Please see our website for more detailed information about Advantest.

For Our Investors

Integrated Annual Report

Sustainability Databook

Environment
- Climate Change Mitigation
- Green Products
- Environment Data

Society
- Development of Human Resources & Fair Evaluation and Promotion
- Protection and Respect for Human Rights

Governance
- Risk Management
- Compliance

Integrated Annual Report 2020

ADVANTEST CORPORATION
Shin-Marunouchi Center Bldg.,
1-6-2, Marunouchi, Chiyoda-ku, Tokyo 100-0005
https://www.advantest.com/
The Advantest Way

Since our founding in 1954, Advantest has developed and supplied the leading-edge measurement technologies that customers need, contributing to safety, security, and comfort worldwide through electronics quality assurance. In 2019, the 65th anniversary of our founding, we codified our mission, vision, and core values in the form of “The Advantest Way”. The corporate culture articulated in The Advantest Way is the force that drives Advantest’s business growth.

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.

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.

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.

Core Values [INTEGRITY]

I
INNOVATION
is our Lifeline
- We challenge the status quo.
- We earn our leadership position in our business fields every day.
- We establish an irreplaceable standard of excellence.

N
NUMBER ONE
is our Aspiration
- We are a trusted, collaborative partner.
- We have confidence in each other's capabilities and intentions.

T
TRUST
is our Foundation
- We are a trusted, collaborative partner.
- We have confidence in each other’s capabilities and intentions.

E
EMPOWERMENT
is our Motivation
- We are empowered to make decisions and own our mentalities.
- We own Advantest’s success.

G
GLOBAL
is our Reach
- We embrace a world of constant change.
- We are always ready. Anytime. Anywhere.

R
RESPECT
is our Heart
- We respect different cultures, customs, and laws.
- We never compromise on our ethical standards.

I
INCLUSION AND DIVERSITY
is our Commitment
- We are proud of and appreciate the range of different backgrounds our employees represent.
- We believe that strength can come from differences as well as similarities.

T
TEAMWORK
is our Approach
- We work smart and best utilizing our talents across teams and regions to do extraordinary work.
- We inspire each other, encourage openness, and recognize team results.

Y
YES
is our Attitude
- We deliver on results promised to each other.
- We recognize that impossible is an option, and with us, we can change the world.

Disclaimer Regarding Forward-Looking Statements
This report contains statements about Advantest’s current plans, estimates, strategies and outlook. Anything that is not historical fact is a prediction of future performance based on the best judgment of management, derived from the information available at the time this booklet was published. The semiconductor test system market is constantly subject to fluctuations that affect Advantest’s core business. In addition, important factors that can affect actual business performance include economic trends, rapid exchange rate fluctuations, intensifying competition, and natural disasters. Due to these risks and uncertainties, our future performance may differ materially from what is described in this publication. Therefore, it should not be assumed that the goals set forth herein will necessarily be achieved.

Scope of This Report
The report covers FY2019 (April 1, 2019 - March 31, 2020). However, it also mentions dates before and after this period as necessary. The data aggregation range is identical with the scope of Advantest’s consolidated financial statements, unless otherwise stated.
About Advantest

Advantest is a provider of test and measurement solutions focusing on electronic measurement technology. Our core product line is semiconductor test equipment. These systems measure and test semiconductors with high accuracy and efficiency to ensure that they operate properly and meet performance and reliability requirements.

In their diverse roles in products used throughout the world, and especially in the processing and storage of large volumes of data, semiconductors are now a form of social infrastructure. Advantest plays a key part in the creation of a sustainable future for humanity by assuring their quality and reliability.
Advantest’s History

Since Advantest’s founding, we have paved the way for successive waves of innovation by providing leading-edge measurement technology. We will continue to support technological innovation and semiconductor production growth through test, contributing to the sustainable development of the world we all share.

1954-1980

1954 Takada Riken Industries founded with four employees.
1957 TR-1248 Electronic Counter for digitally measuring frequency became a hit product.
1963 Launched the Digital Multimeter, the first Japanese-made digital voltmeter.
1972 Launched the first Japanese-made semiconductor test systems, the T-325/20 and T-320/30.
1979 Launched the VL1 test system with a test frequency of 100MHz, boasting the highest performance in the world.

1980-2000

1982 Established a local subsidiary in the United States. Facilities were later established elsewhere around the world.
1985 The company’s name was changed to Advantest Corporation. Obtained the No. 1 share in the semiconductor test equipment market, according to VLSIresearch.
1993 Launched the TX691, a VLSI test system featuring an industry-best test speed of 500MHz/10GHz.
1995 250MHz X2 DRAM memory test system TX581 launched; become a best-selling product.

2001-2016

2003 Acquired Japan Engineering Co., Ltd.
2008 Acquired Credence Systems GmbH.
2011 Acquired major semiconductor test equipment provider Verigy Ltd. and started selling the V93000 Smart Scale test system.

2017-

As the Market Enters a New Growth Phase, Advantest Continues to Measuring the Future of Semiconductor-Evolution

Semiconductors now play a central role not only in smartphones but also in automobiles, data servers, and various other devices. To ensure safety, security, and comfort, semiconductor technologies that are based on functionality, complexity, and capacity are increasingly being used. Due to the rapid growth in semiconductor demand, reliability demands also continue to grow. Semiconductor test items and test times are increasing, underlying the importance of leading-edge test technology. To capture this opportunity, we formulated a new mid- to long-term management policy in 2018. By actively expanding our business and investing in semiconductor value chains, including system-level test and cloud-based services, Advantest aims to become a company that will last for a hundred years or more, while proudly upholding our founders’ passion for unique technology and dedication to meeting customer needs.
The Value Creation Process and Advantest's Business Model

As our lives become ever more digitized through the IoT as well as the shift to online, value creation is increasingly driven by data rather than physical objects, a change that can be described as “the digital transformation” (DX). The explosive increase in data volumes, and the diversifying roles that applied data plays in society, are accelerating demand for semiconductors, while functionality and performance requirements are dramatically evolving. Advantest supports the reliability of semiconductors by “Measuring the Future” to contribute to safety, security and comfort worldwide.

Output

Value created

Products and solutions that support customers’ business by “Measuring the Future”

Semiconductors are brought to life with “Measuring the Future” technology that ensures their reliability. Semiconductors support safety, security, and comfort as a form of social infrastructure.

Input

See pages 33-34

Broad customer base

See pages 37-38

Technology / R&D capacity “Measuring the Future”

See pages 27-30

Strong and healthy financial structure

See pages 41-42

Human resources (global, diversity)

See pages 43-44

Sustainability based on ESG

*SCM: Supply Chain Management

Further reinforcement of competitiveness through ROIC*-based business management and efficient investment management

ROIC: Return On Invested Capital

The Advantest Way

See pages 31-32

See pages 37-38

See pages 41-42

See pages 43-54
CEO Message

Achieving the Goals of Our Grand Design One Steady Step at a Time

Representative Director, President and CEO

The unprecedented global difficulties triggered by COVID-19, which broke out during Advantest’s fiscal year 2019, including the economic and political impact of the pandemic, as well as the changes forced upon us individually and collectively, have made a deep impression on me. The restrictions imposed by our response to the virus will likely continue for some time around the world, but it is my sincere hope that we will soon be able to put the pandemic behind us and resume safe and healthy lives.

The unforeseen scale and speed of COVID-19’s global spread has prompted rapid changes in our daily lives, unavoidably accelerating the digitalization of social life. My longstanding belief that semiconductors are the foundation of social infrastructure in the modern world is being confirmed day by day, in Japan and beyond, as the crucial role of these devices rapidly expands to arenas such as education, remote work, and electronic payments.

The mission of the Advantest Group is to deliver safety, security, and comfort for people around the world by guaranteeing the reliability of the semiconductors that enable their daily lifestyles. From FY2020, our value proposition will be put to the test more stringently than ever. As a company that specializes in test, we are confident that we can continue to meet the ever higher expectations placed on our technology.

A Look Back at the FY2019 Market Environment & Advantest’s Results

For two consecutive years we have achieved record high orders, hitting our targets under our current mid-term management plan (FY ending March 2019 – FY ending March 2021). The success of the measures we have steadily promoted under this plan is starting to show up in our business results. Meanwhile, our investments in R&D and M&A will power the company’s growth in the medium to long term. We intend to continue making these strategic investments even if upfront costs temporarily suppress profits.

Market Environment

Historically prey to cyclical downturns every two years on average, the semiconductor test market has been supported since about 2015 by continuous demand growth fueled by the “digital transformation” now taking place in society. Advantest also saw steady growth during this period. However, in 2019, factors such as the prolonged trade friction between the United State and China, and the ripple effects of their competition for technical hegemony, depressed demand for end products and capital investment across a wide range of areas including electronics, automobiles, and industrial equipment. Manufacturers have adjusted production and reviewed their capex plans. On the other hand, the rising demand around the world for full-scale commercialization of 5G communications is stimulating need for higher performance and enhanced reliability assurance for high-end SoC (System on Chip) semiconductors, such as devices for smartphones and HPC (high performance computing) that are manufactured on advanced process nodes, which in turn supported strong test demand throughout 2019. Memory and automotive semiconductor device inventory adjustments also entered a recovery phase in the second half of FY2019, creating high expectations for growth in FY2020. Although demand will inevitably rise and fall periodically in the future, the overall outlook for semiconductor test demand continues to be a growth scenario in the medium to long term. What we did not see coming was the impact of COVID-19 on the global economy. This will be discussed later.

Performance Relative to Our Mid-Term Management Plan & Notable Steps Towards Achievement of Advantest’s “Grand Design”

As the market for high-end testers with high performance and high unit prices expands, Advantest’s steadily expanding market share enabled us to end FY2019 on a high note by reaching all our targets under our medium-term management plan (base scenario).
Medium-Term Megatrends: Risks & Opportunities

Semiconductors, which are now a key element of social infrastructure, will be used in even more diverse roles in the future. Because of the need to ensure their reliability, semiconductor test demand will grow overall, despite cyclical ups and downs. Thus, the market outlook and growth strategy set forth in our Grand Design remain unchanged. On the other hand, recent events have given us a strong sense of crisis. We will respond more flexibly to environmental changes that are different from anything we have seen the last two years, such as the impact on the global economy of the COVID-19 pandemic, and the supply chain instability and operation issues that have diffused through the industry as a result of intensifying conflict between the United States and China.  

Headwinds: COVID-19 & US-China Conflict

In terms of demand, the spread of COVID-19 is driving demand for WFH (Work From Home)-related data centers, while at the same time reducing demand for end products such as automotive equipment, industrial machinery, and consumer semiconductors. The Advantest Group’s operations may also be affected, if restrictions on movement around the world or urban lockdowns are prolonged, by procurement and product supply difficulties, as well as a reduced ability to provide in-person customer support by engineers. Also, the intensifying conflict between the United States and China is likely to have no small impact on highly specialized semiconductor supply chains. For example, the tightening of US regulations on Chinese companies will affect the investment stances of the OSAT (Outsourced Semiconductor Assembly and Test) customers who use Advantest’s testers for smartphone SoCs. If the decoupling of the US and China economies progresses, some semiconductor-related manufacturers may choose to duplicate parts of their supply chains as a form of risk hedging, but the future is uncertain.

Tailwinds: Demand Growth in High-End Semiconductor Test

On the other hand, the progress of the digital transformation represented by 5G commercialization will promote further semiconductor performance and reliability improvements. This trend is expected to strengthen even if demand slows temporarily. In response to this trend, wafer-level and package-level test are beginning to be reinforced by system/module-level test to enhance the reliability of high-end semiconductors and automotive semiconductors.

4 Strategies: Specific Measures

Thus, we enter fiscal 2020, the final year of our mid-term management plan, amidst instability. In this fiscal year, we will continue to develop our strategies for each of our businesses, work to expand and enhance our solutions across the semiconductor value chain, maintain and expand our market share, and aim to achieve the goals of our Grand Design. To this end, we will continue to grow our core business, expand our solutions by M&A and other means, and make necessary investments in R&D.
CEO Message

Becoming a “100-Year Company” With a Crucial Place in Society

Since I became president of Advantest in 2017, I have often said that we want to become a “100-year company.” Now that we have passed the two-thirds mark, the requirements for Advantest’s sustainable growth going forward include not only good results in the short term, but also strengthening and promoting ESG management. The very existence of Advantest is premised on a healthy global environment. To preserve the environment and create a sustainable society into 2054 and beyond, it is essential to consider the entire supply chain. In this era when the future often seems uncertain, the Advantest Way—incorporating our management philosophy, vision, core values and ethical guidelines—plays the role of runway lights for the Advantest Group, guiding us as we journey towards our centennial.

Management Philosophy: Enabling Leading-Edge Technologies

Our management philosophy of “enabling leading-edge technologies” leads us to aspire to make things that do not yet exist and take on challenges that no one else has attempted. Around 1954, when the company was founded, the transistor age was only just dawning, and in the late 1980s when we began to be a global company, the IoT and AI were still science fiction. There is no doubt that new concepts and technologies will emerge in the next 33 years, and I believe that our support for these leading-edge technologies will continue to be the cornerstone of Advantest’s business.

Human Resources Are Management Resources That Grow

Our management philosophy encourages each and every person who works at Advantest to fully demonstrate their diverse capabilities, to stimulate each other’s creativity, and at times to take up the challenge of responding to new needs that have never previously existed. Rather than making excuses for why “I can’t do it,” an Advantest employee seeks to unlock his or her full potential, accept different opinions and ideas, and work with a diverse group of colleagues. This mindset, shared across our entire global team, is summarized by “INTEGRITY,” an acronym standing for the nine core values we aspire to embody. Unlike devices, people are educated, gain experience, and learn teamwork, and they grow throughout their careers. To help them flourish, we in management are responsible for creating and maintaining a corporate culture in which employees can work and fully develop their abilities through an optimal personnel system, training opportunities, and workstyle reforms. We further believe that in order for our employees to continue to grow, we must constantly assess them, using our corporate culture, employee engagement metrics, and various other indicators.

ESG Management Promotion for Sustainable Development

I believe that as we continue our journey towards our 100th anniversary, we need to practice ESG management that enables us to share the value of the Advantest Group with all stakeholders, including customers, business partners, local communities, and employees. What value can Advantest offer by providing the solutions that society needs? From this perspective, ensuring the reliability of semiconductors enables us to contribute to society by making people’s lives safer, more secure, and more comfortable. Going forward, we will redouble our efforts to secure human rights and improve workstyles, contribute to local communities and the global environment, and help our customers to reduce their environmental impact throughout the value chain. In addition, the Advantest Way includes a code of conduct that sets out 17 ethical guidelines which must be observed by all employees of the Advantest Group. Legally or ethically questionable behavior overshadows even the greatest achievements. Advantest is dedicated to maintaining impeccable ethical standards, and I am resolved to continuously improve the compliance awareness of the Group as we journey onwards.

Final Thoughts

Fiscal 2019 was a memorable year for us in another way: we achieved first place in the annual semiconductor manufacturing equipment customer satisfaction survey conducted by VLSIresearch, not only in testers, but in the entire semiconductor manufacturing equipment sector. I would like to express my sincere gratitude to each and every employee of the Advantest Group, all of our business partners, and our customers, for contributing to this achievement. I would also like to thank the communities where we do business every day, and the investors who make it possible. Advantest aims to reach its 100th anniversary as a company with a crucial place in society. With that vision in mind, each and every one of us, starting with myself, is sincerely motivated every day by the desire never to take for granted the trust that has been placed in us.

Pioneer New Business Fields: Expansion into Cloud Data Analytics

We have begun developing new businesses to prepare the way for Advantest’s next growth surge. As a foundation for this, in July 2020, we entered into a business alliance with PDFS (PDFS) in the United States, including a capital investment in PDFS. This expands our business in the data analytics field, one of the target areas mentioned in our Grand Design. By incorporating PDFS’s database and data analysis technology into our hardware-based business structure, we can utilize the data generated from customer workflows to provide feedback on processes from semiconductor design to manufacturing, chip test, and system level test. We aim to build a cloud platform with cross-departmental participation that grows new revenue streams over the medium to long term. Advantest relishes the challenge of building a new business by creating new customer value.

Seek Operational Excellence: A Slimmer Cost Structure for Investment Efficacy

As part of the efforts directed at achievement of our mid-term management plan’s goals over the past two years, we have steadily improved profitability. Our goal of generating free cash flow of ¥100 billion during the cumulative period of the mid-term management plan was achieved ahead of schedule. Now that we are in a strong position, I have determined to free up management resources for medium- to long-term growth investments by reviewing budgets and recruitment plans and improving operational efficiency in order to implement a leaner management structure. In particular, the impact of COVID-19 has significantly reduced personnel transfers between overseas locations, and has changed our operational style, for instance through the partial shift of customer support to online and the implementation of telework for many employees. In response to these changes, the cost and workforce plans that we made six months ago have been re-examined.

At the same time, we will invest strategically in the realization of our Grand Design, and continue to review our business and product portfolios with a view to improving capital efficiency. As a part of the background to the partnership with PDFS announced in July, we also decided to sell our probe card business. These decisions exemplify Advantest’s stance of responsiveness to change without fear.

For more on Advantest’s capital policy, see Financial Strategy & Capital Policy on pages.27-30.
Our Market and Strategy

A "semiconductor" is technically a substance with an electrical conductivity value that is intermediate between a "conductor" with good electrical conductivity, such as germanium or silicon, and an "insulator" with high resistivity. In 1947, at Bell Labs in the United States, transistors, which could not only switch electrical currents but also amplify them, were invented using semiconductors. This marked the beginning of the semiconductor industry.

The invention of integrated circuits in 1959 set the industry on a course of growth. IC technology achieves miniaturization and high performance of circuits by integrating semiconductor elements, such as transistors, onto a single semiconductor substrate. Since the invention of ICs, integration and mass production metrics have consistently advanced thanks to the evolution of the optical technology called photolithography, enabling IC applications and production volumes to expand while design and manufacturing technology have improved. At the same time, the term "semiconductor", which was originally used to refer to materials, has become common parlance for electronic circuits using semiconductors, such as ICs.

Now, more than half a century after the invention of ICs, vast numbers of diverse semiconductors are used in a wide range of applications such as computers, smartphones, domestic appliances, automobiles and industrial equipment, and communication infrastructure. They have become indispensable to our lives.

Semiconductor Industry Growth supports to Solutions for Social Issues

Today, whilst population growth and urbanization are advancing, we face energy, water, and food shortages, as well as environmental problems. In addition, while society is becoming "smarter" and more globalized, security concerns are coming to the forefront. The digital revolution promises to solve these various issues with technology. Big data is the cornerstone of the digital revolution. Everything around us is being digitized, and the data network that connects more and more human activities, ranging from daily life to industry, is becoming wider and deeper every day. As a result, the amount of data generated daily in the world continues to grow exponentially. This "data explosion" is launching the semiconductor market into a new growth phase.

Digital processing of data such as sensor inputs, calculations and communications, and storage are all performed by semiconductors. Therefore, as a necessary precondition for the progress of the digital revolution, the use of semiconductors and sensors will increase across all applications in the future, and the performance of core semiconductors such as SoC (System on Chip) devices, which communicate and process data, and memory devices, which store data, is expected to continue to improve.

Against this background, the total value of the semiconductor market, which has been in the USD 400 billion range (about JPY 40 trillion at an exchange rate of 1 USD = JPY 100) for the past three years, will reach the USD 500 billion level in a few years, and is predicted to continue to grow.
The Tester Market is Correlated to the Direction of Semiconductor Market Evolution

In this environment, business opportunities for our core semiconductor tester business will mainly be linked to the following four trends in the semiconductor market.

- Semiconductor performance improvements and transition to next-generation standards (technology buys)
- Expansion of semiconductor production (capacity buys)
- Further reinforcement of semiconductor reliability to meet social infrastructure requirements (quality buys)
- Expansion of the semiconductor demand base due to the digital revolution (new automotive and IoT applications)

More than 60 years have passed since the invention of transistors, yet semiconductor design and manufacturing technology innovation continues at a blistering pace. For example, in order to support the evolution of smartphones, innovations that increase the number of integrated transistors. Technological innovations that enable cheaper and more energy-efficient semiconductor devices are steadily being promoted. These advances have further stimulated demand for semiconductors, and as a result, semiconductor production and performance have continued to grow and improve.

In the semiconductor tester market, similar to the semiconductor market, the driving forces behind market growth to date have been “technology buys”, impelled by lengthening test times due to the improvement of semiconductor performance and the growing complexity of devices, and “capacity buys” necessitated by the growth of semiconductor production volumes.

Amidst the promotion of the digital revolution, the improvement of data centers and AI capabilities via further miniaturization of semiconductors, the development of semiconductors for 5G communication using millimeter waves, and the quest for lower power consumption with an awareness of reducing environmental burdens, etc., constantly promote semiconductor technological innovation. As a result, not only higher-performance semiconductor devices, but also the unprecedented rise of test demand for complex system semiconductors that feature highly integrated heterogeneous chips (i.e. both logic and memory) is expected in future. In response to these trends in the semiconductor market, Advantest expects that “technology buys” of semiconductor testers will continue to be robust in the future. The increase in the pace of “capacity buys” due to the expansion of semiconductor applications, and the increase in “quality buy” demand due to increasing demand for reinforced semiconductor reliability, are also expected to drive future market expansion.

The Quest to Provide Greater Customer Value

The only way to determine whether a semiconductor with a resistance value intermediate between “conductor” and “insulator” is good or bad is by conducting an electrical test. Basically, all semiconductors must be electrically tested using a semiconductor tester. And in order to measure the performance of semiconductors more precisely, it is indispensable to provide testers with measurement technology sufficiently accurate to anticipate the future evolution of semiconductor performance. Advantest currently holds a high market share in the test processes for mass production of high-speed devices such as DRAM, computing devices, and communication processors, where the technical capabilities of test vendors are held to the most stringent criteria.

This is due to our customer base, the broadest in the industry. For each type of semiconductor, we regularly hold technical discussions with leading customers in the field, collect knowledge about test trends several years in advance, and use this knowledge in our product development. Constant refinement of our solutions through the cycle of applying our technology to customer needs has brought us where we are today.

We also believe that the value we provide to our customers in the semiconductor tester business is not limited to sales of superior semiconductor test equipment. As semiconductor designs and structures become more complex, the right test method for the newest semiconductors is always a process of exploring new frontiers. We consult with semiconductor manufacturers who lead the industry in terms of technology and business scale have a strong influence on market value and market share each year. Furthermore, we deliver semiconductor testers within an average of three months after receiving an order. This is a relatively short lead time for semiconductor-related equipment, putting Advantest in a position to be more agile than other equipment providers in response to changes in demand for end-products.

Putting these factors together, we expect the semiconductor tester market to grow in the medium to long term, despite fluctuations in the short term.

Reinforcement of Advantest’s Growth Foundation and Mitigation of Demand Fluctuation Risks

As mentioned above, we expect the semiconductor tester market to grow over the medium to long term. However, since semiconductor testers are basically capital goods installed on semiconductor mass production lines, annual demand fluctuations tend to be greater than for semiconductors, which are consumer goods. Specifically, the structure of the tester market is such that changes in business trends and technological investments by major semiconductor manufacturers who lead the industry in terms of technology and business scale have a strong influence on market value and market share each year. Furthermore, we deliver semiconductor testers within an average of three months after receiving an order. This is a relatively short lead time for semiconductor-related equipment, putting Advantest in a position to be more agile than other equipment providers in response to changes in demand for end-products.

By implementing the growth strategy set forth in our “Grand Design” mid- to long-term management policy, we aim to expand our profits in the growing semiconductor tester market while mitigating the effects of performance fluctuation factors caused by the market structure described above.
Grand Design

Overview

The Grand Design that Advantest announced in April 2018 lays out the next decade of Advantest’s growth strategies and commitments, based on megatrends in our market and our daily lives.

With the speeding up of networks and the development of sensors and other devices, a “data explosion” is transposing more and more of daily reality into the realm of data. Semiconductors are performing key tasks in this realm, including data sensing, communication, calculation, and storage, which means that they require further sophistication and integration of functions, larger capacities, and higher quality and reliability. Against this background, semiconductor test processes are becoming more sophisticated and test times are lengthening.

Test demand will continue to grow, albeit cyclically, in terms of both quality and quantity. To grasp this opportunity and increase Advantest’s corporate value, we will seek to grow our share of the market for semiconductor mass production test, which is our core business, and also expand our business in adjacent markets such as design / evaluation and system level test processes. In addition, we will strive for greater management efficiency by strengthening our corporate governance, implementing management based on ROIC (return on invested capital), investing in human resources, and carrying out workforce reforms.

Vision

Grand Design: Six Commitments

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

So far, Advantest’s business development has centered on semiconductor volume production test. The increasing sophistication and complexity of semiconductors also creates new opportunities to apply our measurement technologies and know-how to the design / evaluation processes upstream of volume production, and the system level test processes downstream from it. We will also seek to develop businesses that create new customer value through analysis of the vast amounts of data that exist within the semiconductor value chain, including related markets.

Strategies

Reinforce Core Businesses, Invest Strategically

- Strengthen engagement with leading-edge customers
- Create new value propositions for our test cells, such as factory automation

Seek Operational Excellence

- Optimize production system to respond to fluctuations in demand
- Develop employee skills and promote teamwork across departments and regions
- Monitor business using ROIC (return on invested capital)

Explore Value to Reach a Higher Level

- Develop solutions throughout the semiconductor value chain
- Utilize AI and data analysis, expand service business

Pioneer New Business Fields

- Business research team will explore next-generation technology and business
- Promote M&A and business alliances to expand business domains and acquire technology
- Develop new-concept products that transcend the semiconductor arena

Sales Scenarios and Cost Structure

Advantest will increase our share of the tester market, and implement measures to develop new businesses - including via M&A and alliances - in areas adjacent to our core business.

Conservative Case

<table>
<thead>
<tr>
<th>Scenario</th>
<th>FY2027 (Forecast) Billion yen</th>
<th>FY2017 (actual)</th>
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<tbody>
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<td>Tester Market</td>
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<td>Advantest Share</td>
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<td>Existing Business</td>
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<tr>
<td>New Business</td>
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<tr>
<td>Gross Profit Margin</td>
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<tr>
<td>Operating Income Margin</td>
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<td>Total Sales</td>
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<td></td>
</tr>
<tr>
<td>Cost Structure in Conservative Case</td>
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</tr>
</tbody>
</table>

“Tested by Advantest” Contributes to Our Sustainable Future

The role of semiconductors installed in various products we use daily, and the value of test as a guarantor of their quality and reliability, are becoming more and more important for the sustainable development of our planet. Through measurement technology, Advantest contributes to safety, security, and comfort worldwide, and to our shared, sustainable future.
Materiality

Sustainability through ESG promotion is one of the management guidelines set forth in The Advantest Way, our management philosophy. The ESG (Environmental, Social and Governance) criteria defined by the Sustainable Development Goals of the UN align with Advantest’s mission to deliver safety, security, and comfort through our core business of semiconductor test. Materiality is our compass for the promotion of ESG management based on these criteria, keeping our business sound and strong, and making a sustainable social and environmental contribution to the world where we operate.

ESG Management Positioning

Corporate value consists of two elements: tangible asset value, which can be expressed as financial information, and intangible asset value, which cannot be expressed as financial information. The latter consists of corporate philosophy and code of conduct, medium-to-long-term strategies, investments related to environment (E), society (S), and governance (G), various other activities, and internal systems, which all serve to maximize the intangible asset value that can be expressed as non-financial information. We consider this to be the realm of ESG management. As shown in the figure below, we believe that ESG management should not be “hidden” behind financial information. Rather, it is a source of value that appears in business performance over the medium to long term.

Our Approach to Materiality

From FY2019 through FY2020, we revised and renewed our approach to materiality. In addition to our existing CSR priority issues, we integrated management issues corresponding to the Six Commitments set forth in our “Grand Design” into 20 items. We also defined 23 Sustainability Objectives as practical guidance for each division and business unit to use in implementing these items.

Materiality Promotion Structure

In August 2020 we established the Sustainable Management Promotion Working Group. Whilst breaking down the policies and management plans decided on by the Executive Committee and other executive organs into key measures and strategies for each division and business unit, and supporting the incorporation of measures and objectives related to ESG and the SDGs, this Working Group is responsible for addressing the risks associated with these activities, disclosing related information, and implementing the PDCA cycle in cooperation with related committees.

Not: The above graphs were created by Advantest with reference to “Jishani atta ESG senryaku no susumekata kangaekata” by Takaharu Fukuoka (2019, Chuokeizai-sha, Inc.)
Sustainability Objectives

We have set sustainability objectives to make it easier for individual headquarters and business divisions to prioritize their activities. The Sustainable Management Promotion Working Group supports their decision-making and helps them set KPIs based on these sustainability objectives.

<table>
<thead>
<tr>
<th>Category</th>
<th>Priority Strategies &amp; Themes</th>
<th>Sustainability Objectives</th>
<th>Officer KPI</th>
<th>2019 Results</th>
<th>2020 Objectives</th>
<th>Additions / Changes</th>
<th>Social Contribution (SDGs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Value Creation</td>
<td>Enhance engagement with leading-edge customers</td>
<td>Number of violations of voluntary safety standards</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Deploy capabilities to customer workflow solutions</td>
<td>Number of information security-related complaints</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product Competitiveness</td>
<td>Focused investment in core businesses</td>
<td>Product Environmental Contributions</td>
<td>Total GHG emission reduction (Scope 3) through product use</td>
<td>—</td>
<td>(R&amp;D)</td>
<td>New addition</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Achieve proactive R&amp;D investment</td>
<td>Product &amp; service environmental footprints</td>
<td>Percentage of products that meet voluntary standards for green products</td>
<td>100%</td>
<td>100%</td>
<td>Expanded to whole world</td>
<td></td>
</tr>
<tr>
<td></td>
<td>AIM to enhance next-generation technology and businesses</td>
<td>Hazardous substance elimination</td>
<td>Ratio of suppliers surveyed for use of hazardous substances</td>
<td>105%</td>
<td>100%</td>
<td>Expanded to whole world</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Promote M&amp;A and Mix/Rip/Partner operations to expand business domain and acquire technology</td>
<td>Product quality</td>
<td>Reduction of waste through quality improvement</td>
<td>Reduced by more than 34% compared to FY2018</td>
<td>-33% compared to FY2008</td>
<td>New addition</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Optimize production system to respond better to demand fluctuations</td>
<td>Intellectual property protection</td>
<td>Percentage of employees participating in intellectual property e-Learning sessions</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources</td>
<td>Work-life balance</td>
<td>Family-friendly employment</td>
<td>Percentage of employees returning to work after maternity / paternity leave</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Health &amp; Safety</td>
<td>Occupational safety and health</td>
<td>Number of workplace accidents (frequency rate)</td>
<td>0.2</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reinforce local S&amp;RE, R&amp;D, and marketing personnel</td>
<td>Training &amp; education opportunities</td>
<td>Average annual training time per employee</td>
<td>11.0 hours</td>
<td>15 hours</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Increase and leverage diversity</td>
<td>Diversity and equality of opportunity</td>
<td>Ratio of female managers</td>
<td>—</td>
<td>8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Foundations</td>
<td>Achieve mid-term management plan targets</td>
<td>Financial performance</td>
<td>Sales, operating income, ROE, EPS</td>
<td>×275.0B</td>
<td>Operating profit margin: 21.1% ROE: 18%</td>
<td>Three years average (2016-2020), Base Scores</td>
<td>Sales: ×250.0B Operating profit margin: 17% ROE: 18% EPS: ×170</td>
</tr>
<tr>
<td></td>
<td>Maintain a sound financial base</td>
<td>Anti-corruption</td>
<td>Number of confirmed fraudulent activities</td>
<td>1</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Relinquish governance &amp; compliance</td>
<td>Compliance with antitrust laws</td>
<td>Related legal actions Number of cases</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Environmental compliance</td>
<td>Environmental compliance Number of violations</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Compliance (Society)</td>
<td>With regard to society Compliance Violations</td>
<td>3</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supply chain management (Impact on environment, human rights, labor practices and society)</td>
<td>New supplier evaluations</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Protection and respect for human rights</td>
<td>Number of cases received via our helpline</td>
<td>1138</td>
<td>1138</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution to our sustainable future</td>
<td>Conflict minerals elimination</td>
<td>In our efforts to reduce conflict minerals, we ask our business partners to ensure the transparency of their supply of materials, parts, etc., and we work with our business partners to investigate conflict mineral information (smaller information), in collaboration with industry groups. We are continuing our efforts to reduce less risky minerals.</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-discrimination</td>
<td>Number of cases received via our helpline</td>
<td>4</td>
<td>All cases resolved</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental management</td>
<td>Contribution to our sustainable future</td>
<td>Climate change mitigation</td>
<td>Sustainability sourced energy ratio</td>
<td>28%</td>
<td>2050/100% (Scope 2)</td>
<td>New addition</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Environmental management</td>
<td>Atmospheric emissions reduction</td>
<td>GHG emissions (Scope 1+2)</td>
<td>33,390t-CO2 (15.1%)</td>
<td>2030/30% reduction (in comparison with FY2018)</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reduction of water use and reduction of waste</td>
<td>Waste recycling rate</td>
<td>87%</td>
<td>Recycling rate ×90%</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

Fujita

Tsukui

Mihashi
## Risk Management

Advantest promotes strategic and continuous risk management vis-à-vis the diversifying global risks that touch our business. We have also reviewed and reorganized our risk management system to clarify the relationship between important management issues (materialities) and risks, to clarify responsibilities related to risk management.

### Our Basic Risk Management Philosophy

Regarding the 20 important management topics and priority issues defined as materialities (see p. 22), we have formulated measures to address them at the level of individual divisions, business units, and overseas regional headquarters. We consider that clarifying and implementing these measures are risks. To avoid or mitigate these risks, we have adopted a risk management structure to manage the establishment of systems and the implementation of appropriate measures.

### Risk Management Structure

The Sustainable Management Promotion Working Group, a company-wide committee, incorporates the policies and management plans determined and approved by the Executive Committee (and the Board of Directors) into priority measures for each division and business unit, and, in cooperation with six of our overseas locations, also identifies risks, formulates countermeasures, and reports to the Internal Control Committee. In principle, the Internal Control Committee meets twice a year to analyze the status of identified risks and factors contributing to any incidents that have occurred, and to take future countermeasures including prevention of recurrence.

### Key Risks and Countermeasures

In fiscal 2019, over 400 risks were identified by divisions, business units, and overseas locations. The 25 major ones are listed below.

<table>
<thead>
<tr>
<th>Key Risk</th>
<th>Priority Measures</th>
<th>Preventive Measures</th>
<th>Person in Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Significant demand fluctuations in the semiconductor industry</td>
<td>We will strive to expand our business horizontally by adjusting to semiconductor mass production demand changes, and to strengthen existing businesses.</td>
<td>We will implement cost reduction measures and enhance our business and new businesses.</td>
<td>Director / Senior Executive Officer</td>
</tr>
<tr>
<td>2. Impact of global economic and political trends on global business development</td>
<td>We will proactively monitor the risks from our overseas locations, strengthen our relationships with customers and suppliers, and make strategic procurement decisions to enhance business flexibility.</td>
<td>We will strengthen our global IT systems.</td>
<td>Director / Senior Executive Officer</td>
</tr>
<tr>
<td>3. Expansion of the COVID-19 pandemic</td>
<td>We will monitor the impacts of COVID-19 on our IT systems.</td>
<td>We are preparing for a possible impact.</td>
<td>Director / Senior Executive Officer</td>
</tr>
<tr>
<td>4. Market share losses due to delays in new product launches in a timely manner</td>
<td>By strengthening relationships with leading customers, we will accurately anticipate new technological innovations and the creation of new products and new markets, and identify new business opportunities in advance.</td>
<td>We will strengthen our global IT systems.</td>
<td>Director / Senior Executive Officer</td>
</tr>
<tr>
<td>5. Loss of a succession plan in the CEO and other top executives may threaten management stability and sustainability.</td>
<td>The Nomination and Remuneration Committee will carry out: (1) identification of job requirements, (2) selection of candidates, (3) hearing of candidates, and (4) final decision on candidates.</td>
<td>We will strengthen our global IT systems.</td>
<td>Director / Senior Executive Officer</td>
</tr>
<tr>
<td>6. Loss of opportunities due to depend on a small number of suppliers</td>
<td>We will standardize parts and designs to build a system that does not rely excessively on any one particular supplier.</td>
<td>We will strengthen our global IT systems.</td>
<td>Director / Senior Executive Officer</td>
</tr>
<tr>
<td>7. Intense competition may impact market share</td>
<td>We will strive to maintain product competitiveness by providing unique functionality and high-value-added solutions.</td>
<td>We will strengthen our global IT systems.</td>
<td>Director / Senior Executive Officer</td>
</tr>
</tbody>
</table>

*Note: The number in parenthesis indicates the Materiality Number.*

### Additional Information

- **Key Risks**: The list includes a variety of potential risks that Advantest faces, ranging from market fluctuations to specific operational challenges.
- **Priority Measures**: The measures outlined for each key risk are designed to mitigate or eliminate the identified risks.
- **Preventive Measures**: These measures are implemented to proactively address potential risks.
- **Person in Charge**: The individuals responsible for overseeing the implementation of risk management strategies are listed.

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**Integrating Annual Report 2020**

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**ADVANTEST CORPORATION**

26
Financial Strategy & Capital Policy

Approach to Basic Financial Policy

Our financial model is, first and foremost, to build a stable financial foundation, and from there, to utilize the concept of return on invested capital (ROIC) to maximize cash earnings for growth investments and shareholder returns. In addition, our accounting system supports this model by utilizing a pooling system that collects funds at headquarters, using a system that assigns a system code to each Group company around the world, and expanding the accounting organization globally by function. This enables speedy utilization of funds, information collection, and effective decision making. Apart from these accounting aspects, the value created by strategies for securing and reinforcing management assets and intangible assets, such as investment in human capital and the creation of internal and external organizations, is increasing in importance. Leveraging not only the capabilities of the accounting department, but also the broad experience of staff in Human Resources, General Affairs, and other departments, we place emphasis on these non-financial elements of corporate value, and consider diverse ways of thought, reflecting the importance we place on our intangible assets such as people and intellectual property, while perpetually seeking the best approach to improve the corporate value of Advantest, and implementing strategies that meet the needs of the moment, including ESG management.

COVID-19 Financial Response

At the beginning of 2020, we were in a position to estimate that we might exceed fiscal 2018’s record high sales in fiscal 2020, but the worldwide spread of the COVID-19 pandemic changed the economic situation so drastically that by spring it had become difficult to issue even a six-month forecast. Every day we seem to hear that another company is seeking to raise money, and Advantest has also conducted various risk simulations in light of our past experience, including an examination of financing under the worst-case scenario and our commitment lines, but so far we have not needed to take any urgent financing measures, nor have we had to review our policy on growth investments targeting future business expansion such as R&D investment, capital investment, and additional hiring. Of course, it is necessary to take measures in response to the short-term economic downturn we are now experiencing, but in terms of our financial status, our ability to continue growth investments from a long-term perspective, in accordance with the outlook set forth in our "Grand Design" that the semiconductor industry will grow despite short-term fluctuations, has been strongly supported by the sound financial structure that enabled us to obtain an "A" credit rating. This financial model was based on the financial model shaped, above all, by our experience of past silicon cycles, when we made a point of continuing business as usual even during downturns. In this era, when in addition to COVID-19 and US-China conflict, natural disasters once considered to be rare occur with decreasing frequency, I believe sustainable management requires a higher than normal level of working capital. Growth investment is still needed to achieve the goals of our Grand Design, especially in terms of securing human resources by increasing our headcount, so we must pay attention to changes in our sales-per-employee ratio while preserving a balance between the increase in fixed costs and our profit margin. In the future, I will strive to further improve the functionality of our financial model.

Current Financial Quantitative Challenges

As a milestone towards our mid- to long-term goals, we have set a profit and loss model with sales at ¥300 billion level. In fiscal 2018 and fiscal 2019, our gross profit margins were 54.5% and 56.7%, respectively, exceeding the model’s target of 54%, but SG&A expenses (including other income/expenses) were 31.6% and 35.4% of sales, respectively, with an especially significant increase seen in fiscal 2019. We recorded temporary depreciation expenses as part of our M&A accounting, and other factors included expenses related to M&A and securing human resources and aggressive capital investment for growth. However, due to the characteristics of our business, investments in human capital including the hiring of...
engineers who support our relationships with customers, and investments in R&D aiming to enhance our broad product line-up, are the source of our competitiveness, and are essential to achieve the ¥400 billion sales target of our Grand Design. It is also necessary to proactively invest in IT with an eye to the digital transformation, which is expected to hit a tipping point in 2025. We will build a muscular cost structure in line with our target model by evaluating cost-effectiveness to ensure that our investments stay on target, the returns on our growth investments are in line with our original expectations. We are not just continuing to spend money in traditional ways without considering returns, as well as structuring our budgets on a complete zero basis, without reference to past performance.

Effects of ROIC Introduction & Further Embedding the ROIC Metric in Operations

At the same time as we announced our mid-term management plan in April 2018, we introduced a ROIC evaluation system for our business. This requires positive equity spreads not only at the corporate level, but also at the level of individual business divisions, and forces us to pay attention to the profits and losses of individual business divisions, and forces us to pay.

we will also incorporate items such as profit carryover and loss, as well as placing a little more emphasis on our balance sheet perspective, which includes an awareness of asset efficiency, while planning to embed measures that encourage people to consider the appropriateness and utilization of human assets. In the future, I would also like to improve on our past ten years to conduct such evaluations of businesses on the basis of single-year figures. We will also incorporate items such as profit carryover and loss, as well as placing a little more emphasis on our balance sheet perspective, which includes an awareness of asset efficiency, while planning to embed measures that encourage people to consider the appropriateness and utilization of human assets. In the future, I would also like to improve on our past ten years to conduct such evaluations of businesses on the basis of single-year figures.

My Approach to Shareholder Value Improvement & Returns

In the past two years, fiscal 2018 and fiscal 2019, Advantest has achieved high returns on equity (ROE) of 35.3% and 24.9%, respectively, significantly exceeding the 18% target of our mid-term management plan. While this is partly supported by expectations for the semiconductor sector overall, our total shareholder return (TSR) is far above the TOPIX average. Guided by our belief that our industry environment is still in the midst of a growth phase, we will consider shareholder returns in balance with our investment goals, based on the fact that a ROE continuously exceeding cost of capital in the medium to long term leads to improvement in shareholder value. Regarding dividends, we will maintain a payout ratio of 30%, linked to half-year consolidated business results, similarly to employee bonuses. Regarding share repurchase, in July we voluntarily repurchased our own stock for the first time in 13 years, taking into consideration the possibility that we will exceed the targets of our mid-term management plan. This was not done in the expectation of a short-term bounce in our stock price. It was based on our view that future profit might weigh down our ROE as a result of excess capital accumulation. We will continue to improve shareholder value from a medium- to long-term perspective.

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

<table>
<thead>
<tr>
<th>P/L Model on a Level of 300 Billion Yen in Sales for Achieving Mid/Long-Term Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
</tr>
<tr>
<td>300 billion yen (100%)</td>
</tr>
<tr>
<td>Cost of sales</td>
</tr>
<tr>
<td>138 billion yen (46% of sales)</td>
</tr>
<tr>
<td>Gross profit</td>
</tr>
<tr>
<td>162 billion yen (54% of sales)</td>
</tr>
<tr>
<td>SG&amp;A</td>
</tr>
<tr>
<td>96 billion yen (32% of sales)</td>
</tr>
<tr>
<td>Operating income</td>
</tr>
<tr>
<td>66 billion yen (22% of sales)</td>
</tr>
</tbody>
</table>

Total shareholder return (TSR)

<table>
<thead>
<tr>
<th>Total Shareholder Return (TSR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADVANCE</td>
</tr>
<tr>
<td>Last 1 year</td>
</tr>
<tr>
<td>ADVANCE</td>
</tr>
<tr>
<td>TOPIX (including dividends)</td>
</tr>
</tbody>
</table>

The above is the cumulative TSR from the end of March 2015 to the end of March 2020. Calculated based on (increase in stock price + cumulative gross dividend)/the Company’s stock price.
Mid-Term Management Plan and Results

To achieve the goals of the “Grand Design” mid- to long-term management policy we announced in April 2018, we started by establishing a mid-term management plan that set issues and targets for the first three years of the Grand Design (FY2018-2020). How did we do in the first two years of the mid-term management plan?

Our Scenarios (Premises of the Mid-Term Management Plan)

Advantest believes that the demand for semiconductor manufacturing equipment inevitably fluctuates each year. Therefore, our targets are three-year averages. First of all, regarding our tester market growth rate assumptions, we prepared two scenarios: a “conservative scenario” with annual growth of 0% and a “base scenario” with annual growth of 4%. The latter scenario is used in our Grand Design. According to our research, the market contracted in CY2018 to about ¥370 billion due to memory inventory adjustments. In CY2019, the final year of the plan, the market rebounded to about ¥400 billion, and in CY2020 it shrunk to about ¥370 billion due to memory inventory adjustments.

In addition, the market in CY2020 is expected to be flat year-on-year at approximately ¥370-380 billion, due to the impact of the COVID-19 pandemic and trade friction between the United States and China. Despite our market environment has fluctuated up and down, Advantest’s results for the past two years have exceeded the “base scenario” by a significant margin.

Mid- to Long-Term Measures and Results

- Expanding business to adjacent markets
  - IoT business and Data analytics via M&A and partnership
- Strategic changes in internal organization
  - Global integration of R&D
  - Launch of ARTeam
- Production reforms
  - Promotion of Design for Supply Chain
- ROI-based business evaluation and portfolio review
  - Profit card business sale
- Human resource development and resource enhancement
  - Strategic reinforcement of SE / AE. 200 engineers hired per year
- Updating of corporate philosophy and code of conduct
  - The Advantest Way
- Shareholder returns
  - Maintain a half-yearly 30% payout ratio
  - Repurchase of treasury stock

These advantages enabled our two-year average results to significantly exceed the “base scenario” for all four KPIs set forth in our mid-term management plan. It is difficult to forecast the market environment in CY2020, the final year of the plan, but our full-year forecast as of July 2020 indicates that it is possible for us to achieve the targets of our mid-term management plan.

Mid- to Long-Term Measures

Despite large and continuing short-term demand fluctuations, we believe that demand for semiconductor test will continue to grow in the medium to long term, as in the scenario set forth in our Grand Design. In order to capture these future business opportunities and achieve the goals set in the Grand Design for 2027, we have developed various mid- to long-term measures over the last two years, including business expansion into adjacent markets via M&A and business alliances, consolidation and shuttering of unprofitable businesses based on ROIC evaluation, global integration of R&D operations, launch of the “ARTeam” that conceptualizes new businesses based on the utilization of AI and data analytics, product development centered on DfISC (Design For Supply Chain), and construction of a production system that is resistant to fluctuations in demand and supports effective BCP. (See the figure P31.)

We see our mid-term management plan as focused on achieving the long-term goals of our Grand Design, and as such it is shaped by the issues and priority measures necessary to achieve those goals. In other words, it is the role of the mid-term management plan to lay the groundwork for winning business in future. We consider that the first two years of the plan have developed strong traction towards that objective.

Two Years in which Advantest’s Strengths Were Exercised to the Fullest

In FY2018, strong demand for testers continued for the full year in response to rising demand from the AI, data center, and smartphone sectors for higher semiconductor performance and enhanced reliability assurance. In FY2019, there was a phase of inventory adjustment centered on DfISC (Design For Supply Chain), and construction of a production system that is resistant to fluctuations in demand and supports effective BCP. (See the figure P31.)
**Business Portfolio**

**Semiconductor design / evaluation processes**

- **Nanotechnology Products**
  - Electron beams are used to draw and measure semiconductor circuits. These tools contribute to the design evaluation of advanced semiconductors and are used in front-end processes that require extremely small-scale, precise work.

- **Device Interfaces**
  - Device interfaces are jigs that connect semiconductors to test systems electrically and mechanically. These extremely high precision products are consumables that must be changed every time a different type of device is tested.

**Mass production processes**

- **Test Systems**
  - Semiconductors are automatically electrically tested to evaluate quality, performance, and reliability. Test systems are used throughout the semiconductor production flow from design and evaluation to mass production. They can be roughly divided into SoC test systems that cover a wide variety of SoC devices, and memory test systems that specialize in memory test.

- **Test Handlers**
  - In back-end processes, test handlers transport semiconductors to test systems at high speed. Temperature is applied in line with the requirements of the test to be performed, and devices are automatically sorted into “good” and “defective” trays according to the test results.

**Front-end, back-end**

- **Test Systems**
  - Semiconductors are automatically electrically tested to evaluate quality, performance, and reliability. Test systems are used throughout the semiconductor production flow from design and evaluation to mass production. They can be roughly divided into SoC test systems that cover a wide variety of SoC devices, and memory test systems that specialize in memory test.

**System level test processes**

- **Test Systems**
  - Semiconductors are tested at the level of system operation. This business is expected to grow in response to increasing complex semiconductor.

**Customers for Each Process**

<table>
<thead>
<tr>
<th>IDM (Integrated)</th>
<th>Device Manufacturer</th>
<th>OSAIT (Outsourced Semiconductor Assembly and Test)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fabless</td>
<td>Foundries</td>
<td>Small-scale, precise work.</td>
</tr>
</tbody>
</table>

**Target Devices of our Test Business**

- **SoC Test Systems**
  - **Mobile ICs**
    - Control smartphones, reception and transmission of radio waves at communication base stations, etc.
  - **ICs for high performance computing**
    - Carry out high-speed calculations on computers and data servers
  - **Power Semiconductor**
    - Rectification and amplification of current, switching, etc. Installed in all electronic devices
  - **CMOS Image Sensors**
    - Convert camera images to electronic data
  - **Display Driver ICs**
    - Control images on displays
  - **Memory Test Systems**
    - Memory (DRAM, Non-volatile memory)

**Test business growth factors FY2018-FY2019 results**

- **Continuing strong demand due to widespread adoption of 5G and improved performance of smartphone processors**
  - Spread of 5G, improved performance of smartphones

- **In addition to expanding applications for AI and deep learning, data center investment will recover in FY2019**

- **Automotive demand has a knock-on impact on the automotive semiconductor business**
  - Power saving needs Automotive electrification

- **This business will grow due to innovations such as compound eyes for smartphones**

- **Although slim based continued to drive demand through FY2019, there was a pause in FY2019**

**Advanced’s core products: test systems**

- **FY2019 results**
  - Sales of 197.2 billion yen
  - 6.0% decrease from the previous year
  - Accounted for 73.5% of total sales

- **FY2019 results**
  - Sales of 36.3 billion yen
  - 7.3% decrease from the previous year
  - Accounted for 15.3% of total sales

**SoC Business / memory business: Sales for the past 3 years**

- 2017: 87.9
- 2018: 146.6
- 2019: 155.0

**Total Sales: 275.9 billion yen (fiscal year ending March 2020)**

**Service, Support & Others**

- In addition to services and support for test systems, this segment includes new businesses that transcend the boundaries of conventional semiconductor test.

- **FY2019 results**
  - Sales of 42.5 billion yen
  - 14.0% increase from the previous year
  - Accounted for 12.2% of total sales

**Mechatronics**

- Test peripherals and nanotechnology-based semiconductor front-end process equipment.

- **FY2019 results**
  - Sales of 36.3 billion yen
  - 7.3% decrease from the previous year
  - Accounted for 15.3% of total sales

- **The system level test business acquired from US company Artesca in February 2019 is performing well**

- **Advanced’s SSD test business and Easel, Inc., which was acquired in January 2020, also contributed to sales growth**

**Business Segment Commentary and 2019 Overview**

- **Advantest’s core products: test systems**
  - Sales of 197.2 billion yen

- **5G and high-performance computing-related demand remains strong**

- **Memory decreased in the first half, but recovered from the second half**

- **6.0% decrease from the previous year (Accounted for 73.5% of total sales)**

- **42.5 billion yen**

- **34.0% increase from the previous year (Accounted for 15.3% of total sales)**

- **The system level test business acquired from US company Artesca in February 2019 is performing well**

- **Advanced’s SSD test business and Easel, Inc., which was acquired in January 2020, also contributed to sales growth**
For each fiscal year beginning on April 1*

Financial Highlights

Sales
(Billion yen)
Achieved the target of our mid-term plan, even though sales did not reach the record high of the previous year

Net income / Profit margin
(100 million yen / %)
Net income exceeded 50 billion yen for the second consecutive year

Basic earnings per share (EPS)
(Net)
Despite a year-on-year decline, EPS is trending solidly upward in the medium term

Free cash flow
(Billion yen)
Even though M&A investment increased by about 20 billion yen year-on-year, free cash flow was as good as the previous year

R&D expenses / capital expenditures
(100 million yen / %)
Even if sales decline, Advantest aggressively invested in future growth

Dividends per share
(Net)
Dividends shrank due to profit decrease, in accordance with our performance-linked dividend policy

Operating income / Operating income ratio
(Billion yen / %)
Maintained an operating margin of over 20%

Total assets / shareholder equity / ROE
(100 million yen / 100 million yen / %)
Achieved a high ROE despite a significant increase in shareholder equity

Free cash flow
(Billion yen)
Even though M&A investment increased by about 20 billion yen year-on-year, free cash flow was as good as the previous year

Number of employees* / Number of SE / AE employees
(Thousands)

Number of managers / Ratio of female managers
(Thousands)

Non-financial highlights

Energy usage / renewable energy ratio
(TJ / %)
We actively work to reduce greenhouse gas emissions by efficiently using energy and introducing renewable energy sources.

GHG (Scope 1 + 2, and Scope 3) CO2 emissions
(kt-CO2)
We are quantifying greenhouse gases indirectly emitted in our value chain and promoting greenhouse gas emission reduction activities for climate change mitigation and adaptation.

Installed Base of Major Semiconductor Test Product (Cumulative)
(Units)
Our strength in the semiconductor tester market rests on our customer base, the best and broadest in the industry. The top 20 semiconductor manufacturers in the world by sales all use Advantest’s flagship products. Currently, our installed base numbers more than 28,000 test systems and handlers, and of these, 6,816 units have been installed in the five years since FY2015 alone, representing an unmatched rate of growth.

Promotion of Diverse Human Resources

The Advantest Group jointly seeks globalization and localization. By unifying our qualification system and personnel evaluation system globally, and by establishing a single global standard for bonuses as an incentive for profit sharing, as well as a compensation system linked to global performance, we encourage employees to think of the profitability of the entire company rather than just their own country or region. In terms of localization, 10 out of 24 executive officers (42%, as of end of June, 2020) are foreign nationals who implement management practices based on local culture and customs at our key overseas locations.
Becoming a 100-Year Company

Redefining Semiconductor Test
Technology for Measuring the Future

Our management philosophy of supporting leading-edge technology is both a source of pride for the R&D division and a great responsibility. The value of Advantest’s semiconductor test springs from the fusion of our ultra-precise measurement technology, which we continue to refine to this day, with a future-oriented vision of technology that enables highly efficient semiconductor test focused on customer value improvement. We live in an era when semiconductor devices are indispensable to our safety, security and comfort throughout the world. Guaranteeing their reliability is Advantest’s mission to “enable leading-edge technology.”

In the dynamically changing semiconductor market, the key to realizing our mission, today, tomorrow, and in years to come, is to grasp business opportunities as quickly as possible by collaborating closely with leading customers, and incorporating our future-oriented measurement technology into the development of the solutions that customers require.

Accelerated by the evolution of semiconductor design and manufacturing technology, the digital transformation, including the rapid commercialization of 5G and AI, has given rise to major inflection points in the semiconductor industry. The ongoing miniaturization of semiconductor processes has driven gains in semiconductor cost-effectiveness, complexity, functionality, and performance. For example, devices with more than 10 billion transistors, 3D devices with more than 100 layers, and heterogeneous devices integrating more than 10 different types of functions are now being developed. Furthermore, the relationship between hardware and software has been strengthened, so that a device operates as if it were a system. Supply chains now also involve the collaboration of multiple teams responsible for design, wafer manufacturing, package assembly, IP, and more. The digitization of society is driving heightened expectations for semiconductors at an accelerating pace, which means that customers must now achieve time to Market, Time to Volume, and Time to Quality in shorter times than ever before. This has become a major issue for them, leading to requirements to test more items in the same amount of time, and an increase in test difficulty. In addition, there are now more test requirements that cannot be covered by conventional test methods. It is essential to strengthen test technology to ensure reliability by utilizing new methods such as system level test.

Test Solutions for Comprehensive End-to-End Coverage

To solve these issues and add customer value, Advantest is expanding our business domains from our current core business of semiconductor mass production test to design/evaluation processes and new system level test processes. By providing comprehensive test solutions that offer end-to-end coverage, along with device handling, temperature control, and device contact, we can deliver flexible automated processes that address the entire workflow. We also aim to provide more intelligent integrated solutions, including big data analysis, by utilizing data generated from the semiconductor manufacturing process, which is said to exceed two terabytes a day at leading-edge factories. Collaboration with leading customers is indispensable to quickly grasp infection points such as we face now, and to develop optimal responses to them. Our customers’ challenges are our compass and guide to future changes in terms of their potential for technological disruption and their impact on the market supply chain. Thus, one of our key development strategies is to build collaborative relationships with leading customers and incorporate their needs into detailed roadmaps and development plans, leading to the commercialization of successful products.

Our core business is Semiconductor Test (ATE: Automatic Test Equipment), and we are proud that in 2019, we once again claimed the No. 1 market share of the ATE market. We are equally proud of the industry-leading product portfolio and customer base that supported this achievement. We are accelerating the integration of the V93000 development team with the T2000 and memory tester development teams to facilitate global development projects and personnel rotation. Our ST (System level Test) business division, established in FY2019 to develop and provide SSD test systems, also includes the system level test business we acquired from Astronics, and Essai, which we acquired in January 2020. Essai has strong capabilities in final test and system level test sockets, and thermal control units for temperature control.

Our Key R&D Themes for FY2019 - FY2020

- Next-generation scalable test system platform development (V93000 EXA Scale)
- Development of testers for 5G millimeter wave and high-end SoC devices
- Development of a high-end memory tester
- Development of software architecture that enables big data analysis and high throughput
- Development of a test cell platform for comprehensive quality improvements such as factory automation

Solutions launched as new products:

- New T2000 module for automotive SoC test with greatly improved parallel test performance
- H5620 high-speed burn-in tester for memory test (announced)
- V93000 Wave Scale RF8 market launch for Wi-Fi 6E and 5G-NR devices
- T8901 TD RSR high-precision wiring failure analysis solution using terahertz technology (announced)

Capturing Change and Opportunities in Adjacent Markets

Our ARTeam (Applied Research & venture Team) was established as an organizational structure that transcends the R&D division to sensitively capture opportunities for business expansion into adjacent markets and coming inflection points. In addition, the above-mentioned acquisition of Astronics’ system level test business, the acquisition of Essai, and the partnership with PDF Solutions announced in July also target business expansion into adjacent markets. In the future, we will continue to explore opportunities to further align Advantest’s business portfolio with evolving customer needs, including collaborations with partners, universities, and research institutes.
**Design for Supply Chain: A Recipe for Strength**

The Gunma Factory’s great strength is our highly experienced production team, whose seamless teamwork has enabled us to handle fluctuations in demand by slowing or speeding up production. Despite being few in number, these elite production workers have been able to provide flexible production support, which is also the key to controlling manufacturing costs. However, if annual sales climb over ¥550 billion, greater volume production requirements will make it necessary to construct a production system that is not exclusively in-house, but is combined with an outsourced model. Outsourcing can be roughly classified into two different models, a partial outsourcing model in which only bottleneck processes that constrain production are outsourced, and a full turnkey model in which everything from material procurement to production is outsourced to a single partner. In the face of volatile demand, bottleneck processes tend to be outsourced first, but the disadvantages of this model are that supply chains tend to be lumpy and complex, and it is difficult to scale up when increased demand requires increased production. In addition, if production growth trend forecasts are mistaken, the amount of lumpiness in the supply chains can increase, and management costs will rise. On the other hand, for small-volume products with low repeatability and products that use specialized parts, when there is no need to chase economies of scale, there can be advantages to partial outsourcing that is highly specialized and can respond with great flexibility to changes.

However, the main objective of the full turnkey model is to seek economies of scale through volume production, so major EMS manufacturers will also be considered as outsourcing partners. We have already implemented this model for some of our products, but many more of the products now made at the Gunma Factory will be outsourced to EMS subcontractors in the future.

In the full turnkey model, uniqueness and oddities in terms of design, parts, construction methods, quality standards, etc. become supply chain risks, leading to reduced supply capacity and lost opportunities. The key to achieving the goals of our Grand Design is a combination of in-house production, a partial outsourcing model, and a full turnkey model, maximizing the strengths of each. Various forms of “Design for X” are required for that purpose, but the “secret sauce” is Design for Supply Chain.

**Response to New Risks**

Every year for the past few years, a severe disaster has occurred somewhere in the world. Every time supplies of materials are cut off, and some customers are inconvenienced. In addition, in 2020, new threats such as the global economic slowdown due to the spread of COVID-19, the transformation of the global supply chain caused by U.S.-China trade friction, and the two countries’ competition for technical hegemony, have appeared as external factors we must take into account. Rather than just considering our own safety, we must overcome these new crises while helping and accommodating our customers and business partners. Therefore, I believe that all stakeholders in the supply chain must cooperate in creating a system of Design for Risks.

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**Mid- to Long-Term Basic Policies of the Production Division**

Historically, the semiconductor industry was shaped by the four-year cycle of demand fluctuations driven by Silicon Cycle, which led to booms and busts every two years, but in 2015 Silicon Cycle broke down, and demand began to grow steadily. In particular, the rapid increase in demand that we experienced in fiscal 2018--the so-called “supercycle”--gave us numerous pointers towards reshaping our production system to better utilize both in-house production and outsourcing.

To support the business scale (sales of ¥400 billion) envisioned by our Grand Design, we are reorganizing our production structure through various measures such as a profit improvement strategy based on AVA2.0*1, global expansion of our production base through the utilization of EMS*2 partnerships, cost reduction throughout our supply chain, and a constant focus on high-quality manufacturing. I have proclaimed that in the future, the production division will work with the R&D division to promote DFX, which enables production and procurement outside the Gunma Factory (our main domestic factory). In addition, I have set forth a mid-to-long-term policy for the production division that incorporates priority issues including the above-mentioned measures.

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*1: Advantest Value Added 2.0: a business management/evaluation tool based on ROIC (return on invested capital)
*2: Electronics Manufacturing Services: companies that offer contract manufacturing services for electronic devices.
Becoming a -Year Company

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advancing. This complexity was highlighted in
demic. Advantest and its employees responded to this
stantly pushing the envelope in our increasingly complex
ables by adapting to the new environment of restricted
to learn from each other.

With this in mind we are now holding company-wide workshops to ensure full employee buy-in to live our val-
es daily. As of the end of March 2020, about 70% of em-
ies worldwide had participated in a workshop. Executives and managers act as facilitators, helping them
not only to hear the voices of employees, but also partici-
ate in two-way learning processes. Although the
COVID-19 crisis interrupted face-to-face workshop sched-
ues, we will continue with online workshop sessions until all Advantest employees have completed the workshop.

Investment in Management Resources for Growth
Advantest’s business is chiefly supported by employees and their work, experience, and wisdom. While equip-
ment deteriorates over time, but human experience and wisdom do not deteriorate, but only grow with time. Therefore, we not only hire excellent human resources, but we also invest in their training and development as stated in our commitment to “Attract and retain the best talent in the industry.”

Since the announcement of our Grand Design, we have expanded our human resources development program to help all employees take the initiative to hone their basic abilities and enhance their individual strengths. In this way, we aim to be a learning organization that continues to funnel new knowledge into products and services. Since excellent leadership is indispensable for achieving sustainable growth in an era where more complex and dif-

Our Grand Design and the Advantest Way

Three of the Six Commitments in our Grand Design (see p.19-20), “Partner with leading-edge customers,” “Attract and retain the best talent in the industry,” and “Learning organization” are the driving forces in our human resources strategy. We have a mission to continuously improve ourselves so that we can offer products and services that will satisfy our customers worldwide through the development of the most advanced technologies.

However, developing advanced technology means con-
stantly pushing the envelope in our increasingly complex business environment. This complexity was highlighted in the fourth quarter of our fiscal year with the global pan-
demic. Advantest and its employees responded to this complex situation by establishing innovative ways to con-
stantly communicate, learn and evolve together with our employees demonstrating our “learning organization” ca-

Our Strategy

HR Strategy

Human resources drive sustainable development

Advantest believes employees drive our sustainable development and growth. Based on this belief we implemented The Advantest Way which represents the values shared by Advantest employees world-

Strategic Development of Resources and the Advantest Way

In recent years, sales to China, Taiwan, and South Korea have come to account for 70-80% of total sales. To strengthen customer support in these regions, we are focusing on new recruitment and placement of software and application engineers in these regions.

That said, product development is centered on Japan, United States, and Germany. On the customer side, equipment may be developed, and purchased in different countries, emphasizing the need for a global sales force that communicates seamlessly with all counterparts. It is not uncommon for development staff, sales staff, and shipping destination and post-installation support staff to be located in different regions. INTEGRITY helps us build a framework for global support by relying on Teamwork and Inclusion & Diversity.

Maintaining this ability to provide comprehensive support to our customers through global cooperation is one of our top priorities, as expressed in our commitment to “Partner with leading-edge customers.” In addition, performance-based bonuses and stock-based compensation, which are calculated based on the performance of the entire group, not on business division or country / region perfor-

Keith Hardwick
Managing Executive Officer
Global HR Executive Vice President

Advancement is our Lifeblood
NUMBER ONE is our Aspiration
TRUST is our Foundation
EMPOWERMENT is our Motivation
GLOBAL is our Reach
INCLUSION AND DIVERSITY is our Commitment
TEAMWORK is our Approach
YES is our Attitude

Special Feature on Strategy 3

The Advantest Way Workshop

Feature on Strategy 3

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Sustainability: Addressing Three Important Social Issues

Advantest collaborates with our customers and suppliers to contribute to a safe, secure, comfortable, and sustainable future by solving social issues through our business and considering the environment and society as we conduct our business operations.

The Advantest Way

Sustainability through ESG Promotion means all employees share an awareness of the importance of our relationship with society and the environment. This is the basis for the sustainability activities of the Advantest Group.

Three Important Social Issues

Based on dialogue with stakeholders, we have selected three of the social issues emphasized by CSR evaluation organizations and international sustainability guidelines to drive our contribution to the SDGs (Sustainable Development Goals).

1. Climate Change Initiatives
   In recent years, abnormal weather and environmental variability, thought to be caused by climate change, have become a prominent topic. Thus, responding to climate change is necessary to achieve a sustainable society.

2. Protection and Respect for Human Rights
   Amidst growing international concern for human rights, it has become a social requirement to respect the human rights of all stakeholders involved in our business activities, including employees and business partners, and to ensure proper labor practices.

3. Supply Chain Collaboration
   With the globalization of business, companies are required to take ownership of human rights, labor, and environmental impacts throughout the supply chain. In order to achieve responsible supply chain management, it is important to tackle social issues in collaboration with suppliers, based on fair, impartial and transparent business relationships.

Sustainability Overview

In response to social needs and the importance of solving social issues through our business, Advantest focuses on the environment (E), society (S), and governance (G), aiming to develop together with society. In addition, understanding the importance of responding to climate change and taking initiatives to protect and respect human rights, we collaborate with everyone in our supply chain to achieve the vision of a safe, secure, comfortable, and sustainable future.
Advantest engages in environmental conservation activities such as the development of green (environmentally friendly) products, reduction of environmental impacts, and biodiversity conservation based on our environmental policy. In particular, regarding the prevention of global warming, we proactively promote the reduction of CO₂ emissions through our business activities and of greenhouse gases emissions through our supply chain. Going forward, we will set long-term goals and policies from the perspective of biodiversity and make even greater efforts to achieve a sustainable future for our common home.

**Advantest Group Environmental Policy**

1. **Promoting Environmental Management**
   - By maintaining our environmental management system, we promote global environmental conservation efforts that balance business activities and environmental efficiency.

2. **Reduction of Customers’ Environmental Impact**
   - We promote energy conservation, improved recyclability, and the elimination of hazardous substances, giving consideration to the life cycle of our products from materials procurement to disposal of products.

3. **Business Process Innovation**
   - We continually improve our business processes to hone our environmental performance through environmentally friendly manufacturing.

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. **Compliance with Environmental Laws and Regulations / Pollution Prevention**
   - 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.

**Major Environmental Conservation Initiatives**

- **1993** Advantest Global Environmental Conservation Committee established
- **1994** Published “Advantest Environmental Action Plan”
- **1998** Established Global Environment Office, and started full-scale environmental conservation activities
- **1998** Formulated “Advantest Environmental Policy”
  - Obtained ISO14001 certification for the Gunma Factory
- **2001** Conducted biotope at the Gunma R&D Center
  - Obtained ISO14001 certification for all domestic facilities
- **2004** Conducted rainforest conservation activities in Borneo to commemorate the 50th anniversary of Advantest’s founding (2004-2016)
- **2008** 40% reduction in power consumption achieved by our first green product, the T5503
  - ISO14001 certification achieved by facilities in the United States, Germany, Singapore, China, South Korea, Taiwan, and Malaysia, completing our certification worldwide
- **2012** Achieved 100% renewable energy sourcing at US offices
- **2019** Achieved 100% renewable energy sourcing at German offices
- **2020** Started introducing renewable energy at R&D and production locations in Japan
  - Announced support for TCFD recommendations and joined RE100

**Climate Change Initiatives Roadmap Targeting 2050**

(1) Announced support for TCFD recommendations, planning to obtain SBT certification

Advantest considers climate change response to be a key management issue. We are working to reduce CO₂ emissions not only in-house but across the entire scope of our business activities, including our value chain. In April 2020, we disclosed relevant information in alignment with the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures). We are also preparing to obtain SBT (Science Based Targets) certification.

- **1995** Announced support for TCFD recommendations and joined RE100
- **2004** Obtained ISO14001 certification for all domestic facilities
- **2006** Announced support for TCFD recommendations and joined RE100
- **2008** Obtained ISO14001 certification for the Gunma Factory
- **2012** Announced support for TCFD recommendations and joined RE100
- **2019** Announced support for TCFD recommendations and joined RE100
- **2020** Announced support for TCFD recommendations and joined RE100

(2) Global utilization of renewable energy

In terms of mid- to long-term CO₂ emission reduction targets for business activities, we aim for a 30% reduction in FY2030 (compared to FY2018) and a goal of “net-zero CO₂ emissions” by 2050. In August 2020, we joined the international initiative RE100, which aims for business activities to use 100% renewable energy, and are promoting CO₂ reduction globally by introducing renewable energy. We have already achieved 100% renewable energy sourcing in the United States (2012) and Germany (2019), and in April 2020, we started introducing renewable energy at our Japanese R&D bases in Gunma and Saitama Prefectures. We plan to achieve RE100 at the Gunma Factory by 2030.

From 2030, we will aim to achieve the target of net-zero CO₂ emissions in 2050 by further accelerating the introduction of renewable energy sourcing in Japan and Asia as appropriate given conditions in each region.
(3) Reduction of CO2 Emissions Through Green Product Development

Greenhouse gases (GHGs) emitted through the use of our products account for approximately 63% of total emissions from our value chain (parts procurement, manufacturing, in-use and disposal). Therefore, we are prioritizing the development of green (environmentally friendly) products.

Hitherto, we have assumed a +2°C scenario for global warming, and have considered reducing CO2 emissions by 2030 and 51% by 2050. We have now reset our targets to a 30% reduction by 2030 and an 80% reduction by 2050, based on the October 2019 revision of the SBT standards, which now call for a temperature rise of “well below” 2°C (in comparison to the pre-industrial era). To reduce after-market emissions from our products, which account for 6.3% of GHG (Scope3) emissions across our entire supply chain, the product development division is playing a central role in developing green products.

CO2 Emissions in Advantest’s Supply Chain

Advantest’s Green Product Certification Process

Customers Demand Environmental Performance. New Goals Based on SBT Boost It.

As Moore’s Law implies, the semiconductor manufacturing process continually evolves, and the number of circuits integrated onto a single chip is increasing year by year.

In addition, semiconductors are indispensable for the evolution of 5G and other information technologies, and the production volume of these devices is increasing. Great numbers of semiconductors are also being used in automobiles and medical equipment, where test-guaranteed reliability is even more essential. As a result, the number of tests conducted is increasing exponentially, and customers are seeking greater test efficiency (increasing test speed and parallel test capability) for each new generation of semiconductors.

CO2 reduction and contribution to the SDGs are now essential aspects of business. Advantest believes that improving the performance of our testers to meet the technical requirements of our customers can also contribute to the reduction of CO2 emissions. We use “power consumption per test” as our basic unit to evaluate power performance, and aim to increase test frequency without increasing power. We are working to reduce power consumption per test, and thus CO2 emissions per test, by increasing the test frequency multiplied by pin count, or the test frequency multiplied by parallel measurement count, without increasing power consumption.
Protection and Respect for Human Rights

(1) Creating a Workplace where Human Rights are Respected

Advantest believes that human rights are an important factor to consider in the global expansion of our business. We support international human rights norms such as the Universal Declaration of Human Rights, and respect basic human rights in light of the laws and regulations of each country and region where we operate.

In addition, we have signed the United Nations Global Compact, a global initiative advocated by the United Nations, and support its 10 principles by promoting initiatives in the four fields of human rights, labor, the environment, and anti-corruption.

The Advantest Way includes a Code of Conduct that lays out our policy on human rights protection. It prohibits discrimination based on race, gender, age, nationality, religion, social origin, physical disability, illness, or sexual orientation. We have also formulated a human rights and discrimination manual and a harassment prevention guide to promote protection and respect for human rights, which guides us in developing the spirit of the United Nations Global Compact in our workplaces worldwide.

(2) Human Rights Issues Helpline

Advantest has set up a corporate ethics helpline for human rights problems or consultations that are difficult to solve in the workplace, enabling employees to report issues and consult directly with the Corporate Ethics Office. The Corporate Ethics Office plays a central role in handling reports and consultations, and keeps the names of individuals strictly confidential to avoid possible unfavorable treatment or retaliation. From fiscal 2019, we also set up a channel for reports to an external lawyer to make helpline consultations and reports even easier. These helplines can also be used outside Japan.

In Japan, we have set up a Human Rights Protection Committee which works together with our labor union to resolve consultations on human rights issues. In fiscal 2019, we received two harassment-related consultations, both of which have been resolved. The Human Rights Protection Committee takes appropriate measures after giving due consideration to the privacy of the individuals involved, and seeks prompt solutions. In this way, we strive to create workplaces where all employees respect each others’ human rights and can work with peace of mind.

Consultations and Reports Resolution Workflow

<table>
<thead>
<tr>
<th>Consultants / employee / manager / third party</th>
<th>Helpline (Human Rights Protection Committee)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hearing for Complainant</td>
<td>Confirmation of facts</td>
</tr>
<tr>
<td>Hearing for Accused</td>
<td>Hearing for Other Witnesses</td>
</tr>
<tr>
<td>Facts confirmed</td>
<td>Facts cannot be confirmed</td>
</tr>
<tr>
<td>Company decides on response</td>
<td></td>
</tr>
</tbody>
</table>

- Management measures (personnel changes, compensation for disabilities, mental health care, support for improvement of relationships between parties, etc.)
- Promote measures to original complainant
- Support improvement of relationships between the parties

Health and Safety Management

The Advantest Group recognizes that health and safety management is one of the most important aspects of business activities. We actively and continuously conduct health and safety activities based on the Advantest Group Occupational Health and Safety Basic Policy.

In FY2019, we maintained the health and safety of our employees along the following two axes:

(1) Health Management Promotion

Having decided to introduce health management to maintain and improve the health of our employees, we declared our Health and Productivity Management (HPM) Policy in September 2019. Under this policy, the company, our health insurance union, and our labor union work together to encourage employees to get health checks, improve the implementation rate of specific health guidance, and operate a health portal website. As a result, Advantest was certified as a “Health Management Excellent Corporation 2020 (Large Corporation Category)” under the Japanese Ministry of Economy, Trade and Industry’s Health Management Excellent Corporation Certification System.

(2) COVID-19 Safety Measures

From the end of February 2020, the Crisis Management Headquarters took the lead in taking all possible measures to prevent infection based on the policy response of the government in each country where we operate. In Japan, we started telework on a trial basis in September 2017 in response to expected commuting difficulties associated with the Olympics, Paralympics, pandemics, and natural disasters, and established rules so that telework could be implemented in any department. We have also globally introduced online meetings, and successfully transitioned our expenses accounting to a paperless system. Thus in April 2020, we were fully prepared to implement our telework system, and were able to smoothly shift to telework when the Japanese government declared a state of emergency over COVID-19.

As we got used to working from home, we relaxed some rules (such as prohibitions on taking materials to home or printing things out at home) to maintain employee productivity at as high a level as possible. This flexibility proves that our telework system could also be implemented in other situations such as natural disasters, which are now increasing in frequency.

Integrating telework for a long period was the world’s first step towards realizing a new normal. We are determined to contribute as a good corporate citizen to the creation of a sustainable future.
Supply Chain Management

Basic Policy

To fulfill our social responsibilities throughout our supply chain, Advantest publishes our Procurement Policy and Supply Chain CSR Promotion Guidebook on our website, and stipulates compliance with relevant laws and social norms as well as support for initiatives related to human rights, labor, and environmental conservation. In addition, we require suppliers to sign our “Basic Transaction Contract,” which includes provisions related to ESG (Environment, Society, and Governance).

(1) CSR Procurement and Product Quality Improvement

In addition to conducting quarterly QCD* evaluations for suppliers, we also conduct an annual CSR questionnaire for the important suppliers who account for 80% of our transaction value. The questionnaire is adaptable to changing conditions, with the content being reviewed every year based on the Supply Chain CSR Promotion Guidebook and analysis of our priority issues and survey results through the previous year. We also create summaries of results for each supplier and work for mutual improvement through feedback.

* QCD: Quality, Cost, and Delivery

(2) Fair Transactions (CSR Procurement) Promotion Structure

Advantest has set up a department to guide the procurement division in promoting and managing fair transactions. Transaction status is audited by the audit department once a year, and generally unproblematic. We are careful not to deviate from sound business practices. In addition, an external organization conducts an internal control audit once a year, and confirmed that no problems occurred in FY2019. Furthermore, with the cooperation of our suppliers, we conduct CSR questionnaires and conflict minerals surveys, and provide feedback on the results to further deepen our engagement with our customers and contribute to building foundations for technological innovation at energy-saving semiconductor fabs.

Customer Engagement

Reinforcement of Advantest’s Customer Support Capabilities

Advantest regards the ideal form of the materiality category of customer value creation as “Be a partner with leading-edge customers.” The following two points are our priority strategies and themes for this category.

- Reinforce engagement with leading-edge customers
- Develop customer workflow solutions

As part of this, we introduce our field support activities that give top priority to customer value and are also environmentally friendly.

Advantest is committed to providing support that contributes to the efficiency of our customers’ businesses and continuously supports their growth. In order to maximize equipment utilization rates, we carry out a wide range of activities such as quick repairs, test cell integration services for factory automation, and AI-driven efficiency improvements. Our technical solution support, test cell integration services, and productivity and quality improvement support all help us to further deepen our engagement with our customers and contribute to building foundations for technological innovation at energy-saving semiconductor fabs.

Field Support Activities

- Technical solution support
- Test cell integration services
- Productivity & quality improvement support

Minimization of inspection process downtime

Volume production ramp services

Online support (ADVANTEST CONNECT+)

Improvement of spare parts supply chains

Test Cell Integration Services (TCiS)

ECOTS*1

VGEM*2

Productivity improvements at volume production plants

Uptime improvement solutions

* 1: ECOTS: Easy and Convenient Operation Tools (an interface that allows users to build semiconductor test environments quickly and easily)

* 2: VGEM: Virtual GEM (an interface solution that integrates customer automation systems with our test systems)
Human Resources Initiatives

Advantest considers employees a vital corporate resource. We support their diverse lifestyles and individual growth, and strive to help them grow together with the company. In September 2000, we established our Basic Philosophy of Human Resources, and continue to work on fairness and employee engagement, while actively supporting human resource development. We also support the 10 principles of the United Nations Global Compact, the Universal Declaration of Human Rights, and the Guiding Principles for Business and Human Rights, and aim to be an organization that emphasizes diversity while giving due consideration to the principles of human rights and labor.

Basic Philosophy of Human Resources

Advantest considers that employees are irreplaceable management resources (human capital), and has formulated the following philosophy as a basis for our measures related to human resources.

1. Focus on results
   By encouraging people to take on challenges, we promote a personnel system in which employees who have overcome difficulties and achieved innovative results are evaluated and rewarded appropriately.

2. Fairness and engagement
   We perpetually strive to make all our measures and systems objectively fair, with the goal of obtaining maximum employee engagement and achieving optimal results.

3. Active support for human resources development
   We work tirelessly to improve ourselves, and actively support employees who wish to acquire advanced specialized knowledge and broaden their education.

(1) Diversity Management

The active participation of each and every employee is indispensable for the sustainable growth of the company. Advantest has set “Inclusion and Diversity” as one of its core values, and is actively working to form a corporate culture that fosters an environment where everyone can work comfortably, and where each Advantest employee can maximize their individual potential, abilities, and motivation. In recognition of these efforts, in 2019 Advantest Europe GmbH (AEG) was selected as one of the 100 greatest places to work in Germany by the international Great Place To Work® Institute.

(2) Global Hiring for a Global Workforce

Advantest emphasizes a global perspective in our system for hiring, training, and allocating human resources, aiming to give excellent employees fair access to opportunities regardless of nationality and promoting employees across national borders. Through exchanges, we are enhancing the development of global human resources and the globalization of our organization.

10 out of 24 executive officers of the Advantest Group are foreign nationals (as of March 2020), and the Advantest Corporation (Japan) employs people from nine different countries.

(3) Workplaces That Foster Innovation

Advantest believes it is important for employees to share their know-how and skills, and we aim to create work environments where people can converse freely. In fiscal 2019, we significantly renovated our house gathering areas such as the cafes and cafeterias at our R&D centers and factories in Japan. In planning the renovations, we visited the offices of overseas subsidiaries to refreshment lounges but also casual meeting spaces and active spaces where employees can stretch. Bright open spaces with natural lighting are widely used to foster innovation, improve communication, and promote physical and spiritual refreshment.

For details, see “Sustainability Data Book”.

TOPICS

Learning Organization 3: Advantest Engineering Friday

Advantest regards the ideal form of the materiality category of human resources as “Learning Organization.” The following two points are our priority strategies and themes for this category.

- Provision and promotion of learning opportunities and skill development opportunities for employees
- Encouragement and promotion of teamwork across departments and regions

In fiscal 2019, we held workshops on The Advantest Way globally to create conditions for better communication with all stakeholders and more effective coworking. Among other human resources initiatives, Advantest Engineering Friday (AEF) was inaugurated in October 2019 as a venue for the software division to continuously share their thoughts and opinions. Young people and veterans meet regularly on Friday afternoons for mutual study, creating their own community in parallel with our organization. AEF is also actively used as a venue to support awareness through one-on-one dialogue, and several small subcommittees have been created. It is accelerating the learning cycle of each participant, and improving our organizational flexibility.

Learning Organization 3: Online AI Courses

In February 2020, we built a trial environment for employees to take MOOCs (Massive Open Online Courses) on topics related to AI. Through Coursera, 42 students took deep learning and machine learning courses offered by well-known universities and organizations such as Stanford University, and 37 of them received diplomas. Programming skills and English proficiency were also required to solve problems, so students worked together to help each other, which has helped to improve our engineers’ abilities. In the future, we will not only encourage more new employees and other employees to take these courses, but will also build environments that help them to use what they have learned in their work.

Software technology and development methods are literally changing day by day. What really brought that home to me was when I attended an external seminar and heard that “Japanese software development is 10 years behind.” It is now common knowledge that thanks to the advance of IT technology, information can be exchanged instantly, and yesterday’s state-of-the-art technology will be replaced by something else today.

On the other hand, how long does it take us to provide new software to our customers? ... I couldn’t stand to think about it.

Around that time, a chat with a manager led to the creation of Advantest Engineering Friday (AEF). AEF is an organizational effort to support ongoing employee growth. It is difficult to educate people, so we created an environment where people can educate themselves. Sessions can be held on multiple themes, and participants are free to join any session. They can also communicate across departments. The aim is for them to be able to talk to someone when they come up with something, find companions to try it out with, and share their anxieties and thoughts freely.

Michihiro Seino
T200 Business Unit Section Manager
Board of Directors

Yoshiaki Yoshida
Representative Director, President and CEO
Date of Appointment: 2013 February 8, 1955 Nationality: Japanese Shares Held as of March 30, 2023: 46,000

Osamu Karatsu
Outside Director
Date of Appointment: 2012 April 22, 1947 Nationality: Japanese Shares Held as of March 30, 2023: 3,000

Toshimitsu Urabe
Outside Director
Date of Appointment: 2013 October 3, 1954 Nationality: Japanese Shares Held as of March 30, 2023: 140

Nicholas Benes
Outside Director
Date of Appointment: 2015 April 16, 1956 Nationality: American Shares Held as of March 30, 2023: 2,000

Soichi Tsukakoshi
Director, Senior Executive Officer
Date of Appointment: 2013 February 1, 1960 Nationality: Japanese Shares Held as of March 30, 2023: 8,530

Atsushi Fujita
Director, Managing Executive Officer
Date of Appointment: 2019 November 15, 1959 Nationality: Japanese Shares Held as of March 30, 2023: 2,263

Sayaka Sumida
Newly Elected Outside Director
Date of Appointment: 2020 January 28, 1961 Nationality: Japanese Shares Held as of March 30, 2023: 0

Koichi Tsukui
Director, Managing Executive Officer
Date of Appointment: 2020 December 11, 1994 Nationality: Japanese Shares Held as of March 30, 2023: 1,885

Kouichi Nanba
Outside Director, Standing Audit & Supervisory Committee Member
Date of Appointment: 2019 September 1, 1949 Nationality: Japanese Shares Held as of March 30, 2023: 142

Douglas Lefever
Outside Director
Date of Appointment: 2020 December 1, 1979 Nationality: American Shares Held as of March 30, 2023: 0

Koichi Tsukui has worked in various R&D divisions and in sales for many years, including assignments in Germany, and has a wide range of knowledge and experience regarding the businesses and management of the Group. Therefore, Advantest believes he is suitable as a director of the Advantest Group.

Mr. Douglas Lefever plays a key role in promoting Advantest's business development in Silicon Valley and other parts of the United States. He has broad knowledge and experience regarding the businesses and management of the Group. His perspective enhances the diversity of the Board of Directors and can be expected to make it more effective. Thus, Advantest believes he is a suitable person as a director to realize sustainable enhancement of the corporate value of the Advantest Group.

Mr. Tsukakoshi has worked in sales and marketing, was Senior Vice President of the Sales Group, and currently serves as Executive Vice President of the Corporate Relations Group. He has a wealth of knowledge and experience concerning the Advantest Group’s business and corporate management. Thus, Advantest believes he is a suitable person to realize sustainable enhancement of corporate value as a director of the Advantest Group.

Mr. Urabe has extensive management experience at a leading Japanese general trading company, particularly overseas experience in the United States and Asia, extensive business investment decisions, and extensive experience in personnel management. The insights which he brings to the global management of the Advantest group contribute to the sustainable enhancement of corporate value.

Mr. Benes has extensive knowledge and experience in corporate governance and experience in investment banking, including M&A. The insights on corporate governance and the perspectives of shareholders which he brings to the global management of the Advantest Group contribute to the sustainable enhancement of corporate value.

Mr. Sayaka Sumida has worked as an accounting firm as a certified public accountant, has been engaged in accounting, auditing, and internal control operations for many years, and has extensive knowledge and experience of finance and accounting. Advantest believes she is a suitable person as an outside director who is a member of the Audit and Supervisory Committee of the Company, as her insights contribute to the effectiveness of the Board of Directors and the improvement of the functions of the Audit and Supervisory Committee.

Mr. Soichi Tsukakoshi has served 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 of the Nanotechnology Business Group, before being appointed Representative Director, President and CEO of the company in January 2017. Given his wide range of management knowledge and experience, Advantest believes he is a suitable person to realize sustainable enhancement of corporate value as a director of the company.

Mr. Osamu Karatsu has a wealth of knowledge and experience as a semiconductor expert, in addition to management experience at domestic and overseas research and development institutions. The insights on the industry which he brings to the management of the Advantest Group contributes to the sustainable enhancement of corporate value of Advantest and the effectiveness of the Board of Directors. Thus, Advantest believes that he is a suitable outside director.

Mr. Nicholas Benes has extensive knowledge and experience in corporate governance and experience in investment banking, including M&A. The insights on corporate governance and the perspectives of shareholders which he brings to the global management of the Advantest Group contribute to the sustainable enhancement of corporate value of Advantest and the effectiveness of the Board of Directors. Thus, Advantest believes that he is a suitable outside director.

Mr. Nicholas Benes has worked in various R&D divisions and in sales for many years, including assignments in Germany, and has a wide range of knowledge and experience regarding the businesses and management of the Group. Therefore, Advantest believes he is suitable as a director of the Advantest Group.

Mr. Kouichi Nanba has a wealth of knowledge and experience as a member of the Audit and Supervisory Committee. Advantest believes she is a suitable person as an outside director who is a member of the Audit and Supervisory Committee of the Company, as her insights contribute to the auditing and supervision of the Advantest Group.

Mr. Koichi Tsukui has worked in various R&D divisions and in sales for many years, including assignments in Germany, and has a wide range of knowledge and experience regarding the businesses and management of the Group. Therefore, Advantest believes he is suitable as a director of the Advantest Group.

Mr. Soichi Tsukakoshi has worked in sales and marketing, was Senior Vice President of the Sales Group, and currently serves as Executive Vice President of the Corporate Relations Group, and Executive Vice President of the Nanotechnology Business Group, before being appointed Representative Director, President and CEO of the company in January 2017. Given his wide range of management knowledge and experience, Advantest believes he is a suitable person to realize sustainable enhancement of corporate value as a director of the company.
Advantest is a truly diverse company. The problem is that we will continue to work on while responding to environmental changes, but I am looking forward to seeing how our organization, which has already formed the ability to adapt to such developments, will continue to evolve in response to our long-term vision.

Our second challenge is unique shared values. As our business continues to become globalized, it would be ideal if we could continue to take pride in our origins, so that employees of various nationalities could fully share a sense of belonging to a global enterprise that was born in Japan. For example, Advantest has a unique set of values backed by many years of experience, and it is possible for us all to share the awareness of being grounded in this history, which can be a unifying counterweight to ongoing innovation and creation in various fields and regions. It is natural for a company to adapt to global frameworks such as the SDGs, but I think that the shared values unique to our company are the ultimate foundation of our Global Design. I hope that "The Advantest Way" will evolve in that direction.

Recently, we have been flooded with documents written from left to right (rather than from top to bottom in Japanese style) and katakana terms (English words transliterated into Japanese, rather than translated). Among them you may have seen the word "compliance." Compliance refers to legal compliance, that is, the compliance of a company with rules and social norms. It can be said that the concept has already taken root in society. It seems as if it should be easy for companies to maintain compliance, but it is surprisingly difficult. I was a witness to scandals at three other companies last year. The causes of these, in my opinion, were lack of norm awareness in pursuit of profits, insuffi- cient monitoring systems with respect to the division(s) that caused the scandal, and corporate cultures that had poor awareness of norms in the first place.

Once a breach of compliance causes negative publicity, the damage to the company can be enormous, and it can even develop to the point that the management base of the company is undermined. In that sense, compliance is extremely important for companies. Therefore, there seems to be no other way to prevent breaches from happening apart from making sure that the organization has open channels of communication rather than being divided into silos, and that the "right hand" always knows what the "left hand" is doing; strengthening monitoring systems; and promoting compliance education for employees.

By the way, as you know, our company has a vast business reach, covering Europe, the United States, China, Tai- wan, and South Korea, and many foreigners are working with us. Advantest is a truly diverse company. The problem is that for such companies, I feel the biggest challenge is whether the compliance policy established at the head office can be spread to employees all over the world.

Small-scale violations may cause big problems. When an issue occurs, it is important not to overlook it and to hold discussions at the Audit and Supervisory Committee and the board of directors. I hope to do my part to ensure that Advantest maintains a flawless compliance record.
thoughts about corporate governance
(Dialogue between CEO and Outside Director)

Ms. Sayaka Sumida, who was appointed as a member of the Audit and Supervisory Committee at this year’s Annual General Shareholders Meeting, spoke with President Yoshida about issues related to the governance of listed companies, drawing on her long experience as a certified public accountant. The moderator was Akira Ono (Executive Officer & General Manager of Human Resources Department).

Q First, President Yoshida, please tell us about the achievements of the Board of Directors and future challenges facing Advantest with respect to governance.
(President Yoshida) In the three years since I became president in January 2017, we have formulated a medium-to-long-term management policy, revised “The Advantest Way” to clarify our corporate philosophy and code of conduct, issued our first annual integrated report, abolished our consultant and advisor system, revised all our internal rules, revised our remuneration system to ensure transparency, and enhanced our internal reporting system for compliance. Every board meeting means a minimum of 3 hours and a maximum of 5 hours of open and heated discussion. Future issues include the planning and execution of succession plans, the narrowing down of agenda items for the Board of Directors for deeper and more thorough discussions, and education in creating sophisticated materials for that purpose. In addition, as companies are now evaluated from the perspective of their ESG initiatives and contributions to the SDGs, I am also aware of the importance of enhancing disclosure of our non-financial policies and progress.

Q With regard to information disclosure, Director Sumida, what issues are on your mind?
(Director Sumida) I have been working at an accounting firm for a long time as a certified public accountant, and during that time, I have seen the reality of various information disclosures related to the IR activities of many listed companies. We all believe that open disclosure is an indispensable element of corporate governance, but in Japan, there is generally a strong sense of “You first—no, you first!” and there is a limit to the voluntary improvements that will be enacted by individual companies. I’ve always been aware of the need for institutional reforms led by the government. Traditional Japanese companies’ disclosure stance has focused on meeting statutory disclosure requirements, and efforts to determine optimal disclosure content from the perspective of shareholders and investors has not always been sufficient, in my opinion. In that regard, I think the Stewardship Code and Corporate Governance Code announced in 2014 and 2015, respectively, had a salutary effect on improving corporate disclosure stances. This has led to the expansion of non-financial information disclosure related to ESG and the SDGs, which is frequently emphasized these days.

Q What do you think recent corporate scandals tell us about the need for compliance systems?
(President Yoshida) The government has encouraged companies to aim for ROE 8% and restore Japan’s earning power. The reason for this is that Japanese companies have been earning less than their counterparts in Europe, America and Asia. I think that there was a time when we were content to just compare ourselves to our Japanese peers without looking at the rest of the world, but now we must hold ourselves to global standards of achievement. Regarding governance, I attach great importance to the perspective of outside directors. While discussing exactly what we can and cannot do with the rest of the Board of Directors, I’m committed to openly disclosing information.

Q What are Advantest’s challenges regarding diversity, especially in terms of women’s advancement?
(Director Sumida) In the world of accountants, little distinction is made between men and women. I myself have always believed that chances will come my way if I do not put artificial limits on myself. Due to recent workstyle reforms, increased productivity has made it easier to avoid overtime. This has created a work environment that is friendlier to women, who used to have difficulty balancing work with childbirth and childcare. I think this means that we no longer have to worry about gender differences.

Q In Advantest’s case, 95% of our sales are overseas and so are more than half of our employees. The customs and logic of Japan, where we have our headquarters, may not always operate globally. There are regional differences due to history, culture, and customs that must be handled carefully. However, there are certain lines that cannot be crossed, and these must be enforced clearly and without exception. I believe it is the responsibility of top management to convey this to employees and educate them in the importance of compliance.

Q Looking at the scandals that have occurred at various companies, I think they are a result of people not being able to stand up for principles that should be obvious to every schoolchild. The spirit of compliance cannot be instilled overnight; I think it is very important for top management to repeatedly convey these “obvious things” to employees over and over again in their messaging in order to create a solid organizational culture.

Q Just one scandal can cause a catastrophic loss of trust in a company. Of course, education to prevent scandals is important, but we have also been focusing on crisis management on the premise that scandals may and will occur in the future, for example, by expanding our internal reporting system to make sure nothing ever gets swept under the carpet.

Q I believe that privileging women just because they are women is lamentable, in a sense. I think it is important not to give special consideration to women, but to give them equal opportunities regardless of gender, and promote them according to their abilities and motivation, just as we do for men.

Q I also believe that privileging women just because they are women is lamentable, in a sense. I think it is important not to give special consideration to women, but to give them equal opportunities regardless of gender, and promote them according to their abilities and motivation, just as we do for men.

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Corporate Governance

Our Basic Approach to Corporate Governance

Advantest’s corporate mission is “enabling leading-edge technologies.” The Advantest Group constantly strives to improve so that we can offer products and services that satisfy customers around the world, and contribute to society through the development of advanced technologies.

In accordance with this mission, and in response to our mandate from stakeholders, Advantest aims to achieve a sustainable level of business development for the Group and to enhance corporate value over the medium to long term. To that end, the Group has established a fair, efficient, and highly transparent governance system. Please note that our Corporate Governance Basic Policy is available on our website at the following link:


Governance Highlights

- **Inside / Outside Director Ratio**
  - Directors who are not Managing Executive Officers (outside directors) 45%
  - Directors who are Managing Executive Officers (inside directors) 45%

- **Gender Ratio**
  - Male 91%
  - Female 9%

- **Japanese / Non-Japanese Director Ratio**
  - Japanese 82%
  - Non-Japanese 18%

- **Chairpersons**
  - Yoshiaki Yoshida (Chairperson, Outside director)
  - Yuichi Kurita (Chairperson, Inside director)
  - Toshimitsu Urabe (Chairperson, Audit & Supervisory Committee)

- **List of Governance Systems** (As of June 25, 2020)
  - Structure: Company with an Audit and Supervisory Committee
  - Number of Directors: 11 Persons
  - Number of Director’s Term of Office: 1 year (2 years for directors who are members of the Audit and Supervisory Committee)
  - Incentive for Directors: Performance-based Remuneration System (Executive directors only)
  - Disclosure of Compensation for Individual Directors: Only Directors who received Compensation of 100 Million yen or More
  - Committee (voluntary basis): Nomination and Compensation Committee
  - Number of Audit and Supervisory Committee Members: 3 Persons
  - Number of Outside Director among above: 2 Persons
  - Number of Independent Directors: 5 Persons
  - Accounting Auditor: Ernst & Young Shuhinlen LLC
  - Executive Officer System: In Place
Role of the Board of Directors

The Board of Directors of Advantest, as the company’s highest management decision-making body, determines important matters such as the management policy and management strategy of the entire group, and also monitors and supervises the execution of business by those responsible. By including multiple outside directors as members of the Board of Directors, we have strengthened the oversight and supervisory functions of the Board of Directors. At meetings of the Board of Directors, directors with a wide range of knowledge and experience express their opinions from various perspectives and hold lively discussions of the agendas proposed by management. These meetings review the company’s mid- to long-term management policy, executive appointment and compensation, budget and performance settlement of accounts, M&A proposals, etc. and are held about once every month, lasting about 3 to 5 hours. The current board of directors is composed of five inside executive directors, one inside non-executive directors, and five outside non-executive directors, for a total of 11 members (this includes all directors who are also Audit and Supervisory Committee members). Two of the directors are non-Japanese and one is a woman. In order to maintain seamless communication among directors, we have arranged for simultaneous interpretation at meetings of the Board of Directors. Outside directors also advised the Board that employees around the world need to be more aware of The Advantest Way, so we are holding workshops around the world to raise awareness.

Activities of the Board of Directors

Main Actions Taken by the Board of Directors in 2019

Revision of The Advantest Way
Advantest recently revised The Advantest Way to clarify our management mission, vision, core values, action guidelines and action standards, taking into account the opinions of outside directors and overseas executive officers offered at meetings of the Board of Directors. Outside directors also advised the Board that employees around the world need to be more aware of The Advantest Way, so we are holding workshops around the world to raise awareness.

Review of Important Rules
We have reviewed important rules such as the Regulations of the Board of Directors. The process of sending information to outside directors in advance and confirming their opinions has enabled us to enact more appropriate regulations.

Enhancement of Internal Reporting System
Since outside directors suggested that our internal reporting system be expanded, we have set up an outside desk to accept anonymous reports on incidents and to enable reports from outside the company.

Advantest’s COVID-19 Response
The Board of Directors heard reports about the COVID-19 pandemic and its impact on Advantest’s business, and discussed it.

Results of Board Meeting Effectiveness Survey
Advantest distributes a survey in the form of a questionnaire to all directors every March through April to evaluate the effectiveness of the board of directors. The main items to be evaluated are as follows:

Structure of the board of directors
Number of members, diversity of members, status of outside directors with respect to other concurrent positions, etc.

Management of the board of directors
Timing of distribution of materials, content of materials, prior disclosure of agenda, number of agenda items, frequency of board meetings, chairman’s effectiveness, quality of online meetings/simultaneous interpretation, etc.

Agenda of the board of directors
Management strategy, delegation to executives, succession plan, compensation system, risk, conflict of interest, appointment/dismissal of directors, compliance, etc.

Board of directors support system
Reports from the Nomination and Compensation Committee, provision of information to outside directors, training for directors, use of experts, etc.

Status of Actions Required

Advantest is currently working on the formulation of a succession plan for the representative director. In the future, the Nomination and Compensation Committee will deliberate on it and the board of directors will take the initiative in implementing it.

Regarding re-evaluation of risks affecting Advantest’s business, the executive side analyzed these risks and their discussion was published in our securities report, including the specific risks.

Executive officers who had not attended governance training attended training related to governance, and in addition, lectures by ESG and corporate value enhancement experts were held for Japanese directors and executive officers.

The FY2019 effectiveness evaluation of the board of directors was also discussed at the board of directors meeting in May 2020. At that time, it was confirmed that the composition of the board of directors was appropriate and that the board of directors exchanged opinions freely. On the other hand, the following points were raised for future improvement:

Materials distributed by the Board of Directors and explanation method
Method of reporting from the Nomination and Compensation Committee
How outside directors can best utilize outside experts
Audit System / Nomination and Compensation Committee / Others

Audit System

Advantest transitioned to the status of a company with an Audit and Supervisory Committee on June 24, 2015. In accordance with our audit policy and audit plan and division of duties, Audit and Supervisory Committee members attend important meetings such as the Board of Directors, Managing Executive Officers Committee, Internal Control Committee, Compliance Committee, and Disclosure Committee, hear reports on the execution of duties from the directors and executive officers responsible, inspect important decision documents, investigate the status of operations and assets of the head office and major subsidiaries in Japan and overseas, and also audit the performance of executive officers, and other business and execution organizations in cooperation with the Audit Office and other internal control departments. The Audit and Supervisory Committee consists of one internal director and two external directors. The Audit and Supervisory Committee implements its audit and supervisory functions by attending important meetings, collecting information by listening to business reports from the executive departments, and strengthening cooperation with our accounting auditor and the internal audit department. One full-time member has been named to the Audit and Supervisory Committee to improve the quality of its work. Mr. Yutaka Kurita, inside director and Audit and Supervisory Committee Member, has many years of experience as an officer in charge of corporate planning, finance, and management of the Company. Another member of the Audit and Supervisory Committee, Ms. Sayaka Sumida, is an outside director who works as a certified public accountant at an audit corporation. Both have experience and sufficient financial and accounting knowledge. In addition, Mr. Koichi Nanba, an outside director and Audit and Supervisory Committee Member, has extensive knowledge of legal affairs. Mr. Kurita chairs the Audit and Supervisory Committee. Outside directors who are Audit and Supervisory Committee members attend meetings of the Internal Control Committee and participate in on-site audits of business execution departments conducted by the full-time Audit and Supervisory Committee members necessary to actively audit and supervise the status of business execution of the company. In addition, the Audit and Supervisory Committee collaborates with our accounting auditor, the Audit Office and other internal control departments, and the Audit & Supervisory Board Members of Advantest Group companies, ensuring opportunities for exchanging opinions and communication.

With regard to internal audits, we have established an Audit Office, and multiple dedicated employees routinely monitor the maintenance and operation status of the company’s internal controls, as well as identifying problems, pointing out issues, and making recommendations for improvements.

Regarding accounting audits, Advantest has an audit contract with Ernst & Young ShinNihon LLC and receives prescribed audits. The certified public accountants who executed Advantest’s accounting audit work in FY2019 are Mr. Makoto Usui, Mr. Akyuki Matsumoto, and Mr. Keiichi Wakimoto. All of them have continuously performed Advantest’s audits for up to seven years. In addition, assistants performing Advantest’s accounting audit work consist mainly of certified public accountants and include those with specialized knowledge, such as system experts.

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 on the appointment, selection, and dismissal of Directors and Executive Officers, and to determine 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 is responsible for ensuring the fairness, rationality and transparency of the appointment, selection, and dismissal of Directors and Executive Officers and of their compensation.

The Nomination and Compensation Committee is composed of members selected from among the directors by resolution of the Board of Directors. To incorporate an independent perspective, the majority of the members are outside directors. The Human Resources Department serves as the secretariat of the Nomination and Compensation Committee.

Managing Executive Officers Committee

The Managing Executive Officers Committee is made up of executive officers and higher, and deliberates on a certain number of important matters as decided by executive organizations. Since Advantest has a number of non-Japanese managing executive officers, discussions incorporate each country’s perspective and reflect various opinions. Meetings are held to discuss important matters, mainly in the form of web conferences.

Internal Control Committee

The Internal Control Committee identifies important risks for the entire Group and analyzes them. At the same time, it has clarified which departments are responsible for each risk, and policies and procedures for dealing with them. The Internal Control Committee consists of 23 members, including Unit Leaders and administration department personnel. One member is an outside lawyer who acts as advisor. In addition, outside directors can participate as observers.

Compliance Committee

The Compliance Committee promotes compliance activities, including education for employees provides education on human rights issues, and handles consultations and complaints. The Compliance Committee consists of nine members, one of whom is an outside lawyer.

Disclosure Committee

The Disclosure Committee oversees proper disclosure by the company. The Disclosure Committee consists of 26 members, including Unit Leaders.

Sustainable Management Promotion Working Group

The Sustainable Management Promotion Working Group helps each business division incorporate policies related to ESG/the SDGs into the strategies it formulates on the basis of policies and priority measures enacted by higher-ranking organizations such as the Managing Executive Officers Committee, and supports the business divisions in carrying out activities in line with the PDCA cycle. It consists of 40 members, chiefly the leaders of all business divisions, including four executive directors.

Risk Management Committee

The Risk Management Committee is responsible for formulating measures to respond to the possibility of events such as disasters and other incidents that would make it difficult to continue business, and any possibility of harm to our employees, as well as the possibility of scandals that lead to social problems. The Committee consists of 18 members, including executive officers, general managers, deputy general managers, business managers, and functional members, and is chaired by the president.

In FY2019, the Committee confirmed the safety of employees during and after Typhoon Hagibis and executed Advantest’s overall COVID-19 response.
Compensation and the General Meeting of Shareholders

Design of Compensation to Increase Corporate Values

1. Purpose
   - Regarding the compensation of directors and executive officers, this policy has been devised so as to contribute to the sustainable development of the Group, improvement of corporate value over the medium to long term, contribution to shareholder profits, hiring and retention of excellent management resources, and optimization of motivation.

2. Compensation Structure and Decision Policy
   - Compensation for directors (excluding directors who are Audit and Supervisory Committee members) and executive officers shall be discussed by the Nomination and Compensation Committee based on consultation with the Board of Directors and will be proposed to the Board of Directors. The Board of Directors shall discuss proposals from the Nomination and Compensation Committee and determine compensation. The remuneration of directors who are Audit and Supervisory Committee members will be determined through consultation with directors who are Audit and Supervisory Committee members.

3. Compensation Decision Procedure
   - Compensation for directors (excluding directors who are Audit and Supervisory Committee members) and executive officers is determined by the Nomination and Compensation Committee and decided by the Board of Directors. The Board of Directors shall discuss proposals from the Nomination and Compensation Committee members.

General Meeting of Shareholders as a Venue for Dialogue with Shareholders

We regard the General Meeting of Shareholders as an opportunity for dialogue with our shareholders. In 2020, we prioritized COVID-19 safety precautions to ensure the safety of our shareholders and their families, holding the event at a larger venue than usual so that shareholders could feel at ease. In addition, for shareholders who could not attend in person, for the first time we posted video of the business reports delivered at the meeting on our website, enabling shareholders to access them on demand. Going forward, we will continue to take into consideration the fact that some shareholders may find it difficult to attend in person, and enable a greater number of shareholders to participate, by providing more open access to general meetings of shareholders.

Composition of Compensation for Directors (FY 2019)

Upper Limits on Director Compensation

<table>
<thead>
<tr>
<th>Directors who are not Audit and Supervisory Committee members</th>
<th>Fixed compensation</th>
<th>Performance-linked stock compensation</th>
<th>Stock options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside directors who are not Audit and Supervisory Committee members</td>
<td>No more than JPY60 million per year*1</td>
<td>No more than JPY200 million per year*2</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Directors Who Received Compensation of 100 Million yen or More and the Amount of Compensation Thereof (FY 2019)

<table>
<thead>
<tr>
<th>Name</th>
<th>Total Amount of Compensation (million JPY)</th>
<th>Type of Office (As of March 31, 2020)</th>
<th>Company Category</th>
<th>Total Amount of Compensation by Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yoshiaki Yoshida</td>
<td>149</td>
<td>Representative Director, President, and CEO</td>
<td>Advantest Corporation</td>
<td>60</td>
</tr>
<tr>
<td>Soichi Tsukakoshi</td>
<td>101</td>
<td>Director, Managing Executive Officer</td>
<td>Advantest Corporation</td>
<td>41</td>
</tr>
<tr>
<td>Hans-Juergen Wagner</td>
<td>138</td>
<td>Director, Managing Executive Officer</td>
<td>Advantest Corporation</td>
<td>10</td>
</tr>
</tbody>
</table>

Composition of Compensation for Directors (FY 2019)

<table>
<thead>
<tr>
<th>Inside</th>
<th>5 persons</th>
<th>153 million yen</th>
<th>121 million yen</th>
<th>54 million yen</th>
<th>51 million yen</th>
<th>Total 379 million yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside</td>
<td>1 persons</td>
<td>42 million yen</td>
<td>2 people</td>
<td>1 million yen</td>
<td>7 million yen</td>
<td>49 million yen</td>
</tr>
<tr>
<td>Independent Directors</td>
<td>7 persons</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*1 By resolution of the 73rd Ordinary General Meeting of Shareholders held on June 24, 2015
*2 By resolution of the 76th Ordinary General Meeting of Shareholders held on June 27, 2018

* There were five Outside Directors as of March 31, 2020, but the above compensation amounts and numbers include one inside director and two outside directors who stepped down on June 26, 2019.
<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Net sales</th>
<th>Gross profit</th>
<th>Selling, general and administrative expenses</th>
<th>Operating income</th>
<th>Income before income taxes</th>
<th>Net income</th>
<th>Income attributable to owners of the parent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/3</td>
<td>37,567</td>
<td>24,481</td>
<td>13,086</td>
<td>6,397</td>
<td>9,240</td>
<td>16,518</td>
<td>13,802</td>
</tr>
<tr>
<td>2013/3</td>
<td>42,359</td>
<td>27,663</td>
<td>14,700</td>
<td>7,961</td>
<td>10,707</td>
<td>20,767</td>
<td>18,032</td>
</tr>
<tr>
<td>2014/3</td>
<td>67,911</td>
<td>44,792</td>
<td>23,120</td>
<td>15,833</td>
<td>20,689</td>
<td>34,792</td>
<td>28,254</td>
</tr>
<tr>
<td>2015/3</td>
<td>68,840</td>
<td>49,333</td>
<td>19,507</td>
<td>19,845</td>
<td>22,999</td>
<td>44,792</td>
<td>44,792</td>
</tr>
<tr>
<td>2016/3</td>
<td>81,730</td>
<td>74,897</td>
<td>26,873</td>
<td>26,922</td>
<td>33,048</td>
<td>58,708</td>
<td>58,708</td>
</tr>
<tr>
<td>2017/3</td>
<td>79,879</td>
<td>71,588</td>
<td>8,280</td>
<td>6,301</td>
<td>10,589</td>
<td>16,518</td>
<td>16,518</td>
</tr>
<tr>
<td>2018/3</td>
<td>78,405</td>
<td>68,333</td>
<td>10,072</td>
<td>8,270</td>
<td>12,343</td>
<td>20,032</td>
<td>20,032</td>
</tr>
<tr>
<td>2019/3</td>
<td>76,979</td>
<td>68,026</td>
<td>8,953</td>
<td>9,452</td>
<td>13,907</td>
<td>19,724</td>
<td>19,724</td>
</tr>
</tbody>
</table>

**Management indicator**

<table>
<thead>
<tr>
<th>Shareholders' equity</th>
<th>199,566,770</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>225,515</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>45,668</td>
</tr>
<tr>
<td>Free cash flows*3</td>
<td>(13,713)</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>(5,828)</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>(22,03)</td>
</tr>
<tr>
<td>Net income (loss) attributable to owners of the parent</td>
<td>(35,540)</td>
</tr>
</tbody>
</table>

**Information per share**

<table>
<thead>
<tr>
<th>Number of shares issued at year-end</th>
<th>199,566,770</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders' equity per share (¥)</td>
<td>840.65</td>
</tr>
<tr>
<td>Diluted earnings (loss) per share (¥)</td>
<td>(64.09)</td>
</tr>
<tr>
<td>EBITDA*2</td>
<td>(28,101)</td>
</tr>
<tr>
<td>Net sales</td>
<td>111,878</td>
</tr>
<tr>
<td>Memory tester market size (Source: Advantest) Million US dollar</td>
<td>1,450</td>
</tr>
<tr>
<td>Global real GDP growth (Source: IMF) %</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Euro to Yen exchange rate</td>
<td>133</td>
</tr>
<tr>
<td>Dividend payout ratio</td>
<td>—</td>
</tr>
<tr>
<td>ROE (7.3)</td>
<td>24.9</td>
</tr>
<tr>
<td>US Dollar to Yen exchange rate</td>
<td>—</td>
</tr>
<tr>
<td>Dollar to Yen exchange rate</td>
<td>650</td>
</tr>
</tbody>
</table>

**Performance-related data**

| Global real GDP growth (Source: IMF) % | (2.9) |
| World sales (Source: Advantest) Million US dollar | 1,450 |
| Global real GDP growth (Source: IMF) % | (0.1) |
| World sales (Source: Advantest) Million US dollar | 1,450 |
| Global real GDP growth (Source: IMF) % | (2.9) |
| World sales (Source: Advantest) Million US dollar | 1,450 |
Sustainability Accounting Standard Board (SASB) Disclosures

Advantest Corporation and its consolidated subsidiaries
Each fiscal year beginning on April 1

The Advantest Group reports sustainability-related information based on the Sustainability Accounting Standards Board (SASB) standards to amplify and focus our practice of rigorous disclosure. SASB standards are to help businesses around the world, identify, manage, and report on the sustainability topics that matter most to our investors. And it can help investors by encouraging report that is comparable within an industry. Some accounting metrics do not apply to Advantest’s business activities in Japan, but in view of the purpose of these standards, we have endeavored to disclose as much information as possible.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Green Gas Emissions</td>
<td>(1) Gross global Scope 1 emissions</td>
<td>TC-SC-110a.1</td>
<td>Quantitative</td>
<td>Metric tons CO₂-e</td>
<td>3,756</td>
<td>3,890</td>
<td>3,824</td>
<td>3,811</td>
<td>4,671</td>
<td>4,471</td>
</tr>
<tr>
<td></td>
<td>(2) Amount of total emissions from perfluorinated compounds</td>
<td>TC-SC-110a.1</td>
<td>Quantitative</td>
<td>Metric tons CO₂-e</td>
<td>2,384</td>
<td>1,085</td>
<td>939</td>
<td>339</td>
<td>156</td>
<td>177</td>
</tr>
<tr>
<td>Energy Management in Manufacturing</td>
<td>(1) Total energy consumed</td>
<td>TC-SC-130a.1</td>
<td>Quantitative</td>
<td>Gigajoules (GJ)</td>
<td>683,021</td>
<td>685,503</td>
<td>735,810</td>
<td>770,186</td>
<td>843,788</td>
<td>887,610</td>
</tr>
<tr>
<td></td>
<td>(2) Percentage grid electricity</td>
<td>TC-SC-130a.1</td>
<td>Quantitative</td>
<td>%</td>
<td>76</td>
<td>76</td>
<td>76</td>
<td>79</td>
<td>79</td>
<td>68</td>
</tr>
<tr>
<td></td>
<td>(3) Percentage renewable</td>
<td>TC-SC-130a.1</td>
<td>Quantitative</td>
<td>%</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td>12</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Water management</td>
<td>(1) Total water withdrawal consumed</td>
<td>TC-SC-140a.1</td>
<td>Quantitative</td>
<td>Thousand cubic meters (m³)</td>
<td>283</td>
<td>280</td>
<td>288</td>
<td>249</td>
<td>281</td>
<td>281</td>
</tr>
<tr>
<td></td>
<td>(2) Water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress</td>
<td>TC-SC-140a.1</td>
<td>Quantitative</td>
<td>%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Waste Management</td>
<td>Amount of hazardous waste from manufacturing, percentage recycled</td>
<td>TC-SC-150a.1</td>
<td>Quantitative</td>
<td>Metric tons (t)</td>
<td>17.4</td>
<td>7.1</td>
<td>7.7</td>
<td>6.4</td>
<td>10.1</td>
<td>11.9</td>
</tr>
<tr>
<td>Employee Health &amp; Safety</td>
<td>Description of efforts to assess, monitor, and reduce exposure of employees to human health hazards</td>
<td>TC-SC-300a.1</td>
<td>Discussion and Analysis</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total amount of monetary losses as a result of legal proceedings associated with employee health and safety violations</td>
<td>TC-SC-300a.2</td>
<td>Quantitative</td>
<td>¥</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>957,552</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Recruiting &amp; Managing a Global &amp; Skilled Workforce</td>
<td>Percentage of employees that are (1) Foreign nationals</td>
<td>TC-SC-330a.1</td>
<td>Quantitative</td>
<td>%</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>(2) Located offshore</td>
<td>TC-SC-330a.1</td>
<td>Quantitative</td>
<td>%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Product Lifecycle Management</td>
<td>Percentage of products by revenue that contain IEC 62474 declarable substances</td>
<td>TC-SC-410a.1</td>
<td>Quantitative</td>
<td>%</td>
<td>84</td>
<td>82</td>
<td>81</td>
<td>85</td>
<td>89</td>
<td>85</td>
</tr>
<tr>
<td></td>
<td>Processor energy efficiency at a system-level for: (1) servers, (2) desktops, and (3) laptops</td>
<td>TC-SC-410a.2</td>
<td>Quantitative</td>
<td>Various, by product category</td>
<td>n/a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Materials Sourcing</td>
<td>Description of the management of risks associated with the use of critical materials</td>
<td>TC-SC-440a.1</td>
<td>Discussion and Analysis</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Intellectual Property Protection &amp; Competitive Behavior</td>
<td>Total amount of monetary losses as a result of legal proceedings associated with anticompetitive behavior regulations</td>
<td>TC-SC-520a.1</td>
<td>Quantitative</td>
<td>¥</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Total production</td>
<td>TC-SC-000.A</td>
<td>Quantitative</td>
<td>Output</td>
<td>1,031</td>
<td>968</td>
<td>1,116</td>
<td>1,891</td>
<td>2,270</td>
<td>2,065</td>
</tr>
<tr>
<td></td>
<td>Percentage of production from owned facilities</td>
<td>TC-SC-000.B</td>
<td>Quantitative</td>
<td>%</td>
<td>39</td>
<td>50</td>
<td>39</td>
<td>45</td>
<td>53</td>
<td>39</td>
</tr>
</tbody>
</table>
Commentary: The Semiconductor Supply Chain and Semiconductor Test

The Semiconductor Supply Chain: Horizontal Disintegration

Semiconductors used in all kinds of products, such as mobile phones, computers, home appliances, automobiles, and industrial equipment, have become indispensable to our lives. The global semiconductor market is valued at over $400 billion.

Manufacturing technology for semiconductors is evolving very quickly, and there are many specialized design and contract manufacturing companies working to respond to these advances. In the past, semiconductor design, manufacturing, and even the manufacture of semiconductor production equipment were all carried out in-house by semiconductor manufacturers—vertical integration. However, as the design circuits increased in scale and manufacturing technology became more complex, the financial burden of semiconductor development and capital investment increased, and the supply chain was gradually disintegrated across a horizontal global network of specialized providers. Today’s semiconductor industry is dominated by “pure-play” foundries and “fabless” design companies.

Semiconductor Production Equipment Manufacturers

Semiconductor production involves hundreds of processes, including pattern exposure and etching. The fundamental technologies required for each process are diverse, including applied chemistry, material engineering, and electronic engineering, and each process uses equipment provided by semiconductor production equipment (SPE) manufacturers possessing specialized technology and expertise. SPE manufacturers who possess different processes and fundamental technologies also act as partners, cooperating to create advanced processes.

The Necessity of Semiconductor Test

Semiconductors that push the limits of nanometer-based technology are not always perfect. In addition to poor circuit connections and short circuits, operating voltage and timing flaws may prevent them from performing their functions. Especially with semiconductors made using state-of-the-art processes, product quality can vary significantly until the manufacturing process matures.

The test process is the only process in the long semiconductor manufacturing process whose purpose is to ensure that the products work as designed. In addition to diagnosing good and defective products, it is also possible to classify performance (grading) according to the level of electrical signals and analyze the content of defects, so that test results can be used to improve other design and manufacturing processes.

The Workflow from Test Program Design Through to Production Test

1. Write a test program (Reference) from the IC design data.
2. Test handler places devices on device interface.
3. Transfer machine applies appropriate temperature to devices.
4. Test head sends electrical signals to devices.
5. Tester compares output signals from devices to reference values and grades them as pass or fail.
6. Transfer machine sorts devices according to test results.

Semiconductor Test Equipment

Semiconductor test includes various test items such as checking for poor connections and short circuits, checking input / output voltage / current values, verifying logic circuit operations, and switch timing. Semiconductor test equipment integrates the electronic measurement functions required to test these items into test systems. Furthermore, since test systems are usually used in semiconductor factories, it is essential for them to provide both advanced measurement technology and mass production technology that can test large numbers of semiconductor devices efficiently.

Semiconductor test equipment contributes to the growth of the entire semiconductor industry and to society in general by supporting the automatic, high-volume, timely, and economical production of semiconductors manufactured with advanced technology.
Global Network

(As of March 31, 2020)

Employees
Total 5,503

Number of subsidiaries
Total 32

Asia (Singapore, Malaysia, Philippines, Thailand, Vietnam, South Korea, Taiwan, China, India)

Employees
819

Number of subsidiaries
4

Europe (Germany, Italy, France, Israel)

Employees
819

Number of subsidiaries
4

Japan

Employees
2,612

Number of subsidiaries
7

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>
<tr>
<td>Advantest America, Inc.</td>
<td>San Jose, 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 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 Taiwan Inc.</td>
<td>Hsinchu, Taiwan</td>
<td>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>
Corporate Overview / Stock Information

As of March 31, 2020

Corporate Overview

Registered Name
ADVANCED CORPORATION

Head Office
Shin Marunouchi Center Bldg., 1-6-2, Marunouchi, Chiyoda-ku, Tokyo 100-0005

Established
December 1954

Capital
32,363 million yen

No. of Employees
5,503 (include temporary employees)

Business Description
Semiconductor and Component Test System Business, Mechatronics System Business,
Services, Support and Others

Stock Information

Fiscal Year
April 1 through March 31

Ordinary General Meeting of Shareholders
June

No. of Issuable Shares
440,000,000

No. of Shares Outstanding
199,568,770

No. of Shareholders
36,520

Shareholders

77

ADVANTEST CORPORATION

Employees

2,000

5,503

Voluntary Million Voting

200

Shin Marunouchi Center Bldg., 1-6-2, Marunouchi, Chiyoda-ku, Tokyo 100-0005

https://www.advantest.com/

On the Publication of Advantest’s Integrated Annual Report 2020

Since we published our first integrated annual report in October 2019, we have received feedback from a wide range of stakeholders. In addition, the process of producing the integrated report also pointed up areas for improvement. Based on these, we have made some revisions to the Integrated Annual Report 2020.

First, we thoroughly reviewed our treatment of materiality, examined management issues and strengthened our responses, and clarified our engagement with important topical issues such as climate change, as well as the measures we are taking on each item and the departments responsible for them. Key strategies and themes have been defined for each materiality item, based on the “six commitments” set forth in our mid- to long-term management policy.

In addition, regarding the Sustainability Report that Advantest published until last year, the details of our past achievements and activities have been newly summarized in a “Sustainability Data Book,” and our discussion of future policies and measures related to sustainability has been incorporated into the Integrated Annual Report. As a result, the Integrated Annual Report has become a “one-stop handbook solution” for stakeholders to understand our corporate value, including non-financial information.

Social and economic uncertainty is increasing due to the COVID-19 pandemic and friction between the United States and China, but our purpose in issuing an integrated report to tell our value creation story remains unchanged. We will continue to dialogue with stakeholders and strive for ever clearer and more proactive information disclosure.

Advantest, a Preferred Sustainability Investment

External Evaluation (2019-2020)

Selected for the FTSE4Good Index Series, a series of benchmark and trackable indexes for ESG (Environmental, Social and Governance) investors.

Selected for the FTSE Blossom Japan Index, which measures the performance of Japanese companies that demonstrate strong Environmental, Social and Governance (ESG) practices.

Selected as a constituent stock of the SNAM Sustainability Index, which combines ESG value and stock valuation.

Selected for the FTSE4Good Index, a series of benchmark indexes for ESG investors.

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Select

WIN and MSCI Japan Equity Women’s Empowerment Index (WIN)

Awards “Encouragement Award”

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