

A Message from the Management

Strategy to Improve Profitability



*Hiroshi Oura, Chairman of the Board and CEO (seated)
Toshio Maruyama, President and COO*

Advantest's Synergistic Triad

- Differentiate
- Create Added Value
- Boost Efficiency

The year ended March 31, 2003 (“fiscal 2002”), presented another challenging year for Advantest Corporation. Worldwide economic conditions remained uncertain, and the promise of a recovery in semiconductor and semiconductor test system demand dangled elusively on the horizon. Despite the introduction of new products tailored to market needs, our net sales and orders received were sluggish, as customers continued scaling back on capital investment. True to our corporate mission, however, customer satisfaction remained a priority for Advantest, and, though hard times prevailed, we never lost sight of this imperative; and, daunting as it was, Advantest continued the restructuring programs initiated during fiscal 2001 and remained committed to meeting head-on the complexities inherent in this challenging operating environment.

Initiatives to Restore Profitability

In fiscal 2001, faced with sudden changes in its operating environment, Advantest posted a precipitous drop in the results of its operations. Though steep, the loss was mitigated somewhat by gains made through cost reduction measures

employed throughout the Company. In an effort to bring fixed expenses down from the prior year, Advantest selectively reallocated management resources and optimized personnel, scaling back staff to approximately 3,900 employees by the end of fiscal 2002, down 600 from September 2002. Overall, Advantest believes cost reduction measures should yield future savings of approximately ¥10.0 billion.

Improving sales and earnings and lowering the break-even point are the principal objectives of Advantest in its ongoing commitment to progress and are the impetus behind a renewed focus on generating profits from businesses aligned with core competencies. This renewed focus is the principal reason behind our withdrawal from the business of electron beam testers, for which demand had contracted sizably, our reorganization of the measuring instruments business to concentrate on new technologies, and the consolidation of several business offices for greater efficiency.

In fiscal 2002, although our financial position was relatively sound, we worked to reduce inventories to optimal levels, decreasing overall inventories from ¥52.9 billion at fiscal 2001 year-end, to ¥35.0 billion at fiscal 2002 year-end. In fiscal 2002, net sales increased 2.6% year on year, to ¥97.7 billion, and the operating loss improved dramatically, from ¥37.1 billion to ¥16.7 billion. The fiscal 2002 net loss amounted to ¥13.0 billion, improving from a loss of ¥23.9 billion during the previous year. Consolidated total assets at fiscal 2002 year-end, owing in large part to the reduction of inventories, amounted to ¥281.2 billion, down from

¥307.6 billion at the previous year-end. To make more efficient use of capital, consolidated stockholders' equity was reduced from ¥240.7 billion at the prior year-end, to ¥210.7 billion, through the acquisition of treasury stock and other measures. The stockholders' equity ratio edged down 3.4 percentage points from the previous year-end but remained high, at 74.9%. Net loss per share improved from ¥240.38 in fiscal 2001, to ¥131.99. The Company paid a dividend of ¥30 per share in fiscal 2002.

Initiating a New Business Model

While Advantest believes it has implemented policies to build a strong management framework capable of withstanding harsh business conditions, the Company's operating environment has continued to face adverse pressure. To counter these unfavorable circumstances, Companywide initiatives focusing on *differentiation*, *value-added business*, and *efficiency* have been initiated.

Differentiation in the New Marketplace

Advantest has defined four approaches to help differentiate itself from its competitors and grow earnings. They entail the strategic integration of new product introductions, the anticipation of customer needs, a focus on growing markets, and selective entrance into new markets. In April 2003, Advantest began shipping the T5593 Memory Tester. This new system boasts the world's fastest test speeds for testing DRAM devices of the next generation such as DDR2 devices. In



T5593 Memory Tester, boasting the world's fastest test speeds for testing DDR2 devices

hopes of capturing a greater share of the steadily growing market for front-end flash memory test systems, with which devices used in such products as mobile phones and digital cameras are often tested, Advantest plans to introduce a system dedicated to front-end flash memory testing. We are also working to differentiate our test handler products from those of our competitors by providing greater throughput, reliability, and lower cost of test. Within our line of electronic measuring instruments, we look to differentiate our products through the Wizard of Module Test (WMT) concept.

New market penetration represents the greatest opportunity for Advantest's growth. Targeted areas of new business for Advantest include the manufacture of probe cards, which, we believe, will help to expand our share of the front-end wafer test market, and of application-specific (AS) test systems. Demand for AS test systems is expected to increase in use in the testing of automobile analog ICs, laser diodes, and CCD/CMOS image sensors.

Focus on High-Value-Added Businesses

In March 2003, responding to the need for test systems for increasingly complex system-on-a-chip (SoC) semiconductors, Advantest, along with over 30 semiconductor, equipment, and instrumentation companies worldwide, established the Semiconductor Test Consortium, Inc. (STC), an organization dedicated to the promotion of an open automatic test equipment (ATE) standard for the testing of SoCs and other complex logic devices. Based upon a platform called OPENSTAR™

(Open Semiconductor Test Architecture), the STC is promoting a set of standards and certification requirements that we believe will offer the industry the highest and most flexible testing technology available. Based upon published standards, Advantest is nearing the completion and debut of its OPENSTAR™ test system and will use this concept to support a broad range of products.

On the service front, in October 2002, Advantest moved its software support operations to Advantest Customer Support Corporation. Advantest believes this will help to integrate postdelivery test system support and increase customer satisfaction. In addition, the Company has strengthened its test system rental and leasing business to meet its customers' financial needs.

Efficiency through Reform

To ensure that the Company remains highly competitive, Advantest is reforming processes in every aspect of its business, from development through manufacturing and sales. In July 2003, as part of its ongoing structural reform efforts, Advantest spun off the back-end manufacturing of ATE and part of its measuring instrument production to a manufacturing subsidiary that performs the front-end manufacturing of ATE. It also merged the subsidiary with another manufacturing subsidiary that produces measuring instruments. Advantest believes that integrating the Company's manufacturing systems will impact the efficiency and soundness of its manufacturing processes.



Kitakyushu R&D Center, the strategic location for AS test systems development, opened in June 2002

A Message from the Management

Corporate Governance and Restructuring of Management

To strengthen our corporate governance and establish management systems capable of adapting to rapid changes in our business environment, in June 2003, we implemented an executive officer system and restructured our board of directors. By doing so, we hope to not only fortify our corporate governance practices but also expedite our decision-making processes and increase the accountability and transparency of our board members.

The board of directors will continue to shape the strategic direction of the Company and lead its operations, yet the board's membership has been reduced to enable meetings that are more streamlined and responsive. Combined with the new executive officer system, Advantest is poised to delegate authority more broadly and able to effect more rapid and efficient corporate administration throughout the organization.

Furthermore, in keeping with the recent reforms aimed at increasing auditor independence, beginning this year, Advantest has added an outside corporate auditor to its board of auditors.

Future Prospects

Economic uncertainty remains worldwide as concern over the economic impact of the SARS virus continuing to exist, compounded by stagnant consumer spending and unemployment levels.

In the electronics sector, despite a partial recovery in investment in cutting-edge, next-generation research and production, general capital investment by manufacturers of semiconductors, communications equipment, and other products is expected to remain lackluster, with significant increases in demand not foreseen until at least the second half of fiscal 2003.

On balance, although Advantest believes that a full recovery is on the horizon, difficult and uncertain conditions are likely to persist for the short term. To overcome such challenges, Advantest will steadfastly work to expand sales through the introduction of new products, improve earnings, reduce costs, and reform business processes.



Opening bell on the first anniversary of NYSE listing

In 2004, Advantest will celebrate its 50th anniversary. Over this past half-century, we have grown from a regional business to a worldwide force and have developed a reputation built on innovation and technology. Now, with this landmark date clearly in our sights, we rededicate ourselves to our technical heritage and following the initiatives set forth above to strengthen our corporation and create a new profit model. Backed by the continued support and cooperation of our stockholders, we are committed to improvement throughout our business operations.

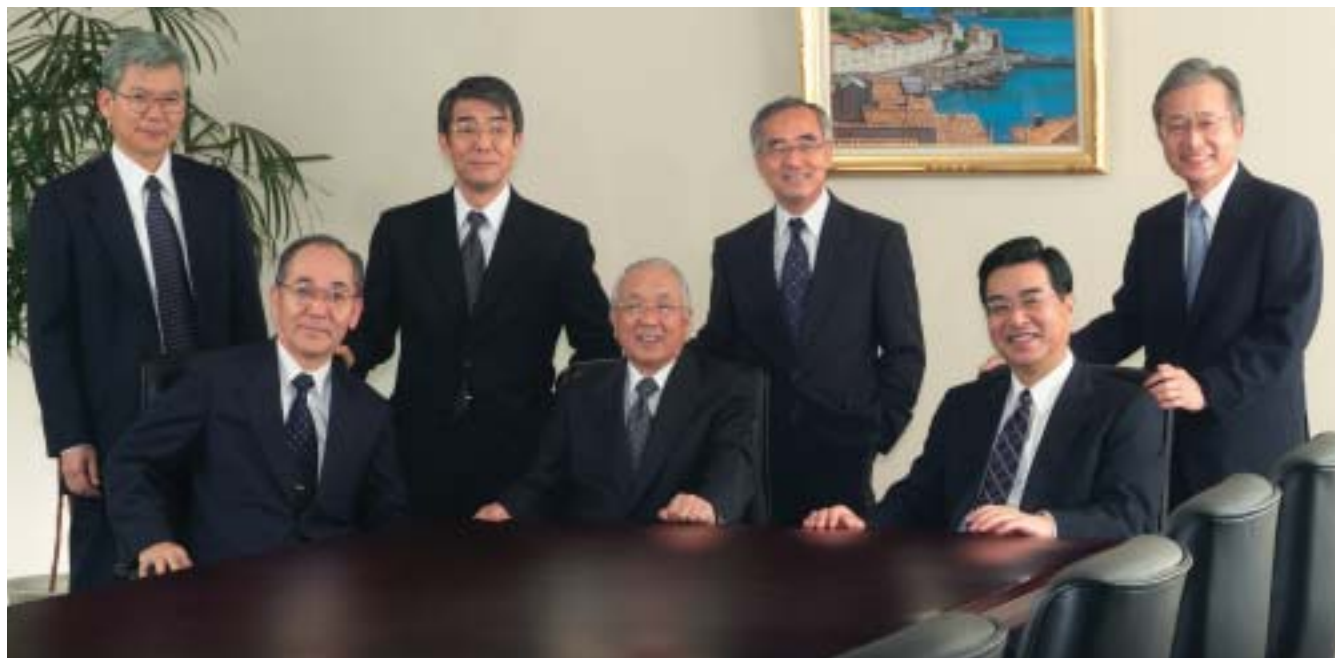
Hiroshi Oura
Chairman of the Board and CEO

Toshio Maruyama
President and COO

Board of Directors, Corporate Auditors, and Executive Officers

As of June 27, 2003

Board of Directors



Hiroji Agata

Shinpei Takeshita

Kiyoshi Miyasaka

Hiroshi Oura

Junji Nishiura

Toshio Maruyama

Hitoshi Owada

Hiroshi Oura

Chairman of the Board and CEO

Toshio Maruyama

Representative Board Director

Junji Nishiura

Director

Hitoshi Owada

Director

Shinpei Takeshita

Vice Chairman of the Board

Kiyoshi Miyasaka

Director

Hiroji Agata

Director

Corporate Auditors

Noboru Yamaguchi

Corporate Standing Auditor

Tadahiko Hirano

Corporate Standing Auditor

Keizo Fukagawa

Corporate Auditor

Takashi Takaya

Corporate Auditor

Executive Officers

Toshio Maruyama*

President and COO

Managing Executive Officers

Hitoshi Owada*

Corporate Affairs

Executive Officers

Jiro Katoh

Senior Vice President,
Technology Development Group

Masao Araki

Vice President,
Corporate Affairs Group

Senior Executive Officers

Kiyoshi Miyasaka*

Corporate Planning and Strategy

Kenichi Mitsuoka

Senior Vice President,
FA Business Group

Takao Tadokoro

Senior Vice President,
ATE Sales and Marketing Group

Yoshiaki Furuse

Senior Vice President,
Instrument Sales and Marketing
Group

Junji Nishiura*

Technology and Production

Takashi Tokuno

Senior Vice President,
ATE Business Group

Hiroyasu Sawai

Vice President, ATE SE Division,
ATE Business Group

Yuichi Kurita

Vice President,
Corporate Affairs Group

Hiroji Agata*

Sales and Marketing

Norihito Kotani

Senior Vice President,
Instruments Business Group

Hiroshi Tsukahara

Senior Vice President,
DI Business Group

Yoshiro Yagi

Vice President,
ATE Sales and Marketing Group

Yuri Morita

Senior Vice President,
Corporate Affairs Group

Masao Shimizu

Vice President, SoC Tester Products,
ATE Business Group

Hideaki Imada

Vice President,
ATE Sales and Marketing Group

* Concurrently appointed as a Director

Special Feature One

First Industrywide Consortium

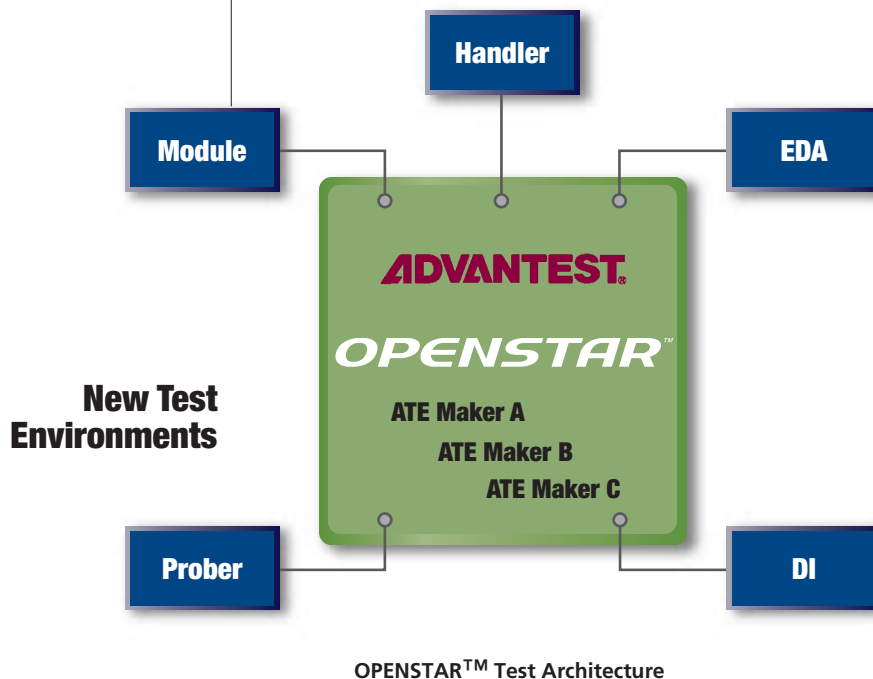
Open Architecture Supports Today's Rapid Technological Development

Advances in semiconductor technologies are fueling rapid progress in the creation of sophisticated broadband networks of multimedia consumer electronics for the burgeoning information technology (IT) society. To help foster the growth of this mass market, Advantest is working with chip manufacturers to provide optimized test systems for use in the development and manufacturing of cutting-edge semiconductors.

Until recently, chip manufacturers were forced to replace their test systems every two or three years to keep pace

with rapid technological development in semiconductor manufacturing. The increasing cost of test was ominous to both IC manufacturers and suppliers of ATE. Where investment in new test equipment is insufficient, chip manufacturers often cannot guarantee total accuracy in the testing of cutting-edge devices, and end-markets are affected. On the other hand, manufacturers of test equipment are faced with unprecedented challenges in the form of increasing R&D costs, strict manufacturing requirements, and global marketing issues.

The concept of an open architecture, accessible to all companies associated with semiconductor testing was born



Note: EDA = Electronic design automation
DI = Device interface

of the need to reduce test costs while maintaining high standards. With an open architecture in place, capital equipment costs should decrease and IC makers should be able to supply highly dependable devices at lower costs. Thus, with Advantest at its helm, in July 2002, an industrywide consortium, the Semiconductor Test Consortium (STC) was launched to promote and manage this total open architecture and to help an industrywide common test architecture proliferate. As this effort takes hold, Advantest, deeply committed to this consortium, hopes to benefit significantly as efficiencies develop and shortened delivery times emerge from this endeavor.

Semiconductor Test Consortium

Commencing operations amid extremely challenging economic conditions, the official launch of the STC took place in San Jose, California, in March 2003. At this time, the STC redoubled its efforts toward the realization of OPENSTAR™ and further intensified efforts to cut costs and make processes more flexible. The consortium is open to all companies throughout the semiconductor supply chain with a vested interest in the test sector and is the industry's first collaborative effort to provide cost-effective testing of SoCs and other complex logic devices.

Dedicated to enabling open test solutions that generate unprecedented

economic and technological benefits and provide hardware and software interoperability, the STC is now focusing on supporting the development of a semiconductor test open architecture. With more than 30 companies endorsing the STC agenda, plans are on track to unveil a tester that meets this open architecture's Rev. 1 standards in fiscal 2003.



Open Architecture Leadership

Integration

- Majority of technology (and cost) shifts into board-level solutions
- Performance scaling window is widened
- Promotes infrastructure reuse

Modularity

- Common infrastructure
- Modularity extends to the tester software and allows incremental capability growth
- Promotes chassis/module reuse and flexible configurations

Open Architecture

- Multiple manufacturers creating compatible test modules
- No limits to capability scaling
- Lower barriers for second-tier manufacturers
- Stable environment to leverage long-term investment in application solutions and tool development

Semiconductor Test Consortium **ADVANTEST:** A founding member

Special Feature Two

Digital Consumer Electronics

Digitization in Electronics

Digital technologies are fueling the rapid digitization of electronic products. As more and more consumer electronics are digitized and linked into networks, semiconductor use is increasing in step with the demand for cost-effective semiconductor manufacturing. In 2003, shipments of digital cameras surpassed those of conventional film-based cameras, and this trend is predicted to continue. In fact, earlier this year, the Camera and Imaging Products Association forecast that shipments of digital cameras would reach 31.5 million units in 2003.

On the automotive front, until recently, conventional semiconductors were primarily used to control engine functions. However, the proliferation of Internet and mobile phone technologies has turned automobiles into information terminals and is driving a rapid increase in the development of digital devices adapted to electronic toll collection and intelligent transport system technologies.

*T6575 VLSI
Test System*



**Strategies to Distinguish
Advantest's Products**

Demand for a full range of semiconductors is rising as a result of the digitization of electronic products, and Advantest is working to secure the top position in the semiconductor testing market by providing semiconductor test systems that are not only more competitive but also tailored to the individual specifications of each semiconductor type.

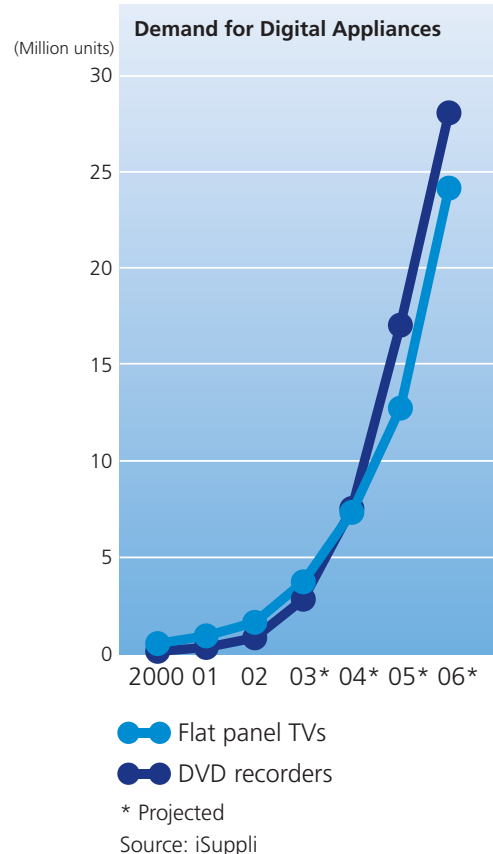
Determined to become the leading supplier of test systems for this new generation of devices, Advantest is working toward shrinking the lead time between the introduction of new products and their delivery and expanding its presence in the growing market for SoC testers.

We believe our T6500 series makes it easy to run a full range of tests on digital consumer electronics through one test system. Demand for color mobile phone displays and LCDs for personal computers is expected to grow, influencing the growth of the market for LCD test instruments as well. Advantest's T6371 and T6361 high-speed test systems for increasingly fine-grained, multipin LCD drivers with accelerated data transmission rates are targeted for this market.

Primary R&D activities are directed by the Company's R&D division and are carried out at facilities in Japan, including Advantest Laboratories, and overseas. To augment the work done at these locations, in June 2002, Advantest

opened the Kitakyushu R&D Center to focus on application-specific (AS) test equipment for such promising markets as analog ICs for automobiles, laser diodes, and CCD/CMOS sensors. Focusing on China and other rapidly growing Asian markets while drawing on local industries and human resources, the Kitakyushu R&D Center is serving as a development base for the AS test system business. Established in April 2002, the center provides immediate, high-quality support for semiconductor manufacturers and design centers in Kyushu and other regions throughout Asia.

*T6371 LCD Driver
Test System*



Special Feature Three

Broadband Connectivity

Ongoing Increases in Memory

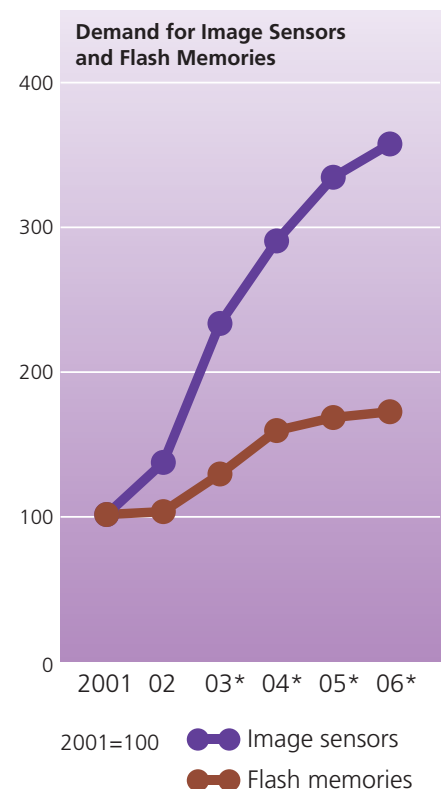
We are now entering an era in which images and pictures can be easily exchanged over the Internet. To underscore this point, driving this trend in Japan is ADSL, the leading broadband communications platform, which had logged more than 10 million subscribers as of the end of May 2003. With demand for high-speed, high-volume transmissions increasing dramatically, the market for fiber-to-the-home (FTTH) optical cables and wireless LANs, which enable users to choose their Internet environment regardless of physical location, is expected to grow.

Although growth in the number of new mobile phone subscribers in Japan

is declining, 60% of new subscribers are choosing phones with digital cameras that contain semiconductor media cards (small memory cards). These cards enable one-megapixel resolution image capturing, compared with approximately three megapixels for cards used in standard digital cameras. With users recording more and more sounds, photos, and images, demand for memory cards is expected to rise dramatically, driving up both card sales and the amount of data stored per card.

The spread of broadband services is increasing the data processing capacities of personal computers and stimulating demand for enhanced memory speeds and capabilities and CPUs with more

T5375 Memory Test System



* Projected

Source: World Semiconductor Trade Statistics

clocks. As a result, a shift to DDR2 technologies is expected.

New Products

In response to the previously mentioned trends, Advantest is introducing electronic measuring instruments for new wireless and optical communications devices and cutting-edge semiconductor test systems for memory semiconductors.

Manufacturers are demanding the systemization of electronic measuring instruments to facilitate the testing of compound components. Responding to this demand, Advantest is introducing several products based on the new Wizard of Module Test (WMT) architecture. In the past, compound components could only be tested using

multiple measuring instruments. However, Advantest is working to distribute multiple test functions among distinct modules that share a common interface, enabling the testing of compound components with a single measuring instrument. By combining several modules in a single framework, our aim is to reduce costs and shrink the time needed for development and manufacturing.

In April 2003, Advantest began shipping the T5593 back-end tester for top-of-the-line DRAM devices. Boasting the world's fastest test speeds and able to test 256 devices simultaneously, Advantest believes that the T5593 system has strong sales prospects and is the optimal tester of DDR2 memory devices. With more than 50% of the

memory tester market, Advantest is uniquely able to accommodate a wide range of customer needs through its broad product line, including the T5585/T5586, which are extremely dependable and have high throughput for mass testing of DDR memory devices, and the T5375, which is tailored to the demands of 300mm wafers.

Driven by such products as mobile phones and digital cameras, demand for flash memory testers remains strong, but a shift toward front-end testers is under way. By introducing the T5771 and a number of additional testers in fiscal 2003, Advantest hopes to increase its presence in the market and respond to the call from chip manufacturers to boost productivity.



*R3681 Signal Analyzer
Based on WMT Architecture*



*T5771 Memory
Test System*

Advantest's Corporate Social Responsibilities

Establishment of Committee on CSR

In light of the changing business climate, corporations are becoming increasingly attentive to environmental matters and social responsibilities. Looking back on Japan's period of high economic growth during the bubble economy era, the criteria used by the market to evaluate corporations were heavily weighted toward economic factors. Many corporations aggressively pursued profits without regard to environmental issues and the impact their operations would have on society. Today, around the world, a shift in market initiative from the supply side of producers to the demand side of customers is occurring, spurring a movement toward more globally conscious business practices. Following a series of highly publicized market scandals and misappropriations in Japan and elsewhere, corporations and their managements are now being held to a much higher standard of ethics and social responsibility.

It was against this background that the new Committee on Corporate Social Responsibility (CSR) was established in July 2003. Corporate social responsibility responds to various issues concerning the market, environment, human resources, including employees and managers, and society, and Advantest has up to now embarked on various activities in response to these issues independently of each other. The Committee on CSR has been organized to provide a leading hand for the five committees that had previously carried out activities independently. (See figure.) Each committee delivers

regular reports on its activities to the Committee on CSR. The Committee on CSR then checks each activity and its progress and provides comprehensive guidance to enable the efficient implementation of more effective activities. By its establishment, the Committee on CSR has enabled the unification of information and activities regarding Advantest's corporate responsibilities and works to assure that these activities are carried out.

On the corporate front, in 1999, Advantest established its Behavior Norms, a clear outline of the Company's philosophy, mission, and guiding principles. Moreover, with the management as a driving force, the Advantest Group rededicated itself to the vigorous pursuit of environmentally sound practices. We established the Environmental Management Center and appointed the Committee on Environmental Conservation to focus on the environmental impact of our business activities, products, and solutions with a view to conducting "green" operations. The three central pillars of our ongoing program are energy saving, recycling, and eliminating toxic substances in the course of our operations, and we remain steadfast in being at the vanguard of technological development that is high in quality, environmentally sound, and cognizant of social needs.

To this end, in 2002, we instituted a Companywide recycling system and achieved a zero-emission rating in our four main factories in Japan. We also published guidelines for green procurement

and launched a program to exclude all specified toxic substances in our standard and new parts.

Advantest is tremendously proud of its record on environmental activities and is committed to forging ahead with even greater attention to the preservation and conservation of our precious ecosystem. We will continue to build on our successes, which include the creation of a biotope at the Gunma R&D Center and the preservation of redwood pines at Advantest Laboratories in Sendai.

As a corporate citizen committed to sustainable growth and the safeguarding of the environment, we hope that, by increasing awareness of our ongoing activities, we can provide inspiration and incentive to others to become involved.

For a more detailed account of our environmental protection efforts, please refer to the Company's Web site and environmental report.

