

Our Market and Strategy



Semiconductor Industry Growth supports to Solutions for Social Issues

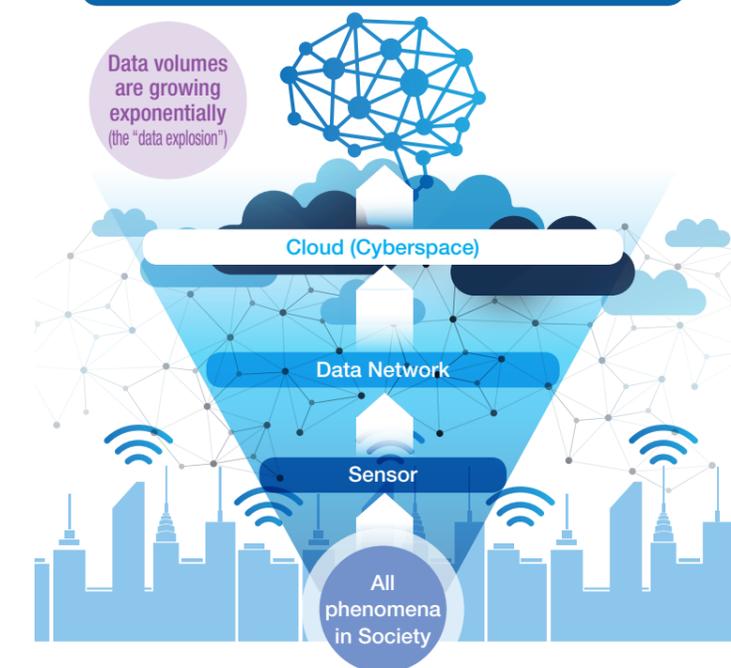
Today, whilst population growth and urbanization are advancing, we face energy, water, and food shortages, as well as environmental problems. In addition, while society is becoming “smarter” and more globalized, security concerns are coming to the forefront. The digital revolution promises to solve these various issues with technology.

Big data is the cornerstone of the digital revolution. Everything around us is being digitized, and the data network that connects more and more human activities, ranging from daily life to industry, is becoming wider and deeper every day. As a result, the amount of data generated daily in the world continues to grow exponentially. This “data explosion” is launching the semiconductor market into a new growth phase.

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

Against this background, the total value of the semiconductor market, which has been in the USD 400 billion range (about JPY 40 trillion at an exchange rate of 1 USD

Social issues solved by AI and data analysis



= JPY 100) for the past three years, will reach the USD 500 billion level in a few years, and is predicted to continue to grow.

Semiconductors, the Agents of Electronics Evolution

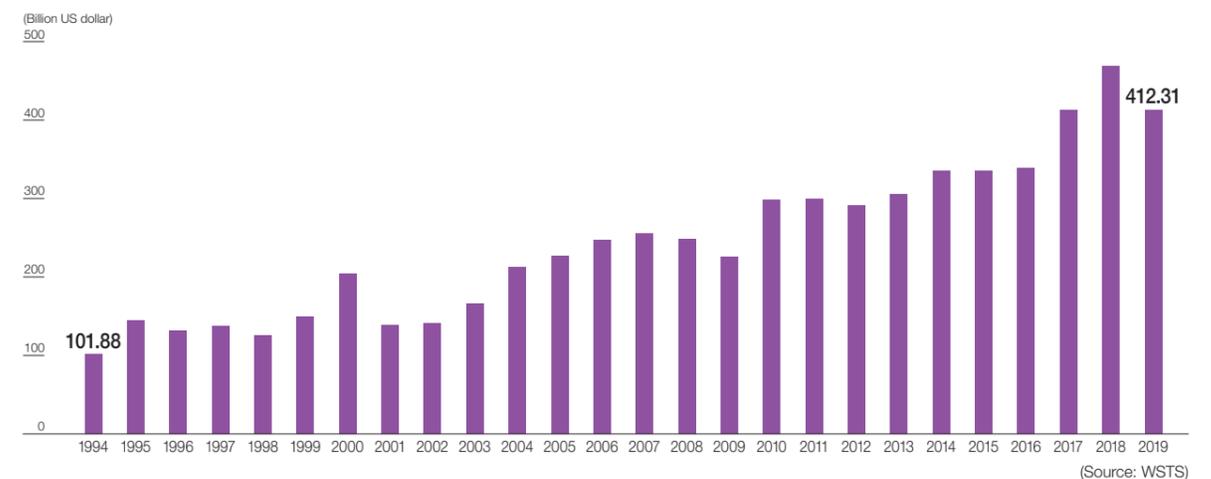
A “semiconductor” is technically a substance with an electrical conductivity value that is intermediate between a “conductor” with good electrical conductivity, such as germanium or silicon, and an “insulator” with high resistivity. In 1947, at Bell Labs in the United States, transistors, which could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

The invention of integrated circuits in 1959 set the industry on a course of growth. IC technology achieves miniaturization and high performance of circuits by integrating semiconductor elements, such as transistors, onto a single semiconductor substrate. Since the invention of ICs, integration and mass production metrics have consistently

advanced thanks to the evolution of the optical technology called photolithography, enabling IC applications and production volumes to expand while design and manufacturing technology have improved. At the same time, the term “semiconductor”, which was originally used to refer to materials, has become common parlance for electronic circuits using semiconductors, such as ICs.

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

World Semiconductor Market (1994 - 2019)



The Tester Market is Correlated to the Direction of Semiconductor Market Evolution

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

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

More than 60 years have passed since the invention of transistors, yet semiconductor design and manufacturing technology innovation continues at a blistering pace. For example, in order to support the evolution of smartphones, innovations that increase the number of integrated transistors at an annual growth rate of about 20% to 40% are steadily improving the performance of the semiconductor devices called application processors, which are key components of smartphones. Technological innovations that enable cheaper mass production of semiconductors are also being

promoted. These advances have further stimulated demand for semiconductors, and as a result, semiconductor production and performance have continued to grow and improve.

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

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

expansion of semiconductor applications, and the increase in “quality buy” demand due to increasing demand for reinforced semiconductor reliability, are also expected to drive future market expansion.

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

The Quest to Provide Greater Customer Value

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

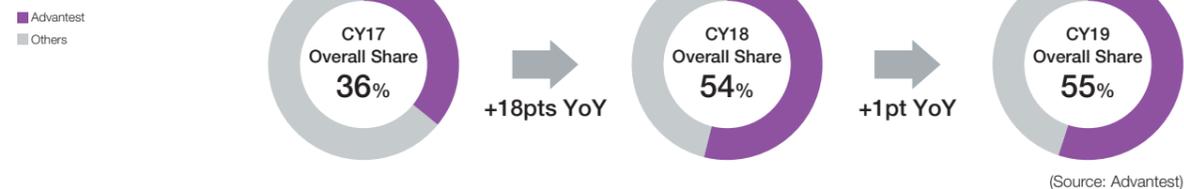
year by year with the introduction of new technologies, finding the right test method for the newest semiconductors is always a process of exploring new frontiers. We consult with our customers on the optimum test method and environment, including not only the test itself but also peripheral devices, to find out what methods should be used to accurately diagnose the performance of newly developed semiconductors, with the ultimate goal of achieving the test quality and test cost level required by our customers. Success at this mission embodies our management philosophy of “enabling leading-edge technology.”

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

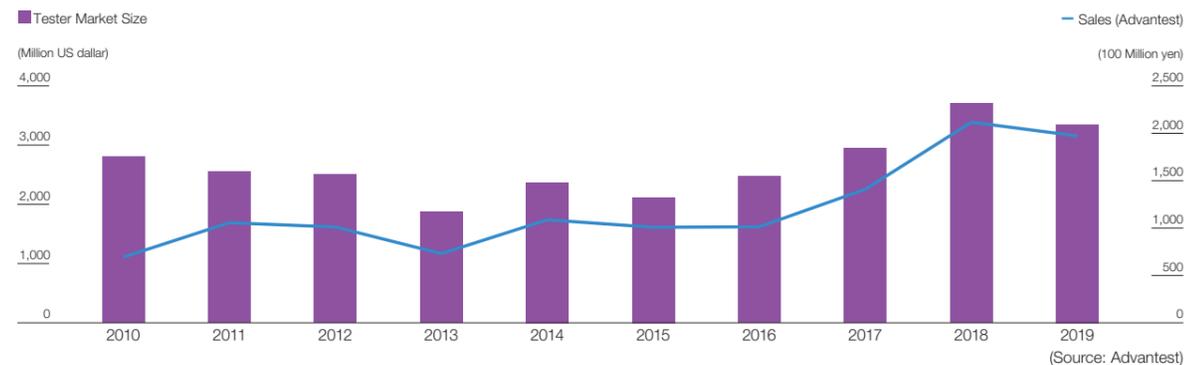
Appropriate consulting with customers requires a business structure that can grasp and meet not only customers’ actual needs, but also their potential needs. Building close partnerships is crucial. Thus, we not only have the widest customer base in the industry, but we are also making efforts to raise the level of support for each customer through active investment in human resources every year. We have already obtained a higher customer satisfaction rating* than almost any other provider of semiconductor manufacturing equipment, but even so, we are forging deeper partnerships with customers and developing of leading-edge technologies. This strengthens our ability to seize future growth opportunities and live out our management philosophy, as one of our vital growth strategy for the future. [See page 78](#)

We also believe that the value we provide to our customers in the semiconductor tester business is not limited to sales of superior semiconductor test equipment. As semiconductor designs and structures become more complex

Market Share



Tester Market and Sales (2010 - 2019)



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

As mentioned above, we expect the semiconductor tester market to grow over the medium to long term. However, since semiconductor testers are basically capital goods installed on semiconductor mass production lines, annual demand fluctuations tend to be greater than for semiconductors, which are consumer goods. Specifically, the structure of the tester market is such that changes in business trends and technological investments by major semiconductor manufacturers who lead the industry in terms of technology and business scale have a strong influence on market value and market share each year. Furthermore, we deliver semiconductor testers within an average of

three months after receiving an order. This is a relatively short lead time for semiconductor-related equipment, putting Advantest in a position to be more agile than other equipment providers in response to changes in demand for end-products.

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

Grand Design

Overview

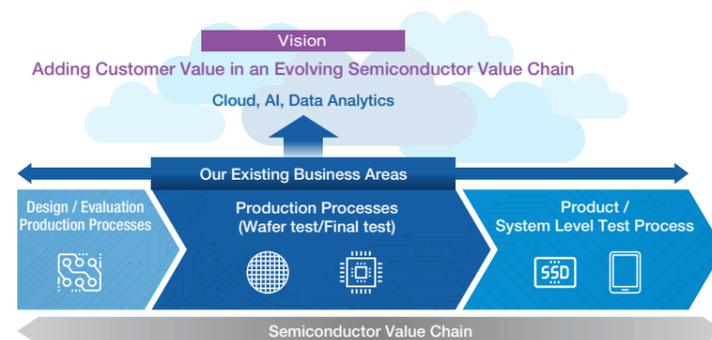
The Grand Design that Advantest announced in April 2018 lays out the next decade of Advantest's growth strategies and commitments, based on megatrends in our market and our daily lives.



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

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

Vision



Grand Design: Six Commitments

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

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

Strategies

Reinforce Core Businesses, Invest Strategically

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



Explore Value to Reach a Higher Level

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



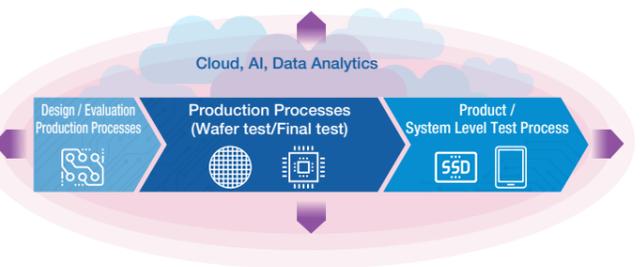
Seek Operational Excellence

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



Pioneer New Business Fields

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



Sales Scenarios and Cost Structure

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

Conservative Case		Base Scenario	
Tester market growth rate = 0%		Tester market growth rate = 4%	
• The same pace as the semiconductor market growth			
FY2027 (Forecast)	Billion yen	FY2027 (Forecast)	Billion yen
Tester Market	380.0	Tester Market	580.0
Advantest Share	46%	Advantest Share	46%
Existing Business	240.0	Existing Business	340.0
New Business	60.0	New Business	60.0
Sales	300.0	Sales	400.0

	FY2017 (actual)	Cost Structure in Conservative Case
Net sales	207.2B yen	300.0B yen
Gross profit margin	49%	46%
SG&A ratio to sales	40%	32%
R&D as a % of total net sales	16%	13%
Operating Income Margin	11%	22%

"Tested by Advantest" Contributes to Our Sustainable Future

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



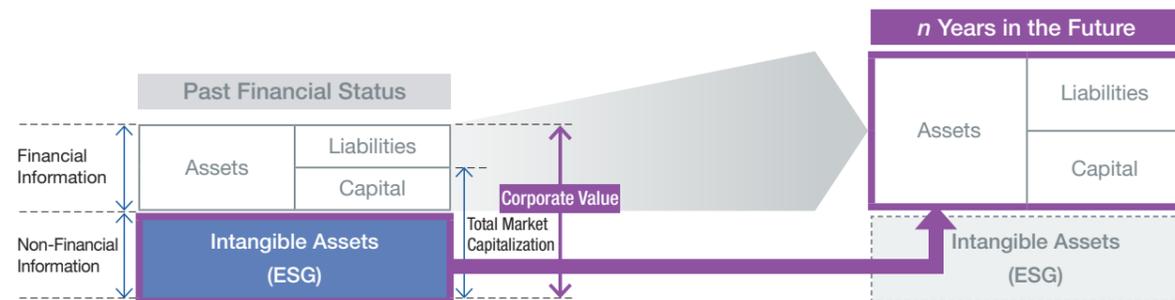
Materiality

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

ESG Management Positioning



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



Note: The above graphs were created by Advantest with reference to “Jishani atta ESG senryaku no susumekata kangaekata” by Takaharu Fukuoka (2019, Chuokeizai-sha, Inc.)

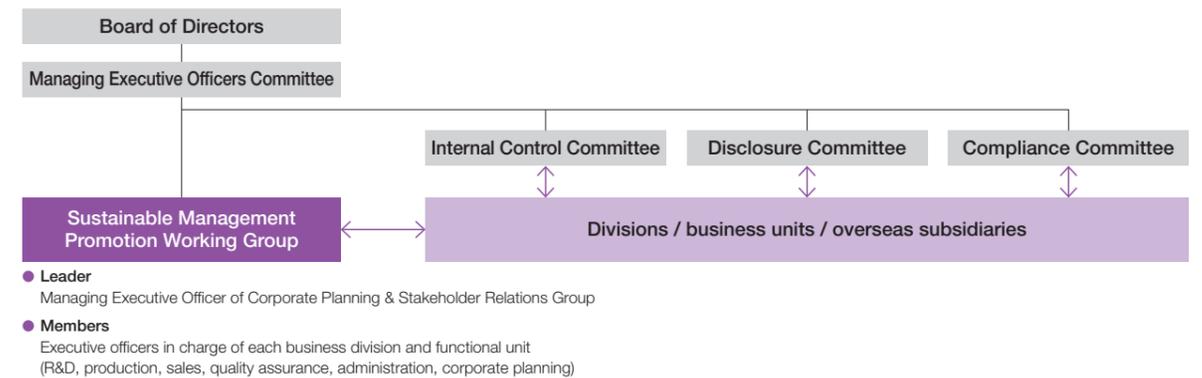
Our Approach to Materiality

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



Materiality Promotion Structure

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



Materiality

Based on the “Six Commitments” set forth in our “Grand Design” mid- to long-term management policy, we have set materiality as a priority strategy and theme. In addition, the relationship between materiality and the SDGs has been clarified in order to better define individual strategy executions based on materiality, and identify activities that lead to the resolution and/or mitigation of issues.

	Category	Commitment	Priority Strategies & Themes	Social Contribution (SDGs)
Materiality	Customer Value Creation	Be a partner with leading-edge customers	<ol style="list-style-type: none"> Enhance engagement with leading-edge customers Deploy capabilities to customer workflow solutions 	
	Product Competitiveness	Develop leading-edge technologies Be the No. 1 provider of test and measurement solutions	<ol style="list-style-type: none"> Focused investment in core businesses Continue proactive R&D investment ARTeam to explore next-generation technology and businesses Promote M&A and Make/Buy/Partner operations to expand business domains and acquire technology Pursue subscription business models Quality management (quality optimization and improvement) Optimize production system to respond better to demand fluctuations 	
	Human Resources	Attract and retain the best talent in the industry Be a learning organization	<ol style="list-style-type: none"> Reinforce local SAE, R&D, and marketing personnel Maximize the abilities of employees Provide and promote employee learning and skill development opportunities Encourage and promote teamwork across departments and regions 	
	Management Foundations	Improve financial KPIs and increase corporate value	<ol style="list-style-type: none"> Achieve mid- to long-term management plan targets Maintain a sound financial base Establish a business monitoring process using ROIC Strengthen governance and compliance Contribute to our sustainable future Environmental management Protection and respect for Human Rights 	

Sustainability Objectives

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

■ Director / Senior Executive Officer ■ Director / Managing Executive Officer ■ Managing Executive Officer

Category	Priority Strategies & Themes	Sustainability Objectives	Officer Responsible	KPI	2019 Results	2020 Objectives	Additions / Changes	Social Contribution (SDGs)	
Customer Value Creation	<ul style="list-style-type: none"> Enhance engagement with leading-edge customers Deploy capabilities to customer workflow solutions 	Customer health & safety	■ Sasaki	Number of violations of voluntary safety standards	0	0	—		
		Customer privacy	■ Fujita	Number of information security-related complaints	0	0	—		
Product Competitiveness	<ul style="list-style-type: none"> Focused investment in core businesses Continue proactive R&D investment ARTeam to explore next-generation technology and businesses Promote M&A and Make/Buy/Partner operations to expand business domains and acquire technology Pursue subscription business models Quality management (quality optimization and improvement) Optimize production system to respond better to demand fluctuations 	Product Environmental Contributions	■ Tsukui	GHG emission reduction (Scope 3) through product use	—	(TBD)	New addition		
		Product & service environmental friendliness		Percentage of products that meet voluntary standards for green products	100%	100%	Expanded to whole world		
		Hazardous substance elimination	■ Tsukakoshi	Ratio of suppliers surveyed for use of hazardous substances	100%	100%	Expanded to whole world		
		Product quality	■ Sasaki	Reduction of waste through quality improvement	Reduced by more than 3/4ths compared to FY2018	-50% compared to FY2008	New addition		
		Compliance (products & services)	■ Tsukui	Number of compliance violations related to products & services	0	0	—		
		Intellectual property protection	■ Fujita	Percentage of employees participating in intellectual property e-Learning sessions	100%	100%	—		
Family-friendly employment	Percentage of employees returning to work after maternity / paternity leave	100%		100%	—				
Human Resources	<ul style="list-style-type: none"> Work-life balance Health & safety Reinforce local SAE, R&D, and marketing personnel Increase and leverage diversity 	Occupational safety and health	■ Fujita	Number of workplace accidents (frequency rate)	0.2	0	—		
		Training & education opportunities		Average annual training time per employee	11.5 hours	15 hours	Numerical target set		
		Diversity and equality of opportunity		Ratio of female managers	—	8%	New addition		
		Financial performance		Sales, operating income, ROE, EPS	Sales: ¥275.9B Operating profit margin: 21.3% ROE: 24.9% EPS: ¥270	Three years average (2018-2020), Base Scenario	Sales: ¥250.0B Operating profit margin: 17% ROE: 18% EPS: ¥170		—
Management Foundations	<ul style="list-style-type: none"> Achieve mid-term management plan targets Maintain a sound financial base 	Anti-corruption	■ Mihashi	Number of confirmed fraudulent activities	1	0	—		
		Compliance with antitrust laws		Related legal actions Number of cases	0	0	—		
		Environmental compliance		Environmental compliance Number of violations	0	0	—		
		Compliance (Society)		With regard to society Compliance Violations	3	0	—		
	<ul style="list-style-type: none"> Protection and respect for human rights Contribution to our sustainable future 	Supply chain management (Impact on environment, human rights, labor practices and society)	■ Tsukakoshi	New supplier evaluations	100%	100%	Review evaluation items related to environment/human rights/labor practices/social impacts and apply them in new supplier evaluations. When choosing new suppliers, ensure understanding and confirmation of our procurement policy.	Action plan formulated	
		Conflict minerals elimination		In order to eliminate conflict minerals, we ask our business partners to ensure the transparency of their suppliers of materials, parts, etc., and we work with our business partners to investigate conflict mineral information (smelter information), in collaboration with industry groups. We are continuing our efforts to use less risky materials.	<ul style="list-style-type: none"> Survey of targeted suppliers: implementation and response collection Continued participation in JEITA's responsible mineral procurement study group 	<ul style="list-style-type: none"> Survey of targeted suppliers: implementation and response collection Continued participation in JEITA's responsible mineral procurement study group 	Action plan formulated		
		Nondiscrimination	■ Fujita	Number of cases resolved via our helpline	4	All cases resolved	—		
		<ul style="list-style-type: none"> Environmental management Contribution to our sustainable future 	Climate change mitigation	■ Mihashi	Sustainably sourced energy ratio	28%	2050:100% (Scope 2)	New addition	
Atmospheric emissions reduction	GHG emissions (Scope 1+2)		33,385t-CO ₂ (-10.7%)		2030:30% reduction (in comparison with FY2018)	—			
Reduction of water use and reduction of waste	Waste recycling rate		87%		Recycling rate >90%	—			

Risk Management

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

Our Basic Risk Management Philosophy

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

Risk Management Structure

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



Key Risks and Counter-measures

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

Key Risks	Priority Measures	Person in Charge	
		Materiality Addressed	
1 Significant demand fluctuations in the semiconductor industry	We will strive to expand our business into markets adjacent to semiconductor mass manufacturing, outsource production, and reinforce our recurring business.	Mihashi	6 7 9
2 Impact of global economic and political trends on global business development	We will punctually collect risk information from our overseas locations, strengthen our relationships with customers and suppliers, and make our procurement routes and production bases more flexible.	Tsukakoshi	1 6 13
3 Expansion of the COVID-19 pandemic	Under the direct control of the president, the Risk Management Group will: (1) ensure the safety and health of employees, (2) provide online support for customers, (3) track production, sales, inventory, and distribution status at the global level, (4) support BCP in the event of an employee becoming infected, (5) share resources among group companies, and (6) manage funds.	Fujita	18 20
4 Market share losses due to failure to deliver new products in a timely manner	By strengthening relationships with leading customers, we will accurately anticipate new technological innovations and the creation of new products and new markets, thus identifying business opportunities in advance.	Tsukui	1 4 5
5 Absence of a succession plan for the CEO and other top executives may threaten management stability and sustainability.	The Nomination and Remuneration Committee will carry out: (1) identification of job requirements, (2) selection of candidates, (3) training of candidates, (4) evaluation of candidates, and (5) final decisions on candidates.	Yoshida	17
6 Loss of opportunities due to dependence on a small number of suppliers	We are standardizing parts and designs to build a system that does not rely excessively on any one particular supplier.	Tsukakoshi	8 9
7 Intense competition may impact market share	We will strive to maintain product competitiveness by providing unique functionality and high-value-added solutions.	Tsukui	1 3 4 10

* See page.22 for description of each Materiality Number

■ Representative Director ■ Director / Senior Executive Officer ■ Director / Managing Executive Officer ■ Managing Executive Officer

Key Risks	Priority Measures	Person in Charge	
		Materiality Addressed	
8 Potential failure to execute our strategy and achieve our mid- to long-term management goals	The Board of Directors, the Executive Committee and the Internal Control Committee conduct risk analysis to continuously identify scenarios for various changes and their impacts, and strive to achieve our targets.	Mihashi	14 16 17
9 Heavy dependence on sales to top customers	We aim to win a wide range of customers by developing new markets and new customers, including by entering new business fields.	Sakamoto	5 6 7
10 Price pressure on Advantest products	We will reduce the risk of price pressure by providing original technology and high value-added solutions, and will seek to improve profit margins by reducing production costs.	Sakamoto	3 4 7 9
11 Exchange rate fluctuations may impact profitability	We are working to reduce the impact of exchange rate fluctuations by adjusting the balance of currencies we hold, using foreign exchange contracts, and managing our balance sheet to offset foreign currency-denominated assets and liabilities.	Fujita	14 15
12 Recoverability of new product development costs	We will improve the recoverability of costs by formulating product roadmaps that meet customer needs through technology exchange meetings, improving development efficiency through the promotion of product platformization, and pre-evaluating investment effects by utilizing the ROIC metric.	Tsukui	4 5 16
13 Consolidation of product markets may limit sales opportunities	By developing products that support a variety of applications, we will strengthen our partnerships with customers and secure sales opportunities. At the same time, we will launch new businesses and expand our business domains through M&A.	Sakamoto	1 2 5 6
14 Large impairment losses on goodwill and intangible assets	In addition to making investment decisions with due attention to capital costs and investment recoverability, we also aim to realize synergies as soon as possible after M&A by executing a PMI (Post Merger Integration) plan.	Fujita	15 16
15 Major damage to our own and suppliers' facilities may impact our business	We have formulated a BCP plan, and are working to prevent any disruption to business operations by diversifying our production bases and external suppliers, and by using cloud data storage.	Fujita	9 15
16 Recoverability of capital investment	In addition to fully considering recoverability based on the cost of capital when making investment decisions, we will monitor business growth rates after investment and make effective use of assets.	Fujita	15 16
17 Damage to Advantest's credibility or brand power may impact financial condition and/or business performance	In order to provide highly reliable products, we strive to implement design reviews at the design stage and cross-checks by the quality control division. In addition, the Compliance Committee implements initiatives to educate employees on legal compliance.	Sasaki	12 17
18 Stricter chemical substance regulations may incur countermeasure costs	We monitor trends in environmental regulations related to chemical substances, and are studying alternative technologies that do not use such substances.	Yamashita	8 17 18 19
19 Potential inability to raise funds when needed	We have established a solid financial position that can withstand sudden demand fluctuations, and we also maintain friendly relationships with multiple financial institutions so that we can immediately borrow money and set up commitment lines if needed.	Fujita	15
20 Infringements on the intellectual property rights of a third party may incur substantial costs	We seek to confirm that no intellectual property rights of other companies are infringed during product development and before product shipment.	Fujita	17
21 Infringement of Advantest's intellectual property rights by a third party may affect market share and performance	We take appropriate legal measures to protect our rights and will continue to monitor and exercise our intellectual property rights.	Fujita	17
22 Potential lack of highly specialized human resources	We are working to stabilize our human resources by formulating a mid- to long-term hiring plan, implementing global personnel rotation, improving our working environment, and making efforts to improve employee engagement.	Fujita	10 11 12
23 Digital transformation of IT core systems and processes may negatively impact business performance	We are confirming the continuity of our IT systems, and considering their replacement with new technology, and are also promoting organizational innovation by globally deploying the concept of "Digital Workplace."	Fujita	15
24 Damage to IT systems may affect business and social credibility and incur costs	In addition to strengthening detection of cyber-attacks through constant system monitoring, we have renewed processes to build an immediate incident response structure, and also implement regular information security education for employees.	Fujita	12 17 20
25 Potential damage to credibility and brand power due to product defects	The quality control division implements checks to ensure reliability.	Sasaki	8

* See page.22 for description of each Materiality Number

Financial Strategy & Capital Policy



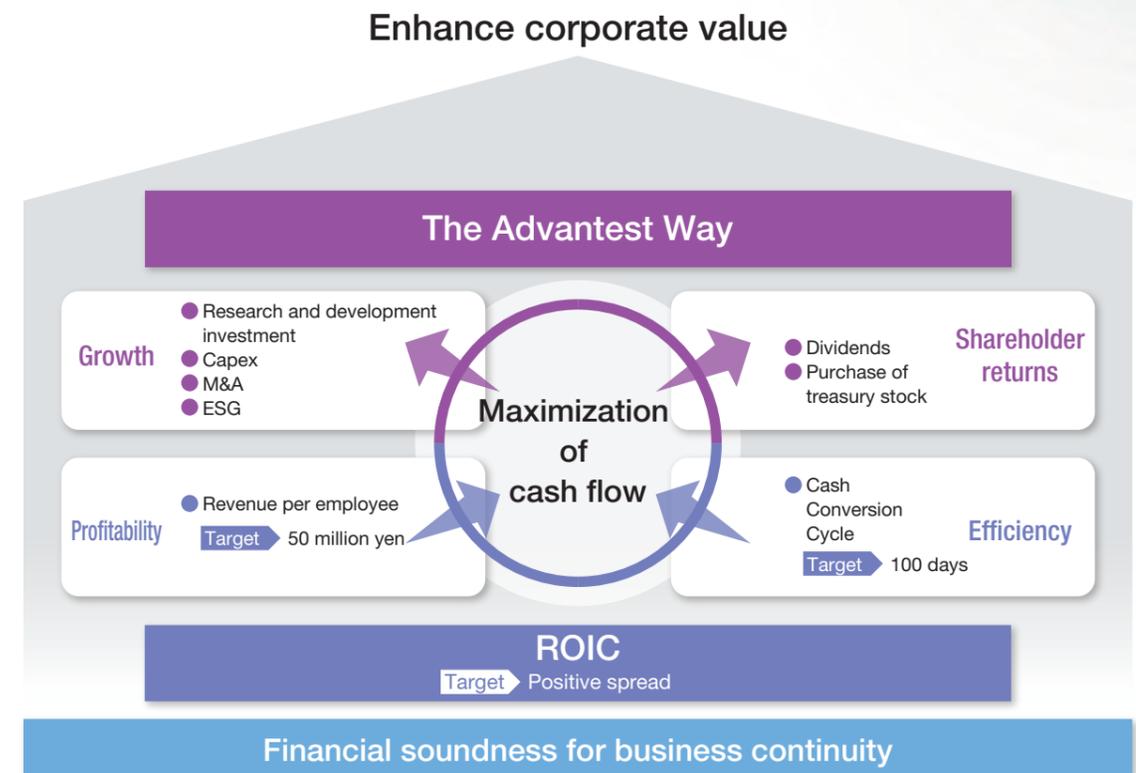
Approach to Basic Financial Policy

Our financial model is, first and foremost, to build a stable financial foundation, and from there, to utilize the concept of return on invested capital (ROIC) to maximize cash earnings for growth investments and shareholder returns. In addition, our accounting system supports this model by utilizing a pooling system that collects funds at headquarters, using a system that assigns a system code to each Group company around the world, and expanding the accounting organization globally by function. This enables speedy utilization of funds, information collection, and effective decision making. Apart from these accounting aspects, the value created by strategies for securing and reinforcing management assets and intangible assets, such as investment in human capital and the creation of internal and external organizations, is increasing in importance. Leveraging not only the capabilities of the

accounting department, but also the broad experience of staff in Human Resources, General Affairs, and other departments, we place emphasis on these non-financial elements of corporate value, and consider diverse ways of thought, reflecting the importance we place on our intangible assets such as people and intellectual property, while perpetually seeking the best approach to improve the corporate value of Advantest, and implementing strategies that meet the needs of the moment, including ESG management.

COVID-19 Financial Response

At the beginning of 2020, we were in a position to estimate that we might exceed fiscal 2018's record high sales in fiscal 2020, but the worldwide spread of the COVID-19 pandemic changed the economic situation so drastically that by spring it had become difficult to issue even a



six-month forecast. Every day we seem to hear that another company is seeking to raise money, and Advantest has also conducted various risk simulations in light of our past experience, including an examination of financing under the worst-case scenario and our commitment lines, but so far we have not needed to take any urgent financing measures, nor have we had to review our policy on growth investments targeting future business expansion such as R&D investment, capital investment, and additional hiring. Of course, it is necessary to take measures in response to the short-term economic downturn we are now experiencing, but in terms of our financial status, our ability to continue growth investments from a long-term perspective, in accordance with the outlook set forth in our "Grand Design" that the semiconductor industry will grow despite short-term fluctuations, has been strongly supported by the sound financial structure that enabled us to obtain an "A" credit rating. This financial model was based on the financial model shaped, above all, by our experience of past silicon cycles, when we made a point of continuing business as usual even during downturns. In this era, when in addition to COVID-19 and US-China conflict, natural disasters once considered to be rare occur with depressing frequency, I believe sustainable management

requires a higher than normal level of working capital. Growth investment is still needed to achieve the goals of our Grand Design, especially in terms of securing human resources by increasing our headcount, so we must pay attention to changes in our sales-per-employee ratio while preserving a balance between the increase in fixed costs and our profit margin. In the future, I will strive to further improve the functionality of our financial model.

Current Financial Quantitative Challenges

As a milestone towards our mid- to long-term goals, we have set a profit and loss model with sales at the ¥300 billion level. In fiscal 2018 and fiscal 2019, our gross profit margins were 54.5% and 56.7%, respectively, exceeding the model's target of 54%, but SG&A expenses (including other income/expenses) were 31.6% and 35.4% of sales, respectively, with an especially significant increase seen in fiscal 2019. We recorded temporary depreciation expenses as part of our M&A accounting, and other factors included expenses related to M&A and securing human resources and aggressive capital investment for growth. However, due to the characteristics of our business, investments in human capital including the hiring of

engineers who support our relationships with customers, and investments in R&D aiming to enhance our broad product lineup, are the source of our competitiveness, and are essential to achieve the ¥400 billion sales target of our Grand Design. It is also necessary to proactively invest in IT with an eye to the digital transformation, which is expected to hit a tipping point in 2025. We will build a muscular cost structure in line with our target model by evaluating cost-effectiveness to ensure that our investments stay on target, the returns on our growth investments are in line with our original expectations. We are not just continuing to spend money in traditional ways without considering returns, as well as structuring our budgets on a complete zero basis, without reference to past performance.

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

At the same time as we announced our mid-term management plan in April 2018, we introduced a ROIC evaluation system for our business. This requires positive equity spreads not only at the corporate level, but also at the level of individual business divisions, and forces us to pay more attention to the profits and losses of individual businesses than before. I feel that we have taken a step forward within the company from the perspective of effective

utilization of assets. For example, awareness of potential excess inventory has taken root very strongly in each division, and employees have come up with new methods of visualization and discussion to improve cost-effectiveness. In this industry, where boom follows bust in quick succession, it is not easy to determine the most appropriate level of inventory assets, but we are working to minimize inventory risk by, among other things, using computer simulations. From the time of planning for fiscal 2020, we set a KPI for profit efficiency based on the personnel and profits and losses of each business division, and are seeking to further improve efficiency by incorporating a resource-based management perspective that encourages people to consider the appropriateness and utilization of human assets. In the future, I would also like to improve on our past tendency to conduct such evaluations of businesses on the basis of single-year figures. We will also incorporate items such as profit carryover and loss, as well as placing a little more emphasis on our balance sheet perspective, which includes an awareness of asset efficiency, while planning to embed measures that allow actions to be taken on businesses that do not have positive equity spreads and on products that are factors in this by making evaluations for a given period a little more visible. In addition, by evaluating the cash conversion cycle (CCC) for each business division, rather than simply focusing on asset reduction/efficiency, I hope to

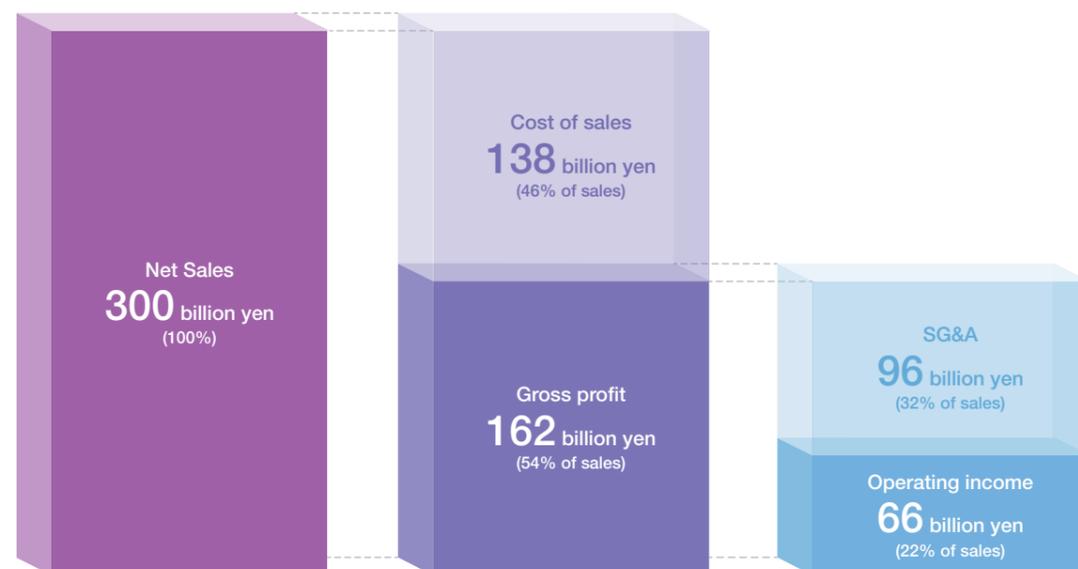
help achieve our company-wide CCC target values, and as a result of this, improve the effectiveness of our financial model, which will in turn improve the company's cash flow and lead to further growth and higher shareholder returns. From the perspective of CCC, the future growth of the company and achievement of our Grand Design goals is strongly influenced by how well we can reallocate cash with a low return rate to businesses with higher returns and growth, while keeping safety in mind, by reducing required levels of working capital. As a result of these policies, in July we decided to sell our probe card business, which had been operating mainly in the United States. Hitherto, Advantest has repeatedly acquired businesses and companies through M&A, but we have rarely taken on the role of seller. In addition to evaluating our numbers using ROIC, we will review our business portfolio to ensure that each component supports our overall business from a medium- to long-term perspective, and further improve business efficiency to improve corporate value.

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

My Approach to Shareholder Value Improvement & Returns

In the past two years, fiscal 2018 and fiscal 2019, Advantest has achieved high returns on equity (ROE) of 35.3% and 24.9%, respectively, significantly exceeding the 18% target of our mid-term management plan. While this is

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



Total shareholder return (TSR)

