

# Summary



## Contents

<b>04</b>	Group CEO Message	<b>14</b>	“Grand Design” Mid/Long-Term Management Policy
<b>09</b>	Welcome to Advantest	<b>16</b>	Second Mid-Term Management Plan (MTP2)
<b>11</b>	History	<b>19</b>	Risk Management
<b>12</b>	Advantest's Market Environment	<b>21</b>	Consolidated Financial and Non-Financial Highlights

## Group CEO Message

Representative Director, President, Group CEO

**Yoshiaki Yoshida**



## ▶ Group CEO Message

## A Look Back at FY2022

2022 was a year of sweeping change. Amidst the digital transformation accelerated by COVID-19 measures during the pandemic, customers actively invested in test systems for high-performance smartphone and HPC semiconductors in the first half of the fiscal year. However, when inflation soared worldwide due to the impact of the situation in Ukraine on energy and food prices, Western countries took the lead in hiking interest rates, exacerbating global recessionary concerns. Markets for consumer electronics such as smartphones and personal computers were hit particularly hard, and manufacturers of semiconductors for these final products began to adjust inventories and review their investment plans.

On the other hand, the growing trend toward electrification of automobiles and industrial equipment buoyed semiconductor demand from these sectors, which remained firm throughout the fiscal year. As semiconductor applications have become ubiquitous in our lives and industries, the semiconductor market has come to resemble a mosaic of stronger and weaker demand, rather than declining across the board under economic stress. In the semiconductor test system market (hereafter referred to as the tester market), unlike in past adjustment phases, business sentiment varied throughout the fiscal year depending on the application and device type. We leveraged our broad customer base and product portfolio to compensate for the decline in weaker sectors by winning business in stronger sectors, and achieved record-high net sales and net income for the third consecutive year.

## Our Outlook for FY2023

As of the end of July 2023, the global economy is returning to a post-pandemic normal, but the outlook for the global economy in FY2023 remains uncertain. There is considerable volatility associated with inflation and geopolitical risks, and the semiconductor market as a whole is still in an adjustment phase. In particular, the continuing slump in smartphone shipments, which greatly affect semiconductor demand, is impelling manufacturers of related devices to adjust production and restrain investment. We expect the tester market to shrink from US\$5.2 billion in CY2022 to around US\$4.1-4.6 billion in CY2023. Regarding our own business performance, we expect net sales of ¥480.0 billion in FY2023, a 14.3% year-on-year decline from net sales of ¥560.2 billion in FY2022.

However, I believe the diversification of applications will prevent any major overall decline in the semiconductor market. Expectations for widespread implementations of generative AI are extremely high, and Net Zero policies continue to spur strong demand for semiconductors with excellent power efficiency. Our customers have not slowed down their investments in advanced semiconductors, and I am confident this will eventually generate new tester demand.

Above all, the increasing demand for higher semiconductor functionality and reliability is qualitatively changing the tester market. New architectures and process nodes present numerous technical issues, and customers actively employ test systems to solve these problems and quickly raise yields. More transistors per device means greater test complexity.

Semiconductors that must deliver high performance and be extremely reliable, such as those used in data servers and automobiles, have to be tested multiple times under different conditions, such as different temperatures, so that defects do not go undetected. I believe these trends will contribute to tester market growth that equals or outstrips the growth of the semiconductor market.

The tester market relies heavily on customer investment cycles, so cycles of boom and bust are inevitable to a certain extent. The decline that started in the second half of FY2022 is expected to continue for now, but the market will eventually recover and rebound to a high level in CY2024.

▶ P.12 Advantest's Market Environment

## Reflections on the Progress of Our 2nd Mid-Term Management Plan

When we announced our second mid-term management plan in May 2021, we set a three-year average (FY2021-2023) sales target of ¥350.0 billion - ¥380.0 billion as a management metric. Since we had just surpassed ¥300.0 billion in sales for the first time, posting sales of ¥312.8 billion in FY2020, this target appeared ambitious at the time. However, our actual sales in FY2021 were ¥416.9 billion, and provisional sales figures for FY2022 exceed ¥500.0 billion. Therefore, in May 2022, we reviewed this metric and raised our target significantly, to a range of ¥480.0 billion - ¥520.0 billion.

Part of the reason for this revision was that semiconductor technology had evolved and spread faster than we expected, and the tester market itself had expanded. But more

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	MTP1 Results Avg. of FY2018-20	FY2021	FY2022
Sales	¥290.4B	¥416.9B	¥560.2B
Operating Margin	22.3%	27.5%	29.9%
Net Income	¥60.1B	¥87.3B	¥130.4B
ROE	29.1%	30.4%	39.3%
EPS*	¥77 (¥309)	¥112 (¥450)	¥175 (¥697)
Tester Market Share (Source: Advantest)	50%	47%	57%

\*Advantest has changed its previously announced values due to a 4-for-1 stock split of shares of common stock, effective October 1, 2023 (values in parentheses are those before the split).

importantly, we capitalized on this market expansion to increase our market share. As semiconductors come to play an ever more important role as social infrastructure, our strategy of developing solutions for a wide range of applications, expanding our customer base, and growing our business is bearing fruit. In addition, the expansion of applications and our successful wooing of new customers has stabilized our performance despite the cyclical nature of the semiconductor test business.

In the future, our business environment will change dramatically, just as it has in the past. Even if the market resumes expanding, I do not by any means take for granted that we will be able to continue growing during the period of our third mid-term management plan, which is scheduled to start in FY2024. Now that semiconductors are positioned as a strategic commodity with a place in economic security strategies, competition may intensify, including emerging players from China and other countries and regions. New

technological innovations may also change the tester market itself. Rather than resting on our laurels as the dominant market player, we must anticipate possible changes in the semiconductor industry as well as society and change ourselves accordingly to achieve growth. We must strengthen our marketing and R&D capabilities, evolve our customer support and production systems, and further improve operational efficiency. In addition to investing in growth, including through M&A, we will also focus on securing and training the needed human capital to support our business, with sustainable growth as our watchword.

▶ P.14 “Grand Design” Mid/Long-Term Management Policy

▶ P.16 Second Mid-Term Management Plan (MTP2)

## Toward Sustainable Growth

“Further enhancement of ESG initiatives” is one of the five strategies set forth in our “Grand Design” mid/long-term management policy. We are executing this strategy by promoting initiatives aimed at business growth and the creation of a sustainable future for humanity. In recognition of these efforts, in 2022 Advantest was selected as a constituent stock of the Dow Jones Sustainability Asia/Pacific Index (DJSI Asia Pacific)<sup>1</sup> index for the first time, and in 2023 the MSCI ESG Ratings<sup>2</sup> upgraded our rating to AA.

<sup>1</sup>The Dow Jones Sustainability Indices (DJSI) are composed of companies selected for their excellent sustainability performance on both general and industry-specific criteria.

<sup>2</sup>The highly-regarded MSCI ESG Ratings “aim to measure a company’s management of financially relevant ESG risks and opportunities,” according to MSCI. Through analysis of environmental, social, and governance initiatives, companies are ranked as leaders (AAA, AA), average (A, BBB, BB) or laggards (B, CCC).

Governance is the foundation of business sustainability. In particular, I consider the effectiveness of the Board of Directors to be highly important. By allowing directors with diverse backgrounds to spend time exchanging opinions, the Board can steer management from a broader perspective. We survey our directors about the effectiveness of the Board of Directors every year, and have received positive evaluations of the Board’s diversity. In addition to non-Japanese directors, we have also appointed executive officers from various parts of North America, Europe, and Asia. Our global management

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system enables us to offer tailored support for the globally far-flung semiconductor value chain.

In order for a company to grow sustainably, I believe it is necessary to fully recognize that corporate value is a multifaceted concept. Through our measurement technology, we support the technological evolution of semiconductors and contribute to the safety, security, and comfort of people worldwide. While doing business, we have a duty to meet environmental and social needs by measures such as reducing the environmental impact of our production activities and products, and focusing on work environments and human rights, including at our suppliers. Our employees' awareness of environmental and social issues is increasing year by year. We are also in the process of reducing our Scope 1+2

emissions (CO<sub>2</sub> emissions from our own industrial processes and externally purchased power) by sourcing energy from renewables, and reviewing our product architectures to reduce the environmental impact. We believe that these attitudes and initiatives are essential for us to work together with our suppliers and customers for sustainable growth.

▶ P.37 Further Enhancement of ESG Initiatives

### Advantest's Culture of INTEGRITY

Given the global reach of our customers, global teamwork is essential for our employees around the world. By clarifying the values that Advantest considers important, and sharing them

company-wide, we have unified the aspirations of our global team members and helped them to strengthen their teamwork with colleagues at home and abroad. In addition, we believe employees can justly take pride in the fact that our company's products contribute to the common good. This motivates them and helps them to feel engaged with their work, leading to better results and retention rates.

Our INTEGRITY core values function as a shared mindset for all our employees around the world to work together and grow together with colleagues, customers, and suppliers, and contribute to global sustainability. The word INTEGRITY expresses Advantest's stance in relation to all stakeholders. To further instill INTEGRITY throughout the company, we continue to carry out activities such as workshops for all

<b>I</b>	<b>N</b>	<b>T</b>	<b>E</b>	<b>G</b>	<b>R</b>	<b>I</b>	<b>T</b>	<b>Y</b>
<b>Innovation is our Lifeblood</b>	<b>Number one is our Aspiration</b>	<b>Trust is our Foundation</b>	<b>Empowerment is our Motivation</b>	<b>Global is our Reach</b>	<b>Respect is our Heart</b>	<b>Inclusion and Diversity is our Commitment</b>	<b>Teamwork is our Approach</b>	<b>Yes is our Attitude</b>
We challenge the status quo.  We embrace technologies and entrepreneurship to create superior customer value.	We earn our leadership position in our business fields every day.  We establish an impeccable standard of excellence.	We are a trusted, collaborative partner.  We have confidence in each other's capabilities and intentions.	We are empowered to make decisions with an owner's mentality.  We own Advantest's success.	We embrace a world of constant change.  We are always ready. Anytime. Anywhere.	We respect different cultures, customs, and laws.  We never compromise on our ethical standards.	We are proud of and appreciate the range of different backgrounds that our talents represent.  We believe that strength can come from differences as well as similarities.	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.	We deliver on results promised to each other.  We recognize that impossible is an opinion, and with imagination, we can change the world.

## ▶ Group CEO Message

employees, leadership training, the appointment of INTEGRITY ambassadors, and the INTEGRITY Awards, which recognize teams that have made outstanding contributions. Today, our nine INTEGRITY core values (Innovation, Number One, Trust, Empowerment, Global, Respect, Inclusion and Diversity, Teamwork, Yes) are frequently mentioned in our company activities and are established at the roots of our corporate culture.

The semiconductor industry has been evolving faster and faster in the last few years, and it is difficult to predict what will happen in the future. That is why I believe it is essential for corporate sustainability that every employee should quickly perceive changes in our business environment, and demonstrate teamwork in constant communication with customers, suppliers, and colleagues. Our INTEGRITY core values, such as "Trust" of stakeholders and "Inclusion and diversity" of various viewpoints and abilities, are our compass in this era of rapid change.

▶ P.29 Human Capital/CHO Message

## The Risks and Opportunities of AI

With generative AI services such as Chat GPT attracting attention around the world, I have been asked many questions about the impact of AI on our business. I would like to close this message with some comments on that topic.

Generative AI still has many issues that need to be resolved, such as security and copyright questions, and countries are

no doubt working hard on laws and regulations to address these issues. However, I believe that widespread implementation of this technology is inevitable and is sure to trigger explosive change. One certainty is that generative AI will increase demand for leading-edge semiconductors such as GPUs, CPUs, and high-performance memory devices. This plays to Advantest's strengths, as we hold a superior position in the tester market, and many of our major customers design and manufacture high-performance semiconductors. Considering that AI will likely spread not only to data centers, but also to servers and "edge devices" on the user side, we expect related semiconductor demand to grow rapidly, which should have a significant positive impact on our business performance.

However, I doubt that this will be the only impact of AI on our business. AI will also be introduced into factories. It is possible that all manufacturing processes will be revised with big data and machine learning, including in the semiconductor industry. The data generated and collected by our test systems can also create new value in combination with the data gleaned from manufacturing processes, as it will become possible to identify problems in design and manufacturing processes early on through data analysis, and use these learnings to guide improvements. We have already launched "Advantest Cloud Solutions™," a solution that converts test data into a format that can be used for real-time machine learning. I believe this business will play a role in the future of the semiconductor industry, but it will be a business we operate together with our customers and other partners,

rather than doing it on our own.

In general, big changes entail big risks. However, I believe that we can turn changes into opportunities by taking on new challenges as soon as possible. We will analyze the future of generative AI and consider the opportunities and risks for our company from various angles. It is the role of management to shape an organization that can respond quickly to social changes without being hindered by prior assumptions. This is the key to success in our unpredictable era.



# Welcome to Advantest

## Advantest's Value Proposition

Advantest is a company that uses electronic measurement technology to address industry issues. We were founded in 1954 as a developer and manufacturer of voltmeters and frequency counters, and grew in step with the Japanese electronics industry. At present our flagship products are test systems for semiconductors. These systems input test signals to semiconductors, and check the response signals to determine whether the semiconductors are good or defective. Our products are used by semiconductor companies around the world for design evaluation, manufacturing process evaluation, and inspection of mass-produced devices, supporting them by resolving issues, and helping them to deliver their products as rapidly as possible.

Semiconductors are responsible for many of the advancements in science and technology in modern times, such as high-performance smartphones, electric vehicles, and most recently, artificial intelligences. Since semiconductors are manufactured at the nanometer scale, they are prone to circuit breakage, short circuits, and variations in voltage and timing. To test dozens or even hundreds of advanced semiconductors simultaneously, Advantest's test systems need to be even more advanced. They contribute to the safety of semiconductors in various products and sectors, thus providing security and comfort to people worldwide.

## Test in the Semiconductor Value Chain

Semiconductor manufacturing includes hundreds of processes, starting with lithography and etching. The fundamental technologies required are diverse, including applied chemistry, material engineering, and electronic engineering, and it is extremely difficult for a single semiconductor manufacturer to develop and deploy all of them successfully. Hence, production equipment

incorporating the advanced technology and know-how of external suppliers is used in each process.

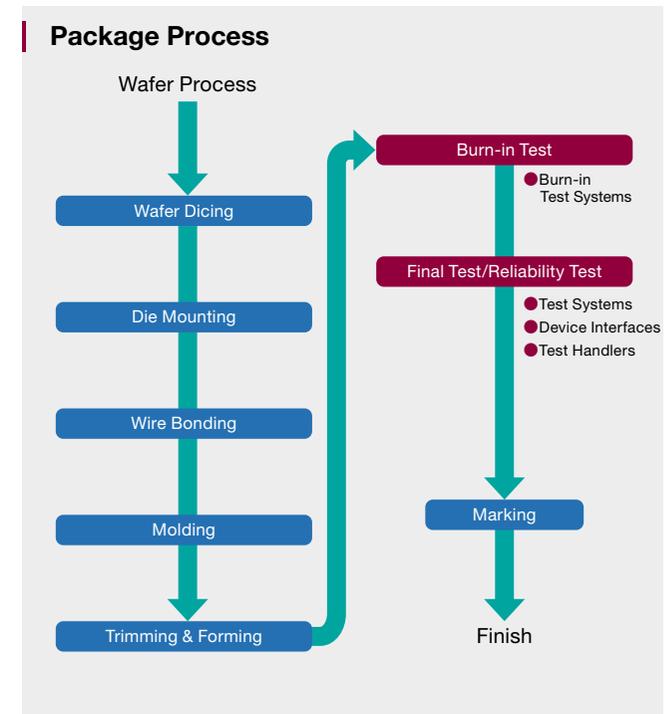
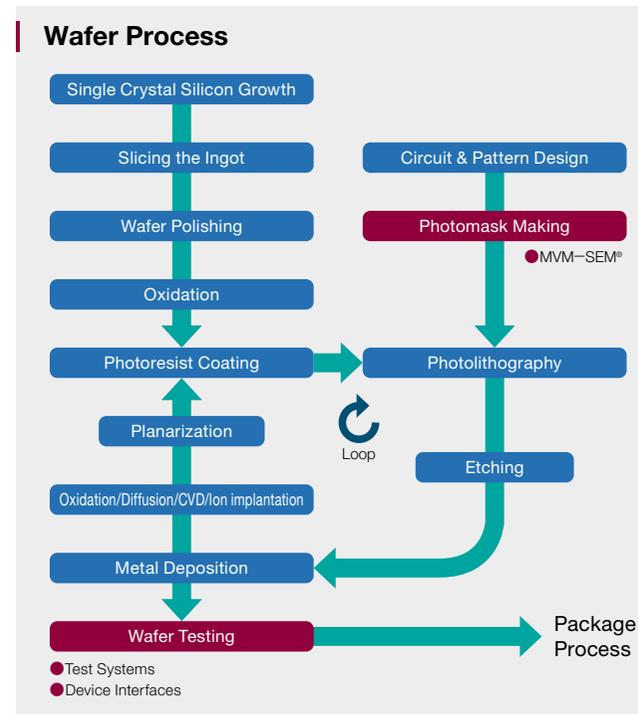
Test systems are mainly used at the end of the wafer production process and in the final inspection process, after packaging. In addition, tests are performed at pivotal points in order to maximize yield and reduce costs. Some state-of-the-art semiconductor volume production lines include as many as 10 separate tests.

Outside of volume production, test systems are also used for design evaluation and process development evaluation before

production begins. Recently, in order to accelerate the introduction of new products to the market, semiconductor companies have increasingly tended to deploy a large number of test systems at these early stages.

Test systems are uniquely positioned to collect test data such as functions and specifications, which reflects many aspects of the manufacturing process and can be analyzed for design and process improvement. In 2020, we launched a new software platform, Advantest Cloud Solutions™, which proposes ways to use data to improve yields and production equipment utilization rates.

## <Semiconductor Manufacturing Process>



Processes using Advantest's Products

Welcome to Advantest

**Advantest's Competitive Environment & Market Position**

Semiconductor test system suppliers were once numerous. However, companies that could not invest in R&D that kept them ahead of the technological evolution of semiconductors, or provide localized support to the increasingly globalized semiconductor supply chain, have gradually left the industry. Since the 2010s, Advantest and our largest competitor have dominated the global market between us. Some emerging companies enter the market with the support of major semiconductor companies, while others hang on by specializing in products with relatively mature technology. However, there is a significant gap between them and the top two companies in terms of technological capabilities and market share.

The test system business is affected by the semiconductor volume production investment cycle and the markets for final products such as smartphones and data servers. In the past, our company's performance fluctuated greatly depending on the trends of specific final products and major customers. However, in addition to acquiring a wide range of customers with diverse product portfolios, we have grown our business in design evaluation and process development evaluation, which are not so easily affected by final product markets, and currently enjoy a relatively stable business environment.

**Cross-Regional Operations**

Advantest was founded in Japan, but in recent years, overseas customers have accounted for most of our sales, to the point that just 3.7% of our FY2022 sales were to Japanese customers. One key region is Asia, where there are many foundries that manufacture semiconductors on consignment, and OSATs (Outsourced Assembly and Test companies) that specialize in packaging and testing. Meanwhile, there are many fabless companies in North America that specialize in

semiconductor design and influence test system selection by foundries and OSATs. The importance of North America to our business goes beyond sales figures.

On the other hand, our main R&D locations are in Japan and Germany. In business negotiations in Asia and North America, which account for the majority of our sales, local sales and support personnel work as a team with their Japanese and German colleagues in development and marketing. Similarly, our manufacturing and administration departments support teams with far-flung members. In this way, cross-regional operations are normal for us.

All local employees are unified around our goal of solving customer issues, but differences in culture and customs are natural. We have established the Advantest Way to help employees share our purpose and vision and enhance their teamwork. Our INTEGRITY core values, an element of the Advantest Way, have spread to employees worldwide through workshops and awards.

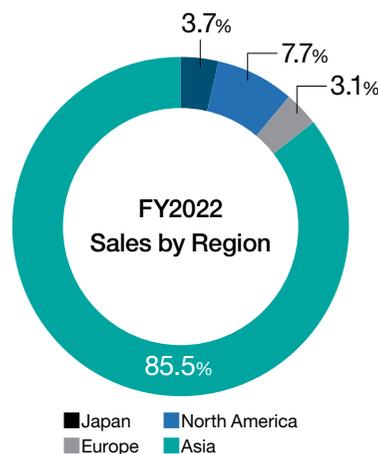
**Our “Grand Design” Mid/Long-Term Management Policy**

Having foreseen that the digital transformation would

significantly change our business environment, in April 2018 we announced our "Grand Design" mid/long-term management policy, which set management goals for the next 10 years. Its premises are that semiconductors play an important role in supporting our data-centric society, and demand for semiconductor test will expand further due to the increasing complexity of semiconductors and high reliability requirements. With these trends in mind, we set a sales target of 400 billion yen by FY2027, which would have required our annual sales to approximately double in a decade.

In fact, it only took three years. After the launch of our Grand Design, the semiconductor market continued on a rapid growth trajectory that analysts have dubbed a “supercycle.” In addition, the increasing complexity of semiconductors and the growing demand for quality and reliability have produced even greater growth in the semiconductor test market than we anticipated. We achieved our sales target in FY2021, and sales reached 560.2 billion yen in FY2022. In particular, in our core Semiconductor & Component Test System segment, we have significantly expanded our market share due to the rapid growth of our HPC (High Performance Computing) test business, among other factors, and segment sales increased from 140.9 billion yen in FY2017 to 404.3 billion yen in FY2022. In addition, we have aggressively pursued M&A in test system-adjacent markets such as test sockets and interface boards, expanding our portfolio of solutions.

Our Grand Design premise of future growth in the semiconductor test market due to digitalization has not changed. However, in 2021, we added “further enhancement of ESG initiatives” to the 5 strategies set forth in the Grand Design. We view changes in social and industrial structures as opportunities to make our business sounder and stronger, and our ESG initiatives embody our commitment to sustainable growth.



# History

## 1950s~

Main uses of semiconductors



### Mainframe Computer

- 1954 Takeda Riken Industries founded.
- 1957 TR-124B 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-320/20 and T-320/30.
- 1979 Launched the VLSI test system with a test frequency of 100MHz, boasting the highest performance in the world.



▲Our original workforce. Founder Ikuo Takeda is second from left in the front row.



▲An engineer works on our first electronic measurement instruments.

## 1980s~



### Personal Computer

- 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. (now TechInsights)
- 1993 Launched the T6691, a VLSI test system featuring an industry-best test speed of 500MHz/1GHz
- 1995 250MHz S-DRAM memory test system T5581 launched; became a best-selling product.



▲An American customer takes delivery of our T3340 LSI test system in 1982



▲Our T5581 high-speed memory test system

## 2000s~



### Mobile Phone

- 2000 The Nikkei 225 selects Advantest as one of the 225 stocks on which the Nikkei Average is calculated.
- 2003 Acquired Japan Engineering Co., Ltd. Launches the T2000, an open architecture SoC test system.
- 2008 Acquired Credence Systems GmbH.
- 2011 Acquired Verigy, a major semiconductor test equipment company
- 2013 Acquired W2BI.COM
- 2018 Announced Grand Design and first mid-term management plan
- 2019 Acquired the system level test business of Astronics, Corp. (USA)



▲Our T2000 open architecture test system



▲A 2011 press conference announcing our acquisition of fellow semiconductor test equipment supplier Verigy

## 2020s~



### Big Data/AI

- 2020 Acquired Essai Inc. (USA) Business alliance with PDF Solutions, Inc. (USA) Launched V93000 EXA Scale™
- 2021 Formulation of ESG Action Plan Announced second Mid-Term Management Plan Acquired R&D Altanova, Inc. (USA)
- 2022 Acquired CREA S.r.l. (Italy)
- 2023 Acquired Shin Puu Technology Co., Ltd. (Taiwan)

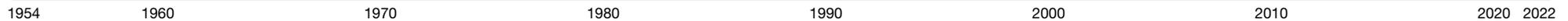


▲Our new V93000 EXA Scale™ test platform



▲Our system-level test system R&D and production facility in the US

## Sales of the Company



Starting with electronic measurement technology, Advantest grows together with the Japanese electronics industry

Advantest's business expands massively together with the semiconductor industry

Advantest stays abreast of the evolution of the semiconductor value chain

Advantest is expanding our business by leveraging measurement technology, while promoting ESG for sustainability

We were founded as a developer and manufacturer of single-function electronic measurement instruments such as voltmeters and frequency counters. Following our success in this field, we embarked on a fruitful strategy of narrowing down target markets, differentiating our products with advanced technology, and winning market share. Our business expanded in line with the growth of the Japanese electronics industry. At the end of the 1960s, we were one of the first to foresee the historical opportunities soon to be created by the semiconductor industry, and staked our fortune on the development of test systems that would utilize our electronic measurement technologies. Overcoming a management crisis and other difficulties, we succeeded in developing semiconductor test systems with world-class performance.

In this era, the semiconductor market expanded massively due to the spread of personal computers and the invention of the internet. Our semiconductor test systems, which combine state-of-the-art measurement technology with volume production capabilities, supported the evolution and development of semiconductor devices. In 1985, we became the dominant player in the global semiconductor tester market. Test systems were now the core business of our company.

After the turn of the century, smartphones took over from PCs as the main driver of semiconductor demand, and the global division of labor in semiconductor design and manufacturing progressed. Amid increasing market demands for cheaper, more efficient test, we worked to stabilize our management foundation, and implemented a series of forward-looking measures such as M&A of companies outside Japan. With our acquisition of Verigy in 2011, we staked the company's fortunes on a daring move for the second time in our history. It has paid off. The addition of Verigy's customer base and global operation know-how has supercharged our growth in the years since.

It is already possible to discern that the spread of AI and 5G will bring about an explosion in the amount of data processed around the world, propelling a new phase of evolution in the semiconductor market. Semiconductors, so essential to our data-driven society, are gaining in sophistication, complexity, and capacity, and need to be more reliable than ever before. As the digital transformation advances and the semiconductor value chain further evolves and expands, we will continue to create new customer value, including expansion of our business into system-level testing and data analytics.

## Advantest's Market Environment

The digital transformation of society across the board is driving growth and innovation in the semiconductor industry, whose products make it possible. The evolution of semiconductors has increased the role of semiconductor test, leading to further growth of the test system market.

### Market Overview

Although some uncertainty remains in the first half of FY2023, we believe the semiconductor market will grow steadily over the medium to long term.

At present, semiconductor manufacturers are expected to continue their inventory and production adjustments for the time being due to global recessionary risks exacerbated by rising inflation and higher interest rates, as well as other factors. We expect the semiconductor test equipment to contract year-on-year in 2023. In addition, economic security concerns have recently highlighted the importance of semiconductors, and our business environment is becoming increasingly uncertain due to the tightening of restrictions on the export of semiconductor production equipment to China by the United States and its allies. The direct impact on our FY2023 earnings is currently expected to be minor, but we will continue to closely monitor the situation.

On the other hand, these developments have led more countries to position the semiconductor industry as strategically important, and governments are accelerating their moves to strengthen the competitiveness of domestic semiconductor manufacturing. The emergence of new AI-based applications has simultaneously accelerated the digital transformation. At the same time, the growing chorus of support for Net Zero policies has increased the importance of semiconductor technology as a means to improve energy efficiency. Our semiconductor manufacturer customers continue to proactively develop next-generation devices, entailing further miniaturization. Overall, as semiconductors become more sophisticated and complex, demand for semiconductor test equipment is expected to grow at a pace that matches or exceeds that of the semiconductor market.

### New Demand Trends

#### The Data Explosion and Semiconductors as Social Infrastructure

The amount of data processed around the world continues to increase day by day, due to the digitization of everything and the increasing volumes of information flowing between electronic devices and servers connected to networks. Information generated by individuals, such as information about where we are and what we view and consume, is accumulated as big data and utilized for new services and problem solving. In addition, M2M (Machine to Machine) technologies, which exchange information without human intervention, such as automatic driving and remote equipment management systems, are spurring what may be called a "data explosion."

In this data-driven environment, semiconductors play an important role in processing, storing, and communicating large amounts of data fast and efficiently. Semiconductors are now a ubiquitous part of our social infrastructure, and we anticipate that demand for not only better performance but also higher quality and reliability will continue to rise.

#### Expansion of Demand for AI-Related Devices

As AI (artificial intelligence) is deployed in more and more areas of business and life, the competition to develop dedicated semiconductors for AI applications is accelerating.

The machine learning approach used by generative AI consists of two processes, "training" and "inference." Although generic semiconductors can perform these processes, dedicated semiconductors enable machine learning at higher speeds. In particular, the semiconductors used for training on the server side require massive computing power to process

large amounts of data. The mainstream practice at present is to use GPUs for this process. GPUs were originally built for image processing, but they are also used in AI because they are good at parallel processing, that is, simultaneously performing a huge number of calculations at high speed. On the other hand, semiconductors used for inference, not only on the server side but also in "edge devices" such as cars and surveillance cameras, generally do not require the same amounts of computing power. Low latency and low power consumption are the desired characteristics of these devices. As generative AI attracts more public attention, the momentum for developing AI semiconductors is increasing, and major North American tech companies are embarking on development of these devices. The growth of generative AI applications is also expected to fuel data center demand. The HPC (High Performance Computing) devices used in data centers, which can process large-scale calculations at high speed, need to be tested more thoroughly and at greater length than other devices. The increase in demand for these devices is expected to significantly boost the test system market.

#### Competition in Leading-Edge Semiconductor Development Boosts Test Demand

Performance is a key differentiator for suppliers of leading-edge semiconductors such as the AI semiconductors mentioned above and processors for smartphones. For competitive advantage, they must develop products, ramp up volume production processes, and secure a market as quickly as possible. However, it is not easy to ensure the design quality and manufacturing yield of semiconductors built with advanced nanoscale technology. Our test solutions play a major role in helping customers to get their designs to market. At the design stage of advanced semiconductors, test systems that support new technologies are used to verify semiconductors and help improve quality. Introducing more test systems at this stage makes it possible to shorten development times and, in turn, reduce Time to Market, so companies can introduce new products ahead of their

▶ Advantest's Market Environment

competitors. Again, when ramping production of new devices, the introduction of multiple new test systems can quickly identify defects, thereby raising yields at an early stage, with the goal of reducing Time to Volume. Semiconductors for applications that require high quality and reliability, such as servers and automobiles, are thoroughly tested by many test systems in the early stages of process development, with the goal of improving reliability and thereby reducing Time to Quality. However, as a result of recent advances in the complexity and capacity of advanced semiconductors, defects sometimes occur when the device is installed in the final product, even though conventional test of the device itself identified no defects. To avoid these situations, companies are increasingly turning to system-level test, which duplicates the environment in which the device will have to operate when installed in the final product.

In this way, the fiercely competitive semiconductor market environment encourages the early development and market introduction of new semiconductors, boosting test demand. All these trends, such as the evolution of semiconductor performance due to the digital transformation, the increasing demand for reliability, and the expansion of applications, have brought new technical challenges to design and mass production, further accelerating the expansion of test demand.

**Semiconductors Play a Key Role in Fighting Climate Change**

Semiconductors play an important role not only in the “data explosion” and generative AI, but also in combating climate change. Smaller, higher-performance semiconductors make a great contribution to energy-efficient final products. For example, data centers around the world have seen dramatic increases in computing power and data capacity over the past few years, and the growth rate of internet traffic has increased significantly, but at the same time the growth rate of electricity consumption has been restrained by gains in semiconductor performance that make it possible to process more data with less power. In addition, the power semiconductors used in electric vehicles (EVs) and renewables—sectors whose fast growth is driving demand for these devices higher—contribute to the reduction of CO<sub>2</sub> emissions by efficiently controlling electric power. Both in Japan and overseas, there have also

**Competition in the Semiconductor Market Fuels Investment in Test**



been recent moves to increase production of power semiconductors using silicon carbide (SiC), a material that can further improve power-saving functionality.

Advantest believes that the risks posed by climate change to society and the economy must be taken seriously, and that semiconductors are a key technology for addressing these risks. The technological evolution of semiconductors and the expansion of the market for power semiconductors will generate new demand for test and thus create opportunities for business expansion.

**Sustainability Highlight**

**Development of Green Products**

Although test systems contribute to semiconductor energy efficiency, they still consume power and burden the environment. Against the backdrop of the world's accelerating transition to Net Zero, there is a growing movement among major semiconductor manufacturers to reduce CO<sub>2</sub> emissions throughout the semiconductor supply chain. In addition to performance and economy, reduced environmental impact is becoming an important reason why customers choose

Advantest's test systems.

For more than 20 years, we have set voluntary standards for energy saving, resource saving, design for recycling, elimination of hazardous substances, etc., and have been working on the development of green products with low environmental impact. We aim to grow sustainably, together with the entire world, through CO<sub>2</sub> reduction across the semiconductor supply chain.

**Securing and Training Future Semiconductor Test Engineers**

As the semiconductor market is expected to continue expanding in the medium to long term, competition for human capital in the industry is becoming more and more intense. Securing and training human capital to support the evolution of semiconductors is an urgent task for us.

We participate in human capital development through measures such as sponsoring university courses. We also provide new employees with training programs that enhance both individual skills and teamwork. By supporting our employees' motivation to grow in their careers, we contribute both to the development of the semiconductor value chain and to the common good.

## “Grand Design” Mid/Long-Term Management Policy

In FY2018, Advantest formulated a 10-year mid/long-term management policy, our “Grand Design,” which defines the commitments and strategies needed for Advantest to continue to fulfill its corporate purpose and mission of “enabling leading-edge technologies” At the same time, we articulated our corporate vision as “adding customer value in an evolving semiconductor value chain.” Since then, we have been working to grow corporate value under this policy.

### Grand Design (10 Years) (FY2018-2027) Overview & Where We Are Now

#### Background to Formulation of the Grand Design

In the past, the semiconductor test equipment market was subject to wide fluctuations in demand due to changes in semiconductor production volumes and cycles of technological evolution influenced by trends in final products such as personal computers. However, due to structural demand changes, such as the ongoing digital transformation, data explosion, and expansion of semiconductor applications, by 2018 the semiconductor test equipment market had shifted onto a more stable growth trajectory than in the past.

In response to these changes, as Advantest implemented M&A with companies outside Japan and expanded our global business base in step with the growth of the global semiconductor market, our percentage of overseas sales has consistently exceeded 90% since the mid-2010s. At the same time, we have transformed into a diverse international organization with a diverse talent pool. Amidst these internal and external structural changes, we established our Grand Design and Vision as common management goals for employees around the world, to help them work together to create customer value and improve corporate value.

In FY2021, three years after the formulation of our Grand Design and the first mid-term management plan (FY2021-FY2023)(MTP1), we updated the Grand Design to

reflect progress made to date and changes in the company's external environment. At the same time, we formulated the second three-year mid-term plan, and the entire company is working together to further ensure the realization of our Grand Design.

We originally set annual sales of ¥300 billion to ¥400 billion as the ultimate goal of the Grand Design, and then in FY2021, revised the Long-Term Management Goal to “the early achievement of annual sales of ¥400 billion” thanks to favorable business performance spurred by the progress of digital revolution and market share expansion. However, we achieved the goal in FY2021, ahead of the originally intended FY2027, amid the sustained expansion of the semiconductor tester market, etc.

Changes in the business environment and society which have provided us with a lot of growth opportunities since the time of the development of the Grand Design are expected to continue, such as the expansion in demand for semiconductors in the mid/long-term. We will leverage the early achievement of our sales target to promote various growth strategies, aiming to realize our vision and further improve corporate value.

#### Corporate Vision: Adding Customer Value in an Evolving Semiconductor Value Chain

We will expand our business domains beyond the development and sales of semiconductor volume production

test systems to also include adjacent markets such as semiconductor design and evaluation processes as well as product/system-level test processes which are performed after semiconductor volume production processes, with the aim of expanding and growing corporate value.

The chart in the next page shows the progress, as of the first half of FY2023, of our efforts to reinforce and grow our business domains, starting from our core businesses, with the aim of realizing our mid/long-term vision.

Following the acquisition of the system level test (SLT) business of the US company Astronics Corporation in FY2018, we strengthened our system level test business and related recurring businesses with the acquisition of two more US companies, Essai, Inc. and R&D Altanova, Inc., and Taiwan-based Shin Poo Technology Co., Ltd. In addition, we have recently complemented our organic efforts to reinforce our core businesses with the acquisition of Italian company CREA S.r.l. in preparation for future growth in the test market for high-power analog ICs such as SiC/GaN devices, which contribute to improved energy efficiency. Apart from these efforts to reinforce our hardware business, we are also building a solution platform called “Advantest Cloud Solutions™” for cloud services and data analytics.

Supported by broad-based demand drivers such as the ongoing digital transformation and Net Zero policies, the semiconductor market is expected to grow over the mid/long-term despite short-term demand fluctuations. In addition,

▶ Grand Design” Mid/Long-Term Management Policy

increases in semiconductor complexity and integration, which have driven the expansion of the semiconductor test system market in recent years, are expected to actively advance in the future. Even more recently, advances in AI and its use in automation, are underway. Against this backdrop, customers hold ever higher expectations for Advantest to deliver total test solutions that cover the entire semiconductor value chain. Based on these mid/long-term industry trends, we will continue to reinforce our core businesses and expand our business domains.

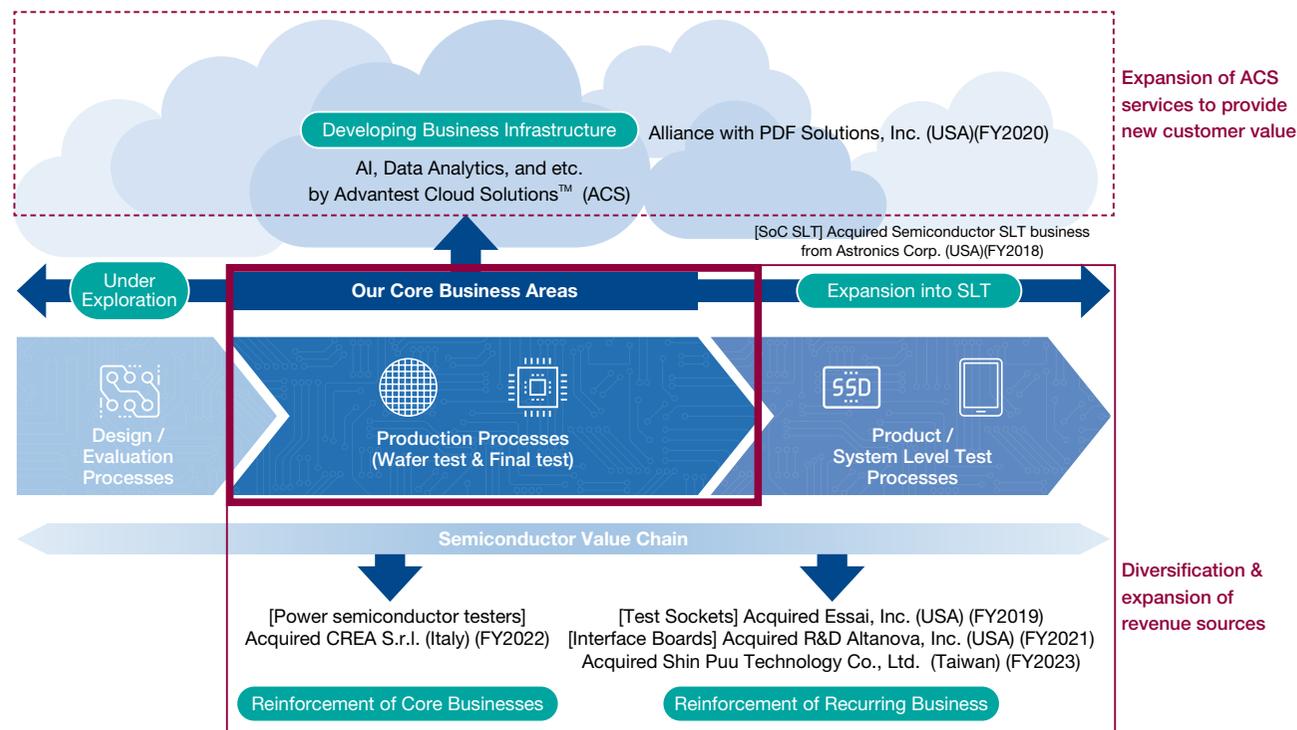
At the same time, in keeping with the ROIC-based business evaluation system that was introduced when we formulated our Grand Design, we will continue to review our business and product portfolios from the perspectives of capital efficiency, mid/long-term business earnings outlook, and the “best owner” principle.

**Commitments and Strategies**

In order to achieve our corporate vision, our Grand Design sets forth 6 commitments supported by 5 strategies. Above all, ⑤, the further enhancement of ESG initiatives, will help us to strengthen our ability to respond to risks and opportunities and strengthen our resilience amidst high uncertainty and rapidly changing factors such as the COVID-19 pandemic and economic security trends. We added this fifth strategy in FY2021 based on a recognition that the enhancement of our ESG initiatives will lead us to a better future.

We have also positioned these five long-term strategies at the core of our successive three-year mid-term management plans. MTP1 was successfully completed with financial results and market share growth that exceeded initial expectations. Currently, we are working on executing our second mid-term management plan (FY2021-2023), which started in FY2021, aiming to make further strides toward our Grand Design goals.

**Vision Statement: Adding Customer Value in an Evolving Semiconductor Value Chain**



Commitments	Strategies
① Be the No.1 provider of test & measurement solutions	① Reinforce Core Businesses, Invest Strategically
② Partner with leading-edge customers	② Seek Operational Excellence
③ Develop leading-edge technologies	③ Explore Value to Reach a Higher Level
④ Attract and retain the best talent in the industry	④ Pioneer New Business Fields
⑤ Learning organization	⑤ Enhance ESG Initiatives
⑥ Improve financial KPI and increase corporate value	

## Second Mid-Term Management Plan (MTP2)

Aiming to further solidify our route to achievement of our Grand Design goals, MTP2 promotes initiatives to reinforce businesses for further growth, while expanding both growth investments and shareholder returns to improve corporate value.

### MTP2: A Plan Based on the Latest Business Environment Trends (May 2021)

At the end of our first mid-term management plan (MTP1, FY2018-2020), we reviewed the social megatrends and semiconductor market outlook that inform our strategy. We recognized that the semiconductor market, which is the source of Advantest's growth, is expected to continue expanding in line with the progress of the digital transformation, suggesting that our business environment would continue to be favorable for the time being. Based on this medium-term business environment forecast, in May 2021, we formulated our second mid-term management plan (MTP2, FY2021-2023) to further progress the company toward achievement of our Grand Design goals, and launched initiatives aimed at accelerating our progress. Under MTP2, while following the course of MTP1, which ended successfully, we are aggressively promoting growth measures that will contribute to business expansion in our core business and related markets from a mid/long-term perspective, aiming for sustainable growth whilst strengthening our business foundations.

### Outline of Second Mid-Term Management Plan (MTP2, FY2021-FY2023)

#### Targeted management metrics

Under MTP2, Advantest will promote efforts to strengthen its business for further growth, expand growth investment as well as shareholder returns, and strive to increase corporate value.

Grand Design [FY2018-FY2027]				
First Mid-Term Management Plan (MTP1, FY2018-FY2020)		Second Mid-Term Management Plan (MTP2, FY2021-FY2023)		
	MTP1 Targets Avg. of FY2018-20	MTP1 Results Avg. of FY2018-20	Previous MTP2 Targets* <sup>2</sup> (announced May 2021) Avg. of FY2021-23	MTP2 Targets* <sup>3</sup> (revised July 2022) Avg. of FY2021-23
Sales	¥250.0B	¥290.4B	¥350.0-380.0B	¥480.0-520.0B
Operating Margin	17%	22.3%* <sup>1</sup>	23-25%	27-30%
Net Income	-	¥60.1B	¥62.0-70.0B	¥98.0-120.0B
ROE	18%	29.1%	20% or more	30-35%
EPS* <sup>4</sup>	¥43 (¥170)	¥77 (¥309)	¥80-93 (¥320-370)	¥128-158 (¥510-630)

\*<sup>1</sup> In the MTP1 period, Advantest recorded a one-off profit of approximately ¥12 billion.

\*<sup>2</sup> Exchange rate assumptions at the announcement in May 2021 were 1 USD = 105 JPY and 1 Euro = 130 JPY.

\*<sup>3</sup> Exchange rate assumptions at the revision in July 2022 for results forecast from the second quarter to the fourth quarter of FY2022 and for FY2023 were 1 USD = 130 JPY and 1 Euro = 140 JPY. (Actual exchange rates for FY2021 were 1 USD = 112 JPY and 1 Euro = 130 JPY. Actual exchange rates for the first quarter of FY2022 were 1 USD = 124 JPY and 1 Euro = 134 JPY.)

\*<sup>4</sup> Advantest has changed its previously announced values due to a 4-for-1 stock split of shares of common stock, effective October 1, 2023 (values in parentheses are those before the split).

Given this framework, the management metrics that are emphasized in MTP2 are sales, operating margin, net income, return on equity attributable to owners of the parent (ROE), and earnings per share (EPS). Advantest has been endeavoring to grow all these numbers. In order to evaluate the progress of the plan from a mid/long-term perspective, the Company uses three-year averages so as to level the impact of single-year performance fluctuations.

Regarding the management metrics of MTP2, in May 2021, the Company initially announced the outlook of financial metrics calculated based on the medium-term forecast of

market trends. However, in FY2021 as the first year of MTP2, the markets of semiconductors and related products remained brisk beyond the assumption in the development of MTP2, and our business expansion measures also evolved steadily. In July 2022, the Company revised the targeted management metrics of MTP2 as follows, taking into account the solid progress of the plan; the comprehensive consideration of the forecast of our business environment until FY2023 including a stronger downward resilience in the semiconductor test equipment market driven by the diversification of semiconductor applications, higher difficulty levels for testing

▶ Second Mid-Term Management Plan (MTP2)

high-end semiconductors, and strong motivation of major chip makers to invest in advanced technologies, and based on the assumption that the downturn of global economy since 2022 will remain within the range of normal economic slowdown.

**Growth Investments & Shareholder Returns Outlook**

Advantest's capital allocation policy aims to use the cumulative operating cash flow of ¥280 - 360 billion expected during the MTP2 period as a primary source of funds, and allocate it appropriately to growth investments and shareholder returns after periodic reviews of cash on hand levels. Regarding resource allocation for growth investment, we will increase capital investment related to R&D and production, in response to expectations for long-term semiconductor market expansion and further semiconductor performance gains. The company currently expects to spend a cumulative total of ¥70 billion on capital investments and ¥100 billion on strategic investments such as M&A over the MTP2 period.

Regarding shareholder returns, Advantest will maintain its existing returns policy, assuming that its business environment remains stable during the MTP2 period. Specifically, Advantest will maintain stable dividends with a minimum semi-annual dividend of ¥12.5 per share and a minimum annual dividend of ¥25 per share<sup>(1)</sup>, while simultaneously aiming for a total annual return ratio<sup>(2)</sup> of 50% or more. Advantest will also seek to enhance shareholder returns and improve capital efficiency through dividends and share repurchases.

<sup>\*1</sup> Due to a 4-for-1 stock split of shares of common stock, effective October 1, 2023, the Company has changed its dividend from ¥50 per share for a semi-annual and ¥100 per share for annual.

<sup>\*2</sup> Total return ratio: (Dividend + share repurchase) / consolidated net income

**MTP2 Growth Strategies and Progress Update**

Advantest views MTP2 as three years during which it will strengthen the foundation for the greater growth of Advantest in

	Targets of MTP2 Avg. of FY2021-2023	FY2021 Results	FY2022 Results	FY2021-2022 Average <sup>*1</sup>
Sales	¥480.0-520.0B	¥416.9B	¥560.2B	¥488.5B
Operating Margin	27-30%	27.5%	29.9%	28.7%
Net Income	¥98.0-120.0B	¥87.3B	¥130.4B	¥108.9B
ROE	30-35%	30.4%	39.3%	34.9%
EPS <sup>*2</sup>	¥128-158 (¥510-630)	¥112 (¥450)	¥175 (¥697)	¥143 (¥573)

<sup>\*1</sup> Exchange rate assumptions for the FY2021-FY2022 (average actual results): Actual exchange rates for FY2021 were 1 USD = 112 JPY and 1 Euro = 130 JPY; Actual exchange rates for FY2022 were 1 USD = 134 JPY and 1 Euro = 140 JPY.

<sup>\*2</sup> Advantest has changed its previously announced values due to a 4-for-1 stock split of shares of common stock, effective October 1, 2023 (values in parentheses are those before the split).

**Growth Investment**

	FY2021-2023 Investment Targets	FY2021 Results	FY2022 Results	FY2021-2022 Cumulative Results
Strategic Investments e.g. M&A	¥100.0B	¥29.0B	¥3.5B	¥32.5B
Capital Expenditure	¥70.0B	¥18.0B	¥25.0B	¥43.1B

**Shareholder Returns**

	FY2021-2023 (estimate)	FY2021 Results	FY2022 Results	FY2021-2022 Cumulative Results
Shareholder Returns (Dividend + Share buybacks)	¥210.0B or more	¥93.0B	¥75.0B	¥168.1B

the semiconductor market, which is expected to expand further in the mid/long-term. In the period from FY2021 to FY2022, Advantest steadily implemented the following initiatives, along with the five strategic issues raised in the Grand Design from a mid/long-term perspective.

Financially, amidst growing recessionary risks, our business environment is becoming increasingly uncertain, but in terms of progress in the second year of MTP2, we achieved record-high results. Continuing on from FY2021, in addition to capturing higher test demand for smartphone, HPC, and

high-performance memory devices, where we have a competitive advantage, we steadily pursued a strategy of expanding our customer base in the automotive, industrial, and consumer sectors, which paid off, along with our product strategy, in the form of higher sales to these sectors.

**Future Focus of MTP2**

Key Measures for FY2023 are as follows.

- We will strive to create added customer value through the development of leading-edge test technologies, including

▶ Second Mid-Term Management Plan (MTP2)

further expansion of our test solutions for future growth markets such as AI and power semiconductors, and reinforcement of our data analytics business foundation.

- We will continue to make necessary growth investments in new projects targeting future business expansion.
- In addition, we will seek operational excellence by, among other things, refining our supply chain management for better responsiveness to demand fluctuations, and actively utilizing DX to improve company-wide productivity.
- We have launched a mid/long-term project to support the sustainable growth of Advantest by introducing ESG initiatives, including investment in our human capital by promoting the enhancement of individual employees' skills and the deployment of a global personnel system.

In FY2023, as the final year of MTP2, Advantest will work toward the achievement of MTP2 targets, positioning FY2023 as the year to fortify our business foundations and make them more resilient.

**CxO List**

Group CEO (Chief Executive Officer)	Yoshiaki Yoshida
Group COO (Chief Operating Officer)	Douglas Lefever
Group Co-COO (Co-Chief Operating Officer)	Koichi Tsukui
CPO (Chief Production Officer)	Soichi Tsukakoshi
CHO (Chief Human Capital Officer) CCO (Chief Compliance Officer)	Keith Hardwick
CFO (Chief Financial Officer) CSO (Chief Strategy Officer)	Yasuo Mihashi
CTO (Chief Technology Officer)	Juergen Serrer
CCRO (Chief Customer Relations Officer)	Makoto Nakahara
CDO (Chief Digital Officer) CIO (Chief Information Technology Officer)	Richard Junger

**Strategies**

- 1 Reinforce Core Businesses, Invest Strategically**
- 2 Seek Operational Excellence**
- 3 Explore Value to Reach a Higher Level**
- 4 Pioneer New Business Fields**
- 5 Enhance ESG Initiatives**

**Progress**

We continued to expand each of our test solutions, starting with the V93000 EXA Scale in FY21. In FY22, we further strengthened our growth foundation with the launch of the inteXcell, an innovative new memory test cell, and the acquisition of Italian company CREA, a major power semiconductor test equipment manufacturer. We further enhanced our responsiveness to customer needs with ongoing sales / support hiring.

The TechInsights Customer Satisfaction Survey named Advantest the SPE industry leader for the fourth consecutive year. Launched global business operation initiatives to enhance efficiency and aim for a business process reform.

We made progress in developing the AI/HPC, smartphone, and automotive markets for our SLT products. We strengthened our test interface business by acquiring US company R&D Altanova in FY21, and Taiwanese company Shin Puu in FY23 1Q. We continued to enhance the foundational services offered by Advantest Cloud Solutions™ (ACS).

We established a system for promoting new businesses, including medical equipment such as fluorescence detection systems.

Introduced a CxO system to clarify management accountability in order to reinforce a global HQ management system further. We formulated and promoted an ESG Action Plan, which serves as the framework for our ESG initiatives. It helped us to expand our social contributions through our business and improve our ESG external evaluations in FY22.

**Key Measures for FY23**

We will strive to achieve our MTP2 targets and build a stronger and more resilient management foundation by:

- **Creating added customer value through leading-edge test technology R&D**  
Expanding our test solutions to meet the needs of leading customers in high-growth sectors such as AI and power semiconductors  
Continuing to execute growth investment for our future business expansion  
Further strengthening our data analytics business foundation through close collaborations with partners
- **Seeking operational excellence**  
Refining our supply chain management to improve responsiveness to demand fluctuations  
Actively utilizing DX to improve operational efficiency company-wide  
(Reinforce global business operation initiatives activities to enhance efficiency)
- **Implementing proactive ESG initiatives, including the investment in our human capital from a mid/long-term perspective**

# Risk Management

Each of Advantest's locations around the world has diverse functions, so in order to carry out effective risk management, each unit (individual division, business unit, and six of our overseas locations) operates autonomous risk management in normal times. We also have a top-down risk response structure to be activated in the event of an emergency.

## Our Basic Risk Management Philosophy

It is essential to identify present and future risks, prepare for them, and take appropriate countermeasures in order to seize business opportunities and tackle challenges amidst the upheavals affecting our business environment, such as the data explosion, the digital revolution which is further accelerated by the rise of new applications that leverage AI, and ever-faster social change. By linking management strategy with risk management, we aim to comprehensively identify existing and anticipated risks. Each unit identifies risks from a bird's-eye view, defining risks as factors that may hinder the achievement of management strategies, and takes appropriate countermeasures according to the magnitude of the risks.

In addition, we have prioritized the creation of a system that can promptly respond to these risks if and when they materialize. Each unit strives to coordinate with the so-called second line (i.e. administration group) and third line (internal audit division) of defense so as to be fully prepared to respond to risks.

Thus, autonomous risk management by each unit, combined with management oversight, forms the basis of our risk management system.

## Risk Management Structure

### 1. Organization

Under the risk management policy set by the Internal Control Committee, each unit manages its own risks while the Internal Control Committee supervises and evaluates the situation and provides feedback.

Compliance-related risks are tracked by the Chief Compliance Officer (CCO). In addition, certain types of risk information are reported directly to the Board of Directors and the Executive Management Committee.

A Risk Management Group, headed by the President, has also been set up to act promptly in the event of an emergency.

### 2. Process

Each unit incorporates the management plan formulated by the Board of Directors and the Management Committee into its own priority measures.

The Internal Control Committee defines the factors (risks) that may hinder the achievement of these priority measures, and requests individual units to identify risks and report on their risk responses. In this manner, the Internal Control Committee supports and reviews the risk analyses of individual units and promotes information sharing between units from a

company-wide perspective. Each unit reports its risk management status to the Internal Control Committee twice a year. The Internal Control Committee then checks the risk management status of individual units and provides feedback. The Secretariat of the Internal Control Committee also supports each unit in various manners as appropriate, such as providing proposals for risk analysis and countermeasures, and providing necessary information.

Risks regarding compliance-related risks are tracked by the CCO. The CCO then reports regularly to the Board of Directors and the Executive Management Committee. In the event of a compliance-related incident, the CCO promptly instructs the relevant unit to take actions, and reports the status of the response to the Board of Directors and the Executive Management Committee. Depending on the nature of the risk, risk information may be reported directly to the Board of Directors or the Executive Management Committee. The Board of Directors or the Executive Management Committee handles risks at the corporate level by making timely decisions and giving instructions to related units. In the event of an emergency, quicker response is possible under the direction of the Risk Management Group.

▶ Risk Management

**Key Risks and Countermeasures**

In FY2022, approximately 350 risks were identified by divisions, business units, and overseas locations. Among them, major risks were then organized by materiality.

**Our Definition of Materiality**

Product strength, technical strength, customer base, human resources, financial base, and risk management are only a few of the many important management topics we must tackle. However, the achievement of our Grand Design goals is our immediate priority, and for that purpose, we must thoroughly refine and execute the strategies set forth in Second Mid-Term Management Plan(MTP2). With this in mind, we decided to make our materiality items the five strategies of our Grand Design, themselves. We decided that it would be most practical to clarify and tackle specific issues at each of strategy execution level after having broken our key strategies down further.

**Materiality Items**

- ① Reinforce Core Business, Invest Strategically
- ② Seek Operational Excellence
- ③ Explore Value to Reach a Higher Level
- ④ Pioneer New Business Fields
- ⑤ Enhance ESG Initiatives

Key risks	Materiality addressed	Priority measures	Executive in charge
1 Significant demand fluctuations in the semiconductor industry	①②	<ul style="list-style-type: none"> <li>• Expansion of our peripherals business</li> <li>• Outsourced production, diversification of suppliers</li> <li>• Strengthen services and other businesses, including recurring businesses and new businesses</li> <li>• Collect accurate information by strengthening communication with customers and overseas locations</li> </ul>	CSO
2 Market share losses due to failure to deliver new products in a timely manner as a result of delays in development and design, failure to achieve performance targets	①②③	<ul style="list-style-type: none"> <li>• Strengthen relationships with leading customers, collect information</li> <li>• Consider lean ways to develop our products by thorough analysis during the early phases of development and design reviews at each phase</li> <li>• New product research using data analysis</li> </ul>	CTO
3 Market share losses due to failure to procure parts and deliver products in a timely manner	①②	<ul style="list-style-type: none"> <li>• Establish a system that does not rely excessively on specific suppliers, such as selection of alternative parts and use of standardized products</li> <li>• Constant assessment and review of suppliers</li> </ul>	CPO
4 Intense competition may impact market share	①	<ul style="list-style-type: none"> <li>• Understand customer needs</li> <li>• Provide unique functions and high value-added solutions</li> </ul>	CCRO
5 Consequences of significant damage to the company's or our suppliers' major facilities	①②⑤	<ul style="list-style-type: none"> <li>• Formulation of BCP plan, obtain punctual information</li> <li>• Confirm BCP status of suppliers</li> <li>• Diversification of production bases and external suppliers</li> </ul>	CPO CCO
6 Potential lack of highly specialized human resources	②③⑤	<ul style="list-style-type: none"> <li>• Coordinate and replenish human resources between divisions</li> <li>• Formulate a mid- to long-term hiring plan, improving our working environment, increase engagement, providing opportunities to improve skills through education and training programs</li> <li>• Pursue automation and training multi-skilled engineers</li> </ul>	CHO
7 Impact of global economic and political trends on global business development	②	<ul style="list-style-type: none"> <li>• Punctually collect risk information</li> <li>• Strengthen relationships with customers and suppliers</li> <li>• Establish new shipping processes and alternative supply sources to continue to make our procurement routes and production bases more flexible</li> <li>• Establish basic procurement policy, encourage suppliers to understand human rights and occupational safety</li> </ul>	CCO CSO CPO
8 Significant remedial costs may be incurred due to stricter environmental laws and regulations	②	<ul style="list-style-type: none"> <li>• Monitor trends in environmental laws and regulations</li> <li>• Consider alternative technologies</li> </ul>	CSO CTO
9 Impact on corporate value due to delays in developing new business areas	③④	<ul style="list-style-type: none"> <li>• Continual seeking of new businesses</li> <li>• Monitor ongoing projects and conducting regular reviews</li> </ul>	Group CEO
10 Risks associated with violation of laws and company rules	⑤	<ul style="list-style-type: none"> <li>• Promptly obtain information on revisions to laws and regulations</li> <li>• Appropriately set up and monitor internal processes</li> <li>• Educate and train our employees</li> <li>• Strengthen recovery system to be implemented in the event of an incident</li> </ul>	CCO

\* CCO : Chief Compliance Officer    CCRO : Chief Customer Relations Officer    CHO : Chief Human Capital Officer  
 CPO : Chief Production Officer    CSO : Chief Strategy Officer    CTO : Chief Technology Officer

# Consolidated Financial and Non-Financial Highlights

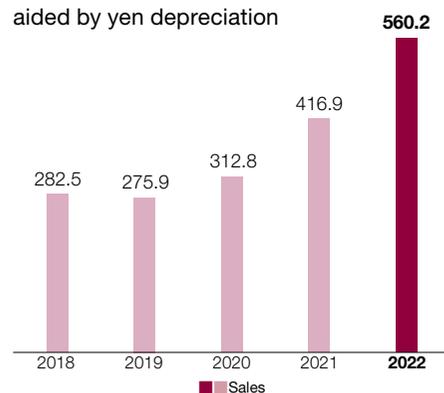
(Each fiscal year starts on April 1st)

## Financial Highlights

### Sales

(Billion yen)

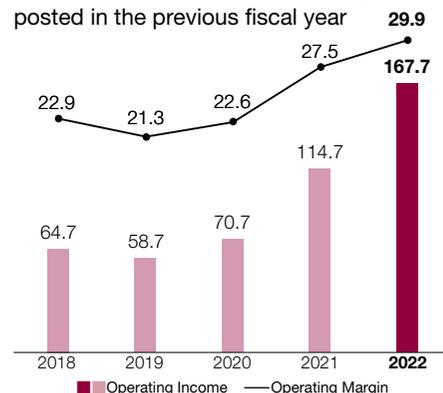
Exceeded ¥500 billion for the first time, aided by yen depreciation



### Operating Income / Operating Margin

(Billion yen / %)

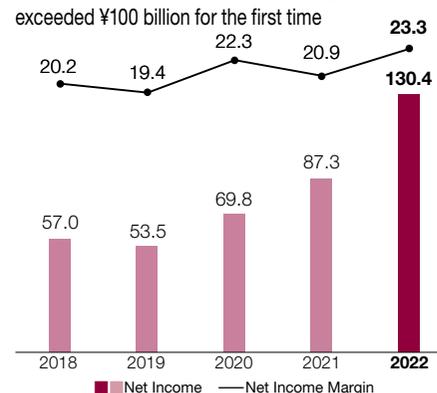
A 46% increase from the record high posted in the previous fiscal year



### Net Income / Net Income Margin

(Billion yen / %)

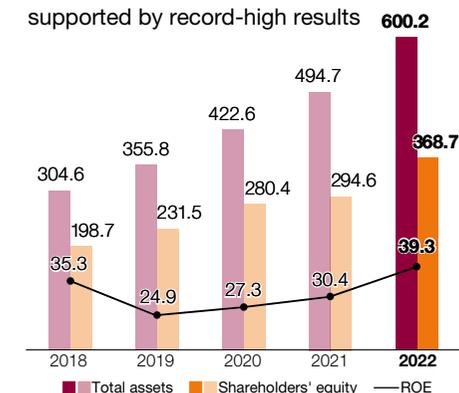
Set a new record high for the third straight year, and exceeded ¥100 billion for the first time



### Total Assets / Shareholders' Equity / ROE

(Billion yen / %)

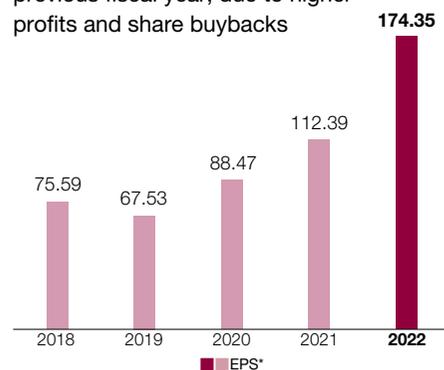
Came within touching distance of 40%, supported by record-high results



### EPS

(Yen)

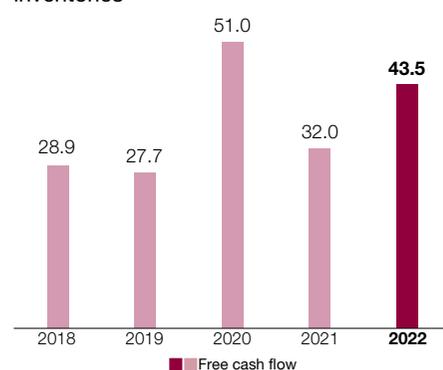
Significantly higher than the previous fiscal year, due to higher profits and share buybacks



### Free cash flow

(Billion yen)

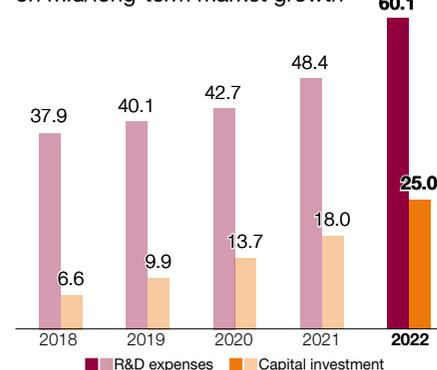
Grew less than profits, amid higher inventories



### R&D expenses / capital expenditure

(Billion yen)

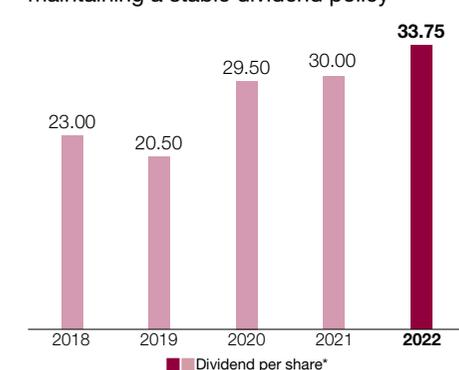
Expanded growth investments with an eye on mid/long-term market growth



### Dividend per share

(Yen)

Continued to increase dividends while maintaining a stable dividend policy



\*Advantest has issued a 4-for-1 stock split of common stock, effective October 1, 2023. The above EPS figures are based on the assumption that the stock split had been issued at the beginning of fiscal 2018.

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Consolidated Financial and Non-Financial Highlights

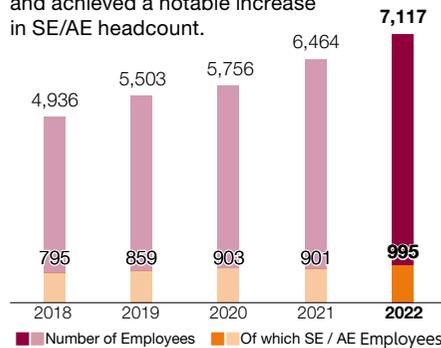
## Non-financial highlights

### Number of employees\* / Number of SE / AE employees

(Number)

\* Including temporary employees

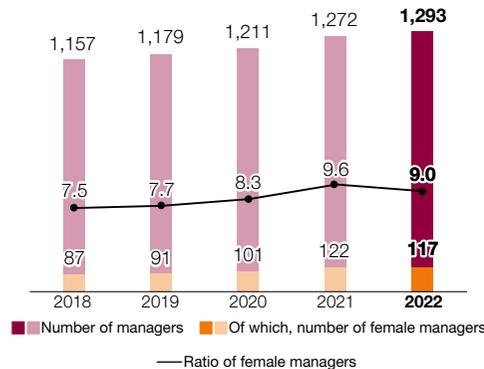
We actively expanded our workforce in line with the growth of our business, and achieved a notable increase in SE/AE headcount.



### Number of managers / Ratio of female managers

(Number / %)

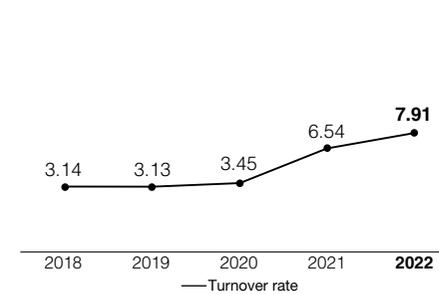
The percentage of female managers has ceased to increase. We will focus on improving our workplace environments.



### Turnover rate

(%)

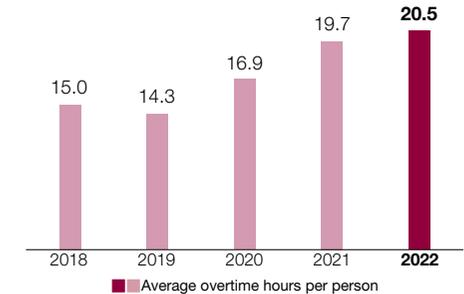
Our turnover rate rose because we acquired a company through M&A whose manufacturing division has always had a high turnover rate.



### Average overtime hours per person (Japan, China, South Korea)

(Hours / Month)

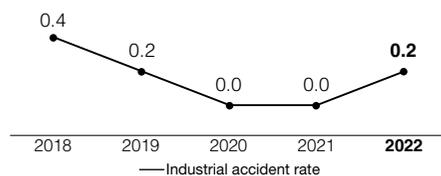
Overtime stayed high due to increased production, tight delivery deadlines, etc.



### Industrial accident rate (Japan)

(Frequency)

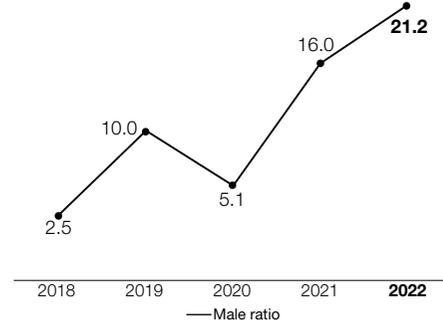
This year saw the first accident resulting in lost workdays since FY2019. We are actively striving to identify the cause of the accident and improve the work environment of affected personnel.



### Number of male employees taking maternity or childcare leave (Japan)

(Number / %)

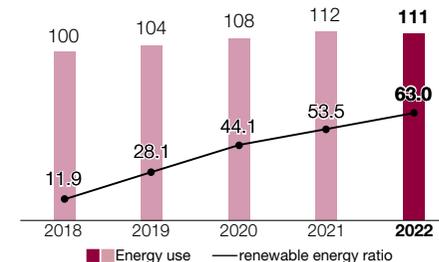
The rate of men taking paternity leave is increasing in response to our effects.



### Energy usage / renewable energy ratio

(GWh / %)

We are making good progress toward our goal of sourcing 70% of our energy from renewable sources by 2030.



### GHG(Scope 1 + 2, and Scope 3)\* emissions

(kt-CO<sub>2</sub>)

We are reducing our Scope 3 emissions\* by promoting the use of renewable energy by our suppliers and outsourcing partners.

\* Scope 3 GHG emissions have been retroactively revised.

