

Annual Report  
2004

Envisioning the Next Fifty Years



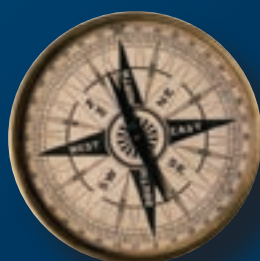
# *A Half Century of Excellence*

Building upon our strength in test and measurement technology  
to advance our inherent value to industry and society

Since its establishment in 1954, Advantest has been a pioneer in the measurement technology industry, bringing to market automated test equipment and measuring instruments that have enabled the research, development and production of electronic devices, and hence the computers and telecommunications equipment that now power the digital universe. As one of the recognized leaders in the testing and measuring technology industry, with a greater than 60% share of the global memory test system market, Advantest has won the confidence of customers worldwide.

In 2004, Advantest celebrates its 50th anniversary, and rededicates its commitment to creating new businesses and strengthening its management base in order to ensure its continuous outreach and growth.

Our corporate mission to “support advanced technology at the cutting edge” has never been stronger, as we endeavor to increase our enterprise value by creating stable, long-term relationships with our customers and stakeholders.



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# FINANCIAL HIGHLIGHTS

Years ended March 31

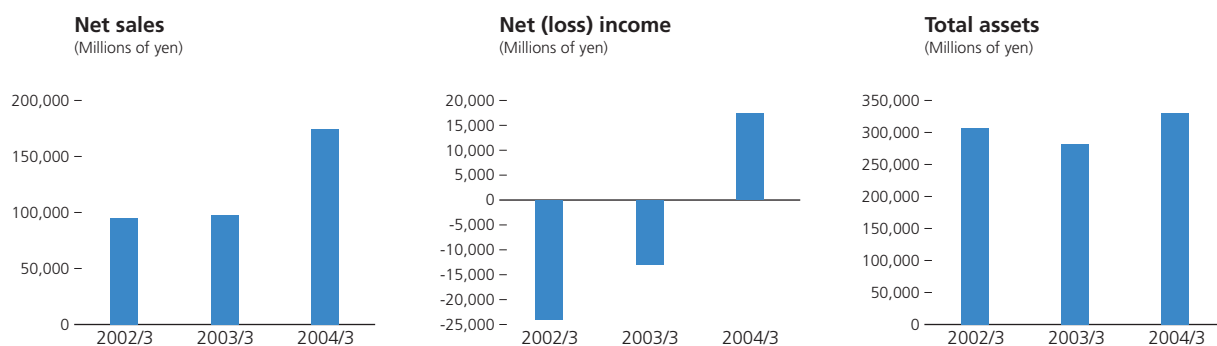
Advantest Corporation and Consolidated Subsidiaries	2002	2003	2004	2004
	Yen (Millions)			U.S. Dollars (Thousands)
Net Sales:	¥ 95,244	¥ 97,740	¥ 174,218	\$1,648,387
Automated test equipment	74,206	84,910	160,855	1,521,951
Measuring instruments	21,038	12,830	13,363	126,436
Net (loss) income	(23,906)	(12,994)	17,329	163,961
Per Share:				
Net (loss) income (Yen and U.S. Dollars)	¥(240.38)	¥(131.99)	¥176.37	\$1.67
Cash dividends (Yen and U.S. Dollars)	40.00	30.00	40.00	0.38

As of March 31:

Total assets	¥307,562	¥281,224	¥330,808	\$3,129,984
Total stockholders' equity	240,716	210,663	221,768	2,098,287

Note 1: The above selected financial data were prepared under U.S. GAAP.

Note 2: In this annual report, amounts reported in Japanese yen have been translated into U.S. dollars for the convenience of readers. The rate used for this translation was \$1.00=¥105.69, the approximate exchange rate in Japan on March 31, 2004.



## Cautionary Statements with Respect to Forward-Looking Statements

This annual report contains "forward-looking statements" that are based on Advantest's current expectations, estimates, and projections. These forward-looking statements are subject to known and unknown risks, uncertainties, and other factors that may cause Advantest's actual results, levels of activities, performance, or achievements to be materially different from those expressed or implied by such forward-looking statements. These factors include: (i) changes in demand for the products and services produced and offered by Advantest's customers, including semiconductors, communications services, and electronic goods; (ii) circumstances relating to Advantest's investment in technology, including its ability to timely develop products that meet the changing needs of semiconductor manufacturers and communications network equipment and components makers and service providers as well as risks associated with Advantest's investment in OPENSTAR®, an industrywide open architecture for SoC testing; (iii) significant changes in the competitive environment in the major markets where Advantest purchases materials, components, and supplies for the production of its principal products or where its products are produced, distributed, or sold; and (iv) changes in economic conditions, currency exchange rates, or political stability in the major markets where Advantest procures materials, components, and supplies for the production of its principal products or where its products are produced, distributed, or sold. A discussion of these and other factors which may affect Advantest's actual results, levels of activity, performance, or achievements is contained in the "Operating and Financial Review and Prospects," "Key Information – Risk Factors," and "Information on the Company" sections and elsewhere in Advantest's annual report on Form 20-F, which is on file with the United States Securities and Exchange Commission.

*Leading the industry in a solutions based approach to test and measurement*



**Worldwide sales of semiconductors surged 18% in 2003**

Semiconductor demand, which turned sluggish following a peak in 2000, has recently shown clear signs of recovery. In 2003, worldwide semiconductor sales were approximately \$166.4 billion, up approximately 18% from the previous year, according to World Semiconductor Trade Statistics Inc. By region, the U.S. semiconductor market grew 3%. In Japan, however, semiconductor sales increased 28% from the previous year. This growth was due to strong sales of digital consumer products, which spurred capital investments by domestic semiconductor manufacturers.

**Advantest returns to profitability with record gains**

In sharp contrast to the net loss posted in the previous fiscal year, in fiscal 2003,

Hiroshi Oura  
Chairman of the Board and CEO (seated)

Toshio Maruyama  
President and COO

Advantest returned to profitability. With strong business and new product introductions well received, Advantest was positioned among the world's leading semiconductor test equipment providers in fiscal 2003, according to industry estimates.

Orders received surged 105.9% year-on-year to ¥208.9 billion (US\$1,977 million) on a consolidated basis. Net sales increased 78.2% to ¥174.2 billion (US\$1,648 million). Income before taxes amounted to ¥28.8 billion, and net income reached ¥17.3 billion (US\$ 164 million).

In fiscal 2003, we implemented various initiatives to restore profitability. First, we ensured a timely release of our new products to boost sales and focused our efforts on winning new orders and increasing sales. Second, by merging and restructuring our manufacturing subsidiaries, we shortened our production schedule to realize greater efficiencies. Third, by working together to reduce fixed costs, Advantest and its consolidated subsidiaries were able to achieve a rapid recovery in earnings.

With this growth taking concrete form, fiscal 2003 proved to be extremely significant. And, with such positive results from our efforts, we now find ourselves faced with the challenge of sustaining and improving upon these processes.



T2000, utilizing the OPENSTAR® standard

### **Launch of T2000 accelerates adoption of open architecture environment**

Our Open Architecture Initiative (OAI) evolved in response to our customers' need for more cost efficient and flexible test alternatives. With product life cycles shrinking as newer and more complex SoC (System-on-a-Chip) devices were brought to market, the testing industry required a new business model. Advantest's efforts to create an open test environment with the modular flexibility required for adapting to these changing needs have now been realized. In October 2003, we launched the T2000, the industry's first SoC test system to be based upon the industry's open architecture standard, OPENSTAR®.

In contrast to existing test system offerings, we believe these new products based on the OPENSTAR® standard are superior in terms of scalability and flexibility, and are far more economical in their approach to accommodating current and future needs. Our customers are recognizing this, and accordingly, orders received have been favorable.

The next step is to construct an "Open Architecture World" with the involvement of third party vendors. The adoption of an open architecture test platform, though beneficial for the customer, can impact the manner in which test equipment manufacturers differentiate their products. However, with cutting-edge technologies and a solutions-based approach that relies on turnkey product offerings and includes world-class support, we believe that Advantest will continue to have a differentiated business model.

### **Integrating our operations in automated test equipment and measuring instruments**

In the area of our measuring instruments business, despite our vast resources, superior engineering, and the constituent technologies that represent Advantest's core competence, we face the reality that profits are not generated. Our performance in this segment remained weak due to the protracted sluggishness of Japan's telecommunications market in fiscal 2003.

To combat this trend, by means of a thorough restructuring process, as of April 1, 2004, we integrated the automated test equipment business with the measuring instruments business. In order to fully utilize our strength in measuring instruments, which is the root of our business success, we have reclassified our business segment to better reflect Advantest's current lines of business and strategic focus.

As part of these administrative reforms, Advantest entered into an agreement with Metric Test, under which Metric Test became a distributor of Advantest's measuring instruments in the U.S. This arrangement allows Advantest America Measuring Solutions, Inc. (AAM), which previously handled sales and maintenance services in the American market, to concentrate on marketing activities that are related to more advanced technologies, and on innovating cutting-edge communications technology.

### **Strengthening corporate governance through large-scale structural reforms**

In June 2003, we undertook extensive management reforms centered on the implementation of an executive officer system and the restructuring of our board of directors.

The Committee on Corporate Social Responsibility (CSR) was established in July 2003 to monitor and supervise Advantest's corporate activities, and to ensure that it takes social responsibilities into account. In January 2004, the CSR Committee organized a subcommittee on corporate governance, in addition to the five existing subcommittees. In this way, we are implementing measures to enhance the efficiency of management, increase the reliability of our financial reports, and strengthen our adherence to laws and regulations.

#### Meeting the targets under the "Initiative 21" business plan in fiscal 2004

In Japan, sales of digital consumer products remain strong. And, with the widespread adoption of third-generation mobile telephones, demand for semiconductors is expected to remain firm. In particular, SoC devices are predicted to see a large surge in demand.

In addition, Japanese semiconductor manufacturers have commenced full-scale production of 300mm wafers. Coupled with the switch to next-generation memory devices, large increases in capital investment by Japanese semiconductor manufacturers are expected.

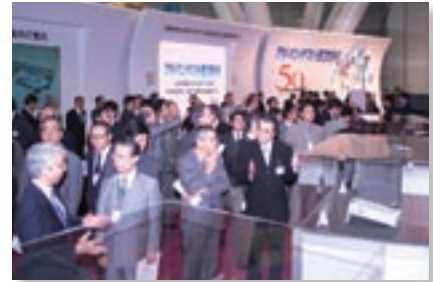
Fiscal 2004 marks the final year of a company-wide campaign entitled "Initiative 21," the goal of which has been to bolster Advantest's competitiveness in the current climate of mega-competition. We are making solid progress towards achieving our numerical targets, and we hope to close fiscal 2004 with an even stronger performance.

#### Marking our 50th anniversary as a trendsetter for the industry

The year 2004 is a major milestone in the history of Advantest, as it marks our 50th anniversary. The occasion will be commemorated throughout the year, with Advantest's Exhibition 2004 at the Tokyo International Forum in June kicking off the event calendar. This private exhibition was host to over 4000 guests from around the globe, and offered a comprehensive look at Advantest's products and history and communicated Advantest's vision for the next 50 years.

Since our founding, we believe we have become the industry's leading manufacturer of memory testers, commanding greater than a 60% worldwide market share. And, in the field of SoC testers, we are enthusiastically promoting an open architecture initiative that has the potential for radically altering the way and manner in which these complex devices are tested. This is a dynamic time for Advantest, as we undertake new business endeavors in keeping with our mission to always support leading edge technology, and contribute to the advancement of the industry as a whole.

We would like to express our warm appreciation for the continued support of our stakeholders.



Hiroshi Oura  
Chairman of the Board and CEO

Toshio Maruyama  
President and COO

Board of Directors and Corporate Auditors



Standing from left: Takashi Tokuno Hiroji Agata Kiyoshi Miyasaka Junji Nishiura Hitoshi Owada

Seated from left: Takashi Takaya Noboru Yamaguchi Shimpei Takeshita Hiroshi Oura Toshio Maruyama Kuniaki Suzuki Tadahiko Hirano

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Board of Directors

**Hiroshi Oura**  
Chairman of the Board and CEO

**Toshio Maruyama**  
Representative Board Director

**Junji Nishiura**  
Director

**Hitoshi Owada**  
Director

**Shimpei Takeshita**  
Vice Chairman of the Board

**Kiyoshi Miyasaka**  
Director

**Hiroji Agata**  
Director

**Takashi Tokuno**  
Director

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Corporate Auditors

**Noboru Yamaguchi**  
Standing Corporate Auditor

**Tadahiko Hirano**  
Standing Corporate Auditor

**Takashi Takaya**  
Corporate Auditor

**Kuniaki Suzuki**  
Corporate Auditor

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Executive Officers

**Toshio Maruyama**  
President and COO

**Managing Executive Officers**

**Executive Officers**

**Senior Executive Officers**

**Kiyoshi Miyasaka**  
Corporate Planning and Strategy

**Junji Nishiura**  
Technology and Production

**Hiroji Agata**  
Sales and Marketing

**Hitoshi Owada**  
Corporate Affairs

**Takashi Tokuno**  
Product Development  
Senior Vice President, ATE Business Group

**Kenichi Mitsuoka**  
Senior Vice President, FA Business Group

**Norihito Kotani**  
Senior Vice President, Application Specific  
Business Group

**Yuri Morita**  
Senior Vice President, Corporate Affairs  
Group

**Jiro Katoh**  
Senior Vice President, Technology  
Development Group

**Takao Tadokoro**  
Senior Vice President, Sales and  
Marketing Group

**Hiroyasu Sawai**  
Vice President, SE, ATE Business Group

**Hiroshi Tsukahara**  
Senior Vice President, DI Business Group

**Masao Shimizu**  
Vice President, SoC Tester Products, ATE  
Business Group

**Masao Araki**  
Director and President of Advantest  
(Suzhou) Co., Ltd. and Advantest  
Shanghai Ltd.

**Yoshiaki Furuse**  
Vice President, Sales and Marketing  
Group

**Yuichi Kurita**  
Vice President, Finance, Corporate Affairs  
Group

**Yoshiro Yagi**  
Vice President, ATE, Sales and Marketing  
Group

**Hideaki Imada**  
Vice President, OAI, Sales and Marketing  
Group

**Shinichiro Umeda**  
Vice President, Software, ATE Business  
Group

# Creating an Open Architecture Environment

— An open architecture test platform lowers the cost of testing, benefiting both semiconductor manufacturers and test system developers —

- **Endorsing the goals of the Semiconductor Test Consortium (STC)**
- **Introduced industry's first OPENSTAR® compliant test system**



## **A Charter Member of the STC, promoting the OPENSTAR® standard**

In March 2003, responding to the need for test systems targeted at increasingly complex SoC (System-on-a-Chip) devices, Advantest, along with Intel, Motorola and over 30 companies worldwide that represent the semiconductor, equipment, and instrumentation sectors, established the Semiconductor Test Consortium, Inc. (STC), an organization dedicated to the advancement of an open test platform for SoCs and other complex logic devices. One year has passed since its inception, and the Consortium has gained considerable momentum in the industry.

The STC is advocating the widespread adoption of its open architecture environment, which it sees as key to cost reductions for device manufacturers. This Open Semiconductor Test Architecture (OPENSTAR®) standard enables chipmakers to implement flexible automated test equipment (ATE) solutions to meet their divergent test needs in a cost-effective manner, by providing unique multi-vendor interoperability at both the hardware and software levels.

Since the introduction of the concept of "Open Architecture," the STC has won support from some major semiconductor manufacturers worldwide. As of June



2004, membership has totaled 37, including 26 companies and 11 institutions. STC continues to promote the benefits and efficiencies of its open architecture standard, and to seek new members worldwide.

Advantest recently debuted the T2000, a new open architecture test system that conforms to the standards set by the STC. Advantest encourages third party vendors of modules and test equipment to unite in the goal of providing cost efficient test offerings to the semiconductor industry.

### **T2000, the industry's first test system to be certified as compliant with the STC open architecture standard**

The T2000 debuted in October 2003. It is the first test system to be developed based upon the open architecture OPENSTAR® platform. Not only do we expect it to contribute to the Advantest's performance in terms of profitability, Advantest has also derived recognition for leading the industry into a new era of cost effective testing and flexible performance. In this sense, this is a very significant product for Advantest.

The open architecture platform was designed to address the increasing number of devices in development, and their corresponding use in products with shorter life cycles. These shorter life cycles are driving

the cost of testing significantly higher. Until this time, for each new introduction of device or application, a new tester was needed. Through its modular design, the T2000 helps to minimize the costs associated with testing.

### **Hastening the industry-wide adoption of an open architecture platform, and targeting a larger share of the SoC test market**

The T2000 has attracted much interest since its market launch, and sales have been strong. The initial success of the T2000 is helping to generate great interest in the open architecture initiative, and a number of third party vendors are expressing interest in developing modules compatible with the platform. With each new vendor participant, the world of OPENSTAR® expands, increasing the prospect for further reductions in test costs and raising the efficiency of the software and related options.

Through efforts such as this, we expect to substantially increase Advantest's share of the global SoC tester market from its current level of about 10%.



# The Solutions Business

— The “GETsolution” service promise delivers global support networking —

- **A comprehensive solution, from semiconductor design to product shipment**
- **Guaranteed fast delivery of parts and products responds to customers’ time-to-market imperative**



## **Leading edge technology and a corresponding global support system**

Advantest is known not only for its products, but also for its solutions approach to business and world-class customer support capabilities. Advantest has introduced the Globally Enabled Total Solution, or “GETsolution,” a comprehensive service that offers customers with a solutions approach to problems that arise during the semiconductor production process, from chip design through product delivery.

## **The Testing Set Solution**

The Testing Set Solution is a quick response system that helps our customers resolve the initial problems often encountered with new devices, allowing them to move rapidly from the measurement stage to the production stage of development. Such functions as system inspections, engineering, program design and interface checks are addressed here, as is the debugging process.

## **Test Technology Service Solution**

Test Technology Service Solution helps in creating test programs or test boards, making the design stage of the device less labor intensive. In the creation of test boards, it provides total support, for everything from

parts collection to the development of a system design that fully maximizes the system's features.

**ACS develops new maintenance services**

Advantest Customer Support Corp. (ACS) is responsible for providing maintenance and support services for the hardware and software operations of Advantest and its consolidated subsidiaries.

ACS takes the innovative approach of combining hardware and software services, and will ultimately train systems engineers world wide to respond in this way to customer needs. The new service will begin in fiscal 2004.

**Delivering maintenance parts anywhere in the world within 48 hours**

Global leadership in an industry as dynamic as semiconductor testing, requires service that is responsive and immediate. Using the Internet and a network of call centers, we are able to troubleshoot problems as they arise, and through special contract, we are guaranteed that delivery of parts will reach our customers swiftly, often within 24 hours.



Flash BIST tester T5724 allows simultaneous testing of a vast number of devices



Entering the automotive device testing market with the new T7721 mixed signal test system

# Research and Development

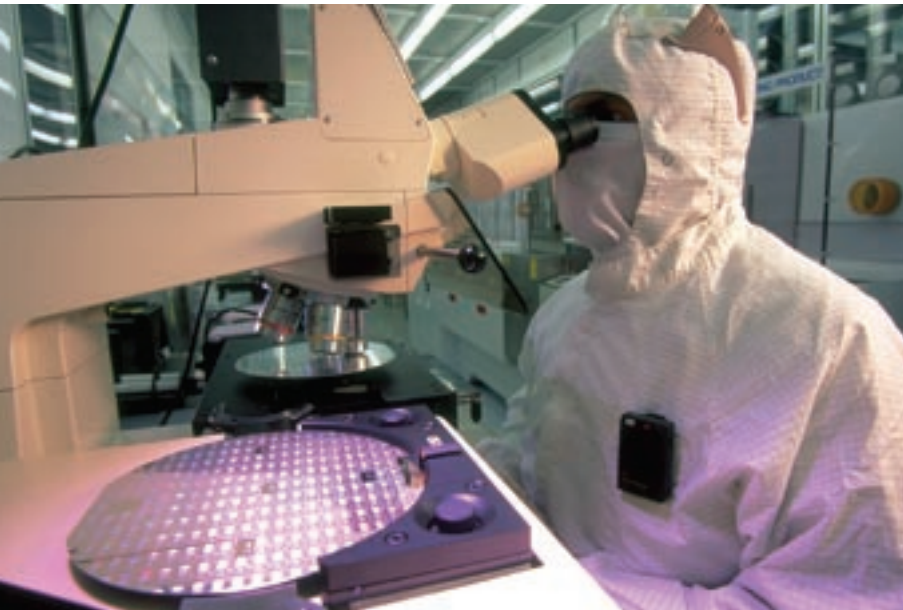
— Our competitive advantage is our cutting edge technology —

- Continuing to aggressively invest in critical R&D
- Fostering an environment for new technologies and designs

## R&D expenses remain at a high level

In order to support leading technology, Advantest continues to develop products with measurement capabilities that can be utilized in such fields as electronics, communications, and semiconductor manufacturing. Advantest's research and development focuses on the development of new products and the refinement of existing products. Automated test equipment, in particular, is highly specialized and sold in relatively low volumes, and therefore requires a large and ongoing investment in development by Advantest to maintain competitiveness. Advantest also conducts research of basic technologies.

Advantest's expenditures for research and development were approximately ¥26.6 billion in fiscal 2001, ¥23.6 billion in fiscal 2002 and ¥21.6 billion (US\$205 million) in fiscal 2003. Advantest employs over 1,000 engineers and other personnel in its research and development division.



## Some of Advantest's current research and development activities

### Basic Technology

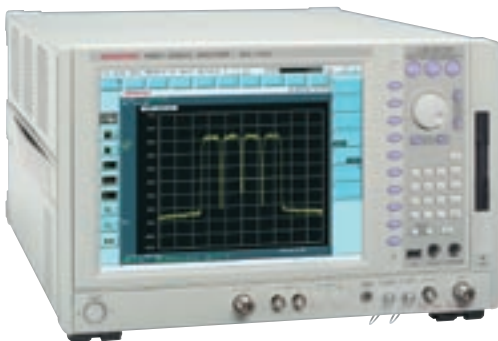
- Development of devices for the measurement of millimeter waves, that consist of electromagnetic radiation with extremely high frequencies that are used in broadband communications and radars.
- Development of testing and measuring technologies and components for photonic networks, which are networks that transmit communication signals entirely through optical signals.
- Development of constituent technologies, including high speed, energy-saving micro switches and high speed samplers used in semiconductor test systems and millimeter wave measuring instruments.
- Development of methods to detect timing jitters in high bit-rate signals.

### Automated Test Equipment

- Development of automated test equipment that has improved front-end DRAM testing functionality and requires less floor space.
- Development of automated test equipment that has the capacity to simultaneously test multiple complex SoC semiconductors with large pin counts and requires less floor space.

### Measuring Instruments

- Development of measuring instruments for devices that operate at extremely high frequencies and for networks that carry extremely high density transmissions.
- Continued development of component module-based measuring instruments. Modularization is a process through which functions of Advantest's measuring instrument product lines are installed into modules, thereby allowing for multi-functional instruments.



R3671 signal analyzer designed to test high-performance amplifiers for base stations



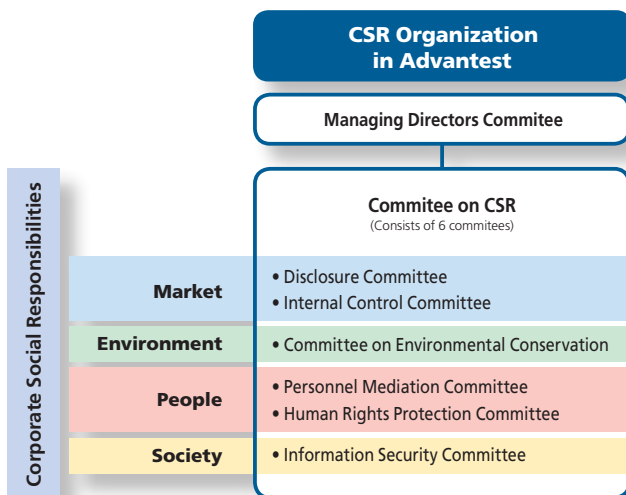
Q7761 optical network analyzer for testing optical fibers and components

# CORPORATE SOCIAL RESPONSIBILITY (CSR) ACTIVITIES

## Toward the realization of a sustainable society

The management of Advantest has publicly stated its belief that one of the most important social duties of a business enterprise is to work to simultaneously lower the environmental burden of its corporate activities while raising its overall value proposition. By so doing, companies are able to benefit themselves, their customers, and the environment. Based on this stance, in July 2003 we established the Committee on Corporate Social Responsibility (CSR), with the aim of raising the level of Advantest's contribution to the creation of a sustainable society.

The principles of corporate social responsibility require companies to address issues broadly relating to four areas — the market, the environment, the company's staff and the society at large. Until this time, Advantest had assigned independent committees to these tasks, but under the reorganized system, these dedicated committees now serve as subcommittees under the umbrella of the Committee on CSR. This committee serves as the guiding body over these activities, offering supervisory and evaluative direction. Additionally, we have set up a new subcommittee to take charge of corporate governance.



## Principles of Advantest's environmental preservation activities

<b>Aim to be No.1</b>	We aim to take the lead over our competitors in the development and marketing of high-quality, ecologically friendly products that meet the three basic requirements of energy conservation, recyclability, and absence of toxic substances.
<b>Raise competitiveness and customer satisfaction</b>	By incorporating eco-friendly technologies into product development, we aim to provide our customers with solutions for realizing energy conservation and reducing test costs. In this way, we will improve our market competitiveness while raising customer satisfaction levels.
<b>Environmental consciousness</b>	Through the establishment of an effective system for assessing the environmental impact of products, we can eliminate losses resulting from incorrect parts procurement or faulty design, thus ensuring that our business operations meet all the essential requirements of low cost, high quality, environmental soundness, and safety.

## Advantest's response to EU directives on waste disposal

One of our management priorities for some time to come will be responding to the directives of the European Union that came into effect in February 2003 — the WEEE (Waste from Electrical and Electronic Equipment) and RoHS (Restriction of Hazardous Substances in Electrical and Electronic Equipment) directives. The former prohibits the sale within the EU from July 2006 of any electrical component or electronic equipment containing lead, mercury, cadmium, and other toxic substances. In order to bring to market environmentally friendly, or "green", products, we are earnestly tackling the various issues relating to environmental preservation from the perspectives of simpler design, reduced number of components, and enhanced recyclability.

## Lead-free products: green design and manufacturing

Currently, eutectic solder, a tin-lead solder that melts at a conveniently low temperature, is widely used to connect electronic components within semiconductor testers and other testing and measuring equipment. When the RoHS directive comes into force, however, the use of this solder will be prohibited because of its lead content. Certain lead-free solders have already been commercialized, but because of their high fusion temperature



(melting point), it will be necessary to modify some components of semiconductor devices to increase their heat resistance. Advantest will exert its full effort towards overcoming the related technical problems, and will begin production of lead-free products by the end of 2005.

### **Green Procurement — Protecting and respecting our natural resources**

Our goal is to manufacture products that routinely conform to “green” requirements, and we are taking steps to reduce the environmental burden of the entire production process — including operations by companies from whom we procure materials and components, and at affiliates or outsourced service providers responsible for assembly or processing work. By March 2004, following guidelines voluntarily laid down by Advantest, we succeeded in reducing the content of harmful substances as specified in the RoHS directive for approximately 35,000 different items used in our manufacturing process (parts and materials). We are continuing to search out new alternative materials, and will enforce a blanket prohibition from January 2005 on the procurement of all items not conforming to the RoHS directive.

### **Harmonizing our operations with the natural environment**

To play a role, however small, in reviving and preserving the once renowned pastoral beauty of the Kanto Plain, we have established a biotope at our Gunma R&D Center. (A biotope is an area uniform in environmental conditions that serves as a habitat for animals and plants, and stimulates their growth and preservation.) We are working to turn this area — which features wetland plants, shrubbery and trees to provide a home for a variety of birds, insects, and fish — into a nature preserve where people can coexist with the natural world and learn the importance of protecting the environment.

In one corner of the tract of land that houses the Advantest Laboratories in the Aoba district of Sendai, a major city in northern Japan, there is a stand of Japanese redwood pine trees over 100 years old. To protect this precious resource, which serves as a home to local pheasants, we employ tree surgeons to provide proper forest management.

### **Contribution to local communities and society as a whole**

To fulfill our responsibilities as a corporate citizen, we actively support the local communities around our plants and offices, and the broader society in which we live and work. Our worldwide staff are encouraged to work in cooperation with local groups and to partake in events that meet the needs of the communities in which they operate. We vigorously encourage staff to participate in volunteer community services.

Advantest is a contributor to such charitable organizations as the Red Feather Community Chest, and to UNESCO. In addition, we provide financial support for the DIIN Project, an industry group which aims to develop an ultrafast manufacturing process for semiconductors. The project is funded by experts from private industry, government, and academia.

The measures and results of our environmental activities are publicized inside and outside Advantest, and this encourages the proliferation of further work. Advantest disseminates information about its environmental initiatives through the Environmental Report on its website, as well as in a wide range of other publications and media.

For further details regarding Advantest’s environmental activities and social contribution initiatives, access our website at <http://www.advantest.co.jp/about/en-index.shtml>

### Directors

The board of directors has the ultimate responsibility for the administration of the affairs of Advantest. Advantest's articles of incorporation limit the number of directors to 10. Directors are elected at a general meeting of stockholders, and the standard term of office of directors is two years. Directors may serve any number of consecutive terms. The board of directors elects one or more representative directors from among its members, each of whom has the authority individually to represent Advantest. From among its members, the board of directors may elect the chairman and the vice chairman. None of the directors of Advantest has a service contract with Advantest that provides for benefits upon termination of service.

### Corporate Auditors

Advantest's articles of incorporation provide for no more than four corporate auditors and Advantest currently has two standing corporate auditors and two outside corporate auditors. Corporate auditors are elected at the general meeting of stockholders and the standard term of office of corporate auditors is four years. The two outside corporate auditors are those who have not been a director or employee of Advantest or any of its subsidiaries during the five-year period immediately prior to his or her election as a corporate auditor, as required under the Commercial Code of Japan and the Law concerning Exceptional Measures to the Commercial Code with respect to Auditing, etc. of Joint Stock Corporations, or the Special Exception Law (hereinafter, the same). Subsequent to the ordinary general meeting of stockholders to be held in June 2006, at least half of the corporate auditors will be required to be persons who have not been a director, executive officer, manager, or employee of Advantest or any of its subsidiaries at any time prior to such corporate auditor's election. Corporate auditors may not at the same time be directors, executive officers, managers, or employees of Advantest or any of its subsidiaries. Advantest increased the number of required outside corporate auditors from one to two at the general meeting of stockholders held in June 2003 in order to strengthen the

auditing function of the board of corporate auditors. Corporate auditors are under a statutory duty to oversee the administration of Advantest's affairs by its directors, to examine its financial statements and business reports to be submitted annually by its board of directors to the general meetings of the stockholders and to report their opinions thereon. They are also required to attend the meetings of the board of directors and to express their opinions, but are not entitled to vote.

Corporate auditors constitute the board of corporate auditors. The board of corporate auditors has a statutory duty to prepare and submit an audit report to the directors each year. A corporate auditor may note his or her opinion in the audit report if his or her opinion is different from the opinion expressed in the audit report. The board of corporate auditors is empowered to establish audit principles, the method of examination by corporate auditors of Advantest's affairs and financial position and other matters concerning the performance of the corporate auditors' duties.

Advantest does not have a remuneration committee.

### Significant Differences in Corporate Governance Practices between Advantest and U.S. Companies Listed on the New York Stock Exchange

Pursuant to home country practices exemptions granted by the New York Stock Exchange, or the NYSE, Advantest is permitted to follow certain corporate governance practices complying with Japanese laws, regulations and stock exchange rules in lieu of NYSE's listing standards. In November 2003, the United States Securities and Exchange Commission, or the SEC, approved changes to the NYSE's listing standards related to corporate governance practices of listed companies. Advantest is exempted from the approved changes, except for requirements that (a) Advantest's audit committee satisfy the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934 as amended, or the Exchange Act, (b) Advantest must disclose significant differences in the corporate governance practices followed by Advantest as compared to those followed by domestic companies

under the NYSE listing standards and (c) Advantest's CEO must notify the NYSE of material non-compliance with (a) and (b). Advantest's corporate governance practices and those followed by domestic companies under the NYSE listing standards, or NYSE Corporate Governance have the following significant differences:

### **1. Directors**

Advantest currently does not have any independent director on its board of directors. Unlike NYSE Corporate Governance, the Commercial Code of Japan and related legislation (including the Special Exception Law), or the Code (hereinafter, the same), do not require Japanese companies with boards of corporate auditors such as Advantest to have any independent directors on its board of directors. While NYSE Corporate Governance requires that the non-management directors of each listed company meet at regularly scheduled executive sessions without management, Advantest currently has no non-management director on its board of directors. Unlike NYSE Corporate Governance, the Code does not require, and accordingly Advantest does not have, an internal corporate organ or committee comprised of only independent directors.

### **2. Committees**

Under the Code, Advantest has elected to structure its corporate governance system as a company with corporate auditors, which are under a statutory duty to monitor, review and report on the administration of the affairs of Advantest. Advantest, consistent with other Japanese companies with corporate auditors, but unlike NYSE Corporate Governance, does not have specified committees, including those that are responsible for director nomination, corporate governance and executive compensation.

Pursuant to the Code, Advantest's board of directors nominates and submits a proposal for appointment of directors for stockholder approval. The stockholders vote on such nomination at Advantest's general meeting of stockholders. The Code requires that the respective total amount of remuneration to be paid to all directors and all corporate auditors must be determined by a

resolution of the general meeting of stockholders, unless their remuneration is provided for in the Articles of Incorporation. The distribution of remuneration among directors is broadly delegated to Advantest's board of directors and the distribution of remuneration among corporate auditors is determined by consultation among Advantest's corporate auditors.

### **3. Audit Committee**

Advantest plans to avail itself of paragraph (c)(3) of Rule 10A-3 of the Exchange Act, which provides a general exemption from the audit committee requirements to a foreign private issuer with a board of corporate auditors, subject to certain requirements which continue to be applicable under Rule 10A-3. Consistent with the requirements of the Code, Advantest elects its corporate auditors through a resolution adopted at a general meeting of stockholders. Advantest currently has four (4) corporate auditors, which exceeds the minimum number of corporate auditors required pursuant to the Code.

Unlike NYSE Corporate Governance, the Code, among others, does not require corporate auditors to establish an expertise in accounting nor are they required to present other special knowledge and experience. Under the Code, the board of corporate auditors may determine the auditing policies, method of investigating the conditions of the business and the assets of Advantest, and may resolve other matters concerning the execution of the corporate auditor's duties, prepare auditors' reports and give consent to proposals of the nomination of corporate auditors and accounting auditors.

Advantest currently has two (2) corporate auditors who satisfy the requirements of "independent" under the Code. Unlike NYSE Corporate Governance, under the Code, at least one of the corporate auditors of Advantest must be "independent", which is such person who was not a director, executive officer, manager, or employee of Advantest or any of its subsidiaries during the five-year period prior to such corporate auditor's election. Subsequent to the ordinary general meeting of stockholders to be held in June 2006, at least half of the corporate auditors will be

required to be persons who have not been a director, executive officer, manager, or employee of Advantest or any of its subsidiaries at any time prior to such corporate auditor's election. Corporate auditors may not at the same time be directors, executive officers, managers, or employees of Advantest or any of its subsidiaries.

#### 4. Corporate Governance Guidelines

Unlike NYSE Corporate Governance, Advantest is not required to adopt or disclose corporate governance guidelines under Japanese laws and regulations, including the Code and the Securities and Exchange Law of Japan or stock exchange rules. However, Advantest is required to disclose policies and the present status of its corporate governance in its annual securities report and certain other disclosure documents in accordance with the regulations under the Securities and Exchange Law of Japan and regulations thereunder, and stock exchange rules in respect of timely disclosure.

#### 5. Code of Business Conduct and Ethics

Unlike NYSE Corporate Governance, under Japanese law (including the Code and the Securities and Exchange Law of Japan), and stock exchange rules, Advantest is not required to adopt a code of business conduct and ethics for directors, officers and employees. Accordingly, Advantest is not required to adopt and disclose a code of business conduct and ethics for these individuals. However, Advantest has established a code of ethics consistent with Section 406 of the Sarbanes-Oxley Act.

#### 6. Stockholder Approval of Equity Compensation Plans

Unlike NYSE Corporate Governance, in which material revisions to equity-compensation plans of the listed companies are subject to stockholder approval, pursuant to the Code, if Advantest desires to adopt an equity-compensation plan under which stock acquisition rights are granted on favorable terms to the recipient under the plan (except where such rights are granted to all of its

stockholders on a pro-rata basis at the same time), then Advantest must obtain stockholder approval by a "special resolution" of a general meeting of stockholders, where the quorum is one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting is required.

#### ADVANTEST BEHAVIOR NORMS (Code of Conduct)

