

Letter to Our Stockholders



Succeeding in the Era of Global Competition

The closing of our books for the fiscal year ending March 2001 also marked the end of our four-year, company-wide management initiative, *Excellence 21*. We managed to meet all the financial targets established under Excellence 21, achieving record consolidated sales and easily clearing our goals of a return-on-equity of over 17%. In addition, with over 35% of our total product sales attributed to new products (those launched within the last 1 1/2 years), a critical benchmark was met. This impressive financial performance was a result of markets around the world recognizing our efforts to astutely anticipate evolving markets and meet the increasingly complex needs of our customers.

Advantest constantly seeks to improve upon the execution of all of its business operations. In fiscal 2000, we began use of activity based costing, which provides detailed analysis of the cost of individual business activities, started linking accountability with evaluations on employee performance, and constructed a new enterprise resource planning system.

With all the volatility in the current world economy, we understand that to achieve our goal of becoming a truly global company we will need to further strengthen our technological capabilities and create a clearer, more distinct brand.

In 2004 Advantest will celebrate the fiftieth year anniversary of its founding. With this milestone now only a few years away, we will strive harder than ever to bring to market new products and services that ensure our place as one of the winners in this era of increasing global competition.

Fiscal 2000 Business Results — New Products Drive Record Profits

In fiscal 2000 net sales increased by 74.4% to ¥276.5 billion — the highest amount ever in our company's history. Operating income was even more impressive, jumping up 144.0% to ¥84.9 billion.

Growth in measuring instruments for fiber-optic and wireless communications were particularly robust, rebounding from a fiscal 1999 operating loss of ¥68 million to contribute an operating income of ¥6.6 billion. And with operating income from our flagship semiconductor test system business more than doubling from ¥40.7 to ¥86.4 billion over that same period, all-around fiscal 2000 will go down as one of our best years ever.

In the test system market, we managed to hold on to our second place position with a 23% share. And within this market, we remained the undisputed world leader in memory test systems with a 63% share.

To enhance our ability to provide products quickly and efficiently, in May 2000 we started operation of a new enterprise resource planning system, which links all Advantest Group companies throughout the globe by means of a common data base. With this new infrastructure in place, we were able to significantly boost our productivity for everything from product design to manufacturing to distribution. In addition, we were able to successfully capitalize on increased use of "design-ins" — the process of working closely with customers starting from the design stage of their devices — and an expanded product maintenance system to boost sales even further.

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**Future Outlook —
Taking Bold, Farsighted Action to
Secure Growth**

The economic climate for fiscal 2001 is shaping up to be one of the starkest ever. The wide-scale shakeout of dot-com companies in the US triggered a retreat from the dizzying gains of the nation's information technology industry, which had been the main driver behind their historic economic boom. The situation was further exacerbated by the September 11th terrorist attacks on New York and Washington D.C., which dealt a major blow to the already fragile psyche of investors the world over. The impact of these events has rippled across the globe, making the future of Japan's anemic economy even hazier. Similarly, this has also been a major setback to other Asian countries, many of which are still struggling to recover from the 1997 Asian financial crisis.

Yet, despite this somber atmosphere, the revolution in information technology continued to march on. The long-term trends remain unchanged — the electronics industry is still making the shift from a PC-centered business model to one that relies on a more diversified range of new consumer electronics, and companies are still investing in next-generation, high-speed telecommunications.

Advantest is carefully working to identify the testing challenges for these new technologies to ensure that the high-speed memory and system-on-a-chip (SoC) semiconductor test systems we currently have under development fully address these issues. Similarly, we are working to assist in the development of next-generation telecommunications by quickly developing new measuring instruments for technologies including DWDM fiber-optic broadband, W-CDMA third-generation mobile communications, and *Bluetooth™.

We will continue to actively invest in new markets and products, improve our profit structure, and take bold, farsighted action to secure future growth.

*Bluetooth™ is a trademark of Telefonaktibolaget LM Ericsson in Sweden.

**Expanding Service Business to
Raise Customer Satisfaction**

To provide true customer satisfaction, manufacturers must first be able to develop a product that meets its customer's every specification right down to the minutest detail. Great products, however, don't automatically guarantee satisfaction. You must also be able to provide customers with the amount of products they need by the time of their desired delivery. And after the products are delivered, you must have a thorough support network to provide repairs and maintenance.

To assist customers with the wide array of activities associated with chip testing, Advantest created the GET (Globally Enabled Total) Solution. Among the many services being offered as part of the GET Solution is consultation on test technologies, product design, the sale of bundled testing solutions, repair and maintenance, and training of test engineers. Thanks to the GET Solution, customers are giving us high marks for providing them with high-quality solutions to their diverse needs.

At Advantest, we will continue to build upon our tradition of timely development of products that dovetail with market demand, securing high customer satisfaction through world-class technical support, and tackling problems head-on to come up with truly innovative solutions.

Hiroshi Oura
Chairman of the Board and CEO



Toshio Maruyama
President and COO

