

Value Creation



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Value Creation Process

Value Creation Drivers

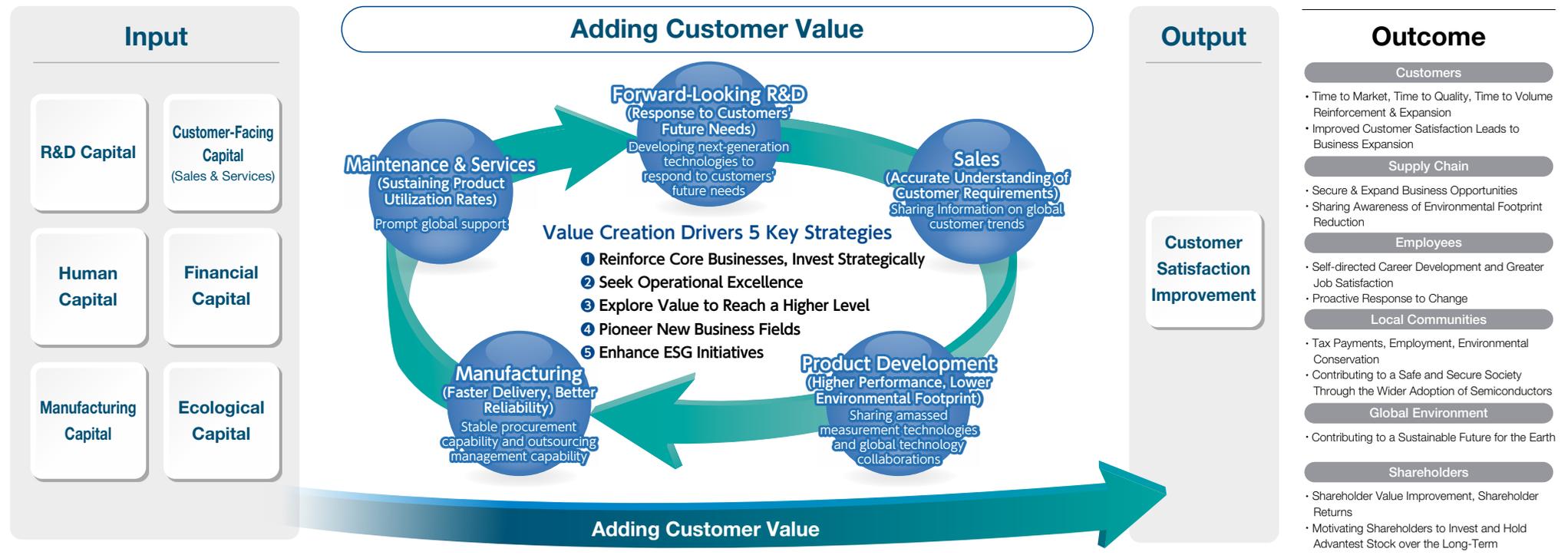
Anticipating significant mid/long-term growth in the semiconductor test market amidst the ongoing digital transformation, we have positioned our Grand Design and Mid/Long-Term Management Plan as our core management policies. This framework identifies five management focus areas as strategies, and we are working to improve corporate value by intensively investing financial and non-financial capital in these areas.

Corporate Culture: the Foundation of the Value Creation Process

The Advantest Way specifies the purpose and mission, vision, and core values that all Group employees should share. This is the basis of our corporate culture. It provides the context for our employees to maximize their abilities and achieve our Grand Design targets.

Solutions for Customer Challenges: the Output of the Value Creation Process

We provide test systems and other products, software, support and services, but these are just means to an end. Our ultimate goal is to help solve customer challenges and issues, and to deliver value in the form of future outcomes, through solutions that enable leading-edge technologies.



The Advantest Way

Purpose & Mission

Enable Leading-Edge Technologies

Vision

Adding Customer Value in an Evolving Semiconductor Value Chain

Core Values

INTEGRITY

R&D Capital: CTO Message



Senior Executive Officer
CTO (Chief Technology Officer)

Juergen Serrer

The Advantage of Our Long-Term Accumulation of Test Assets

Advantest began developing semiconductor test systems in the late 1960s and achieved global share dominance in 1985. We have maintained our market-leading position ever since. We have a vast portfolio of solutions built up over many years, covering a wide variety of semiconductor devices, as well as an unmatched arsenal of related assets such as test programs and know-how. In addition, headroom is designed into our test systems in anticipation of future test needs, allowing users to rely on the same system for 10 years or more. These assets provide users with an incentive to continue using our test systems, and significantly boost our competitive advantage. In addition, we have a track record of successful consultations that have helped our customers formulate test plans. Amidst the current trend for global “hyperscaler” IT companies to develop their own semiconductors, the value of our ability to provide comprehensive one-stop test solutions and services required for the start-up of the test process is increasing.

Discussions With Customers Hone Our Technological Capabilities

We at Advantest approach R&D from the perspective of solving customer problems. We have a long history of meeting and exceeding customer expectations with our technologies. Given that multiple factors such as product longevity, functionality, delivery time, cost, and more all play into technology development, this is no easy task. As stated in the “Core Values” of The Advantest Way, we hold discussions with our customers based on mutual trust and respect, and these discussions help us to propose the number one solutions to their technology challenges. Mutual technological capabilities

and trust relationships facilitate deeper communication that ultimately leads to the development of superior solutions, strengthening both Advantest's and the customer's technological capabilities and enhancing our relationships of trust.

New players do occasionally enter the semiconductor test market, despite the obstacle of high switching costs. However, we are confident in our long-standing relationships of trust with our customers, and no new competitor could match our understanding of customer test needs or our capability to develop fundamental technologies that meet those needs. In addition, we have developed our own dedicated semiconductors for our test systems, which makes an overwhelming difference in terms of performance for advanced semiconductor test.

Advantages of a Cross-Functional Approach to Test System Development

The semiconductor business, especially the SoC business, is subject to fluid and unpredictable evolution, which means that a multiplicity of unknown factors must be addressed in the development of test technology. During the development of our flagship test system, the V93000, our first task was to thoroughly research the industry and customers, define their biggest challenges, and develop strategies for solving them. Our marketing personnel and salespeople in charge of customer accounts play a leading role here. By concentrating resources on problem definition, it is possible to avoid backtracking at the production stage and accomplish projects in relatively short timeframes. Early, in-depth understanding of customers can also be a competitive advantage. However, things often change dramatically in midstream. We

▶ R&D Capital: CTO Message

continuously review our strategies during the life of a project, and rapidly revise our solutions portfolio and technology roadmap in response to market changes. "Rapidly" is the key word!

These tasks are difficult for the R&D division to handle alone. Personnel with appropriate skills and experience from all departments related to the lifecycle of the product under development, such as marketing, prototyping, production, and customer support, join R&D in a "cross-functional" team to handle each project. In the course of exploring trade-offs such as performance versus cost and delivery date, the boundaries between these departments become less important, and the team becomes unified around its goal of solving customer issues. This is a major advantage of our cross-functional approach, which avoids the siloing issues that tend to plague the "waterfall model" of development.

Our Technological Capabilities Spring from Our Human Resource Development System and Corporate Culture

State-of-the-art test technology is composed of various theories and know-how, which cannot be purchased on the open market. Ultimately, our R&D superiority rests on the skills of our engineers, and we emphasize the development of human resources who can deeply understand customer needs and apply them to solutions. In the past, Advantest's human resources development centered on the informal transmission of skills from one generation to the next. This so-called OJT is important in its own way, but is insufficient to keep up with the rapid pace of technological evolution. Currently, to promote the education of our engineers around the world, we are implementing basic education programs

tailored to each level of competence. Furthermore, as a system for improving design quality from the earliest stages, we have a "Design Review Meister System," where experts in each specialty participate in design reviews at key points during the R&D process, and also provide guidance and training to young employees. In addition, although it is not so easily visible, we also have a corporate culture where employees can discuss issues freely regardless of seniority, empowering young employees to take on challenges, where even if they fail, they will not be blamed. This unique system and corporate culture nurture our employees, who in turn generate Advantest's unique strength.

Our major semiconductor test system R&D facilities are located in Boeblingen, Germany, and Gunma, Japan. In order to develop products incorporating new ideas, we regularly hold technology exchange meetings between these two locations, which often throw up clues for development. In fact, parts and software developed in Japan are used in our flagship V93000 test system, whose development is led by our German team. R&D synergies through such technology exchanges are not limited to these two locations, but also exist among our locations in the United States and other countries. Additionally, we carry out fundamental research at our research institute in Sendai, Japan, and also sponsor endowed programs at various universities around the world,

including Germany and Japan. Some of the fundamental research carried out at these laboratories feeds into the development of advanced fundamental technologies for testers, which enhances the competitiveness of our products.

How Advantest is Seizing AI Opportunities

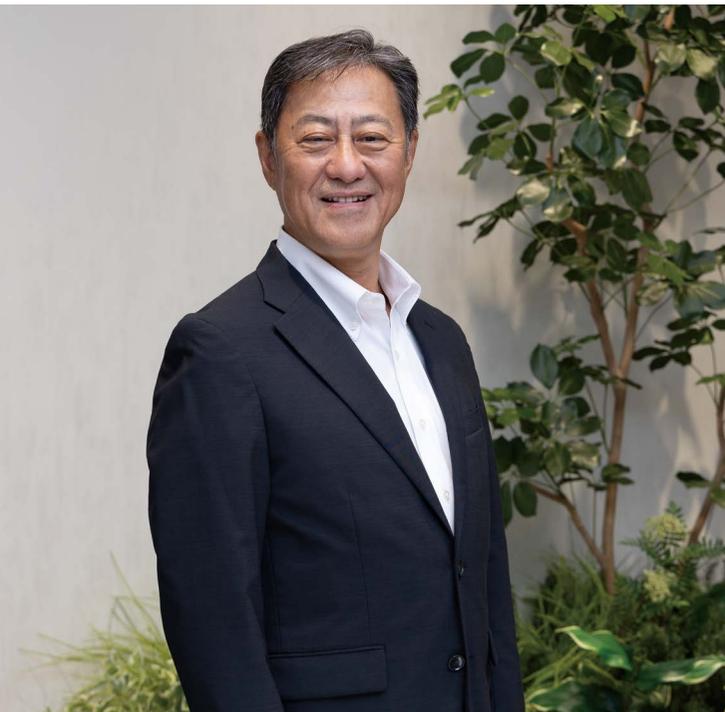
AI has the potential to become a significant driver of our tester business. If generative AI tools such as ChatGPT are implemented in various applications and come into widespread use, we can expect to see a demand stimulus on the level of smartphones. We have years of business experience with the processors most commonly employed in generative AI, positioning us to lead the market in AI-related semiconductor test. We will continue to deepen customer engagement and grow together with our customers, while contributing to the implementation of AI through semiconductor test.

AI may transform not only the semiconductor market but also semiconductor manufacturing processes. By gathering and analyzing data from across the value chain, we can instantly see where and how to improve processes, which can dramatically improve semiconductor productivity. Test data include all sorts of information about semiconductor processes, but test systems cannot turn those data into actionable information without specialized software. We recently launched Advantest Cloud Solutions™ (ACS), an ecosystem of software and services that enables real-time machine learning about semiconductor processes. ACS has begun to develop solutions for customers, particularly in advanced semiconductors. By building on these efforts, we will ensure that we capture every business opportunity created by the rise of AI.



A test processor designed for V93000 EXA Scale test system developed jointly by Germany and Japan

Customer Relationship Capital: CCRO Message



Senior Executive Officer
CCRO (Chief Customer Relations Officer)

Makoto Nakahara

Our Unique Customer Relationship Capital Mirrors the Global & Organizational Structure of the Semiconductor Industry

The semiconductor value chain has dis-integrated over recent decades, and it is not uncommon for the fabless company that designs chips, the foundry that manufactures them, and the OSAT (Outsourced Semiconductor Assembly and Test) that packages and tests them to all be separate companies.

Many of our test systems are installed at foundries and OSATs that deploy volume production processes. Testing begins at the upstream design evaluation stage, so when a foundry uses the same tester for volume production that their fabless partner used for design evaluation, they can quickly ramp up production of new products by utilizing test programs and data created at the design stage. On the other hand, foundries and OSATs have an incentive to improve the availability of their own test systems.

In the test system business, it is necessary to coordinate the intentions of each company, including fabless companies, and conclude business negotiations with all of them, instead of holding one-on-one talks with foundries or OSATs. In addition, the semiconductor supply chain is distributed around the world, and partner companies are often geographically separated, with many fabless companies located in North America and foundries and OSATs in Asia.

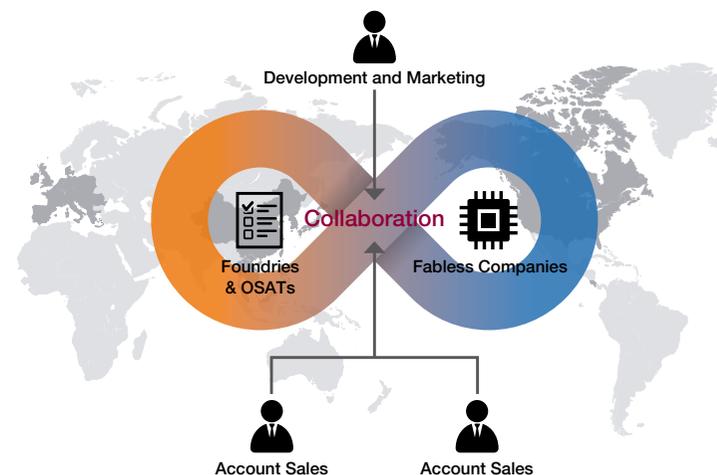
At Advantest, we operate customer support teams consisting of fabless account sales, foundry and OSAT account sales, marketing and business development departments, system engineers and field service engineers who support customers locally, and R&D personnel. In addition to the customer system and test needs information held by the sales personnel, marketing provides information on market and technology trends, and business development provides information on the features of our solutions that meet customer needs, enabling our teams to propose solutions that meet the requirements of both fabless and foundries/OSAT by integrating them. This global and seamless support is the source of our unrivaled customer relationship capital.

At one time most of our customers were IDMs (Integrated Device Manufacturers). After our acquisition of Verigy in 2011, we were able to rebalance to address the challenges of the fabless/foundry/OSAT ecosystem by integrating Verigy's knowledge of this business, leveraging our expanded product portfolio and support system, and maximizing the synergies generated by our shared corporate culture to solve customer issues.

Building Relationships of Trust Is the Foundation of All We Do

In addition to hardware and software sales, our account sales personnel are involved in a series of processes such as test program creation, test system installation, and troubleshooting arrangements. The role of sales is to increase customer satisfaction by listening to everything customers have to say and committing to deliver results. Our record of fulfilling commitments creates relationships of trust with customers and reinforces our customer relationship capital.

In order to win customer trust, we build relationships of trust not only with contacts in charge of test, but at all levels, including top management. If multiple customers are involved in one business negotiation, we build a relationship of trust with all parties involved. In addition, sales is not solely responsible for winning orders. The cooperation of related departments within Advantest is necessary, so it is important for sales personnel, who act as coordinators, to have strong relationships of trust with their colleagues.



▶ Customer Relationship Capital: CCRO Message

Betterment of Human Capital Improves Competitiveness

The skills required of a salesperson are: (1) the ability to correctly understand customer requirements and provide internal feedback; (2) the ability to assemble the most valuable solutions for customers while consulting with customers and internal stakeholders; and (3) the ability to accurately understand and communicate the value that our solutions bring to customers. To make practical use of these skills, sales personnel must not only understand our products and technologies, but also research and analyze trends in the semiconductor and semiconductor test markets, strive to collect information on our customers' products and test strategies, and understand their organizational systems and decision-making flows. All this is necessary to succeed in sometimes-tough business negotiations. Experience enables sales personnel to grasp the essence of customer requests, identify their needs, and arrive at the optimal solution while managing trade-offs between performance, cost, and delivery. We provide various training and skill improvement opportunities for our sales personnel. In order to avoid excessive dependence on individual skills, we are working to raise the overall level of our sales capabilities by sharing the know-how accumulated over the years within our sales department. In addition, we aim to improve our customer value proposals while frequently exchanging information with marketing, which collects and analyzes market and test technology trends, and business development, which formulates sales promotion measures for our broad product portfolio.

Resolving Customer Issues

TechInsights, a semiconductor market research company, conducts a highly regarded annual customer satisfaction survey. In the latest survey, published May 2023, Advantest

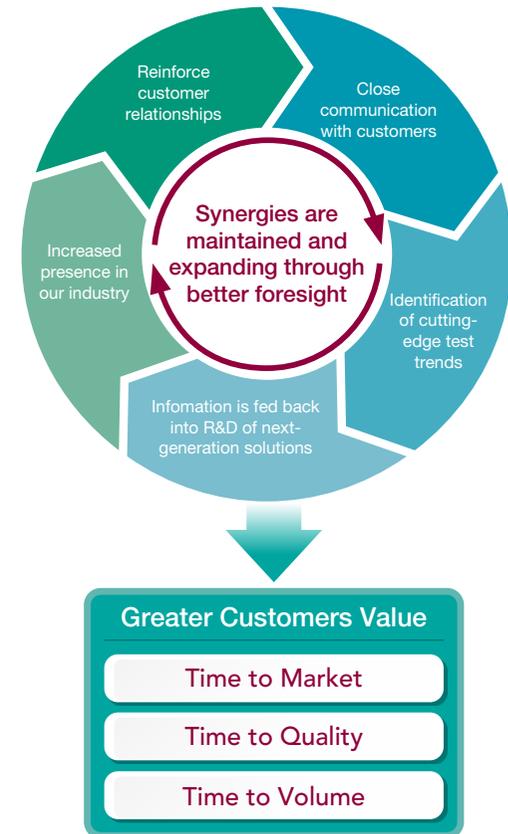
was ranked the No. 1 semiconductor production equipment manufacturer in terms of customer satisfaction for the fourth consecutive year. In addition, we made the "10 BEST Suppliers" list in the semiconductor manufacturing equipment (large supplier) category for the 35th consecutive year. Beating out production equipment companies around the world that support leading-edge semiconductor technology, we are proud to say that this evaluation from a third-party organization indicates our deep engagement with our customers. Survey respondents scored us highly on trust, technology leadership, partnerships, and commitment. However, Advantest sales personnel on the job are focused on something simpler: working earnestly to solve customers' problems. It often comes down to basics such as wording and the best way to proceed with business negotiations. However, we believe that continuing to sincerely address these issues builds relationships of trust with our customers, which reinforces our customer relationship capital. Our sincere commitment to helping customers solve their problems has become something of a culture in our company after all these years. Still, we do not take it for granted, but aim to further instill it in employees as a cherished value. This is shown in our INTEGRITY core values, part of the Advantest Way, as detailed in this report's section on human capital.

The VOICE That Connects Advantest With Customers and Partners

Every spring, we hold a user conference called "VOICE" jointly with an organization of customer volunteers. This event brings Advantest's customers and partners from all over the world together to share information on the latest test technology trends and our test solutions through technical presentations and workshops. In the semiconductor industry, where technological evolution and product development can happen at blinding speed, it is common wisdom that we can all move

forward faster if companies exchange test-related know-how, rather than hoarding it in-house. VOICE also functions as a place for our company, customers, and partners to interact and build relationships, while also strengthens our customer relationship capital.

During COVID-19, we were forced to cancel VOICE or hold it online. However, since we started holding it as a real event again in 2022, participant numbers have surged to record highs for two years straight. VOICE will continue to serve as a "voice" that connects our company with our customers and partners.



Human Capital: CHO Message



Senior Executive Officer
CHO (Chief Human Capital Officer) &
CCO (Chief Compliance Officer)

Keith Hardwick

The Important of Human Capital Management

With the aim of continuing to embody our Purpose & Mission of "enabling leading-edge technologies," Advantest has formulated a mid/long-term management policy, our Grand Design, and we are addressing strategic issues to achieve the goals set forth in it. To this end, we recognize the crucial importance of bettering our human capital, research and development capital, manufacturing capital, customer relationship capital, and other forms of which—all of which share human capital as their foundation. Our personnel strategy, therefore, is necessarily tied to our management strategy.

In order to enhance the comprehensive strength of our human capital, we are promoting various initiatives based on the "two wheels" of *individual strength* and *organizational strength*.

Boosting Individual Strength

First, regarding individual strength, we will put even more effort into skill development. Our "Advantest Development Framework" defines the abilities required of our employees in terms of "basic skills", "advanced skills", "management skills", and "executive/senior management skills." Based on this framework, we offer three e-learning platforms, LinkedIn, Franklin Covey, and Udemy, to support employee self-development. In addition to various types of employee training, we are also reinforcing the selective training we provide to nurture the next generation of management personnel.

In 2023, we established our Basic Policy for Human Resource Development. We regard our human resources as human capital, indispensable for the sustainable growth of our company. Additionally, it is our conviction that the two wheels of individual strength, enhanced through training, and

organizational strength, which is formed from individual strength, will increase employee engagement and promote the creation of value at our company. We therefore hold that human resource development is an investment in human capital, and will increase employee engagement and promote value creation. We have made it clear that we will actively, continuously and fairly develop our human resources based on our Advantest Development Framework.

In terms of securing necessary human resources, we take a 30,000-foot view of the recruitment landscape, and are strengthening our activities so that we can recruit the necessary human resources in the necessary regions. We also have a stock compensation plan for retention that encourages our best employees, especially our best engineers, to stay with us.

Boosting Organizational Strength

Since revising The Advantest Way in 2019, we have been working to instill our INTEGRITY core values in employees. The impetus for this can be traced back to our integration with Verigy in 2011. This integration was a major turning point for us. Currently, more than 60% of our employees work outside of Japan, and Advantest has become a company inclusive of people with different cultures and backgrounds. We have implemented changes such as unifying job levels globally and introducing a global bonus system tied to consolidated financial results, and have strengthened our management foundation to better support cross-border and cross-functional operations.

Following these steps, we worked on building a common corporate culture to promote our transformation into a global company. Our company has always had a code of conduct that instructs employees to "seek the essence," and Verigy, originally a Hewlett-Packard spinoff, had its own "HP Way." To build a

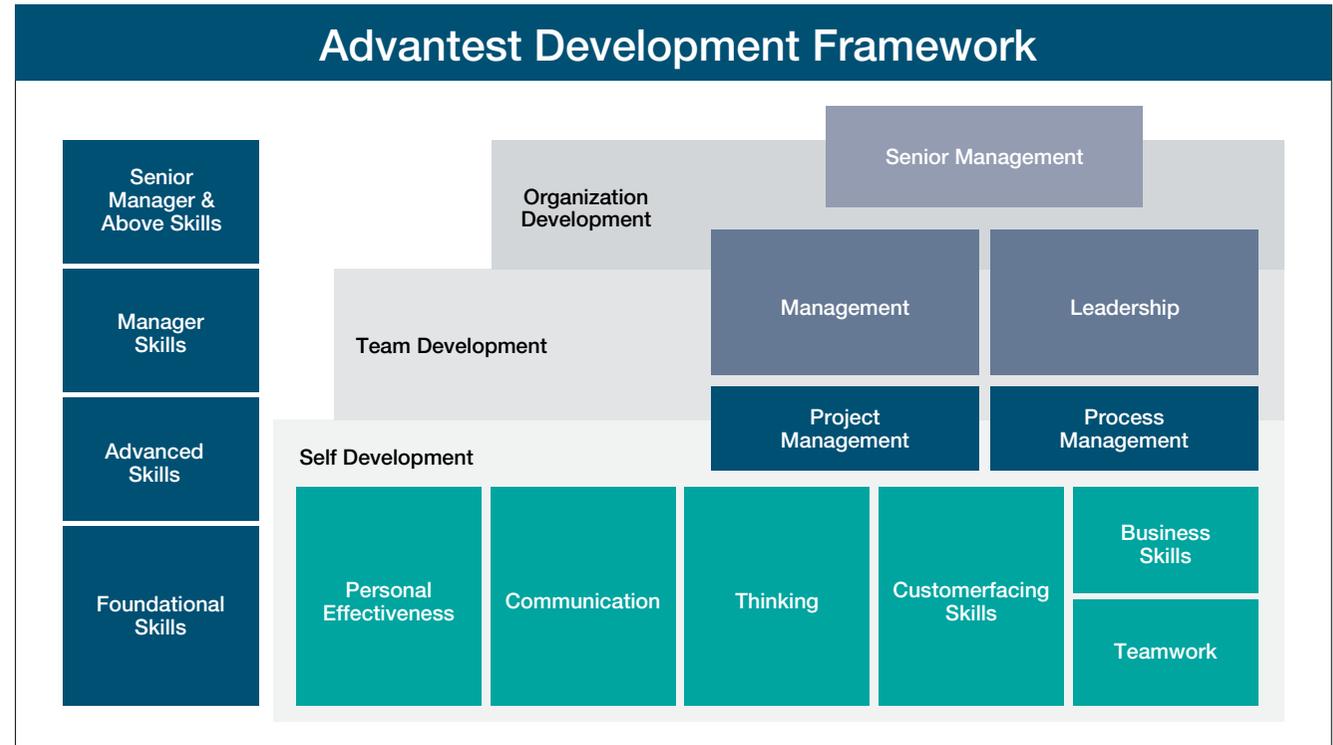
▶ Human Capital: CHO Message

new corporate culture that would draw out our post-integration potential, while respecting each other's values, we created a global team, brainstormed and debated repeatedly, and as a result arrived at our INTEGRITY core values.

After revising The Advantest Way, we held workshops for all of our employees around the world to deepen their understanding of The Advantest Way, including the new INTEGRITY core values. In FY2021, we focused on "Leadership" and held "Leading with INTEGRITY" workshops for all managers around the world to encourage their growth as leaders. Next, as an initiative to help employees embody INTEGRITY in their daily work and establish it as a true corporate culture, we established the INTEGRITY AWARDS, where employees who embody INTEGRITY are commended and honored by recommendations from their colleagues, and with the goal of firmly incorporating INTEGRITY into our corporate culture, instead of leaving it as a short-term project, we have established a system of "INTEGRITY Ambassadors" all over the world, led by our Group CEO. This fiscal year, under the slogan of "Leading and Living with INTEGRITY," we will focus on deepening our leadership, human resource development, award systems, engagement, and communication with reference to our core values.

Our Personnel System Connects the "Two Wheels" of Individual and Organizational Strength

We will also work on strengthening and revising our personnel system, which links individual strength to organizational strength. Instead of dealing with issues as they crop up, we will optimize our human resource system from the perspective of what is necessary now to get where we want to be five or ten years from now, based on our mid/long-term management strategies. For example, in Japan, we have created a human capital strategy initiative (HCSI)--a vision of the personnel



*The implementation will be adapted to local rules and practices

system we should aim for--and plan to implement it in stages. We are also preparing to introduce a job-based grading, evaluation, and compensation system for managers. In addition, we will introduce a program called Management Program 1 (MP-1) to promote motivated and capable employees to managerial positions, regardless of age. This program aims to help employees acquire a wide range of skills required for managerial positions. It is completely voluntary, but participants cannot complete the course unless they reach a certain level. In the future, we plan to make MP-1 completion a prerequisite for promotion to managerial positions. We aim to make use of the knowledge gained from implementing

these new systems and use it to transform our personnel system globally.

In addition, recognizing that maximizing individual strength as enhanced through human resource development, etc., is directly linked to the improvement of our corporate value, we will work to actively, continuously and fairly develop an internal environment for human capital. In 2023, we will establish an "Internal Environmental Improvement Policy." We have clearly stated that the Advantest Way is the cornerstone of our globally united team, composed of highly diverse employees, and that we accept, encourage, and support diverse workstyles so that every employee can achieve work-life balance.

Financial Capital: CFO Message



Senior Executive Officer
CFO (Chief Financial Officer) &
CSO (Chief Strategy Officer)

Yasuo Mihashi

My Role as CFO

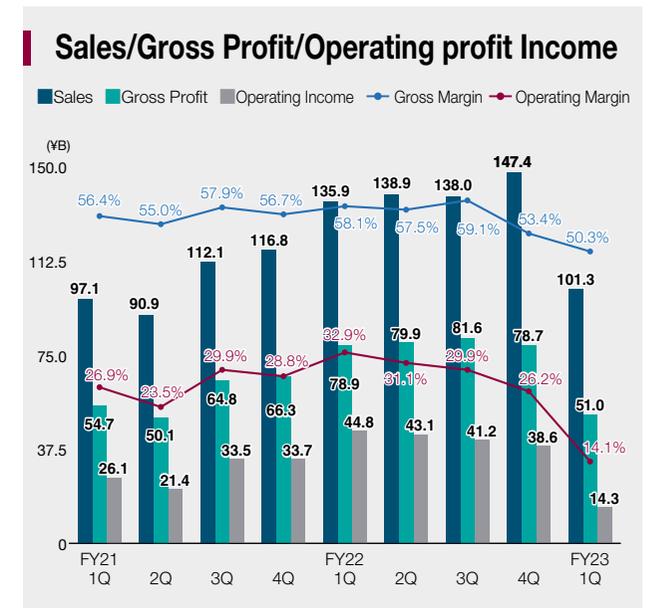
I was appointed CFO in June 2023. Since I joined Advantest in 1991 nearly thirty years ago, I have spent time in sales, marketing, strategy, and investor relations, including five years in the United States. As a sales and marketing manager, I

focused on differentiating our testers in the global area and winning customer acceptance. From 2019, I was involved with formulating competitive strategies for the entire company as General Manager of the President's Office. In addition to evaluating M&A projects for relevance to our business, synergy potential, and ROI effectiveness, and planning ESG initiatives, I was also in charge of conducting investor relations events, including interviews, company briefings, and overseas IR activities, a role in which I was fortunate to have many conversations with analysts and investors. I am concurrently serving as Chief Strategy Officer (CSO) and hope to more closely connect that role to financial analysis of investments and M&A transactions. My goal is to make good use of this perspective, balanced with the CFO's perspective on communicating the strengths of our business and the significance of our existence for the common good to investors, to contribute to the improvement of corporate value. In addition, I will explain Advantest's efforts not only in financial terms but also terms of in non-financial disclosure, for which requirements will expand in the future.

Current Business Conditions & Decline in Gross Margin

In FY2023, final demand is expected to decline due to the global economic slowdown, resulting in surplus inventories and production adjustments in the semiconductor industry. The slowdown in demand is expected to also impact our sales and profits. Although we will reduce expenses in view of the decreasing sales, our operating margin is forecasted to decrease significantly from the previous fiscal year, mainly affected by an expected decline in gross margin. In the fourth quarter of FY2022, gross margin declined compared to the

recent quarterly trends due to the recording of inventory valuation losses for some products, and already in the first quarter of FY2023, it has deteriorated further, showing a significant decline compared to the corresponding period of the previous fiscal year. Again, compared to the corresponding period of the previous fiscal year, our sales mix turned less profitable, while costs increased due to investments in our production facilities, mainly in the United States, and gross sales decreased. As a result, gross margin declined. Our gross profit margin fluctuates depending on our sales mix because the profitability of our products differ according to which types of semiconductor devices they test. In particular, smartphone demand is currently weak, and the recovery of this sector will factor into the recovery of our gross margin. Although we are continuing our efforts to reduce costs, we are



▶ Financial Capital: CFO Message

also seeing the impact of inflation in terms of higher material prices. We are continuing our efforts to pass on these price increases to our product prices. Although gross margin in FY2023 is expected to decline from the previous fiscal year, we consider a gross margin to be an indicator of the strength of the business such as profitability, and we will continue to work to improve it.

Financial Situation

Our basic approach to funding remains the same as in the past. We will increase profitability and asset utilization efficiency in order to maximize cash flow. To achieve our mission, we will allocate funds to investments in future growth and technology development, including M&A. In addition, we will take financial measures such as share buybacks and other measures to return profits to shareholders when we have excess cash on hand. In the current environment, we do not have a lot of room to maneuver. The impact of our strategic efforts to secure inventory we began to implement last year continues, and operating cash flow has not grown in step with profits due to higher inventories that we hold in order to ensure that we can deliver to customers on a timely basis. As the semiconductor market is expected to decline year-on-year in FY2023, we are striving to improve cash flow while effectively consuming inventory. We believe that shortening our cash conversion cycle is a major issue in terms of maximizing cash flow, and we will proceed with these efforts while balancing current business conditions and inventories. Funds are tight at the moment, but we have signed a commitment line agreement with a financial institution and have secured liquidity.

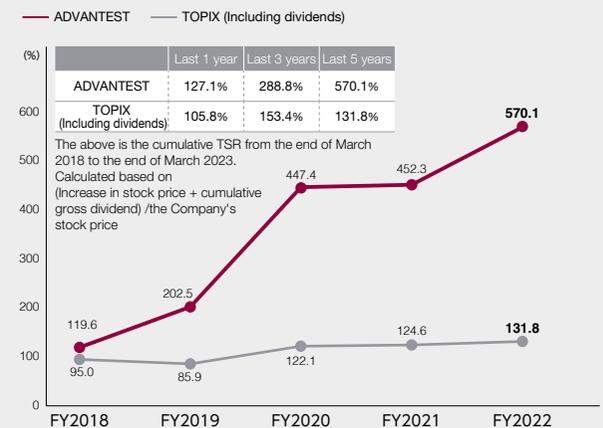
Cost of Capital

The Japan Exchange Group (JPX) announced on May 26 that it had selected Advantest as a component of the "JPX Prime 150 Index". This index is selected based on equity spread and PBR, and we have met both criteria. JPX uses the so-called CAPM to calculate equity spreads, and we use a similar concept to estimate our own cost of capital. There are many different ways to calculate market returns, but we expect our market returns in Japan to be around 6%. The risk-free rate used in the formula refers to the 10-year Japanese government bond yield. However, regarding the β value, it tends to be high in the semiconductor industry at around 1.5. Therefore, under current conditions, we estimate our cost of capital based on CAPM to be 9-10%. To generate a positive equity spread, we use company-wide cost of capital as a base to set targets for our main businesses that match the characteristics of each business, and use these to evaluate whether each business is creating value. Specifically, one of our business evaluation indicators is AVA (Advantest Value Added), a unique indicator based on EVA, a management indicator that measures corporate value creation. We evaluate value creation based on AVA and business profitability. Since the introduction of AVA, we have repeatedly discussed how to manage invested capital and profit and loss, and have updated the AVA formula as necessary in line with our business development.

Cash flow



Total shareholder return (TSR)



Manufacturing Capital: CPO Message



Senior Executive Officer
CPO (Chief Production Officer)

Soichi Tsukakoshi

Advantest's Hybrid Manufacturing System is One of Our Strengths

The greatest strength of Advantest's manufacturing system is that we effectively combine outsourcing to EMS (manufacturing services providers) and in-house production. Outsourcing to EMS enables us to flexibly expand/reduce production in response to the business cycle and market demands, while utilizing our EMS partners' abundant manufacturing technology and know-how. In-house production, on the other hand, enables us to quickly ramp production of new products and accumulate our own manufacturing technology and know-how. Our understanding of the advantages and disadvantages of each method enables us to select the most advantageous way to manufacture each product.

In the past, Advantest manufactured almost 100% of our products in-house, but with the acquisition of Verigy in 2011, we also adopted the EMS production method that Verigy had used, and switched some manufacturing from in-house to outsourced production. Our EMS partners now handle more than 90% of our test system and test handler manufacturing, and the role of our Japanese production division, which had previously handled in-house production, has changed significantly. The Gunma Factory, our in-house production facility, is evolving into a "mother factory" that operates the entire manufacturing process in collaboration with our outsourcing partners.

Our Evolving Parts Procurement Strategy

Parts shortages from mid-2021 have had a major impact on the entire semiconductor supply chain. Our company is no exception, and we have been forced to lengthen product lead times because our procurement of parts could not keep up with rapidly increasing orders. We have therefore reinforced

our procurement system on the following strategic lines:

- Assigned procurement managers for important suppliers and EMS partners, and strengthened partnerships by establishing regular face-to-face communication channels with key individuals at the executive level
- Concluded long-term purchase contracts with specific suppliers to hedge against the risk of shortages of parts we purchase in large quantities
- Reduced procurement risks significantly by switching from custom parts to generic parts and multisourcing parts
- Used IT to visualize supply chain conditions and enable speedy decision-making

Stronger partnerships with suppliers have been effective in maintaining and improving our procurement capabilities, and have helped us to achieve record-high sales even in the present extremely tight procurement environment. Even now that supply conditions have improved, we still aim to do more, such as negotiating for shorter lead times. We will continue to work to strengthen our relationships with our suppliers, while also evolving our procurement functions into a more global and professional system, and boosting our bargaining power to deliver the best solutions in terms of market position and strategy for both Advantest and our suppliers. When a new company joins the Advantest Group through M&A, we will promote procurement strategies from a global and bird's-eye view rather than settling for separate optimization of each company's procurement.

Regarding long-term purchase contracts, although they have temporarily contributed to an increase in inventories, they are not bad assets. On the contrary, they ensure that we can meet customer demand in full. To reduce procurement risks, the procurement and R&D divisions are working together to promote standardization, the use of generic parts, and multisourcing. In addition, considering recent geopolitical trends, we have started to analyze procurement risks associated with raw materials and the countries they come from.

▶ Manufacturing Capital: CPO Message

A Critical Moment for IT Utilization

Regarding the use of IT, simply adopting new tools and digitizing materials is not enough. We recognize the need to review our work flows across the whole Advantest Group, eliminate unnecessary work, and then optimize. Only by standardizing manufacturing concepts and flows across departments and eliminating silos can we benefit from the full potential of IT.

In October 2022, we established a Global Business Operations Group. In anticipation of the possibility of further sales growth beyond the ¥500 billion we achieved in FY2022 in the mid/long-term, we promoted the visualization of procurement and manufacturing data on a company-wide scale, and as a result, we were able to build a system where employees can refer to large volumes of data related to production in real time. By simply clicking a button on the display, colleagues around the world can check current inventory status and future parts requirements at a glance. For our suppliers, we can communicate our company-wide requirements for each part in real time. Currently, we are at the stage of considering how we need to revise processes such as inventory management, production adjustments, and procurement negotiations based on real-time data, and how to improve our business processes. We recognize that this is much more difficult than building a system, especially as it will also require our employees to change their mindsets, but we will continue to embrace these challenges while learning from pioneers in the manufacturing industry.

Sustainable Manufacturing: BCP, Environmental Conservation, Human Rights

To build a stable supply system, it is necessary not only to

procure parts, but also to secure multiple EMS partners. This is also desirable from the perspective of our BCP (Business Continuity Plan), which requires us to ensure continuous supply even in the event of a large-scale natural disaster such as earthquake or flood. But to efficiently allocate our outsourcing needs among multiple EMS, it is important to standardize our workflows and utilize IT, as mentioned above. This also applies to the supply chains of companies that joined the Advantest Group through M&A. We will introduce a shared IT environment and aim to operate a supply chain management system that can respond to any situation. Recently, there has been a growing awareness of environmental conservation in the semiconductor value chain, with customers emphasizing environmental impact in product selection and subcontractors taking the lead in adopting renewable energy. Human rights in the supply chain is another concern recently gaining prominence. At Advantest, the production division and the ESG department are working together to save power in our manufacturing processes, adopt renewable energy, and request subcontractors to think about the work environments they offer employees.

Sustainable Growth Through Operational Excellence

Over the past few years we have experienced various difficulties, including parts shortages. This experience informs our conviction that the greatest customer value manufacturing can deliver is a stable product supply, and the most effective way to ensure a stable product supply is to further shorten manufacturing times. This reduces the risk of order cancellations, delivery date postponements, and reworking due to configuration changes. Beyond the supply side, shorter manufacturing times bring many benefits such as improved cash flow, reduced factory floorspace needs, and lower power

consumption.

Our future challenge is to achieve operation excellence that our competitors can not match by reviewing every aspect of our manufacturing flow from the ground up and further utilizing external resources and knowledge, such as EMS. With the continued support of our suppliers and EMS partners, I would like to aim for mutual sustainable growth.

