Kong, and other countries. I hope to contribute to the improvement of Advan-test’s corporate value by utilizing my insticts in relation to stakeholders and economic and industrial trends, and participating in decision making with a different perspective from Advan-test executives.

Participating in decision-making with a different perspective from Advan-test executives

While maintaining a good balance among our stakeholders—share- holders, employees, customers, and the general public—we understand that our corporate mission is to im- prove sustainable corporate value, and that the structure to achieve this is corporate governance. It is the duty of all directors, including outside directors, to understand the concerns of all stakeholders, but I believe outside directors are in a position to be more aware of share- holders and the public, in contrast to internal directors, who are closer to employees and customers.

Through my career at a general trading company and a leasing company with extensive industry contacts in Japan and overseas, I have had many years of experience in business management, as well as HR, business investment, corporate planning, IT, and finance, and have done business with companies in the United States, Hong Kong, and other countries. I hope to contribute to the improvement of Advan-test’s corporate value by utilizing my insticts in relation to stakeholders and economic and industrial trends, and participating in decision making with a different perspective from Advan-test executives.

Aiming for global leadership in corporate information disclosure

As a longtime ESG advocate I am pleased that Advan-test has pro- duced this “integrated annual report.” With the resulting investor feedback, it should improve our understanding and prioritization of factors that impact Advan-test’s long-term growth, profitability, sus- tainability, and global “footprint.”

Some of these factors are obvi- ous, such as the need to attract, de- velop and retain the best engineers and managers. But some are not. Concepts such as “sustainability” and “materiality” are still in their in- fancy, so emerging metrics will need to be identified, measured, and tracked year-to-year. We will need to further expand our disclosure, while keeping in mind that automatic infor- mation collection by investors will become the norm, complementing human judgement and firm-to-firm comparisons. I hope we can become a leader in this area.

Thus, we should continue to study and discuss these issues internally, and to approach these reporting challenges with humility, so that “in-tegrated reporting” does not turn into a mere PR exercise, but gener- ates feedback loops that maximize our potential for profit, growth, and sustainability.

To bottle things up causes suffering

During my 35 and a half years as a judge, including stints as Chief Judge at the Tokyo District Court and Tokyo High Court, I sometimes had to de- termine whether notable companies had committed corporate gover- nance violations. In my subsequent career as a lawyer, I was responsible for commercial fraud investigations. I learned that although the system of governance is in place, the people who operate it have not sufficiently discussed the issues that cause problems.

In the courts, the least experi- enced judges give their opinions first. There is an old saying: “Bottling things up causes suffering.”

This is my first time serving as an outside director, but I hope to speak up constructively whenever I have doubts, and do my job to the utmost to improve Advan-test’s corporate governance.
Board of Directors

The Board of Directors of AdvanTest, as the management decision-making body, shall make decisions on significant matters with respect to the management policies and management strategies for AdvanTest group, and in its capacity to supervise management, the Board of Directors shall monitor and supervise the status of exercise of duties by Executive Officers. AdvanTest strengthens the oversight and supervision functions of the Board of Directors in appointing multiple outside directors as members of the Board of Directors. At the Board of Directors meetings, directors with a wealth of knowledge and experience express their opinions from each point of view on the agenda proposed by the management team, and active discussions take place. The Board of Directors of AdvanTest (including Directors who are Audit and Supervisory Committee members) is composed of five inside directors and five outside directors as of June 26, 2019. Regarding the members of the Board of Directors of AdvanTest, please refer to pages 53 and 54. Mr. Yoshiaki Yoshida is the chairperson of the Board of Directors of AdvanTest.

The main discussion agenda of the Board of Directors is as follows:

- Basic management policy
- Executive personnel
- Agenda submitted to the General Meeting of Shareholders
- Budget / Financial settlement
- Acquisition or sales of businesses

Audit System

Advantest transitioned to the status of a Company with Audit and Supervisory Committee on June 24, 2015. The Audit and Supervisory Committee investigates the status of business and property, based on the audit policy and audit plan formulated by the Audit & Supervisory Committee. In addition, the Audit & Supervisory Committee audits the execution of duties by Directors, Executive Officers and other business executing agencies through collaboration with internal control teams and Accounting Auditors. Advantest’s Audit & Supervisory Committee was composed of one inside director and two outside directors as of June 26, 2019. The Audit & Supervisory Committee has appointed one person as a standing Audit & Supervisory Committee member in order to enhance effectiveness of audits and supervisory function by the Audit & Supervisory Committee through information gathering by attending important meetings and conducting hearings about reports on operations received from execution departments as well as through strengthened collaboration between the accounting auditor and the internal audit division. Mr. Yuchi Kitutta, a member of the Audit & Supervisory Committee member, has many years of experience in AdvanTest’s financial and administrative officers and has sufficient knowledge of finance and accounting. Also, Ms. Tsuneko Murata and Mr. Kouichi Namba, who are members of the Audit & Supervisory Committee, have sufficient knowledge of legal affairs. The Chairperson of the Audit & Supervisory Committee is Mr. Yuchi Kitutta.

The Audit & Supervisory Committee appoints two employees to support the duty of the Audit & Supervisory Committee. The Audit & Supervisory Committee, the Auditing Group and other internal control departments, the Accounting Auditors, and the auditors of each Advantest group collaborate with one another so as to carry out regular discussion and timely meetings.

With regard to internal auditing, Advantest has established an audit office and several selected internal employees routinely monitor the operation status of the company, as well as identifying problems and making recommendations for improvement.

Regarding accounting audits, Advantest has audited with Ernst & Young ShinNihon LLC and received predetermined audits. The certified public accountants who executed Advantest’s accounting audit work in FY2018 are Mr. Makoto Usui, Ms. Kaeko Kitamoto and Mr. Keiichi Wakimoto. Number of years of all those auditors continuous audit is within seven years. In addition, assistants performing Advantest’s accounting audit work include those with expert knowledge such as system experts, with CPAs as the main constituents.

Nomination and Compensation Committee

Advantest has established the Nomination and Compensation Committee as a non-mandatory organization, which complements the Board of Directors, to decide appointment/dismissal of Directors and Executive Officers and their compensation. The Nomination and Compensation Committee is responsible for the functions of both “the Nomination Committee” and “the Compensation Committee.” The Nomination and Compensation Committee shall be responsible for improving the fairness, rationality and transparency of appointment/dismissal of Directors and Executive Officers and their compensation.

The Nomination and Compensation Committee is composed of members selected in members of the Board of Directors under the resolution of the Board of Directors. To introduce an independent viewpoint, more than a half of the members are independent Directors. The Human Resource Department is its secretariat.

The main discussion agenda of the Nomination and Compensation Committee is as follows:

- Revision of “Directors and Executive Officers Nomination/Dismissal Policy and Procedures” and “Directors and Executive Officers Compensation Policy and Procedures.”
- Compensation of directors and officers (e.g. Fixed Compensation, Performance-linked bonus and Stock Compensation etc.)
- Nomination of candidates of directors and officers in FY2019.

Present members are Mr. Toshimitsu Urabe, Mr. Kouichi Namba and Mr. Yoshiaki Yoshida. Mr. Toshimitsu Urabe is a chairperson.

Appointment criteria of Independent Directors

The candidate should fulfill “Independence Standards for Independent Directors” and should meet one or more of the below criteria. Personality, concurrent positions as another company’s director, executive officer or auditor, years of appointment as an Independent Director of AdvanTest and the like will be considered in addition to the criteria.

- a legal professional such as attorneys
- a person who has management experience for another company
- a person who has excellent knowledge and experience in finance or accounting
- a person who has excellent knowledge and experience in the AdvanTest’s business field
- a person who has wide and deep experience in R&D
- a person who has enough experience or ability equivalent to above persons
Executive Officer Compensation / Board Effectiveness

Design of Compensation Aimed at Enhancing Corporate Value

The Compensation for Independent Directors is comprised only of (1) fixed-compensation, by considering their roles and independence from the management.

(1) Fixed-Compensation is determined in an appropriate level by referring the market data, and the position and responsibilities.

(2) Performance-linked Bonus is an incentive for short-term performance, and to be calculated based on the consolidated financial results of Net Sales, Operating Income Ratio, Net Income, and ROE etc.

(3) Stock Compensation are incentives for long term performance and also to share the shareholders’ perspective. Both of “Stock Option” and “Performance-based Stock Remuneration” will be granted by considering Advantest performance trend, economic situations, stock price in the market and like. The vested stocks by “Performance-based Stock Remuneration” will be fluctuated by the consolidated financial results of Net Sales, Operating Income Ratio, Net Income, and ROE etc.

3. Procedures in Determination

In response to consultation from the Board of Directors, the Nomination and Compensation Committee deliberates and determines the compensation for Directors who are Audit & Supervisory Committee members and Executive Officers to the Board of Directors. The Board of Directors deliberates and determines the compensation based on the proposal from the Nomination and Compensation Committee.

The Audit & Supervisory Committee deliberates and determines the compensation for Directors who are Audit & Supervisory Committee members.

Upper Limits on Director Compensation

<table>
<thead>
<tr>
<th>Type of Compensation</th>
<th>Total Amount of Compensation (million JPY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monetary Compensation</td>
<td>108 Advantest Corporation</td>
</tr>
<tr>
<td>Performance-based Stock Remuneration</td>
<td>108 Advantest Corporation</td>
</tr>
<tr>
<td>Stock Options</td>
<td>108 Advantest Corporation</td>
</tr>
</tbody>
</table>

Composition of Compensation for Directors [FY 2018]

<table>
<thead>
<tr>
<th>Name</th>
<th>Total Amount of Compensation (million JPY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yoshiaki Yoshida</td>
<td>132 (Representative Director, President and CEO)</td>
</tr>
<tr>
<td>Seo bun Myung</td>
<td>108 (Advantest Corporation)</td>
</tr>
<tr>
<td>Hans-Juergen Wagner</td>
<td>112 (Director, Managing Executive Officer)</td>
</tr>
</tbody>
</table>

Results of Board Meeting Effectiveness Survey

At a Board of Directors’ meeting, all directors answered a questionnaire to evaluate the effectiveness of their roles and obligations. Advantest analyzed our organization, operation and discussion status by collecting opinions.

Followings are the main items that were pointed out.

- Succession plan of Representative Director
- Reanalysis of risks that influence our business
- Investigation of director training menu

Report of FY2018

Advantest will consider taking action on these items. The points where improvement is needed will be addressed in future. In addition, there were indications about improving the diversity of the members of the Board of Directors. One new female director was appointed at the annual General Meeting of Shareholders of June 27, 2018.
### 11 Year Financial & Non-Financial Highlights

**Advantest Corporation and its consolidated subsidiaries**

Each fiscal year beginning on April 1

#### Financial Results

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Net sales</th>
<th>Cost of sales</th>
<th>Gross profit</th>
<th>EBITDA</th>
<th>EBITDA margin (% of net sales)</th>
<th>Free cash flows</th>
<th>Operating income</th>
<th>Depreciation and amortization</th>
<th>ROA</th>
<th>ROE</th>
<th>Capital Expenditures (¥ 100 million)</th>
<th>R&amp;D Expenses (¥ million)</th>
<th>Net income ratio</th>
<th>Shareholders' equity</th>
<th>Shareholders' equity ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2008 (2007/3)</td>
<td>76,652</td>
<td>58,177</td>
<td>18,475</td>
<td>49,332</td>
<td>53.1</td>
<td>(32,507)</td>
<td>(9,926)</td>
<td>(5,828)</td>
<td>(43,870)</td>
<td>(11,639)</td>
<td>6,111</td>
<td>87</td>
<td>23,717</td>
<td>204.10</td>
<td>(97.7)</td>
</tr>
<tr>
<td>FY2009 (2008/3)</td>
<td>56,837</td>
<td>42,5</td>
<td>14,307</td>
<td>43,832</td>
<td>55.1</td>
<td>(10,824)</td>
<td>(22.03)</td>
<td>8,523</td>
<td>9,487</td>
<td>82</td>
<td>5.4</td>
<td>87</td>
<td>7.8</td>
<td>7.8</td>
<td>61.1</td>
</tr>
<tr>
<td>FY2010 (2009/3)</td>
<td>51,164</td>
<td>37</td>
<td>48,465</td>
<td>49,802</td>
<td>52.9</td>
<td>(5,828)</td>
<td>(3.42)</td>
<td>3,397</td>
<td>3,450</td>
<td>80</td>
<td>6.1</td>
<td>15</td>
<td>13.8</td>
<td>13.8</td>
<td>48.7</td>
</tr>
<tr>
<td>FY2011 (2010/3)</td>
<td>72,300</td>
<td>63,983</td>
<td>8,317</td>
<td>80,580</td>
<td>53.1</td>
<td>(6,408)</td>
<td>(22.03)</td>
<td>9,623</td>
<td>23,717</td>
<td>204.10</td>
<td>(32.5)</td>
<td>10.3</td>
<td>7</td>
<td>5.6</td>
<td>56.4</td>
</tr>
<tr>
<td>FY2012 (2011/3)</td>
<td>65,985</td>
<td>62,545</td>
<td>3,438</td>
<td>85,980</td>
<td>53.1</td>
<td>(7,557)</td>
<td>(22.03)</td>
<td>9,623</td>
<td>23,717</td>
<td>204.10</td>
<td>(32.5)</td>
<td>10.3</td>
<td>7</td>
<td>5.6</td>
<td>56.4</td>
</tr>
<tr>
<td>FY2013 (2012/3)</td>
<td>132,003</td>
<td>66,417</td>
<td>65,586</td>
<td>102,369</td>
<td>59.1</td>
<td>(11,498)</td>
<td>(11,639)</td>
<td>6,111</td>
<td>87</td>
<td>7.8</td>
<td>7.8</td>
<td>61.1</td>
<td>21.3</td>
<td>21.3</td>
<td>24.9</td>
</tr>
<tr>
<td>FY2014 (2013/3)</td>
<td>111,878</td>
<td>91,726</td>
<td>14,152</td>
<td>92,852</td>
<td>59.1</td>
<td>(11,498)</td>
<td>(11,639)</td>
<td>6,111</td>
<td>87</td>
<td>7.8</td>
<td>7.8</td>
<td>61.1</td>
<td>21.3</td>
<td>21.3</td>
<td>24.9</td>
</tr>
<tr>
<td>FY2015 (2014/3)</td>
<td>155,916</td>
<td>111,878</td>
<td>44,038</td>
<td>127,532</td>
<td>53.6</td>
<td>(11,498)</td>
<td>(11,639)</td>
<td>6,111</td>
<td>87</td>
<td>7.8</td>
<td>7.8</td>
<td>61.1</td>
<td>21.3</td>
<td>21.3</td>
<td>24.9</td>
</tr>
<tr>
<td>FY2016 (2015/3)</td>
<td>135,916</td>
<td>66,417</td>
<td>65,586</td>
<td>102,369</td>
<td>59.1</td>
<td>(11,498)</td>
<td>(11,639)</td>
<td>6,111</td>
<td>87</td>
<td>7.8</td>
<td>7.8</td>
<td>61.1</td>
<td>21.3</td>
<td>21.3</td>
<td>24.9</td>
</tr>
<tr>
<td>FY2017 (2016/3)</td>
<td>155,916</td>
<td>89,778</td>
<td>66,138</td>
<td>143,134</td>
<td>55.5</td>
<td>(11,498)</td>
<td>(11,639)</td>
<td>6,111</td>
<td>87</td>
<td>7.8</td>
<td>7.8</td>
<td>61.1</td>
<td>21.3</td>
<td>21.3</td>
<td>24.9</td>
</tr>
<tr>
<td>FY2018 (2017/3)</td>
<td>135,916</td>
<td>66,417</td>
<td>65,586</td>
<td>102,369</td>
<td>59.1</td>
<td>(11,498)</td>
<td>(11,639)</td>
<td>6,111</td>
<td>87</td>
<td>7.8</td>
<td>7.8</td>
<td>61.1</td>
<td>21.3</td>
<td>21.3</td>
<td>24.9</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>106,375</td>
<td>66,417</td>
<td>65,586</td>
<td>102,369</td>
<td>59.1</td>
<td>(11,498)</td>
<td>(11,639)</td>
<td>6,111</td>
<td>87</td>
<td>7.8</td>
<td>7.8</td>
<td>61.1</td>
<td>21.3</td>
<td>21.3</td>
<td>24.9</td>
</tr>
</tbody>
</table>

#### Information per share

<table>
<thead>
<tr>
<th>Shareholders' equity per share (¥)</th>
<th>Diluted earnings (loss) per share (¥)</th>
</tr>
</thead>
<tbody>
<tr>
<td>915.47</td>
<td>840.65</td>
</tr>
</tbody>
</table>

#### Number of shares issued at year-end

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>199,566,770</td>
<td>199,566,770</td>
<td>199,566,770</td>
<td>199,566,770</td>
<td>199,566,770</td>
<td>199,566,770</td>
<td>199,566,770</td>
<td>199,566,770</td>
<td>199,566,770</td>
<td>199,566,770</td>
<td>199,566,770</td>
</tr>
</tbody>
</table>

#### Non-financial data

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>(Times)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,418</td>
<td>3,354</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Female employees as percentage of total workforce</th>
<th>(2009/3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>17.3%</td>
<td>16.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of Patents</th>
<th>(2009/3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,917</td>
<td>2,433</td>
</tr>
</tbody>
</table>

---

(*1) Selling, general and administrative expenses from the fiscal year ended March 31, 2011 are composed of selling, general and administrative expenses, research and development expenses, and restructuring and impairment charges.

(*2) EBITDA = Operating income + Depreciation and amortization

(*3) Free cash flows = Cash flows from operating activities + Cash flows from investing activities

(*4) Female employees as percentage of total workforce

(*5) Non-employee members of the executive officers (including temporary employees)
Global Network

(As of March 31, 2019)

Japan

Major Subsidiaries

<table>
<thead>
<tr>
<th>Name</th>
<th>Location</th>
<th>Principal business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantest Facilities Co., Ltd.</td>
<td>Saitama, Japan</td>
<td>Providing welfare services</td>
</tr>
<tr>
<td>Advantest Laboratories Ltd.</td>
<td>Miyagi, Japan</td>
<td>Research and development of measuring and testing technologies</td>
</tr>
<tr>
<td>Advantest Finance Inc.</td>
<td>Tokyo, Japan</td>
<td>Leasing of the Company's products and sales of used products</td>
</tr>
<tr>
<td>Advantest Kyushu Systems Co., Ltd.</td>
<td>Fukuoka, Japan</td>
<td>Development, sales and support of the Company's products</td>
</tr>
<tr>
<td>Advantest Component, Inc.</td>
<td>Miyagi, Japan</td>
<td>Development and manufacturing of the parts</td>
</tr>
</tbody>
</table>

Overseas

<table>
<thead>
<tr>
<th>Name</th>
<th>Location</th>
<th>Principal business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantest America, Inc.</td>
<td>California, U.S.A.</td>
<td>Development and sales of the Company's products</td>
</tr>
<tr>
<td>Advantest Europe GmbH</td>
<td>Munich, Germany</td>
<td>Development and sales of the Company's products</td>
</tr>
<tr>
<td>Advantest Taiwan Inc.</td>
<td>Hsinchu, Taiwan</td>
<td>Sales of the Company's products</td>
</tr>
<tr>
<td>Advantest (Singapore) Pte. Ltd.</td>
<td>Singapore</td>
<td>Sales of the Company's products</td>
</tr>
<tr>
<td>Advantest Korea Co., Ltd.</td>
<td>Cheonan, Korea</td>
<td>Support for sales of the Company's products</td>
</tr>
<tr>
<td>Advantest (China) Co., Ltd.</td>
<td>Shanghai, China</td>
<td>Support for sales of the Company's products</td>
</tr>
<tr>
<td>Advantest (M) Sdn. Bhd.</td>
<td>Penang, Malaysia</td>
<td>Manufacturing of the Company's products</td>
</tr>
</tbody>
</table>

Employees

Total 4,936

Number of subsidiaries

Total 31
Corporate Overview / Stock Information

As of March 31, 2019

Stock Information

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>April 1 through March 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary General Meeting of Shareholders</td>
<td>June</td>
</tr>
<tr>
<td>No. of Issuable Shares</td>
<td>440,000,000</td>
</tr>
<tr>
<td>No. of Shares Outstanding</td>
<td>199,566,770</td>
</tr>
<tr>
<td>Number of Shareholders</td>
<td>33,004</td>
</tr>
</tbody>
</table>

Major Shareholders

- **The Master Trust Bank of Japan, Ltd. (trust account)**: 48,965 shares, 24.73% ownership
- **Japan Trustee Services Bank, Ltd. (trust account)**: 21,689 shares, 10.94% ownership
- **Trust & Custody Services Bank, Ltd. (investment trust account)**: 14,594 shares, 7.52% ownership
- **THE BANK OF NEW YORK MELLON**: 12,205 shares, 6.27% ownership

Breakdown of Shareholders

- **Financial Institutions and Securities Companies**: 121 holders, 112,064 thousand shares (56.4%)
- **Others Entities and Treasury Shares**: 274 holders, 12,096 thousand shares (2.0%)
- **Individuals and Others**: 32,145 holders, 20,096 thousand shares (10.1%)
- **Non-Japanese Holders**: 464 holders, 62,921 thousand shares (31.5%)

Share Prices and Volume

- **Price per Share**: As of March 31, 2019
  - **Nominal Value**: Yen 1
  - **Price**: 4,005 yen

- **Volume of Shares**: Million Shares
  - **2013**: 3,600
  - **2014**: 3,800
  - **2015**: 4,000

- **Transactions**: As of March 31, 2019
  - **Total**: 4,005

- **Volume of Shares**: Million Stocks
  - **2013**: 120
  - **2014**: 160
  - **2015**: 200

Our Official Website

- https://www.advantest.com/

External Recognition (2018)
- Selected as constituent stock of FTSE4Good Index series and FTSE Blossom Japan Index
- Chosen as member of SNAM Sustainability Index
- Named a 2018 Thomson Reuters Top 100 Global Technology Leader
- Earns 30th consecutive appearance on the VLSIresearch 10 BEST List in Annual Customer Satisfaction Survey
- Received excellence award in the Environmental Report Division of Environmental Communication Awards

Contact

Corporate Communications Division
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https://www.advantest.com/contact/

Sustainability Report 2019
https://www.advantest.com/sustainability-report