

ADVANTEST CORP
Form 20-F
June 26, 2014
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As filed with the Securities and Exchange Commission on June 26, 2014

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report .

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For the transition period from to

Commission file number: 1-15236

KABUSHIKI KAISHA ADVANTEST

(Exact name of registrant as specified in its charter)

ADVANTEST CORPORATION

(Translation of registrant's name into English)

Japan

(Jurisdiction of incorporation or organization)

Shin-Marunouchi Center Building

1-6-2, Marunouchi

Chiyoda-ku

Tokyo 100-0005

Japan

(Address of principal executive offices)

Hiroshi Nakamura, (81-3) 3214-7500, (81-3) 3214-7711,

Shin-Marunouchi Center Building

1-6-2, Marunouchi

Chiyoda-ku

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Tokyo 100-0005

Japan

(Name, telephone, facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:
American Depositary Shares*
Common Stock**

Name of each exchange on which registered:
The New York Stock Exchange

* American Depositary Receipts evidence American Depositary Shares, each American Depositary Share representing one share of the registrant's Common Stock.

** No par value. Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Title of class:	Outstanding as of March 31, 2014:
Common Stock	174,197,942
American Depositary Shares	
each representing one share of Common Stock	1,226,091

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued
By the International Accounting Standards Board Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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As used in this annual report, the term **fiscal** preceding a year means the twelve-month period ended March 31 of the year subsequent to the year referred to. For example, **fiscal 2013** refers to the twelve-month period ended March 31, 2014. All other references to years refer to the applicable calendar year.

In parts of this annual report, certain amounts reported in Japanese yen (¥) have been translated into U.S. dollars (\$) for the convenience of readers. Unless otherwise noted, the rate used for this translation was \$1.00 = ¥102.92. This was the approximate exchange rate in Japan on March 31, 2014.

Unless otherwise noted, all references and discussions of the financial position of Advantest Corporation (the **Company**) and its consolidated subsidiaries (collectively, **Advantest**), results of operations and cash flows in this annual report are made with reference to Advantest's consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The segment sales figures included in this annual report are presented before eliminating intercompany transactions.

See **Information on the Company** **Business Overview** **Glossary** for a description of certain technical terms used in this annual report.

Cautionary Statement 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 statements include, among other things, the discussion of Advantest's business strategy, outlook and expectations as to market and business developments, production and capacity plans. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as **anticipate**, **believe**, **estimate**, **expect**, **intend**, **project**, **should** and similar expressions. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause Advantest's actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements, including:

changes in demand for the products and services produced and offered by Advantest's customers, including semiconductors, communications services and electronic goods;

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;

the environment in which Advantest purchases materials, components and supplies for the production of its products, including the availability of necessary materials, components and supplies during a significant expansion in the market in which Advantest operates; and

changes in economic conditions, competitive environment, currency exchange rates or political stability in the major markets where Advantest produces, distributes or sells its products.

These risks, uncertainties and other factors also include those identified in **Operating and Financial Review and Prospects**, **Key Information** **Risk Factors** and **Information on the Company** set forth elsewhere in this annual report.

Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**3.A. SELECTED FINANCIAL DATA**

You should read the U.S. GAAP selected consolidated financial information presented below together with Operating and Financial Review and Prospects and Advantest's consolidated financial statements together with the notes included in this annual report.

U.S. GAAP Selected Consolidated Financial Data

The following selected financial data have been derived from Advantest's audited consolidated financial statements. These consolidated financial statements were prepared under U.S. GAAP. Advantest's U.S. GAAP audited consolidated financial statements for fiscal 2011, fiscal 2012 and fiscal 2013 were included in its Japanese Securities Reports filed with the Director General of the Kanto Local Finance Bureau.

	2010	2011	Year ended March 31,		2014	2014
		(in millions, except	2012	2013		(in thousands,
		per share and				except
		share data)				per share and
						share data)
Consolidated Statement of Income Data:						
Net sales	¥53,225	¥99,634	¥141,048	¥ 132,903	¥111,878	\$1,087,038
Operating income (loss)	(11,639)	6,111	837	80	(36,369)	(353,372)
	(9,926)	5,551	(3,442)	(1,293)	(35,501)	(344,938)

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Income (loss) before income taxes and equity in earnings (loss) of affiliated company

Net income (loss)	(11,454)	3,163	(2,195)	(3,821)	(35,540)	(345,317)
Net income (loss) per share						
Basic	(64.09)	18.03	(12.67)	(22.03)	(204.10)	(1.98)
Diluted	(64.09)	18.03	(12.67)	(22.03)	(204.10)	(1.98)
Basic weighted average shares outstanding	178,722,505	175,481,854	173,271,717	173,478,054	174,134,457	174,134,457
Diluted weighted average shares outstanding	178,722,505	175,495,458	173,271,717	173,478,054	174,134,457	174,134,457

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	2010	2011	As of March 31,		2014	2014 (in thousands)
			2012 (in millions)	2013		
Consolidated Balance Sheet Data:						
Total assets	¥ 188,663	¥ 180,312	¥ 219,226	¥ 225,515	¥ 229,856	\$ 2,233,346
Short term debt			25,000			
Corporate bonds				25,000	25,000	242,907
Convertible bonds					30,149	292,936
Common stock	32,363	32,363	32,363	32,363	32,363	314,448
Stockholders equity	150,242	138,132	131,552	141,241	116,252	1,129,538

	2010	2011	As of March 31,		2014	2014 (in thousands)
			2012 (in millions, except per share data)	2013		
Other Data:						
Capital expenditures	¥ 3,425	¥ 3,793	¥ 6,984	¥ 12,592	¥ 5,626	\$ 54,664
Research and development expenses	17,896	21,197	30,303	33,062	32,670	317,431
Net cash provided by (used in) operating activities	(17,746)	(693)	12,302	(2,215)	(3,776)	(36,689)
Net cash provided by (used in) investing activities	10,824	(5,828)	(37,670)	(11,498)	(4,711)	(45,773)
Net cash provided by (used in) financing activities	(1,803)	(12,028)	9,887	(2,914)	27,202	264,302
Operating margin ⁽¹⁾	(21.87%)	6.13%	0.59%	0.06%	(32.5%)	
Net income margin ⁽²⁾	(21.52%)	3.17%	(1.56%)	(2.88%)	(31.8%)	

(1) Operating income as a percentage of net sales.

(2) Net income as a percentage of net sales.

Dividends

The Company normally pays cash dividends semiannually, at mid-year and at year-end. Pursuant to its articles of incorporation, the Company can make dividend payments pursuant to a resolution of its Board of Directors, but the articles do not preclude the Company from making dividend payments pursuant to a shareholders resolution. The year-end dividend is paid to shareholders of record as of March 31 pursuant to the resolution of either the Board of Directors or the ordinary general shareholders meeting held usually in June every year. The interim dividend is paid to shareholders of record as of September 30, pursuant to a resolution of the Board of Directors, usually in December.

The following table sets forth the dividends paid by the Company for each of the periods shown, which are the six months ended on that date. The U.S. dollar equivalent for the dividends shown are based on the exchange rate in Japan on each record date shown.

Six months ended/Record date	Dividend per Share	
	Yen	Dollars
September 30, 2009	5.0	0.06
March 31, 2010	5.0	0.05
September 30, 2010	5.0	0.06
March 31, 2011	5.0	0.06
September 30, 2011	5.0	0.07
March 31, 2012	10.0	0.12

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September 30, 2012	10.0	0.13
March 31, 2013	10.0	0.11
September 30, 2013	10.0	0.10
March 31, 2014	5.0	0.05

The payment and the amount of any future dividends are subject to the level of Advantest's future earnings, its financial condition and other factors, including statutory restrictions on the payment of dividends.

Table of Contents**Exchange Rates**

In parts of this annual report, certain Japanese yen amounts have been translated into U.S. dollars for the convenience of investors. Unless otherwise noted, the rate used for the translation was \$1.00 = ¥102.92. This was the approximate exchange rate in Japan on March 31, 2014.

The following table sets forth, for the periods and dates indicated, information concerning the noon buying rate for Japanese yen announced by the Federal Reserve Bank of New York, expressed in Japanese yen per \$1.00. The noon buying rate as of June 13, 2014 was \$1.00 = 102.06. The Company does not intend to imply that the Japanese yen or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Japanese yen, as the case may be, at any particular rate, or at all.

Fiscal year ended March 31,	At end of period	Average (of month-end rates) (¥ per \$1.00)	High	Low
2010	¥ 93.40	¥ 92.49	¥ 100.71	¥ 86.12
2011	82.76	85.00	94.68	78.74
2012	82.41	78.86	85.26	75.72
2013	94.16	83.26	96.16	77.41
2014	102.98	100.46	105.25	92.96

Month ended	High (¥ per \$1.00)	Low
December 31, 2013	¥ 105.25	¥ 101.82
January 31, 2014	104.87	102.20
February 28, 2014	102.71	101.11
March 31, 2014	103.38	101.36
April 30, 2014	103.94	101.43
May 31, 2014	102.34	101.26

3.B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

3.C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

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Advantest's business depends largely upon the capital expenditures of semiconductor industrial, design and manufacturing companies, fabless semiconductor companies, foundries and test houses. These companies, in turn, determine their capital expenditure and investment levels largely based on current and anticipated market demand for semiconductors and products incorporating semiconductors. Such demand is influenced significantly by the overall condition of the global economy. Historically, the percentage reduction in capital expenditures by semiconductor manufacturers during downturns in the semiconductor industry, including investment in semiconductor test systems, has typically been much greater than the percentage reduction in worldwide sales of semiconductors. The semiconductor industry has been highly cyclical with recurring periods of excess inventory, which often have had a severe effect on the semiconductor industry's demand for semiconductor test systems, including those of Advantest. In particular, the market for memory semiconductors shows higher demand volatility as compared to the market for non memory semiconductors. Advantest derives significant sales from test systems for memory semiconductors in the Semiconductor and Component Test Systems; in fiscal 2013, net sales of test systems for memory semiconductors increased by 14.5% to 32.1% from 17.6% in fiscal 2012. Therefore, any downturn in the memory semiconductor market may continue to adversely affect Advantest's business and results of operations.

The worldwide semiconductor market contracted by 9.0% in 2009 compared to the previous year, continuing to reflect the global economic downturn that stemmed from the financial crisis. After the negative growth in 2009, the market significantly recovered in 2010, growing by 31.8% compared to 2009, primarily due to a surge in demand for electronic equipment in developing nations. In 2011, due to the global economic recession and natural disasters such as the Great East Japan Earthquake and the floods in Thailand reducing production activities of electronic products, the semiconductor market only increased by 0.4% compared to 2010. In 2012, the semiconductor market decreased by 2.7% compared to 2011, due to factors such as the prolonged stagnation in the European economy caused by the debt crisis in the Southern European countries and the slowdown in the Chinese economy, which had been supporting the global economy. In 2013, the semiconductor market increased by 4.8% compared to 2012, due to an overall steady demand for semiconductors, despite some variations among products. Worldwide sales of non memory semiconductors in 2009 decreased by 10.3% compared to 2008, primarily as a result of the impact of the global economic downturn stemming from the financial crisis that started in 2008. In 2010, worldwide sales of non memory semiconductors increased by 26.0% compared to 2009, primarily due to robust demand for smartphones, tablet-type devices, and other consumer electronics. In 2011, worldwide sales of non memory semiconductors further increased by 4.4% compared to 2010, due to continuing robust demand for smartphones, tablet-type devices, and similar devices. In 2012, although sales of communications semiconductors and LCD drivers semiconductors, among others, remained strong due to continued robust demand in the mobile devices market, worldwide sales of non memory semiconductors decreased by 1.8% compared to 2011 due to the downturn in sales of other electronic devices. In 2013, worldwide sales of non memory semiconductors increased by 1.7% compared to 2012 due to a steady demand for tablet-type devices and smartphones. Although the markets for personal computers and cellular phones including smartphones remained steady in 2009, worldwide sale of memory semiconductors declined by 3.3% compared to 2008, reflecting the global economic downturn, resulting in negative growth. In 2010, primarily due to a steady demand for mobile DRAM test systems for mobile devices, worldwide sales of memory semiconductors increased by 55.4% compared to 2009. In 2011, worldwide sales decreased by 12.7% compared to 2010 due to a drop in the price of DRAM triggered by a downturn in demand for PCs and similar devices. In 2012, sales continued to decrease by 6.2% compared to 2011 due to the ongoing weakness in demand for PCs and similar devices. In 2013, sales increased by 17.6% compared to 2012 due to, among other factors, an increased demand for DRAM and LPDDR for products such as low end smartphones.

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The significant volatility in demand for semiconductors is affected by various factors such as:

the overall state of the global economy;

levels of investment in communications infrastructure and trends of demand in communication devices such as tablet-type devices and smartphones;

demand in personal computer and data server industries;

consumer demand for digital consumer products such as flat-panel TVs, DVD/Blu-ray disc recorders, portable audio players and electronic books;

demand in the automobile industry; and

trends in the semiconductor industry.

In fiscal 2009, the semiconductor manufacturers gradually resumed capital expenditures as semiconductor prices rose and equipment utilization rates climbed. Despite the gradual recovery in fiscal 2009, Advantest's net sales in fiscal 2009 decreased by 30.6%, as compared to fiscal 2008, to ¥53,225 million, primarily due to the drop in orders seen in the second half of fiscal 2008. In fiscal 2010, despite a difficult business environment with factors such as continuing appreciation of the Japanese yen and intensified price competition, Advantest seized the positive growth opportunity in the semiconductor market and strived to expand orders and revenues. As a result of the above, Advantest's net sales in fiscal 2010 increased by 87.2% as compared to fiscal 2009, to ¥99,634 million, and Advantest recorded a net income of ¥3,163 million in fiscal 2010. In fiscal 2011, Advantest expanded sales to meet areas of increasing demand growth such as test equipment for application processors, CMOS image sensors, and other non memory semiconductor sectors. In addition, after the completion of the acquisition of Verigy Ltd. (Verigy) in July 2011, Advantest has enhanced sales promotion to customers in the U.S. and Europe and has provided products tailored to better meet increasing customer demand in the communications semiconductor market. As a result of the above, Advantest's net sales in fiscal 2011 increased by 41.6%, as compared to fiscal 2010, to ¥141,048 million. However, cumulative costs associated with the Verigy acquisition and impairment losses on investment securities led to a year-on-year decline in earnings, and Advantest recorded a net loss in fiscal 2011 of ¥2,195 million. In this environment, Advantest actively marketed semiconductor testing equipment for mobile communications-related semiconductor applications the largest segment for testing equipment and as a result, the company successfully gained market share. However, the gain in market share could not fully offset the decrease in demand for semiconductor testing equipment resulting from capital expenditure constraints of semiconductor manufacturers experiencing a slowdown in the semiconductor market. As a result of the above, Advantest's net sales in fiscal 2012 decreased by 5.8%, as compared to fiscal 2011, to ¥132,903 million. The product mix in sales also worsened, leading to a net loss in fiscal 2012 of ¥3,821 million. In Advantest's core line of semiconductor test equipment, difficult business climate prevailed as a result of significant constraints in capital investments by some of Advantest's major customers since last summer, for non memory test systems. As a result of the above, Advantest's net sales in fiscal 2013 decreased by 15.8%, as compared to fiscal 2012, to ¥111,878 million. From a profit and loss perspective, in addition to the decline in net sales, an increase in costs denominated in foreign currency due to the continuing depreciation of the yen, and recognizing inventory valuation losses and impairment losses for long-lived assets due to changes in the business environment, resulted in a net loss of ¥35,540 million.

Advantest believes that its results are significantly affected by the significant volatility in demand in the semiconductor industry. While Advantest is unable to predict future trends in the semiconductor industry, if there is a significant downturn in the semiconductor industry, Advantest's financial condition and results of operations will be adversely affected. With respect to semiconductor prices in recent years, even though prices for certain products such as DRAM appear to have bottomed out, if the prices decline as a result of over-supply of semiconductors, semiconductor manufacturers' earnings could deteriorate, resulting in their further restraint towards capital expenditures, and Advantest's results of operations could be adversely affected.

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If Advantest does not introduce new products meeting its customers' technical requirements in a timely manner and at competitive prices, its products may become obsolete and its financial condition and results of operations may suffer

Advantest sells its products to several industries that are characterized by rapid technological changes, frequent introduction of new products and services, varying and unpredictable product lifecycles and evolving industry standards. Advantest anticipates that future demand for its products will be driven, in large part, by technological innovation in semiconductor technology, which creates new testing requirements that are not adequately addressed by currently-installed semiconductor test systems. Customer needs in response to these technological innovations, and their need for greater cost-effectiveness and efficiency to respond to the market environment, include:

test solutions of non memory semiconductors that incorporate more advanced memory semiconductors, logic and analog circuits;

test solutions of power semiconductors that control small and large motor drives;

solutions for complexed IC incorporating RF, logic and memory chips in a single package in order to achieve IC with advanced 3D integration as well as downsizing and technical advantages, with TSV technology;

mechatronics-related products which transport devices faster, more accurately and more stably;

test solutions of testing technologies that employ self-test circuit designs incorporated into semiconductor chips;

test solutions of testing technologies that employ test circuit designs for Device Under Test (DUT);

introduction of mechatronics products that respond to reduced testing time resulting from advances in customers' back-end testing;

prompt response and quick repair in the event of failure;

total solutions that allow customers to reduce their testing costs; and

solutions for measurement and observation of state-of-the-art photomasks.

Advantest also believes demand for its products, including semiconductor and component test systems, is affected by the level of demand for personal computers, high-speed wireless and wireline data services, digital consumer products and communication devices, such as tablet-type devices and smartphones, and data servers. It is likely that advances in technologies used in those products and services will require new testing systems. Without the timely introduction of semiconductor test systems capable of effectively testing and measuring equipment that use these new technologies, Advantest's products and services may become technologically obsolete over time.

A failure by Advantest to meet its customers' technical requirements at competitive prices or to deliver conforming equipment in a timely manner may result in its products being replaced by those of a competitor or an alternative technology solution. Furthermore, Advantest's inability to

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provide a product that meets requested performance criteria at an acceptable price when required by its customers would severely damage its reputation with such customers and may adversely affect future sales efforts with respect to such customers.

Advantest's dependence on certain subcontractors and its dependence on a sole source or a limited number of suppliers for its components and parts may prevent it from delivering products that meet specifications on a timely basis

Advantest relies on subcontractors to perform some of the assembly requirements for its products. In addition, many of the components used in Advantest's semiconductor and component test systems and

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mechatronics systems are produced by suppliers based on Advantest's specifications. Advantest's reliance on these subcontractors and suppliers gives it less control over the manufacturing process and exposes it to significant risks, especially inadequate manufacturing capacity, late delivery, substandard quality, lack of labor availability and high costs. In addition, Advantest depends on a sole source or a limited number of suppliers for a portion of its components and parts. Advantest does not maintain long-term supply agreements with most of its suppliers, and it purchases most of its components and parts through individual purchase orders. If a supplier becomes unable to provide components or parts in the volumes needed and at acceptable prices, or if a supplier withdraws from business thereby stopping production or sales of custom or general components and parts that Advantest uses or will use in the future, Advantest would have to identify and procure acceptable replacements. Advantest may lose its capacity to supply test systems if it becomes unable to procure acceptable replacements. Furthermore, the markets for semiconductors and other specialized components have, in the past, experienced periods of inadequate supply to meet demand. Moreover, there may be a shortage of components if a large scale natural disaster or electricity shortage occurs. The process of selecting subcontractors or suppliers and of identifying suitable replacement components and parts is lengthy and may result in Advantest being unable to deliver products meeting customer requirements in a timely manner. Advantest has, in the past, been unable to deliver its products according to production schedules primarily due to the inability of suppliers to supply components and parts based on Advantest's specifications and by other shortages in components and parts. Moreover, a deterioration in the financial position of Advantest's subcontractors or suppliers reflecting the decline in the economic environment may result in certain subcontractors and suppliers being unable to meet Advantest's requirements.

Advantest faces substantial competition in its businesses and, if Advantest does not maintain or expand its market share, its business may be harmed

Advantest faces substantial competition throughout the world. Advantest's primary competitors in the semiconductor and component test system market include, among others, Teradyne, Inc., LTX-Credence Corporation, UniTest Inc. and EXICON Ltd. In the mechatronics system related market, Advantest also competes with Delta Design, Inc., TechWing, Inc., Seiko Epson Corporation and Mirae Corporation in test handler devices, and with TSE Co., Ltd., Semes Co., Ltd. and SL-link Co., Ltd. in device interfaces. Some of Advantest's competitors have greater financial and other resources than Advantest.

Advantest faces many challenges in its businesses, including increased pressure from customers to produce semiconductor and component test systems and mechatronics systems that reduce testing costs. For device interfaces, acquisition of vendors that supply core technical components by Advantest's competitors, or leakage of the manufacturing technology of printed circuit boards, may result in reduced testing costs by customers or difficulty by Advantest to realize its products' full performance.

To compete effectively and maintain and expand its market share, Advantest must continue to enhance its business processes to lower the cost of its products, or introduce enhancements that lower overall testing costs. Advantest also expects its competitors to continue to introduce new products with improvements in price and performance, as well as increasing their customer service and support offerings, and Advantest expects new market participants to launch low-price testers. Significant increases in competition may erode Advantest's profit margin and weaken its earnings.

Advantest may not be able to meet the targets set in its strategies and medium-term business plan

Advantest had embarked on ACT2014, a medium-term business plan setting certain goals for the fiscal year ending 31 March 2015, but as a result of the impact of the global economic recession, the volatility of the semiconductor industry and other factors that arose after the medium-term business plan's announcement, Advantest's results for fiscal 2014 is expected to significantly fall short of the plan's initial targets. The attainment of medium-term goals is subject to various internal and external factors, including the general economic and market conditions in which Advantest and its customers operate, the level of competition, the level

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of corporate capital expenditure, the level of demand for Advantest's products and fluctuations in exchange rates. As a result, any announced goals and targets (as amended from time to time) should not be treated as forecasts of future results. There can be no assurance that Advantest's strategies to accomplish the medium-term business plan and implementation of such strategies will be successful, that the implementation of its strategies will have the intended effects, that the medium-term business plan or other targets (whether quantitative or qualitative, and as amended from time to time) will be met, or that such goals, targets and aims will not be changed in the future by Advantest's management.

Failure by Advantest to meet demand for its products upon a sudden expansion of the markets for semiconductor and component test systems and mechatronics systems may adversely affect its future market share and financial results

Advantest procures components and parts used in its products from suppliers, but such suppliers have typically adjusted their production capacity through the reduction of production lines and personnel. If the market for semiconductor and component test systems and mechatronics systems were to suddenly expand, Advantest would require significant increases in production capabilities including personnel, as well as materials, components and supplies from suppliers, in order to fully capitalize on such expansion. The failure of Advantest to adjust to such unanticipated increases in demand for its products during the period of recovery in demand could result in Advantest losing one or more of its existing large-volume customers or losing the opportunity to establish a strong relationship with potential large-volume customers with which it currently does little or no business. Such failure may adversely affect Advantest's future market share and its financial results.

Advantest's largest customers currently account for a significant part of its net sales and, in addition to the risk of Advantest's business being harmed by the loss of one or more of these customers or changes in their capital expenditures, Advantest may not be able to recover its accounts receivables if its largest customers experience a deterioration in their financial position

Advantest's success depends on its continued ability to develop and manage relationships with its major customers. A small number of such major customers currently account for a significant portion of its net sales. Sales to Advantest's largest customer as a percentage of its total sales were approximately 29% in fiscal 2011, approximately 14% in fiscal 2012 and approximately 15% in fiscal 2013. Sales to Advantest's five largest customers accounted for approximately 56% in fiscal 2011, approximately 37% in fiscal 2012 and approximately 36% in fiscal 2013. The loss of one or more of these major customers or changes in their capital expenditures could materially harm Advantest's business. Furthermore, if Advantest's major customers experience deterioration in their financial position and are unable to fulfill their payment obligations to Advantest in accordance with the applicable terms, Advantest's business, results of operations and financial position may be adversely affected.

Advantest's product lines are facing significant price pressure

Price pressure on Advantest's businesses is adversely affecting Advantest's operating margins. Irrespective of the trend in the demand for semiconductors, there is ongoing price pressure on semiconductors, which puts continuous pressure on the market price for products in the Semiconductor and Component Test System Segment and Mechatronics System Segment. Especially with the ongoing slowdown in the semiconductor industry, price pressure is salient. During these periods, semiconductor manufacturers and test houses, which are Advantest's customers, seek to increase their production capacities while minimizing their capital expenditures. In addition, increased competition in the market for digital consumer products, personal computers, mobile devices such as tablet-types devices and smartphones and the market for data servers have driven down prices of these goods, subsequently creating significant price pressure on Advantest's product lines. If prices of semiconductors continue to decline, customers may postpone capital expenditures on new equipment by remodeling or adapting the usage of existing equipment. If price pressure further increases in the future, Advantest's financial condition and results of operations may be adversely affected.

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Advantest may not recoup costs incurred in the development of new products

Enhancements to existing products and the development of new generations of products are, in most cases, costly processes. Furthermore, because the decision to purchase semiconductor and component test systems products and mechatronics systems generally involves a significant commitment of capital, the sale of this equipment typically involves a lengthy sales period and requires Advantest to expend substantial funds and sales efforts to secure the sale. Advantest's enhancements or new generations of products may not generate net sales in excess of development and sales costs if, for example, these new enhancements or products are quickly rendered obsolete by changing customer preferences, the introduction by Advantest's competitors of products embodying new technologies or features, the introduction by Advantest's customers of new products that require different testing functions or the failure of the market for Advantest's customer's products to grow at the rate, or to the levels, anticipated by Advantest. This risk is believed to be particularly acute with respect to test systems for non memory semiconductors because, in general, new non memory semiconductor product lines are introduced to market more frequently than new memory semiconductor product lines. In some cases, Advantest must anticipate industry trends and develop products in advance of the commercialization of its customers' products. This requires Advantest to make significant investments in product development well before it determines the commercial viability of these innovations. If Advantest's customers fail to introduce their devices in a timely manner or the market rejects their devices, Advantest may not recover its investments in product development through sales in significant volume.

The market for Advantest's major products is highly concentrated, and Advantest may not be able to increase sales of its products because of limited opportunities

The market for test systems for memory semiconductors in the Semiconductor and Component Test System Segment is highly concentrated, with a small number of large semiconductor manufacturers, foundries and test houses accounting for a large portion of total sales in the semiconductor and component test system industry. Advantest believes that this market concentration could become even more severe in the future as larger semiconductor device manufacturers, foundries and test houses acquire smaller semiconductor market participants, and as corporate restructuring, such as elimination and consolidation of businesses, progresses. Advantest's ability to increase sales will depend in large part upon its ability to obtain or increase orders from large-volume customers. Furthermore, in the event there is an over-supply of semiconductor and component test system products on the second-hand market reflecting, among others, restructuring within the industry, Advantest faces an additional risk of losing its sales opportunities.

Fluctuations in exchange rates could reduce Advantest's profitability

The majority of Advantest's net sales derive from products sold to customers located outside of Japan. Of Advantest's fiscal 2013 net sales, 89.1% were from products sold to overseas customers. Most of Advantest's products are manufactured in Japan, but approximately 61% of Advantest's net sales in fiscal 2013 were derived from currencies other than the Japanese yen, predominantly the U.S. dollar. If the Japanese yen becomes strong relative to foreign currencies (mostly U.S. dollar and, to a much lesser extent, other currencies), it would increase the prices of Advantest products as stated in U.S. dollars and in those other currencies, which could hurt sales in those countries.

With respect to the Euro, if the weakening of the Japanese yen continues, there may be a negative impact on Advantest's profitability since there are currently more costs incurred in Euro than net sales derived in Euro.

In addition, significant fluctuations in the exchange rate between the Japanese yen and foreign currencies, especially the U.S. dollar, could require Advantest to lower its prices with respect to foreign sales of its products that are priced in Japanese yen, and reduce the Japanese yen equivalent amounts of its foreign sales for products that are based in U.S. dollars or other foreign currencies, thereby reducing its profitability.

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overall. These fluctuations could also cause prospective customers to push out or delay orders because of the increased relative cost of Advantest's products. In the past, there have been significant fluctuations in the exchange rate between the Japanese yen and the foreign countries in which Advantest's sales are denominated.

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Furthermore, Advantest's consolidated financial statements for a particular period or for a particular date will be affected by changes in the prevailing exchange rates of the currencies in which subsidiaries of Advantest prepare their financial statements against the Japanese yen. Foreign exchange rate fluctuations may have an effect on those amounts not denominated in yen which are translated into yen in Advantest's consolidated financial statements, and depending on the direction of the foreign exchange fluctuation, may have an adverse effect on Advantest's reported financial position, results of operations and net assets.

If Advantest's main facilities for research and development, production or information technology systems for its businesses, or the facilities of its subcontractors and suppliers, were to experience catastrophic loss, its results of operations would be seriously harmed

Advantest's main facilities for research and development for its Semiconductor and Component Test Systems and Mechatronics System Segments production, as well as many of Advantest's service bases, are located in Japan and particularly concentrated in Gunma Prefecture and Saitama Prefecture. In addition, the main system server and the network hub are maintained in system centers approved by the Information System Management System, or ISMS, and local network servers are located in certain operations offices in Japan. As most recently evidenced by the Great East Japan Earthquake in March 2011, Japan is a region that is susceptible to frequent earthquakes.

If Advantest's facilities, particularly its semiconductor and component test system manufacturing factories, were to experience a catastrophic loss, it would materially disrupt Advantest's operations, delay production, shipments and revenue, and result in large expenses to repair or replace the facilities. Advantest has insurance to cover most potential losses at its manufacturing facilities, other than those that result from earthquakes. However, this insurance may not be adequate to cover all possible losses. Similar disruptions to Advantest's business may occur if the facilities of Advantest's subcontractors and suppliers or if the facilities of Advantest's information system network were to experience a catastrophic loss.

Advantest has prepared itself for crises such as large-scale natural disasters, and each department of Advantest has documented its own disaster-response procedures and manuals. Furthermore, in order to prevent any disruption of its core businesses, or in case of suspension, to re-start the suspended businesses, including the recovery of important facilities, in the shortest possible time, Advantest formulated and implemented a Business Continuity Plan. However, if such Business Continuity Plan is not effective, Advantest's core businesses could be disrupted at a time of crisis, such as large-scale natural disasters, and could take a substantial amount of time to recover.

Advantest may not realize the full anticipated benefits of the integration with Verigy

Advantest acquired Verigy in July 2011 and fully integrated with Verigy in April 2012. Advantest believes that the integration with Verigy enables it to better satisfy customer needs through the development and sale of a wider variety of high quality products, and to better address customer needs through technological innovation that is supported by a stable financial base, leading to continued growth amidst a rapidly changing semiconductor market.

However, integrating the business of two different companies is complex, and unifying certain operating processes will require more time. Furthermore, the integration may not realize the anticipated benefits even if operating processes are successfully unified. The difficulties in integrating the two businesses may arise during various stages of the integration, including the following:

- consolidation of the two companies' differing research and development, manufacturing, sales, maintenance processes and their systems;

the elimination of inefficiencies that may arise out of overlapping departments and processes between the two companies; and

the integration of two companies with differing corporate cultures and languages.

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If difficulties arise in connection with the integration, including those mentioned above, Advantest's future financial results may be adversely affected.

Advantest has also granted stock options to employees that Advantest took over from Verigy in July 2011. If the employees exercise their stock options on a large scale, voting rights of Advantest's shareholders, total assets per share and share price may be diluted as a result.

Advantest's business is subject to economic, political and other risks associated with international operations and sales

Advantest's business is subject to risks associated with conducting business internationally because it manufactures and sells its products, and purchases parts and components from, around the world. In fiscal 2013, 73.0% of Advantest's total net sales came from Asia (excluding Japan), a majority of which consisted of sales in Taiwan, the People's Republic of China (China) and Korea, 9.6% from the Americas and 6.5% from Europe. Advantest anticipates that net sales from international operations will continue to represent a substantial portion of its total net sales. In addition, some of Advantest's distribution and support subsidiaries are located in the Americas, Europe, and Asian countries, including Taiwan, Singapore, Korea and China, and some of Advantest's suppliers and factories are also located overseas, such as Korea and Malaysia. Accordingly, Advantest's future results could be harmed by a variety of factors, including:

political and economic instability, including economic and political disruptions, disputes, natural calamities, epidemics or other risks related to countries where Advantest procures its components and parts or manufactures and sells its products;

trade protection measures and import or export licensing requirements;

potentially negative consequences from changes in tax laws;

risks with respect to international taxation, including transfer pricing regulations;

difficulty in staffing and managing widespread operations;

differing protection of intellectual property;

difficulties in collecting accounts receivable because of distance and different legal rules;

risks with respect to social and political crises and issues resulting from terrorism, war and deterioration in the political and/or economic relationships between Japan and other countries, among others; and

risks with respect to decline in the quality of procurement and manufacturing where Advantest's suppliers or manufacturing facilities are located in countries that do not have developed infrastructures in mechanical processing and assembly.

Advantest recorded a significant amount of goodwill and other long-lived assets which may become impaired in the future

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Advantest may be required to record an impairment charge for the difference between the carrying amount of long-lived assets and the implied fair value of long-lived assets if circumstances indicate that impairment may have occurred and the carrying amount of the assets may not be recoverable.

In fiscal 2013, Advantest took into account its changing business environment and reconsidered its future expected cash flows. As a result, it recognized impairment losses relating to property, plant and equipment and intangible fixed assets in the amount of ¥13,495 million.

Advantest has recorded a significant amount of goodwill on its consolidated balance sheet in accordance with U.S. GAAP and goodwill is tested for impairment at least annually. If the testing performed indicates that

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the carrying amount of reporting unit goodwill exceeds, the implied fair value of that goodwill, Advantest recalculates the fair value of each reporting unit goodwill and an impairment loss shall be recognized in an amount equal to that excess. Therefore, depending on the expected future cash flow of long-lived assets or business operations to which goodwill relates, Advantest may be required to record a significant impairment charge, which could have a material adverse effect on Advantest's financial condition and results of operations.

Advantest may not be able to recover its capital expenditures

Advantest continues to make capital expenditures. From fiscal 2012 through fiscal 2013, Advantest built a new factory in South Korea in order to increase its share of sales to major Korean customers. The factory began operating in May 2013. Advantest may not be able to recover the capital expenditures for such projects within the assumed timeframe, or at all, if it cannot achieve the assumed volume of sales due to customers cutting back on capital expenditures or if intense competition with competitors results in a reduction in unit prices. In such event, the asset would be subject to impairment, which may have an adverse impact on Advantest's profitability.

If a natural disaster comparable to the Great East Japan Earthquake were to occur, Advantest's business may suffer

If a natural disaster comparable to the Great East Japan Earthquake, which struck on March 11, 2011, were to occur, resulting in suppliers facilities being destroyed, the supply of public utilities such as electricity, gas, and water to suppliers facilities being cut, or there is a shortage of necessary energy supply for domestic industry, Advantest may not be able to procure necessary components or parts, and may be unable to meet market demand for the supply of its products. Furthermore, market trends for the semiconductor industry, and finished products that are closely related to semiconductors, such as household electrical appliances, various computer equipment and automobiles, may become uncertain. Advantest's business may be adversely affected as a result of these factors.

If a large quantity of radioactive material is released as a result of substantial damage to a nuclear power plant caused by an aftershock or a tsunami similar to the accident that occurred at the Fukushima Daiichi Nuclear Power Station, and Advantest's products are contaminated with radioactive substances, the radiation levels where Advantest's major production facilities are located exceed national radiation standards, or electricity supply becomes unstable for long periods of time due to a shut-down of nuclear plants, Advantest may be unable to meet market demand for the supply of its products, or the competitiveness of its products may be impaired and Advantest's business may be adversely affected.

Advantest's business may be negatively affected by factors relating to its marketing and sales capabilities and its branding

Advantest's business may be negatively affected by factors relating to its marketing and sales capabilities and its branding, including:

the long selling process involved in the sale of semiconductor and component test systems and mechatronics system;

the relatively small number of total units sold in the semiconductor and component test system and mechatronics system market;

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order cancellations or postponement of capital expenditures by customers;

delays in collection of accounts receivable, increases in losses resulting from bad debt or increases in provisions for doubtful receivables, reflecting the financial condition of customers;

increases in required provisions for product warranty costs and write-downs of inventory; and

any real or perceived decrease in performance and reliability of Advantest products, which could lead to a decline in Advantest's reputation.

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Chemicals used by Advantest may become subject to more stringent regulations, and Advantest may be required to incur significant costs in adapting to new requirements

Advantest uses chemicals in the manufacturing of its products, the manufacture, processing and distribution of which are subject to environmental related laws, regulations and rules of Japanese governmental agencies, as well as by various industry organizations and other regulatory bodies in other countries. These regulatory bodies may strengthen existing regulations governing chemicals used by Advantest and may also begin to regulate other chemicals used by Advantest. While Advantest is taking measures to eliminate toxic substances included in parts used to manufacture its products, Advantest uses solder, which contains lead for mounting electronic parts and components for its products, in order to ensure the reliability of its products as a matter of priority. Further, as a method to cool some of its semiconductor and component test systems and mechatronics systems, Advantest uses fluorinated liquid which use is not currently regulated by laws. Advantest believes that it is in compliance with regulations with respect to the use of chemicals by promoting environmental policies for its products with the focus on ensuring the safety and the reliability of its products; however, Advantest must be prepared to adapt to regulatory requirements in all relevant countries as requirements change. Advantest may be required to incur significant cost in adapting to new requirements. Any failure by Advantest to comply with applicable government or industry regulations could result in restrictions on its ability to carry on with or expand sales of its products.

Advantest could suffer significant liabilities, litigation costs or licensing expenses or be prevented from selling its products if it is infringing the intellectual property of third parties

Advantest may be unknowingly infringing the intellectual property rights of third parties and may be held responsible for that infringement. To date, Advantest has not been the subject of a material intellectual property claim. However, any future litigation regarding patents or other intellectual property infringement could be costly and time consuming and divert management and key personnel from Advantest's business operations. If Advantest loses a claim, it may be forced to pay significant damages, pay license fees, modify its products or processes, stop making products or stop using processes. A license could be very expensive to obtain or may not be available at all. Changing Advantest's products or processes to avoid infringing the rights of third parties may be costly or impractical.

Advantest may be unable to protect its proprietary rights due to the difficulty of Advantest gaining access to, and investigating, the products believed to infringe Advantest's intellectual property rights

Advantest relies on patents, utility model rights, design rights, trademarks and copyrights obtained in various countries to actively protect its proprietary rights. For instance, with respect to the device interface market, Advantest has taken legal action based on its patent and utility model rights against manufacturers that sell replicas of Advantest's products and, in some instances, has obtained injunctions against sales of such replicas. However, in general, it is difficult for Advantest to gain access to, and investigate, the products believed to infringe its intellectual property rights. Therefore, Advantest cannot ensure that its intellectual property rights will provide meaningful protection of its proprietary rights. Nevertheless, Advantest is focused on protecting its intellectual property rights from third party infringement and will continue to monitor and enforce its rights.

The technology labor market is very competitive, and Advantest's business may suffer if Advantest is unable to hire and retain engineers and other key personnel

Advantest's future success depends partly on its ability to attract and retain highly qualified engineers for its research and development and customer service and support divisions. If Advantest fails to hire and retain a sufficient number of these personnel, it may not be able to maintain and expand its business. Advantest may need to revise its compensation and other personnel related policies to retain its existing officers and

employees and attract and retain the additional personnel that it expects to require.

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Damage, interference or interruption to Advantest's information technology networks and systems could hinder business continuity and lead to substantial costs or harm Advantest's reputation

Advantest relies on various information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, including confidential data, and to carry out and support a variety of business activities, including manufacturing, research and development, supply chain management, sales and accounting. Advantest has the Information Security Committee and Legal and General Affairs Department to create policies on information security measures. The IT section builds and operates the information and technology network and system based on the above-mentioned policies. However, attacks by hackers or computer viruses, wrongful use of the information security system, careless use, accidents or disasters could undermine the defenses established by Advantest and disrupt business continuity, which could not only risk leakage or tampering of information but could also result in a legal claim, litigation, damages liability or an obligation to pay fines. If this were to occur, Advantest's reputation could be harmed, Advantest could incur substantial costs, and it may have a material adverse effect upon Advantest's financial condition and results of operation.

Product defects and any damages stemming from Advantest's product liability could harm Advantest's reputation among existing and potential customers and could have a material adverse effect upon Advantest's business results and financial condition

Advantest manufactures its products in accordance with internationally accepted quality control standards such as ISO 9000. However, Advantest cannot guarantee that there are no defects in its products. Advantest maintains product liability insurance, but cannot guarantee that such insurance will sufficiently cover the ultimate amount of damages with respect to Advantest's liabilities. Large scale accidents due to product defects or any discovery of defects in its products could harm Advantest's reputation for not adequately addressing defects, could cause Advantest to incur higher costs, could result in claims for damages and could have a material adverse effect upon Advantest's business results and financial condition.

Risks Related to Ownership of American Depositary Shares (ADSs) or Common Stock

Japanese yen-dollar fluctuations could cause the market price of the ADSs to decline and reduce dividend amounts payable to ADS holders as expressed in U.S. dollars

Fluctuations in the exchange rate between the Japanese yen and the U.S. dollar may affect the U.S. dollar equivalent of the Japanese yen price of the shares on the Tokyo Stock Exchange and, primarily reflecting the foregoing, are likely to affect the market price of the ADSs. The Company has historically paid dividends on its shares twice a year. If the Company declares cash dividends, dividends on the shares represented by the ADSs will be paid to the depositary in Japanese yen and then converted by the depositary into U.S. dollars. Therefore, exchange rate fluctuations could also affect the dividend amounts payable to ADS holders following conversion into U.S. dollars of dividends paid in Japanese yen on the shares represented by the ADSs.

A holder of ADSs has fewer rights than a shareholder has, and must act through the depositary to exercise those rights

The rights of shareholders under Japanese law to take actions, including voting their shares, receiving dividends and distributions, bringing derivative actions, examining Advantest's accounting books and records and exercising appraisal rights, are available only to holders of record on the Company's register of shareholders. Because the depositary, through its custodian agents, is the registered holder of the shares underlying the

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ADSs, only the depositary can exercise those rights in connection with the deposited shares. The depositary will make efforts to vote the shares underlying a holder's ADSs as instructed by the holder and will pay to the holder the dividends and distributions collected from Advantest. However, in the holder's capacity as an ADS holder, that holder will not be able to bring a derivative action, examine Advantest's accounting books and records or exercise appraisal rights through the depositary.

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There are restrictions on the withdrawal of shares from the Company's depositary receipt facility

Under the Company's ADS program, each ADS represents the right to receive one share. To withdraw any shares, a holder of ADSs has to surrender for cancellation American Depositary Receipts, or ADRs, evidencing 100 ADSs or any integral multiple thereof. Each ADR bears a legend to that effect. As a result, holders of ADSs are unable to withdraw fractions of shares or units or receive any cash settlement from the depositary in lieu of withdrawal of fractions of shares or units. Holders of shares representing less than one unit, or 100 shares, may require the Company to repurchase those shares, whereas holders of ADSs representing less than one unit of shares are unable to exercise this right because the holders of these ADSs are unable to withdraw the underlying shares. Under the Company's ADS program, an ADS holder cannot cause the depositary to require the Company to repurchase fractions of shares or units on its behalf. For a further discussion of the ADSs and the ADS program, see Description of American Depositary Receipts set forth in the Company's registration statement on Form F-1 filed with the Securities and Exchange Commission on July 22, 2002. For a further discussion of the Japanese unit share system, see Additional Information Memorandum and Articles of Association The Unit Share System.

Enforcement of Civil Liabilities

The Company is a limited liability, joint-stock corporation incorporated under the laws of Japan. Almost all of the Company's directors, executive officers and audit & supervisory board members reside in Japan. Substantially all of the Company's assets and the assets of these persons are located in Japan. It may not be possible, therefore, for investors to effect service of process within the U.S. upon the Company or these persons or to enforce against the Company or these persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the U.S. The Company's Japanese counsel, Nagashima Ohno & Tsunematsu, has advised the Company that there is doubt as to the enforceability in Japan, in original actions or in actions for enforcement of judgments of U.S. courts, of liabilities predicated solely upon the federal securities laws of the U.S.

ITEM 4. INFORMATION ON THE COMPANY

4.A. HISTORY AND DEVELOPMENT OF THE COMPANY

The Company commenced operations in July 1954, and was incorporated in December 1954 under the name Takeda Riken Industry Co., Ltd. as a limited liability, joint-stock company in Japan under the Commercial Code of Japan. At the time of incorporation, Takeda Riken's primary business was the design, manufacture and sale of measuring instruments for Japanese electronics manufacturers. Takeda Riken started focusing on semiconductor test equipment for the semiconductor industry in 1968 and was the first to domestically produce semiconductor test equipment in 1972. In 1971, Takeda Riken entered into its first distribution agreement with a foreign distributor and, in 1973, established its first representative office in the U.S. to gather information on technology and distribution and to establish dealer relationships. These two milestones launched the Company's long-term goal of becoming a global manufacturer of testing and measuring products. Takeda Riken has been listed on the Tokyo Stock Exchange since February 1983. Takeda Riken changed its registered name to Kabushiki Kaisha Advantest in October 1985.

Advantest applies its capital expenditures chiefly to developing new products, streamlining production, expanding its production capacity and capital leases to its customers. Advantest's capital expenditures were ¥7.0 billion, ¥12.6 billion and ¥5.6 billion in fiscal 2011, 2012 and 2013, respectively. The fiscal 2012 amount includes capital expenditures to build the new factory in Korea.

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On July 4, 2011, Advantest acquired all of the outstanding shares of common stock of Verigy at US\$ 15.00 per share, pursuant to which Verigy became a wholly-owned subsidiary of Advantest. The total purchase price was ¥78.7 billion. In April 2012, Advantest reorganized its subsidiaries and fully integrated with Verigy.

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The Company's principal executive offices are located at Shin-Marunouchi Center Building, 1-6-2, Marunouchi, Chiyoda-ku, Tokyo 100-0005 Japan. The Company's telephone number in Japan is (81-3) 3214-7500.

The Company's agent in the United States is Advantest America Inc., located at 3061 Zanker Rd., San Jose, CA 95134 U.S.A.

4.B. BUSINESS OVERVIEW

Overview

As of June 26, 2014, Advantest is comprised of the Company and its 32 consolidated subsidiaries. Advantest conducts its business in the following segments:

Semiconductor and Component Test System Segment;

Mechatronics System Segment, focusing on peripheral devices, including test handlers and device interfaces; and

Services, Support and Others Segment.

Semiconductor and Component Test System Segment

The Semiconductor and Component Test System Segment provides customers with test system products for the semiconductor industry and the electronic component industry. The products in this segment include test systems for memory semiconductors and test systems for non memory semiconductors. The test systems for non memory semiconductors are divided into test systems for SoC semiconductors, LCD driver integrated circuits and semiconductors used in car electronics.

Mechatronics System Segment

The Mechatronics System Segment focuses on peripheral devices to the semiconductor and component test systems. This business includes test handlers applying mechatronics technologies, which handle semiconductor devices and automate testing, device interfaces with measured devices, and operations related to nano-technology.

Services, Support and Others Segment

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The Services, Support and Others Segment consists of comprehensive customer solutions provided in connection with the Semiconductor and Component Test System and Mechatronics System Segments, support services, an equipment lease business and new businesses such as Terahertz systems.

Sales by Segment

The following table illustrates net sales by each segment for the last three fiscal years.

Segment	Fiscal 2011		Fiscal 2012		Fiscal 2013	
	Sales (in millions)	%	Sales (in millions)	%	Sales (in millions)	%
Semiconductor and Component Test System Segment	¥ 105,608	74.9	¥ 101,119	76.1	¥ 73,017	65.3
Mechatronics System Segment	20,616	14.6	13,653	10.3	14,984	13.4
Services, Support and Others Segment	18,807	13.3	20,077	15.1	24,151	21.6
Intercompany transactions elimination	(3,983)	(2.8)	(1,946)	(1.5)	(274)	(0.3)
Total Net Sales	¥ 141,048	100.0%	¥ 132,903	100.0%	¥ 111,878	100.0%

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Industry Overview

Advantest offers products in semiconductor and component test systems, mechatronics systems, and services, support and others. Advantest's main customers are industrial, design and manufacturing companies, fabless semiconductor companies, foundries and test houses. Advantest believes that the following factors promote growth of the business carried out by its main customers:

the move to lower-cost, smaller, faster and more powerful and energy-efficient semiconductors and electronic components;

the increase in demand for communication devices such as tablet-type devices and smartphones;

the increase in demand for higher performance data servers and personal computers;

the increase in demand for digital consumer products such as flat-panel TVs, DVD/Blu-ray disc recorders, portable audio players, electronic books and application products for automobiles;

the increasing levels of wireless high-speed data transmission worldwide reflecting the expansion of the mobile device industry;

the increasing demand for electronic devices that incorporate semiconductor and communications technologies in developing countries;

the development of higher speed and high capacity communications infrastructure; and

the increase in demand for electronic components including semiconductors and sensors, in response to technological advancement of automobiles such as electric vehicles (EV) and hybrid electric vehicles (HEV).

Advantest believes that these factors will continue to provide long-term growth opportunities for Advantest because they lead to additional capital expenditures by its customers, resulting in an expansion of businesses for Advantest. However, the capital expenditures of Advantest's customers may be adversely affected by the following factors:

the level of demand for semiconductors and electronic components;

advancements in semiconductor and electronic component technology; and

changes in semiconductor and electronic component manufacturing processes.

Demand for Semiconductors and Electronic Components

Demand for semiconductor and component test systems and mechatronics systems is closely related to the volume of semiconductors and electronic components produced and the resulting capital expenditure of semiconductor manufacturers and others.

Semiconductors are generally classified as either memory semiconductors or non memory semiconductors. Memory semiconductors are used in electronic systems to store data and programs. Non memory semiconductors include various semiconductors that incorporate non memory circuits, which include logic and analog circuits. Logic circuits process digital data to control the operations of electronic systems. Analog circuits process analog signals translated from real world phenomena such as sound, light, heat and motion. SoC semiconductors are a subset of non memory semiconductors that combine digital circuits with analog, memory and RF circuits, among others, on a single semiconductor chip. SoC semiconductors are used in a variety of sophisticated products, including wireless communications, fiber optic equipment and digital consumer products.

Semiconductor sales have increased significantly over the long-term. However, semiconductors, particularly memory semiconductors, have experienced significant cyclical variations in growth rates. According to World Semiconductor Trade Statistics (WSTS), worldwide semiconductor sales in 2009 decreased compared to the

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previous year, by approximately \$22.3 billion or 9.0% to approximately \$226.3 billion, mainly due to the slow economy persisting since the previous year. Sales in 2010 increased compared to the previous year, by approximately \$72.0 billion or 31.8% to approximately \$298.3 billion, mainly due to increased demand for electronic components in developing nations. Sales in 2011 increased compared to the previous year, by approximately \$1.2 billion or 0.4% to approximately \$299.5 billion, mainly due to the global economic recession and natural disasters such as the Great East Japan Earthquake and the floods in Thailand reducing production activities of electronic products. Sales in 2012 decreased compared to the previous year, by approximately \$8.0 billion or 2.7% to approximately \$291.6 billion, because the effects of the debt crisis in Southern European countries brought about a further sense of stagnation. Sales in 2013 increased compared to previous year, by approximately \$14.0 billion or 4.8% to approximately \$305.6 billion, due to an overall steady demand for semiconductors, despite some variations among products. The following table sets forth the size of the market for memory semiconductors, non memory semiconductors and all semiconductors between 2009 and 2013 and the projected market size between 2014 and 2016 as compiled and estimated by WSTS as of June 2014.

	Actual Year ended December 31,					Projections for Years ending December 31,		
	2009	2010	2011	2012	2013	2014	2015	2016
	(in millions)							
Memory	\$ 44,797	\$ 69,614	\$ 60,749	\$ 56,995	\$ 67,043	\$ 72,094	\$ 72,659	\$ 76,453
Non memory	181,516	228,701	238,772	234,567	238,541	253,285	263,489	274,021
Total	\$ 226,313	\$ 298,315	\$ 299,521	\$ 291,562	\$ 305,584	\$ 325,379	\$ 336,148	\$ 350,474

The non memory semiconductor market is not as volatile as the memory semiconductor market because non memory semiconductors are used in a larger variety of consumer products and equipment. In periods of rapid decline in the semiconductor market, the capital expenditures of semiconductor manufacturers, including their purchases of semiconductor test systems, generally decline at a faster pace than the decline in semiconductor sales. In addition, following a downturn in the semiconductor market or a decline in the price of semiconductors, investment is generally restrained until semiconductor manufacturers determine that the market for semiconductors is experiencing a substantive recovery and accordingly, sales of semiconductor test systems generally do not experience significant increase. Advantest believes these trends will continue in the future.

The semiconductor market experienced negative growth in 2008 for the first time in seven years primarily due to the global economic crisis and further declined in 2009 reflecting the conditions continuing from the previous year. The market significantly recovered in 2010 compared to the previous year, due to a surge in demand for electronic equipment in developing nations. In 2011, the market only increased slightly compared to the previous year due to the global economic recession and natural disasters such as the Great East Japan Earthquake and the floods in Thailand reducing production activities of electronic products. The market for memory semiconductors decreased by 6.2% in 2012 as compared with 2011 but increased by 17.6% in 2013 as compared with 2012, after which it is expected to grow by approximately 7.5% in 2014, by approximately 0.8% in 2015 and by approximately 5.2% in 2016, according to estimates by WSTS. WSTS expects that the market for memory semiconductors will grow to approximately \$76.5 billion in 2016. Advantest believes that demand for memory semiconductors will be generated in the foreseeable future by the prevalence of DDR3-SDRAM, the next generation DDR4-SDRAM, flash memory and other high-end semiconductors. The market for non memory semiconductors decreased by 1.8% in 2012 as compared with 2011 but increased by 1.7% in 2013 as compared with 2012, after which it is expected to grow by approximately 6.2% in 2014, by approximately 4.0% in 2015 and by approximately 4.0% in 2016, according to estimates by WSTS. WSTS expects that the market for non memory semiconductors will grow to approximately \$274.0 billion in 2016. Advantest believes that the demand for non memory semiconductors will depend on consumer products such as smartphones and tablet-type devices, and will continue to grow in the foreseeable future, led by the further prevalence of, and new developments in, digital consumer products and personal computers, accompanied by data servers.

Advancements in Semiconductor and Electronic Component Technology

Advantest believes that demand for semiconductor and component test systems and mechatronics systems is also affected by the rate of change and development in semiconductor and electronic component technology. Current changes in the semiconductor and electronic component

industry relate to the innovation of digital consumer products and communications technologies.

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Furthermore, Advantest believes that technical innovation and a growth in demand for semiconductors used in vehicles, such as electronic control units and on-board LANs, in connection with the increasing use of electronics in the automobile industry may have a big impact on the semiconductor industry and electronic components industry.

Demand for faster semiconductors and electronic components that are smaller in size, incorporate more functions and require less power to operate is being driven by:

increase in demand for, and improvements in technology for, communication devices, such as tablet-type devices and smartphones, and data servers;

growing demand for, and continuous improvements in, personal computers and digital consumer products, such as flat-panel TVs, DVD/Blu-ray disc recorders, digital cameras, electronic books and mobile phone handsets;

requirements of communications network equipment, such as network routers, switches and base stations, as well as wireless handsets and other Internet access devices, to enable advances in Internet hardware and software applications, increases in infrastructure performance and simplification and miniaturization of Internet access devices;

proliferation of the internet and related devices, and increases in capacity and speed of data servers as they evolve; and

advancement in technology which controls energy in a highly efficient manner and the move from vehicles with internal combustion engines to hybrid or electric vehicles partially or wholly driven by electric motors in response to society's increasing call for environmental measures and greater energy efficiency.

Demand for personal computers, data servers, smartphones and tablet-type devices with higher performance and capabilities are also driving changes in the memory semiconductor sector. This demand is causing manufacturers to shift to the production of the DDR4-SDRAM high-speed data transfer memory semiconductor, and to further expand production of lower power LPDDR2/3 for mobile devices and large capacity and nonvolatile and high-speed read or writable flash memory semiconductors. Advantest believes that this shift is creating demand for test systems for memory semiconductors capable of handling these new types of memory semiconductors, as well as contributing to a reduction in testing costs. In addition, Advantest believes that additional demand for mechatronics systems, including test handlers and device interfaces connecting semiconductor devices and semiconductor test systems, will be created and will grow in line with advances in semiconductor technologies.

The development of SoC semiconductors with smaller size, higher performance and lower power consumption has created demand for sophisticated semiconductor and component test systems that can simultaneously test SoC semiconductors' logic, analog and memory circuits. Further innovations in non memory semiconductor technologies including SoC semiconductor technology are expected, and Advantest believes these innovations will create demand for new, high-performance semiconductor and component test systems optimized for use with these advanced semiconductors.

Advantest believes that the integration of non memory semiconductors into a range of digital consumer products will drive demand for test systems for non memory semiconductors which contribute to the reduction of testing costs. Non memory semiconductors are often customized for applications in specific products, which results in a large variety of non memory semiconductors that are often produced in relatively smaller volumes.

Changes in Semiconductor and Electronic Component Manufacturing Processes

Semiconductor and electronic component manufacturers are promoting production outsourcing, technological innovation in manufacturing processes and testing technology to improve productivity.

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Production Outsourcing

In recent years, semiconductor manufacturing and testing processes have become more complex and capital intensive. Primarily reflecting the foregoing, an increasing portion of the manufacturing and testing functions are being subcontracted out, not only by fabless companies, but also by industrial, design and manufacturing companies which had previously designed and manufactured semiconductors, in order to reduce capital expenditures. This trend has resulted in an increase in the number of test houses that accept test process outsourcing and foundries that accept manufacturing process outsourcing. Foundries either perform testing in-house or outsource their testing needs to test houses. This trend towards production outsourcing, particularly to test houses, has increased the number of potential customers for semiconductor test system manufacturers, although it has not significantly affected the total demand for Advantest's products. In addition, Advantest believes that it is most appropriate to use semiconductor and component test systems which have been designed using module structure, which enables the formation of semiconductor test systems that can meet the multiple needs of the customers of test houses and foundries. Outsourcing has also been utilized for electronic component manufacturing.

Technological Innovation in Manufacturing Processes

Recent innovations in semiconductor manufacturing processes are miniaturization, shift to 450 millimeter wafers and three-dimensional mounting. Wafers are circular flat pieces of silicon from which multiple semiconductor chips are made using photo-etching and other manufacturing processes. By using 450 millimeter wafers, manufacturers are able to increase the number of chips produced per wafer by 2.25 times when compared to production using 300 millimeter wafers if the size of chips are the same. From the latter half of 2010, as a result of a rapid expansion of the mobile device market which resulted in an increase in the manufacture of low power memory, focus has been on capital expenditures related to 300 millimeter wafers. Research and development into 450 millimeter wafers for use in high added-value, high-end semiconductors is taking hold, and future roll-out of this next-generation technology for mobile devices is expected.

New Testing Technologies

Semiconductor designers and manufacturers are striving to further reduce costs in connection with manufacturing semiconductors, especially the cost of testing semiconductors. Thus, there is a stronger demand for semiconductor test systems that can simultaneously test more semiconductors and accommodate a larger number of pins at higher speeds and with high throughput capabilities. On the other hand, there is an increasing pressure on semiconductor test systems to be energy efficient, smaller in size and less expensive. In order to respond to this demand, semiconductor test system manufacturers are taking measures to reduce semiconductor test system costs by making the development and manufacturing process of semiconductor test systems more efficient, strengthening peripheral devices such as test handlers and device interfaces and improving service and support systems. Certain semiconductors are now tested in a simplified manner in which self-test technologies are designed into circuits, or are tested in a manner that is close to actual operation by using firmware used to operate final products or even sold without being tested. Furthermore, semiconductors that use TSV (Through-Silicon Via) technology, a via that penetrates the Si chip, has reached the stage of practical application. Advantest believes that it has become increasingly important for semiconductor test systems to ensure the reliability of semiconductors since semiconductors are expected to become more complex and advanced going forward.

Advantest believes that semiconductor and electronic component manufacturing processes will continue to evolve. The introduction of new manufacturing processes will likely result in test costs constituting a higher percentage of the total cost of manufacturing and, therefore; increase price pressure on the semiconductor test system industry. Furthermore, advances in the semiconductor and electronic component industry will require semiconductor test systems with new and more sophisticated testing functions. Advantest believes that these trends provide it with an opportunity to distinguish itself from its competitors through the delivery of new products that are priced and designed to meet the specific needs of its customers.

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Business Strategy

Advantest is currently facing a challenging business environment primarily due to the recent downturn in the global economy and weakened demand for semiconductors. In order to create a stable foundation amidst the fast-changing and challenging semiconductor market, on July 4, 2011, Advantest acquired Verigy, pursuant to which Verigy became a wholly-owned subsidiary of Advantest. In April 2012, Advantest reorganized its subsidiaries and fully integrated with Verigy. Furthermore Advantest has established the following core business goals to achieve mid- to long-term growth:

focusing on the development of semiconductor test systems which can respond to changes in capabilities of memory and non memory semiconductors;

increasing its market share for test systems for non memory semiconductors and maintaining its large market share for test systems for memory semiconductors;

increasing its market share for test handlers for memory and non memory semiconductors;

developing, designing and supplying high quality device interfaces in a shorter period of time;

reducing product cost of goods to withstand price pressures on products;

enhancing its operating efficiency to improve profitability through promotion of production innovations and operational expense improvements such as IT integration and consolidation of business premises;

cost-cutting from optimizing payroll costs;

strengthening its ability to provide comprehensive solutions to satisfy customer needs; and

promoting the development and establishment of new businesses in the measuring instruments field outside of its semiconductor-related business.

To achieve these goals, Advantest plans to:

Continue to address industry trends, identify customer needs and deliver new products ahead of its competitors

Advantest will continue to work closely with major semiconductor manufacturers beginning in the product design stage of semiconductor and component test systems to understand customer needs relating to emerging technologies and applications. Based on this knowledge and its technological expertise, Advantest seeks to develop more advanced semiconductor and component test systems, test handlers, device interfaces and comprehensive solutions ahead of its competitors. For example, Advantest is pursuing the following strategies:

developing semiconductor and component test systems with increased test speeds and throughput capabilities and test handlers in line with the technological development of memory semiconductors and non memory semiconductors;

proactively developing products to address the recent shift in emphasis in the semiconductor industry towards front-end testing of dies;

actively applying high-frequency analog technology developed for measuring instruments for the wireless communications market to test systems for non memory semiconductors including test systems for SoC semiconductors;

in addition to Advantest's existing technologies, actively utilizing Verigy's technologies, including the high-frequency test technology or the per-site processor architecture, and promoting product development that utilizes the strengths of both companies;

developing testing solutions for complexed IC incorporating RF, logic and memory chips in a single package in order to achieve IC with advanced 3D integration as well as downsizing and technical advantages with TSV technology;

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offering semiconductor and component test systems and device interfaces with high throughput in order to test recent devices incorporating interfaces with data rates of several gigabits per second; and

developing device interfaces that can optimize the performance of semiconductor and component test systems and test handlers in responding to semiconductors with higher speed and large pin counts.

Strengthen the test system business for non memory semiconductors

Advantest believes that in 2013 the market for test systems for non memory semiconductors was approximately four times the size of the market for test systems for memory semiconductors. Advantest has therefore devoted its resources to develop test systems and modules for non memory semiconductors to meet the demands of a large number of manufacturers for the testing of a wide variety of non memory semiconductors.

Advantest is utilizing the test module structure in test systems for non memory semiconductors. Advantest believes the primary benefits of these test module structures are reduced testing costs. In addition, Advantest hopes that the reduction in testing costs, and thus the lowering of overall manufacturing costs of non memory semiconductors, will help foster further demand for non memory semiconductors to be used in digital consumer products and other products.

Furthermore, through its integration with Verigy, Advantest aims to utilize the strengths of both companies to rapidly develop efficient, low cost products to break into the low-end non memory device market and high-speed telecommunications market that were previously difficult to enter into.

Focus sales and support efforts on key customer accounts

Advantest believes that a small number of large industrial, design and manufacturing companies, fabless semiconductor companies, foundries and test houses account for a large portion of total sales in the semiconductor and component test system industry. Advantest sells semiconductor and component test systems and mechatronics systems to many of these customers and supports them on a regular basis. Advantest is seeking to continue to expand its business with these key customers and develop new relationships with the remaining potential major customers. Many of Advantest's sales and support offices are located near the corporate headquarters or main research and development and manufacturing facilities of these key customers. In addition, in Europe, the U.S. and Asia, Advantest is further expanding its customer base and strengthening technical support and services. These offices also facilitate Advantest's efforts to continue conducting collaborative development activities with leading semiconductor manufacturers.

Advantest acquired and integrated Verigy

In July 2011, Advantest acquired Verigy, a leading manufacturer of semiconductor test systems. The purposes of and achievements from this acquisition and business combination are mainly threefold, as set out below.

(1) Highly Complementary Technology and Products

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Building on Advantest's strength in memory semiconductor test systems and mass production lines and Verigy's strength in non memory semiconductor test systems and research and development, Advantest expects to drive technological innovation in the more comprehensive field of automatic semiconductor test equipment.

Advantest is also working to enhance growth and profitability by reallocating resources currently devoted to areas of duplicative research and development, with a goal of accelerating Advantest's combined technical capabilities and developing new business.

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Advantest now has a wide and comprehensive range of products, which enables it to provide customers with the most advanced collection of test solutions, such as improved test efficiency and reduced cost. Expanding Advantest's scale of operations is also expected to enhance Advantest's ability to provide long-term and consistent service to Advantest's customers.

(3) Global Business Development

Advantest has strengthened its customer base by expanding it globally. Advantest is also accelerating its globalization efforts at the operation level by acquiring excellent human resources on a global scale.

Products

As of fiscal 2013, Advantest's main products are products developed, manufactured and sold in the Semiconductor and Component Test System Segment, Mechatronics System Segment and Services Support and Others Segment. They are as follows:

Semiconductor and Component Test Systems Segment

Semiconductor and component test systems are used during the semiconductor and electronic component manufacturing process to confirm that a semiconductor functions properly. Semiconductor and component test systems consist of test systems for memory semiconductors and test systems for non memory semiconductors.

The following table sets forth the amount of net sales of Advantest's semiconductor and component test systems, for memory and non memory semiconductors for the periods presented.

Category	Fiscal 2011	Fiscal 2012 (in millions)	Fiscal 2013
Test systems for memory semiconductors	¥ 25,913	¥ 17,751	¥ 23,403
Test systems for non memory semiconductors	79,695	83,368	49,614
Total	¥ 105,608	¥ 101,119	¥ 73,017

Test Systems for Memory Semiconductors

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Advantest's test systems for memory semiconductors are test systems designed to test high-speed/high performance and low power consumption DRAM semiconductors used in personal computers, data servers, smartphones and tablet-type devices as well as flash memory semiconductors used in digital consumer products and communication devices such as smartphones.

Test systems for memory semiconductors consist of a mainframe and one or more test heads. During testing, a device interface is attached to the test head. During the front-end testing process, wafers are loaded by a prober and are connected to the test system for memory semiconductors through the device interface. Electric signals between the die and the test systems for memory semiconductors are transmitted through probe pins located in the device interface and tested. After front-end testing is completed, the wafer is diced into separate dies and properly functioning dies are packaged. During back-end testing, test handlers are used to load these packaged devices onto the test heads, and electric signals are transmitted between the devices and the test heads via the device interface and tested. The test results are analyzed by the test systems for memory semiconductors' hardware circuits and software programs. Customized software programs for each semiconductor are required to analyze the semiconductor tests and test data.

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Characteristics of the performance and other characteristics of test systems for memory semiconductors that are important to customers include:

Throughput. Throughput is measured by the number of semiconductors that can be tested by test systems for memory semiconductors during a specified time.

Test Speed. Test speed is the speed at which the test systems for memory semiconductors test semiconductors during testing. Test speed is measured in terms of hertz (Hz), or Bits Per Second (bps).

Timing Accuracy. Timing accuracy is the test system for memory semiconductors accuracy of control over the timing of testing signals generated.

Maximum Pin Count. Maximum pin count is the number of channels for test signals (at the maximum) used by test systems for memory semiconductors.

Size. Smaller machines reduce the amount of floor space occupied and electricity consumed by the test systems for memory semiconductors.

Temperature. Semiconductor manufacturers perform tests on semiconductors at varying temperatures to ensure proper operation under extreme conditions.

Compatibility . Test systems for memory semiconductors that are compatible with predecessor systems cut down on the time required to develop new test programs and otherwise allow for effective utilization by customers of existing resources.

Quality. Quality is determined by the reliability of test results produced and whether the equipment can maintain stable operation under different testing environments.

Advantest estimates that its market share in test systems for memory semiconductors was approximately 57%, 63% and 57% in 2011, 2012 and 2013, respectively, as a result of increasing capital expenditure in test systems for DRAM semiconductors. Advantest has a substantially larger market share in test systems for DRAM memory semiconductors than in test systems for flash memory semiconductors. Advantest is currently seeking to increase its market share in test systems for flash memory semiconductors.

Advantest's main product lines of test systems for memory semiconductors are the T5500 series, the T5300 series, the T5700 series, HSM series and V6000 series.

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T5500 Series. The T5588 is a test system for mass production suitable for testing speeds of up to 800 Mbps for DDR3-SDRAM cell testing and LPDDR. The T5503 and T5503HS are memory semiconductor test systems suitable for the mass production of DDR3-SDRAM, DDR4-SDRAM, LPDDR3 and LPDDR4 (1 Gbps-4 Gbps class high-speed memory semiconductors). The T5511, which is the top of the range model in the T5500 series, is a memory semiconductor test system which can handle testing speeds of up to 8 Gbps and is suitable for the evaluation and production of ultra-high-speed memory semiconductors such as DDR4-SDRAM and GDDR. The T5500 series are Advantest's best-selling line of test systems used for the back end testing of DRAM semiconductors.

T5300 Series. The T5383 is a test system for the front-end testing of DRAM semiconductors and for the back-end testing of flash memory semiconductors. The T5383, which is capable of simultaneously testing up to 384 devices, is a test system with a maximum testing rate of 286 MHz/572 Mbps, which is twice the testing rate of Advantest's previous model. This allows for DRAM wafer testing at speed testing, or testing for KGD, and back-end testing for flash memory semiconductors, at high-speed and with high-throughputs capabilities. The T5385, which is capable of simultaneously testing up to 768 devices with a maximum testing rate of 266 MHz/533 Mbps, succeeds the T5383. The T5300 series is Advantest's best-selling test systems for memory semiconductors product line for front-end testing of DRAM semiconductors and for back-end testing of flash memory semiconductors.

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T5700 Series. Because variations in memory cell characteristics must be kept within a defined range, front-end testing for flash memory semiconductors require more types of testing than is required in front-end testing for DRAM semiconductors. Accordingly, front-end testing for flash memory semiconductors contributes to higher testing costs. Furthermore, although the volume of production with respect to NAND-type flash memory semiconductors is increasing, prices have fallen substantially and there is a demand for higher efficiency for test systems. As a result, by specializing in NAND-type flash memories Advantest introduced the T5773 memory test system, which enabled a significant reduction in testing costs compared to existing products. The T5700 series will provide effective solutions that will enable everything from design to mass production of flash memories.

HSM Series. The HSM series are test systems for the research and development and mass production of high-speed DRAM. The products in this series are capable of test speeds from 2 Gps to 8 Gps. Products can be upgraded by exchanging certain parts or modules, allowing users to set up an optimal system in a timely manner for minimal cost as memory device speeds increase.

V6000 Series. The V6000 series are test systems for the research and development and mass production of flash memory. The V6000 series as a test system for flash memories is capable of industry class-leading test speeds of 880 Mbps. The test systems are made so that they can be attached to both wafer probers and handlers, and can be switched to back end or front end lines depending on the user's needs. As the test systems have multiple test controllers, they can realize high productivity in MCP-type memory device testing as well as flash memory.

Test Systems for Non Memory Semiconductors

Advantest's main line of test systems for non memory semiconductors relates to test systems for SoC semiconductors, test systems for LCD driver integrated circuits, test systems for image sensor and test systems for semiconductors used in car electronics. Test systems for SoC semiconductors test SoC semiconductors that combine circuits such as digital, analog, memory and RF circuits on a single semiconductor chip. Test systems for LCD driver integrated circuits test semiconductors with specific functions, such as LCD driver integrated circuits that display images on LCD panels. The factors that are important to customers in the performance and other characteristics of test systems for memory semiconductors described above also apply to test systems for non memory semiconductors. Advantest's market share in test systems for non memory semiconductors was approximately 47% in 2011 and approximately 50% in 2012. The market share dropped to approximately 39% in 2013, however, due to a drop in capital expenditure spending by some of Advantest's major customers.

Advantest's main product lines of test systems for non memory semiconductors are the T2000, the V93000 series and the T6300 series.

T2000. In 2003, Advantest introduced to the market the T2000 test systems for non memory semiconductors which used the test module structure. Advantest believes that the development of modules for the T2000 compatible semiconductor test systems for non memory semiconductors and the increase in product lineup will increase Advantest's market share in test systems for non memory semiconductors. Main compatible component modules for the T2000 include modules designed for digital testing, power supply testing, analog testing, power device testing, image sensor testing and RF testing. Mainframes for the T2000 may be chosen to meet customers' needs. Furthermore, Advantest developed the EPP (Enhanced Performance Package) which is a new system option. Advantest believes that introducing EPP compatible modules into the market will help customers reduce testing costs and testing development time.

V93000 Series. The V93000 series are non memory semiconductor test systems using a test module structure. These products feature test processor per pin architecture and scalable platform and as a result of higher performance and lower test costs, Advantest believes that these products are capable of expanding their share of the non memory semiconductor test system market. The main modules in the lineup are the top of the line 12.8 Gbps digital module, 6 GHz BW analog module, 6 GHz RF module and DC module.

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T6300 Series. The T6300 series are test systems for LCD driver integrated circuits used with high-definition LCD displays. A maximum of 3,072 LCD testing pins may be used with the T6373 system. The system can simultaneously test multiple LCD driver integrated circuits.

Mechatronics System Segment

The main products in the Mechatronics System Segment are test handlers which handle semiconductor devices and automate the testing, and device interfaces which are the interfaces with devices being tested.

Test Handlers

Test handlers are used with semiconductor and component test systems to handle, condition temperature, contact and sort semiconductors and other electronic components during the back-end testing of the semiconductor manufacturing process.

Advantest's test handlers are sold primarily in conjunction with the sale of its semiconductor and component test systems. A majority of Advantest's test handlers for memory semiconductors, measured in units, are sold to customers of Advantest's semiconductor and component test systems. Advantest's test handlers are compatible with the semiconductor and component test systems of its competitors.

Test handlers are designed with different characteristics for memory and non memory semiconductors. Memory semiconductors require relatively long test times. Advantest's test handlers for memory semiconductors handle up to 768 semiconductors per test head at a time. Non memory semiconductors, including SoC semiconductors, require relatively short test times. Advantest's test handlers for non memory semiconductors require short time and handle up to 32 semiconductors at a time.

Test Handlers for Memory Semiconductors. The M6242 test handler for test systems for memory semiconductors, including DDR3-SDRAM, can handle up to 768 semiconductors at a time. The maximum throughput is 42,200 semiconductors per hour through the use of a new high-speed handling technology that shortens the time between tests to approximately half of the time associated with Advantest's ordinary model. In addition, the M6242 has a built-in temperature control device which can minimize the temperature fluctuation within a 1.5°C range for temperatures between -10°C and 100°C. Advantest also has other test handler product line for test systems for memory semiconductors that meet varying cost and functional needs of its customers.

Test Handlers for Non Memory Semiconductors. Advantest's test handlers for non memory semiconductors, including SoC semiconductors, are the M4841, the M4742A and the M4871, among others. With a rate of 32 semiconductors at a time, the M4841 can handle approximately twice as many semiconductors at a time as Advantest's previous model. The M4841's maximum throughput of up to 18,500 semiconductors per hour is triple the maximum throughput of the previous model. Furthermore, the M4841 is also capable of testing in a wide range of temperatures, from as low as -55°C or as high as 155°C.

The M4742A realizes a reduction in contact pitch exchange time in handling of various products, visualization of operation screen, visibility check of internal devices, and improvement of operability, hence contributing to higher productivity.

The M4871 integrates Advantest's proven technology from its existing product lines with advanced, new functions including visual alignment with high throughput, active thermal control using Advantest's Dural Fluid design capability and a new handler data visualization framework that enables users to conduct real-time monitoring of a test cell's production status from any network-enabled connection. The M4871's visual-alignment capability is most suited to handle fine-pitch devices with both top- and bottom-side contacts. Precision alignment also enables faster set-up and calibration, helping to increase productivity. In addition, the defrosting cycle time for low-temperature testing is dramatically reduced with the M4871 system, which can operate over a broad range of temperatures.

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In addition, as a common feature in Advantest's test handlers for memory/non memory semiconductors, numerous functions to improve operating rate are installed.

Device Interfaces

Device interfaces are components which transmit test signals between the device being tested and the semiconductor and component test system. These components are divided into motherboards, socket boards, performance boards and sockets all of which transmit signals to compatible components of a device under test; components compatible with a test handler device; and device interfaces and change kits with a device handling mechanisms and contact mechanisms, and probe card for front-end testing.

Advantest develops and manufactures device interfaces for semiconductor and component test systems and supplies device interfaces such as high performance and high density connectors, socket boards and sockets to meet the demands of next-generation semiconductors that are becoming more high-speed and more diversified. Advantest believes that the rate at which new semiconductor designs are introduced to market will continue to increase in the long term, and customers' requests to accelerate development of main parts of device interfaces that are compatible with such new semiconductor designs will increase accordingly.

Motherboards: For test systems for memory semiconductors, Advantest provides motherboards capable of handling a maximum of 512 semiconductors at a time. For test systems for non memory semiconductors, Advantest provides motherboards that are compatible with a maximum of 3,072 signals. Advantest also provides motherboards designed for use in front-end testing.

Socket Boards and Performance Boards: Advantest provides custom manufacturing of socket boards and performance boards for each device under test in accordance with customers' specifications.

Sockets: Advantest provides sockets for test systems for memory semiconductors. Advantest provides low-inductance (0.4nH) sockets and fine pitch (0.4mm) sockets for semiconductors that are becoming more high-speed and more compact in size, and sockets with finer pitch (0.35mm and 0.3 mm) will be introduced in 2014.

Change Kits: Advantest provides carrying and contacting mechanism components compatible with each device under test for test handlers for memory semiconductors and test handlers for non memory semiconductors.

Probe Card: Advantest provides probe card used for the front-end testing for memory semiconductors.

Advantest competes with numerous small and independent electronics manufacturers in providing device interfaces for its semiconductor and component test systems. However, Advantest believes that as the complexity of the testing requirements of next-generation semiconductors increases, Advantest will enjoy competitive advantages by applying its technical knowledge, such as high speed signal transmission, derived from designing and manufacturing semiconductor and component test systems to device interfaces. It will also enjoy such advantages by handling delivery of its products to customers, providing customer support, and offering products with lower prices as a result of cost reductions.

E-Beam Lithography systems and MVM-SEM® (3D-SEM)

F7000 Series. The F7000 series utilizes electron beams to write fine-pitch patterns directly onto substrates. It offers best in class levels of throughput at the 1Xnm node, where semiconductor R&D demand is now focused. The F7000 supports substrates of diverse materials, sizes and shapes, and is optimized for diverse applications such as advanced LSIs, photonics, MEMS (microelectromechanical systems) and other nano-processes.

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E3600 Series. The E3640 series is a new entry in Advantest's widely-adopted E3600 Series of MVM-SEM® systems for photomasks. The E3640 delivers significantly improved measurement accuracy and higher throughput and its industry-best pattern measurement capability supports the coming shift to the 1Xnm node for semiconductor volume production. In addition to photomasks, the E3640 also offers enhanced metrology performance for EUV (extreme ultraviolet) masks, NIL (nanoinprint lithography) templates, and patterned media.

E3300 Series. The E3310 series is breakthrough MVM-SEM® for wafers, which has further advanced the technology used in E3630 MVM-SEM® for photomasks. While mass production of devices using 3D structural process such as FinFET (fin-shaped field effect transistor) is expected in the future, the E3310 which enables multidimensional observation and length measurement for wafers provides process development at the 1Xnm node and a stable, high-accuracy measurement solution for mass production at the 22nm node and beyond, contributing to reduced process TAT (turnaround time) and higher productivity.

Services, Support and Others Segment

Terahertz Spectroscopic / Imaging Systems

Terahertz waves lie between microwaves and light with frequency of 0.1-10THz on the electromagnetic spectrum and can be used to perform non-destructive analysis inside substance which is difficult to carry out using ultrasonic waves or infrared rays. In addition, as terahertz waves have adequate spatial resolution, they are ideal for practical imaging analysis.

TAS7500 Series. The TAS7500 series is a family of compact and multipurpose terahertz spectroscopic / imaging systems. These systems perform non-destructive analysis of pharmaceuticals, chemicals, communications materials, etc. with ease and at high speed. In addition to non-destructive analysis applications, the TAS7500 series is also an optimal choice for terahertz related research, leveraging high-precision detection technology to provide best-in-class sampling performance.

TAS7400 Series. The TAS7400 series is a series of low-cost, all-purpose spectroscopy systems that enable spectroscopic measurements using terahertz waves. The tools are capable of performing non-destructive analysis on a wide variety of sample types, making them applicable to a broad range of fields from life sciences to electronics, where precise chemical and material characterization is critical. The systems can also be utilized for basic research applications.

System-Level Test Systems

NEO-SSD. Advantest has entered the market for testing advanced PCI Express (PCIe) 3.0 NVMe SSDs for enterprise and consumer applications with the versatile NEO-SSD platform, on which Advantest is building a family of test solutions that began receiving orders from customers in the third quarter of the fiscal year ending 31 March 2014. The configurable NEO-SSD platform is capable of supporting multiple protocols, and addresses SSD system-level test requirements by providing a wide range of test capabilities, including engineering validation, design verification, reliability demonstration and production testing.

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w2bi. In June 2013, Advantest completed its acquisition of w2bi.COM, INC. (*w2bi*), a provider of system level test automation software for mobile devices, making w2bi a wholly-owned subsidiary of Advantest's US subsidiary, Advantest America, Inc. The acquisition enabled Advantest to offer software that is essential in system-level testing for mobile devices and enter the market for mobile device testing that is expected to grow in the future.

Table of Contents**Customers**

Advantest's semiconductor and component test systems and mechatronics systems are shipped and delivered to world's leading industrial, design and manufacturing companies and fabless semiconductor companies, as well as foundries and test houses. Sales to INTEL Corporation and Samsung Electronics Co., Ltd. in fiscal 2011, INTEL Corporation in fiscal 2012 and Samsung Electronics Co., Ltd. in fiscal 2013 accounted for 10% or more of Advantest's net sales in each of those respective years. Advantest's five largest customers, all of which are semiconductor and component test system customers, accounted for approximately 56% of net sales in fiscal 2011, approximately 37% in fiscal 2012 and approximately 36% in fiscal 2013.

Geographic Sales

Of Advantest's fiscal 2013 net sales, 89.1% were derived from products sold to customers located outside Japan. The following table sets forth Advantest's net sales by geographic area, as well as net sales by geographic area as a percentage of total net sales, for Advantest's last three fiscal years. Net sales are classified into geographic areas based on the location to which the products are shipped.

Market	Fiscal 2011		Fiscal 2012		Fiscal 2013	
	Net Sales (in millions)	%	Net Sales (in millions)	%	Net Sales (in millions)	%
Japan	¥ 16,095	11.4	¥ 14,045	10.6	¥ 12,221	10.9
Asia (excluding Japan)	88,196	62.5	89,214	67.1	81,661	73.0
Americas	29,742	21.1	20,583	15.5	10,720	9.6
Europe	7,015	5.0	9,061	6.8	7,276	6.5
Total	¥ 141,048	100.0%	¥ 132,903	100.0%	¥ 111,878	100.0%

Japan. Advantest's Japanese non memory semiconductor market share in 2013 decreased to approximately 46% from approximately 54% in 2012 as a result of significant constraints in capital investments by some of Advantest's major customers. Advantest's Japanese memory semiconductor market share in 2013 increased to approximately 58% from approximately 35% in 2012. Advantest is working to maintain and expand its large market share in Japan by continuing to work closely with its major customers to identify their needs during the early stages of their product development cycles. Since fiscal 2011 Japan's semiconductor manufacturers have been increasingly outsourcing its manufacturing to Taiwan, Korea and China rather than investing in-house, and Advantest has also been actively pursuing outsourcing its manufacturing support overseas.

Asia (excluding Japan). Advantest's Asian non memory semiconductor market share (excluding Japan) in 2013 decreased to approximately 37% from approximately 45% in 2012 as a result of significant constraints in capital investments by some of Advantest's major customers. Advantest's Asian memory semiconductor market share in 2013 decreased to approximately 57% from approximately 66% in 2012. Asia is the largest market for semiconductor and component test systems and mechatronics systems, with industrial, design and manufacturing companies and fabless semiconductor companies, assembly makers and test houses located in Taiwan, Korea, China and Singapore accounting for a majority of semiconductor production in Asia. Advantest views its relationships with these companies as critical to its semiconductor and component test system and mechatronics system business. Many Japanese, U.S. and European semiconductor manufacturers have shifted production to Asia, either to subsidiaries or foundries and test houses. Capital expenditure decisions for subsidiaries are usually made at the Company's headquarters. Foundries and test houses, a majority of which are located in Taiwan, often consult with their customers before investing in semiconductor and component test systems. Therefore, Advantest's performance in Asia will also depend on its ability to maintain strong relationships with customers in Japan, the U.S. and Europe. In addition, some of Advantest's customers have partnered with semiconductor manufacturers in Asia and outsourced manufacturing processes, thus further increasing the reliance on net sales to the Asia geographic market.

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Americas. Advantest's marketing efforts in this region are centered in the United States, which accounted for approximately 10% of its total sales in fiscal 2013. Advantest's market share of semiconductor and component test systems sold in the U.S. in 2013 decreased to approximately 48% from approximately 64% in 2012 as a result of significant constraints in capital investments by some of Advantest's major customers. Semiconductor and component test systems are marketed and sold in the Americas primarily through Advantest's subsidiary, Advantest America, Inc.

Europe. Sales in Europe constituted approximately 7% of Advantest's sales in fiscal 2013. Advantest's market share of semiconductor and component test systems sold in Europe in 2013 decreased to approximately 43% from approximately 59% in 2012 as a result of significant constraints in capital investments by some of Advantest's major customers. Advantest's principal European markets are Germany, Italy and France.

Sales and Marketing

Advantest sells its semiconductor and component test systems and mechatronics systems globally. Advantest's direct sales department includes engineers who have in-depth knowledge of the customer's business and technology needs. Currently, Advantest has sales offices in Japan, Taiwan, Singapore and other parts of Asia, the Americas and Europe. Advantest maintains its sales and support centers in close physical proximity to key customer sites to identify its customers' needs in the early stage of product development and to provide required support in a timely fashion. Advantest is also strengthening its relationships with test houses through limited minority investments as a part of its sales and marketing strategy. In addition, Advantest offers operating lease contracts for semiconductor and component test systems through its subsidiary, Advantest Finance Inc.

Advantest believes that the best marketing strategy is to demonstrate the ability to develop products that meet the customer's specific needs, produce and deliver them in the required time and quantity, and support the customer and the product with sufficient technical and maintenance support. Advantest holds exhibitions from time to time to demonstrate and market its products to target customers. Advantest also markets its products by participating in industry trade shows and advertising in trade magazines.

Support and Customer Service

Advantest's support and customer service programs are designed to respond to all of the semiconductor testing-related needs of its customers. Advantest provides its services through its worldwide network of sales and customer support offices. These services consist of the following elements:

Testing Technology Support. Advantest engineers work with customers from the design phase of new products to the development of testing methods and device interfaces. Advantest also supports customers' initiatives to reduce costs at the large-scale production phase by proposing procedures to improve production yield and throughput, and offering advice in connection with the operation of semiconductors and component test systems and other test products.

Application Software Support. Each different semiconductor design requires customized software programs for analysis of test data. As a part of its solution services, Advantest engineers assist customers in designing device interface, application software and test programs that optimize production throughput, reliability and capacity.

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Procurement Support. The procurement process for semiconductor and component test systems and mechatronics systems is time consuming and complicated. Semiconductor and component test systems consist of a combination of multiple components, including test handlers or probers, device interfaces and software. Advantest sales personnel and engineers work with customers to identify the semiconductor and component test systems and mechatronics systems and related optional functions that best address their needs.

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Installation and Warranty Support. The introduction of a new line of semiconductors by a manufacturer typically requires either the purchase of new semiconductor and component test systems and mechatronics systems or warranty support for the customer's existing system. Upon the sale of a new system, Advantest's engineers provide installation services and work with the customer to integrate the purchased system with the customer's existing manufacturing infrastructure.

Training Support. Advantest engineers prepare customer training materials related to the operation and maintenance of Advantest's semiconductor and component test systems and mechatronics systems, and offer their customers suitable training on-site and at Advantest's facilities in a timely manner.

Maintenance Support. Advantest's maintenance support services consist of:

Call Center Support. Advantest previously offered call center support services for hardware and software in Japan. However, as a result of the integration with Verigy, Advantest now offers call center support services to customers in Japan, Singapore, the U.S. and Germany.

Internet Support. The Advantest customer support website offers maintenance tips and access to a database with possible solutions to semiconductor and component test system problems. Advantest customers can also make online requests for maintenance work and check the status of equipment sent in for repair through Advantest's web page.

Repairs and Parts. Requests for repairs or parts can be made through the Advantest website or by phone. In addition, Advantest has in place a system that aims to deliver parts anywhere in the world within 4 hours, 24 hours or 72 hours, based on maintenance contracts, etc., the customer's requests and the urgency of the request. Equipment for maintenance is located in Germany, Singapore, the U.S. and Japan to supplement each other in the event of a major natural disaster. To provide for quick and efficient repairs, Advantest's repair factories in Japan serve as the hub, and those in Germany, Singapore, the U.S., Korea, Taiwan and China also undertake repairs of test boards.

System Monitoring. Advantest can build system monitoring functions into semiconductor and component test systems. These functions allow Advantest's engineers and customers to monitor the operating status as well as the status and history of malfunctions of semiconductor and component test systems, enabling rapid and efficient repairs.

Worldwide Presence. Advantest provides maintenance support through customer support centers in Japan; other parts of Asia, including Korea, China, Taiwan and Singapore; the Americas and Europe.

Manufacturing and Supplies

Advantest's principal factories at which semiconductor and component test systems and mechatronics systems are manufactured are its Gunma Factory and Gunma Factory 2 located in Gunma Prefecture, Japan, Cheonan Factory in Korea and Jabil Circuit Sdn Bhd's Penang Factory in Malaysia to which manufacturing is outsourced. Printed circuit boards, on which electronic parts and other components are mounted, for use in these products are manufactured at the Gunma Factory 2. The Gunma Factory assembles final products and conducts tests. The Cheonan Factory procures components and parts, assembles final products and conducts tests for test handlers and device interfaces. Jabil Circuit Sdn Bhd's Penang Factory produces mainly V93000 series printed circuit boards and assembles the final products and conducts tests. The Gunma Factory is highly automated, and testing and production systems within the factory are interconnected by a sophisticated local area network using advanced data management software. This network allows Advantest factory managers to check on the status of systems under production at any given time.

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Advantest uses a sophisticated enterprise resource planning (ERP) system that processes new information on a real time basis and converts sales order information into production specifications and manufacturing plans. This system also interconnects Advantest 's multiple production and warehousing facilities to its information network.

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Advantest has integrated many production processes in an effort to improve upon the existing production system with a view to attaining a shorter production cycle, cost reduction and reduction of inventories.

Advantest is reducing its electricity consumption and setting up its own electricity generator in order to avoid manufacturing disruptions as a result of possible future blackouts.

Advantest purchases substantially all of its components and parts from outside suppliers.

If the production or sale of custom or general components or parts that Advantest uses or plans to use in the future use is terminated for reasons such as a supplier's withdrawal from business, Advantest may lose its capacity to supply its test systems.

The average costs of components and parts used by Advantest during the last three fiscal years have remained relatively stable. Advantest believes this relative price stability results from the fact that Advantest negotiates the terms of the purchase orders directly with its suppliers and the fact that the prices of the made-to-order components set forth in the purchase orders are primarily influenced by the technical specifications of the relevant components and parts.

Device interfaces, one of Advantest's products in its Mechatronics System Segment, are manufactured in Japan as well as overseas, including in Korea, Taiwan and Malaysia, in order to reduce lead time and reduce manufacturing costs.

Seasonality

As Advantest's sales levels of semiconductor and component test systems and mechatronics systems are not dependent on any particular season and are subject, in large part, to sales levels of the semiconductors in the market that can fluctuate significantly from year to year, Advantest does not traditionally experience seasonality in the sense of higher sales during any certain period of the year as compared to other periods of the year.

Competition

Advantest faces substantial competition throughout the world in all of their business segments. In particular, competition in the semiconductor and component test system market is currently intensifying, which may lead to restructuring within the industry and certain companies may be eliminated or consolidated. Advantest believes that the principal factors of competition are:

Performance. The performance of products is determined by their accuracy, test speed, throughput and ability to test semiconductors with large pin counts. High performance products reduce the customer's cost of testing.

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Reliability. Products that operate with minimal downtime allow semiconductor production and engineering work to proceed without frequent intervention and provides more cost-effective operation.

Delivery Time. Semiconductor manufacturers require timely delivery of products, especially in periods of high demand.

Price. The need for more sophisticated products often translates into higher testing costs for semiconductor manufacturers. In addition, primarily as a result of increased efficiency in the fabrication process and lower market prices for semiconductors, test costs have come to represent a higher proportion of the total cost of manufacturing. Advantest currently faces significant price pressure on its Semiconductor and Component Test System Segment.

System Architecture. Product architecture that is modular expands the product life because the system can be adapted to meet the customer's new requirements, while largely retaining compatibility with existing test programs.

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Software. Products that use software that is easier to use and more powerful reduce the amount of engineering resources needed to develop and operate test programs.

Customer Support. Customer-specific applications programs, worldwide service and customer training contribute to the efficient use of products and minimize the customer's cost of testing.

Qualified Technical Personnel. Having in place a team of highly qualified engineers and other customer service and support personnel is essential for securing sales and maintaining and developing strong relationships with key customers.

According to a report issued by a research company, from 2009 to 2010, Teradyne, Inc. held the highest share in the semiconductor test systems industry. In 2011 and 2012, Advantest achieved the highest share. In 2013 Teradyne, Inc. held the highest share and Advantest held the second largest share followed by LTX-Credence Corporation.

Some of Advantest's other competitors include UniTest Inc. and EXICON Ltd. In addition, Advantest also competes in the mechatronics system market with, among others, Delta Design, Inc., TechWing Inc., Seiko Epson Corporation and Mirae Corporation for test handlers, and TSE Co., Ltd., Semes Co., Ltd. and SL-link Co., Ltd. for device interfaces. In addition, in the Services, Support and Others Segment, Advantest has been competing with companies providing similar services. It also has been suggested by customers that Advantest competes with start-up companies with newer technologies or products in the market for both the test systems for memory semiconductors and test systems for non memory semiconductors.

Licenses and Intellectual Property Rights

Advantest has a policy of seeking licenses and intellectual property rights worldwide on technology considered of particular strategic importance. While Advantest does not consider any one or group of licenses and intellectual property rights to be so important that their expiration or termination would materially affect Advantest's business, Advantest considers all of its licenses and intellectual property rights to be important.

Legal Proceedings

Based on information currently available to Advantest, Advantest believes that its losses from any pending legal proceedings would not have a material adverse effect on Advantest's financial position, operating results or cash flows.

Corporate Social Responsibility / Environmental

Advantest established and implemented the Advantest Group Environmental Management Plan. Under this management plan, in addition to improving its environmental management systems, Advantest is supporting its customers' environmental management by developing new products with lower power consumption and dealing with top priority environmental issues, for example by taking measures to prevent global warming.

Advantest's primary environmental activities are as follows:

ISO 14001 Certification. Advantest has received ISO 14001 Uniform Certification for its main domestic manufacturing and research and development facilities. With respect to its overseas manufacturing and research and development activities, principal facilities in Asia, Europe and North America regions are receiving ISO 14001 Uniform Certification.

Environmental Measures for Products. In order to actively develop environmentally friendly lines of products, Advantest conducts environmental assessments of all its new products from their development stages.

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Reduce Waste. Advantest has worked to reduce waste by implementing a recycling program and introducing liquid waste disposal capabilities at its facilities, among others.

Use of Safe Components. Advantest has established an internal procurement standard for parts and components and has procured parts and components for its new products that do not contain specified toxic substances.

Prevention of Global Warming. Through the use of energy efficient equipment and the re-evaluation of manufacturing processes, Advantest strives to reduce levels of carbon dioxide emissions resulting from energy consumption relating to its business activities.

As one of its activities designed to contribute to society and to the environment, Advantest implements reforestation of seedlings, both in Japan and overseas.

Advantest has been addressing issues of social contribution activities and environmental issues from a global perspective. With increased attention in recent years on corporate ethics, Advantest believes that it should focus even more on the issue of CSR (Corporate Social Responsibility). Accordingly, Advantest has established a CSR & Environmental Affairs Promotion Office and seven committees (Disclosure Committee, Personnel Mediation Committee, Information Security Committee, Internal Control Committee, Corporate Ethics Committee, Product Liability Committee and Safety and Health Committee), and engages in corporate social responsibility efforts.

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Glossary

3D	Three-dimensional.
Analog circuits	Circuits on a semiconductor that monitor, condition, amplify or transform analog signals, which are signals that vary continuously over a wide range of values. Analog circuits process analog signals translated from real world phenomena such as sound, light, heat and motion.
CD-SEM	Critical-dimension measuring scanning electron microscope.
DDR-SDRAM	Double Data Rate Synchronous Dynamic Random Access Memory. Memory semiconductor that can be read from, or written to, at double the rate of traditional SDRAM semiconductors.
DDR2-SDRAM	Advanced DDR-SDRAM semiconductors that can be read from, or written to, at a significantly higher rate than DDR-SDRAM semiconductors.
DDR3-SDRAM	DDR-SDRAM semiconductors that be read from, or written to, at a significantly higher rate than DDR2-SDRAM semiconductors.
DDR4-SDRAM	The next generation advanced DDR-SDRAM semiconductors that can be read from, or written to, at a significantly higher rate than DDR3-SDRAM semiconductors.
Digital circuits	Circuits that perform binary arithmetic functions on data represented by a series of on/off states.
DRAM	Dynamic Random Access Memory. Devices that store a large volume of data and can read and write data freely. Because of their volatile characteristics, periodic re-writing of data is required to maintain memory information.
EB	Electron beam.
Foundries	Semiconductor manufacturing service providers that manufacture semiconductors based on their customers' semiconductor designs.
Fabless	Manufacturers that outsource their entire production to external entities, instead of having their own manufacturing facilities.
Flash memory	Memory devices that electrically erase or write data freely. Devices with nonvolatile memory which is maintained even when the power is turned off.

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GDDR

Graphics DDR. DDR memory standard specifically designed for use in RAM video cards.

Gbps

Gigabits per second.

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Integrated circuit	An electric part made of a combination of many transistors on a silicon wafer.
LCD driver integrated circuits	Integrated circuits that operate LCD (Liquid Crystal Display).
Logic circuits	Circuits that perform binary arithmetic functions.
LPDDR	Low Power DDR memory.
LPDDR 2	DDR2 memory that has higher speed and lower power consumption than LPDDR.
LPDDR 3	DDR3 memory that has higher speed and lower power consumption than LPDDR2.
LSI	Large-scale integration.
Mbps	Megabits per second.
Memory circuits	Circuits that store data and programs.
MCP	Multi Chip Package. A package which combines multiple chips with different functions.
MCU	Micro Controller Unit. An integrated circuit that contains all necessary functions required for a small-scale computer system.
MPU	Microprocessor unit. A microprocessor that incorporates most or all of the functions of a computer's central processing unit on a single integrated circuit.
MVM-SEM®	MVM stands for Multi Vision Metrology and SEM stands for Scanning Electron Microscope. MVM-SEM is an Advantest-registered trademark.
NAND	A type of flash memory that is primarily used for data storage due to its large storage capability.
nm	Nanometer.
Per site processor architecture	Computing architecture that can control test functions, at each target device for testers that simultaneously measure multiple devices.
Photomask	An original plate on which circuit patterns using photolithographic technology are etched on silicon substrates during the manufacturing processes of semiconductor integrated circuit (SIC) and liquid crystal displays, among others.

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SDRAM

Synchronous Dynamic Random Access Memory DRAM that is synchronized with the system bus.

SEM

Scanning electron microscope.

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SoC	System on a Chip. A chip that integrates functions, including logic, memory and signaling, that are conventionally executed with multiple chips and requires smaller space and significantly less electricity.
Scalable platform	Platform that can be optimally structured for small systems through to large systems, depending on the size/type of the target devices and the number of devices being measured simultaneously.
Test houses	Providers of semiconductor test services.
Test processor per pin architecture	Architecture which is able to perform test functions using sequencers mounted on a single pin.
Testing for KGD	Known Good Die. Testing for KGD is conducted to guarantee that semiconductor bare chips are in good quality.
Terahertz (THz) waves	Terahertz waves lie between microwaves and light with frequency of 0.1-10THz on the electromagnetic spectrum.
TSV	(Through-Silicon Via) A technique for mounting semiconductors which are electronic components. Involves a vertical electrode passing through a silicon semiconductor chip.

Table of Contents**4.C. ORGANIZATIONAL STRUCTURE**

As of June 26, 2014, Advantest had 9 Japanese subsidiaries and 23 overseas subsidiaries. The following table sets forth for each of Advantest's principal subsidiaries, the country of incorporation and the principal activities of the subsidiary.

Name of Subsidiary	Country of Incorporation	Principal Activities
Advantest Laboratories Ltd.	Japan	Research and development of measuring and testing technologies
Advantest Finance Inc.	Japan	Leasing Advantest's products and sales of second-hand products
Advantest America, Inc.	U.S.	Development and sales of Advantest's products
Advantest Europe GmbH	Germany	Development and sales of Advantest's products
Advantest Taiwan Inc.	Taiwan	Sales of Advantest's products
Advantest (Singapore) Pte. Ltd.	Singapore	Sales of Advantest's products
Advantest Korea Co., Ltd.	Korea	Sales support of Advantest's products
Advantest (China) Co., Ltd.	China	Sales support of Advantest's products

* Each of the subsidiaries listed above is a direct or indirect wholly-owned subsidiary of the Company.

Advantest's consolidated subsidiary, Japan Engineering Co., Ltd. merged into the Company as of April 1, 2014.

4.D. PROPERTY, PLANTS AND EQUIPMENT

Set forth below is a list of each of Advantest's material properties, the use and location of the property and the approximate size of the property on which the facility is located.

Name	Location	Approximate Size (m²)	Use
Gunma R&D Center	Gunma, Japan	195,888	Research and development of semiconductor and component test systems and mechatronics systems
Saitama R&D Center	Saitama, Japan	56,978	Research and development for and manufacturing of mechatronics systems
Kitakyushu R&D Center	Fukuoka, Japan	5,461	Research and development of semiconductor and component test systems
Advantest Laboratory and Sendai Factory	Miyagi, Japan	66,904	Basic technology research, and research for and manufacturing of key devices installed in semiconductor and component test systems
Gunma Factory	Gunma, Japan	88,512	Manufacture of semiconductors and component test systems and test handlers
Gunma Factory 2	Gunma, Japan	93,112	Manufacture of semiconductor and component test systems and device interfaces

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Advantest Korea Co., Ltd. Cheonan factory	Chungcheongnam-do, Korea	39,605	Manufacture of test handlers, probe cards, etc.
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In addition to the above-mentioned manufacturing facilities, Advantest has a manufacturing facility in Malaysia, sales offices and customer support centers in various regions of the world, and owned or leased research facilities in Japan, the U.S., Germany and China. Advantest owns each of its significant properties.

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Advantest considers all of its principal manufacturing facilities and other significant properties to be in good condition and adequate to meet the needs of its operations. Advantest does not maintain internal records of the exact productive capacity and extent of utilization of its manufacturing facilities. It would require unreasonable effort and expense to determine this information because Advantest alters the volume, quantity and nature of its manufactured products as necessary in response to changes in demand and other market conditions, and revamps its manufacturing processes to take advantage of technological innovations. However, Advantest believes that its manufacturing facilities are currently operating at utilization levels that are substantially in line with prevailing market demand for its products.

Advantest believes that there are no material environmental issues that may affect utilization of its assets.

Advantest has prepared itself for crises such as large-scale natural disasters, and each department of Advantest has drafted its own disaster procedures and manuals. Furthermore, in order to prevent any disruption of its core businesses, or in case of suspension, to re-start the suspended businesses, including the recovery of important facilities, in the shortest possible time, Advantest has developed and implemented its Business Continuity Plan . However, if such Business Continuity Plan is not effective, Advantest's core businesses could be disrupted at a time of crisis, such as large-scale natural disasters, and could take a substantial amount of time to recover.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.A. OPERATING RESULTS

The following discussion and analysis of Advantest's financial condition and results of operations should be read with Key Information Selected Financial Data and the audited consolidated financial statements for fiscal 2011, 2012 and 2013 as well as the notes to such consolidated financial statements appearing elsewhere in this annual report. These consolidated financial statements have been prepared in accordance with U.S. GAAP.

Overview

Advantest manufactures and sells semiconductor and component test systems and mechatronics-related products such as test handlers and device interfaces. Advantest also engages in research and development activities and provides maintenance and support services associated with these products.

The Semiconductor and Component Test System Segment provides customers with test system products for the semiconductor industry and the electronic parts industry. Product lines in the Semiconductor and Component Test System Segment include test systems for memory semiconductors and non memory semiconductors. Test systems for non memory semiconductors include test systems for SoC semiconductors, test systems for LCD driver ICs and test systems for semiconductors used in car electronics. This business segment is the most important segment, accounting for 65.3% of Advantest's net sales in fiscal 2013.

The Mechatronics System Segment provides product lines such as test handlers, mechatronic-applied products for handling semiconductor devices, device interfaces that serve as interfaces with the devices that are measured and operations related to nano-technology products. This business segment accounted for 13.4% of Advantest's net sales in fiscal 2013.

The Services, Support and Others Segment consists of comprehensive customer solutions provided in connection with the Semiconductor and Component Test Systems and Mechatronics System Segments, support services, equipment lease business and others. This business segment accounted for 21.6% of Advantest's net sales in fiscal 2013.

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Semiconductor and Component Test System Segment

The market for semiconductor and component test systems is subject to high demand volatility, is competitive, and depends on capital expenditures of customers. Their capital expenditures depend, to a large extent, on:

demand for semiconductors and electronic components;

innovation in semiconductor and electronic component technology; and

changes in semiconductor and electronic component manufacturing processes.

In the business environment in which the Semiconductor and Component Test System Segment operates, a lack of strong demand for key end-products, such as PCs and smartphones, that drives semiconductor production volumes led manufactures to continue to hold off on investing to expand their production capacities.

In this environment, in Advantest's core line of semiconductor test equipment, difficult business climate prevailed as a result of significant constraints in capital investments by some of Advantest's major customers since last summer for non memory test systems.

As a result of the above, net sales of the Semiconductor and Component Test Systems Segment totaled ¥73,017 million in fiscal 2013, a 27.8% decrease compared to that of fiscal 2012. For a detailed discussion of these factors, see [Information on the Company Business Overview Industry Overview](#).

In the Semiconductor and Component Test System segment, non memory test systems continued to face adverse conditions due to prolonged production volume corrections and inventory adjustments by suppliers of logic semiconductors for PCs and high-end smartphones the key demand drivers in this sector, resulting in significant constraints in capital investments by some of Advantest's major customers.

Demand for test systems for the memory semiconductor business in the Semiconductor and Component Test Systems Segment rose as demand for DRAM and NAND flash memory devices continued to firm up, resulting in customers' continuing appetite for capacity expansion, which drove increased demand for new test systems.

Advantest believes that price pressure with respect to semiconductor and component test systems tends to be the strongest during periods when semiconductor manufacturers are subject to price pressure despite an increase in demand for their products. Advantest continues to face significant price pressure. Even when the semiconductor industry experienced a recovery, increased competition in the market for digital consumer products and personal computers drove down prices of these goods, subsequently creating significant price pressure on its products and restriction on capital expenditure.

Mechatronics System Segment

In the Mechatronics System Segment, strong customer interest in the new nanotechnology products and successful cultivation of new customers for device interfaces helped to grow net sales and orders.

Mainly as a result of the above, net sales of the Mechatronics System Segment totaled ¥14,984 million in fiscal 2013, a 9.7% increase compared to that of fiscal 2012.

Services, Support and Others Segment

In the Services, Support and Others Segment, Advantest has focused on maintenance services such as installation and repair of Advantest's products and lease and rental services of its products as a part of Advantest's effort to provide customers with comprehensive solutions. In the Services, Support and Others segment, ongoing efforts to improve the profitability of the segment led to successes such as an increased number of annual maintenance contracts. Some of the new businesses also contributed to net sales in fiscal 2013.

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As a result of the above, net sales of the Services, Support and Others Segment totaled ¥24,151 million in fiscal 2013, a 20.3% increase compared to that of fiscal 2012.

Research and Development

Research and development expenses represent a significant portion of Advantest's annual operating expenses. Advantest's research and development expenses were ¥30,303 million in fiscal 2011, ¥33,062 million in fiscal 2012 and ¥32,670 million in fiscal 2013. Consequently research and development expenses were 21.5%, 24.9% and 29.2% of net sales, in fiscal 2011, 2012 and 2013, respectively.

Personnel

As of March 31, 2014, Advantest had a total of 4,625 full-time employees, an increase of 50 persons, or 1.1%, compared to March 31, 2013.

Advantest plans to continue its periodic recruitment of new graduates as part of its mid-to long-term growth strategy. Advantest expects that a majority of these new hires will join the Semiconductor and Component Test System Segment and Mechatronics System Segment to support the growth of Advantest's businesses. Other new hires are expected to join Advantest's maintenance support division or administrative divisions. The addition of these new hires may increase Advantest's future selling, general and administrative expenses and its research and development expenses.

Currency Fluctuations

Advantest is affected to some extent by fluctuations in foreign currency exchange rates. Advantest is principally exposed to fluctuations in the value of the Japanese yen against the U.S. dollar and currencies of other countries where Advantest does business. Advantest's consolidated financial statements, which are presented in Japanese yen, are affected by foreign currency exchange fluctuations through both translation risk and transaction risk.

Translation risk is the risk that Advantest's consolidated financial statements for a particular period or for a particular date will be affected by changes in the prevailing exchange rates of the currencies in which subsidiaries of the Company prepare their financial statements against the Japanese yen. Even though the fluctuations of currencies against the Japanese yen can be substantial and, therefore, significantly impact comparisons with prior accounting periods and among various geographic markets, the translation effect is a reporting consideration and does not reflect Advantest's underlying results of operations.

Transaction risk is the risk that the currency structure of Advantest's costs and liabilities will deviate from the currency structure of sales proceeds and assets.

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Advantest enters into foreign exchange forward contracts to reduce its transaction risk. This has reduced, but not eliminated, the effects of foreign currency exchange rate fluctuations against the Japanese yen, which in some years can be significant.

Generally, the weakening of the Japanese yen against other foreign currencies, particularly the U.S. dollar, has a positive effect on Advantest's operating income and net income. The strengthening of the Japanese yen against other foreign currencies, particularly the U.S. dollar, has a negative impact in operating income and net income. The Euro, however, may have the opposite effect as compared with other foreign currencies since there are currently more costs incurred in Euro than net sales derived in Euro.

In fiscal 2011, the appreciation of the yen continued, going from the low ¥80s to the dollar to the high ¥70s to the dollar after the second quarter and at one point reaching the ¥76 mark in the third quarter, the highest level since World War II. However, by the end of fiscal 2011, the Japanese yen had returned to the low ¥80s to the

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dollar. In fiscal 2012, the appreciation of the yen continued, starting from the low ¥80s to the dollar and strengthened to the high ¥70s to the dollar in the second quarter. However, in the third quarter the Japanese yen started to depreciate and returned to the low ¥90s to the dollar by the end of fiscal 2012. In the first quarter of fiscal 2013, the Japanese yen depreciated from low ¥90s to the dollar to ¥103 to the dollar, and then appreciated to low ¥90s to the dollar. In the second quarter, the Japanese yen stayed at high ¥90s to the dollar, and in the third quarter depreciated to ¥105 to the dollar. In the fourth quarter, however, the Japanese yen stayed at low ¥100s to the dollar as a result of the market's concerns over currencies in emerging markets and tensions in Ukraine.

Advantest's business is subject to risks associated with doing business internationally, and its business could be impacted by certain governmental, economic, fiscal, monetary, taxation or political policies or factors, including trade protection measures and import or export licensing requirements, that may materially affect, directly or indirectly, Advantest's operations or its future results.

Critical Accounting Policies and Estimates

Advantest has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities in preparing its consolidated financial statements in conformity with U.S. GAAP. Critical accounting policies are accounting policies that require the application of management's most difficult, subjective or complex judgments and often require management to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The following is not intended to be a comprehensive list of all of Advantest's accounting policies. Advantest's significant accounting policies are more fully described in Note 1 to the audited consolidated financial statements included elsewhere in this annual report. In many cases, U.S. GAAP specifically dictates the accounting treatment of a particular transaction, with no need for judgment in its application. There are also areas in which management's judgment in selecting an available alternative could produce materially different results. Set forth below is a description of accounting policies under U.S. GAAP that Advantest has identified as critical to understanding its business and the reported financial results and condition of the Company.

Revenue Recognition

General

Advantest recognizes revenue when there is persuasive evidence of an arrangement, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured.

Sales of Products

Sales of products which require installation are recognized when the related installation is completed and other sales recognition criteria are met since the installation is essential to the functionality of the equipment. When customer acceptance is uncertain, revenue is deferred until customer acceptance has been received. When the final payment is subject to customer acceptance, a portion of revenue for the final payment is deferred until an enforceable claim has become effective.

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Sales of products and component which do not require installation service by Advantest is recognized upon shipment if the terms of the sale are free on board (FOB) shipping point or upon delivery if the terms are FOB destination which coincide with the passage of title and risk of loss.

Long-term Service contracts

Revenue from fixed-price, long-term service contracts is recognized on the straight-line basis over the contract term.

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Leasing Income

Revenue from operating leases is primarily recognized on the straight-line basis over the lease term.

Multiple deliverables

Advantest's revenue recognition policies provide that, when a sales arrangement contains multiple elements such as hardware and software products and services, Advantest allocates revenue to each element based on a selling price hierarchy and recognizes revenue when the criteria for revenue recognition have been met for each element. The selling price for a deliverable is based on its vendor-specific objective evidence (VSOE), if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price, if neither VSOE nor TPE is available.

Inventories

Advantest's inventories consist of on-hand inventory, including inventory located at customer sites, and inventory that is on-order and subject to a contract that is non-cancelable. Advantest states its inventories at the lower of cost or market. Cost is determined using the average cost method. Advantest determines the market for finished goods by determining net realizable value and for raw materials by identifying replacement cost. Advantest reviews its inventories and determines the appropriate amount of any inventory write-downs periodically based on these reviews. Write-downs occur from the discontinuation of product lines, inventory in excess of estimated usage, the release of new products which renders inventory obsolete and declines in net realizable value of Advantest's inventory leased to customers. Advantest recognizes inventory write-downs in cost of sales. Advantest may be required to take additional charges for excess and obsolete inventory in fiscal 2014 or other future periods if future weakness in its businesses causes further reductions to Advantest's inventory valuations. In addition, unexpected changes in testing technology can render Advantest's inventories obsolete. Advantest evaluates its inventory levels based on its estimates and forecasts of demand for its products.

Advantest's inventories decreased by ¥1,649 million, or 5.2%, during fiscal 2013 to ¥30,200 million as of March 31, 2014.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is computed principally using the straight-line method over estimated useful lives of the assets.

The depreciation period for significant assets ranges from 15 years to 50 years for buildings, 4 years to 10 years for machinery and equipment, and 2 years to 5 years for tools, furniture and fixtures.

Depreciation expense was ¥4,326 million, ¥5,778 million and ¥6,106 million for the fiscal years 2011, 2012 and 2013, respectively.

Impairment of Long-Lived Assets

Advantest evaluates the impairment of long-lived assets including certain identifiable intangibles with definite useful lives by reviewing for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

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In fiscal 2011 and 2012, Advantest recognized an impairment loss of ¥920 million and ¥134 million, respectively, on certain building and land asset that was reclassified as assets held for sale. As a result of lower than expected future cash flows and changes in the business environment impact on profits, during fiscal 2013, Advantest recognized impairment losses of ¥1,099 million and ¥11,671 million on property, plant and equipment and intangible assets, respectively, included in the Semiconductor and Component Test System Segment. In addition, Advantest recognized impairment losses of ¥497 million and ¥228 million on property, plant and equipment and intangible assets, respectively, included in the Mechatronics System Segment.

Business Combinations

Advantest allocates the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired, including in-process research and development (IPR&D), based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Advantest basically engages independent third-party appraisal firms to assist us in determining the fair values of assets acquired and liabilities assumed. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets.

Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Goodwill and Intangible Assets

Advantest reviews goodwill and intangible assets with indefinite lives for impairment annually during the fourth quarter and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable.

In July 2012, the FASB amended the accounting guidance to simplify how entities test indefinite-lived intangible assets for impairment which improve consistency in impairment testing requirements among long-lived asset categories. The guidance permits an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, the guidance eliminates the requirement to perform quantitative impairment testing as outlined in the previously issued standards. The guidance was adopted by Advantest in the first quarter beginning April 1, 2013. The adoption of the guidance did not have a significant impact on its consolidated results of operations and financial condition.

The provisions of the accounting standard for goodwill and other intangibles allow Advantest to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. For our annual goodwill impairment test in the fourth quarter of fiscal 2013, Advantest performed a quantitative test for all of the reporting units. In the first step, Advantest compares the fair value of each reporting unit to its carrying value. Advantest's reporting units are consistent with the reportable segments identified in Note 19 to the Consolidated Financial Statements. Advantest determines the fair value of its reporting units based on an income approach. Under the income approach, Advantest calculates the fair value of a reporting unit based on the present value of estimated future cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and Advantest is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then Advantest must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then Advantest records an impairment loss equal to the difference.

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Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows and risk-adjusted discount rates. Advantest bases its fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, Advantest makes certain judgments and assumptions in allocating corporate assets and liabilities to determine the carrying values for each of its reporting units.

Advantest's annual goodwill impairment analysis indicated no impairments of goodwill. In order to evaluate the sensitivity of the fair value calculations on the goodwill impairment analysis, Advantest applied a hypothetical and approximate 10% decrease to the fair value of each reporting unit. As a result of the sensitivity analysis, as of March 31, 2014, Advantest does not have any reporting units that are at risk that the carrying amount of the reporting unit would reasonably likely exceed its fair value.

Intangible assets primarily consist of customer relationships and other intangible assets. Advantest has estimated the weighted average amortization period for the customer relationships relating to services to be 7 years. The weighted average amortization period for all intangible assets is approximately 6 years.

Trade Receivables

Advantest's trade receivables, less allowance for doubtful accounts was ¥20,404 million as of March 31, 2014, as compared with ¥26,953 million as of March 31, 2013. Advantest maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Advantest provides an allowance for doubtful accounts for all specific accounts receivable that it judges are probable of not being collected.

Advantest periodically reviews its estimated allowances for doubtful accounts taking into account the customer's payment history, assessing the customer's current financial position and considering other information that is publicly available and the customer's credit worthiness. Additional reviews are undertaken upon significant changes in the financial condition of Advantest's customers and the semiconductor industry. Increases in allowance for doubtful accounts are charged to selling, general and administrative expenses.

At the end of fiscal 2013, Advantest increased its allowance for doubtful accounts by ¥74 million to ¥128 million, from fiscal 2012. A reversal of allowances made for accounts receivable that are later collected, depending upon the recovered financial status of its customers and Advantest's collection efforts, will decrease the selling, general and administrative expenses for the accounting period during which such collection takes place. Conversely, additional allowances may be necessary in the future if conditions in the industries of some of Advantest's customers do not improve in the near-term.

Accrued Warranty Expenses

Advantest's products are generally subject to a product warranty. In addition, under certain circumstances, Advantest is responsible for the repair of defective components and parts. Advantest provides an allowance for estimated product warranty expenses when product revenue is recognized as part of its selling, general and administrative expenses. The allowance for estimated product warranty expenses represents management's best estimate at the time of sale of the total costs that Advantest will incur to repair or replace components or parts that fail while still under warranty. Advantest records its allowance for estimated product warranty expenses based on the historical ratio of actual repair

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expenses to corresponding sales, and any facts and circumstances that occurred. The foregoing evaluations are inherently uncertain as they require estimates as to maintenance costs and failure rates related to different product lines. Consequently, actual warranty costs may differ from the estimated amounts and could result in additional product warranty expenses. If actual warranty costs significantly exceed the amount of Advantest's allowance for product warranty expenses, it would negatively affect the future results of operations of Advantest.

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Accrued warranty expenses were ¥1,589 million at March 31, 2014, a decrease of ¥300 million from ¥1,889 million at March 31, 2013.

Convertible Bonds

Advantest is not required to bifurcate any of the embedded features contained in the ¥30,000 million zero coupon convertible bonds due 2019 (bonds with stock acquisition rights), which was issued in March 2014, for accounting purposes.

Stock-Based Compensation

Advantest applies the fair-valued-based method of accounting for stock-based compensation and recognizes stock-based compensation expense in the consolidated statements of operations. The cost of employee services received in exchange for an award of equity instrument is measured based on the grant-date fair value of the stock options granted to employees. The cost is recognized on a straight line basis over the period during which an employee is required to provide service in exchange for the award. The Black Scholes pricing model is used to estimate the value of the stock options.

Expected dividend yield is determined by the Company's dividend ratio of the past and other associated factors. Risk free interest rate is determined by Japanese government bond yield for the period corresponding to expected life. Expected volatility is determined by historical volatility and trend of the Company's share prices, and other associated factors. Expected life is determined by the Company's option exercise history, post vesting employment termination behavior for similar grants, and other pertinent factors.

Advantest has recorded ¥583 million, ¥861 million and ¥1,283 million as stock-based compensation expense in fiscal 2011, 2012 and 2013, respectively.

Accrued Pension and Severance Cost

The Company and certain of its Japanese subsidiaries have unfunded retirement and severance plans (point-based benefits system). Under a point-based benefits system, the benefits are calculated based on accumulated points allocated to employees each year according to their job classification and their performance. The Company and certain of its Japanese subsidiaries also have a defined benefit corporate pension plan covering substantially all employees. Under the cash balance pension plan, the benefits are calculated based on accumulated points allocated to employees each year according to their job classification and their performance with a certain interest rate calculated based on the upper and lower limit of a market interest rate.

Certain overseas subsidiaries also have defined benefit pension plans covering substantially all of their employees. Benefits payable under the plans are based on employee compensation levels and years of service.

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The retirement benefit costs are estimated from actuarial valuations. Inherent in these valuations are key assumptions in estimating pension costs including mortality, withdrawal, retirement, changes in compensation, discount rate and expected return on plan assets. Advantest is required to estimate the key assumptions by taking into account various factors including personnel demographics, current market conditions and expected trends in interest rates. Advantest determines the discount rate by looking to available information about rates implicit in return on high-quality fixed-income governmental and corporate bonds. Accordingly, the discount rate is likely to change from period to period based on these ratings. A decrease in the discount rate results in an increase in actuarial pension benefit obligations. Increases and decreases in the pension benefit obligation affect the amount of the actuarial gain or loss which is amortized into income over the service lives of employees. Changes in the key assumptions may have a material effect on Advantest's financial position and results of operations. Management believes that estimation of the key assumptions is reasonable under the various underlying factors.

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Pension related adjustments (net of tax) recognized in other comprehensive income (loss) for fiscal 2011, 2012 and 2013 were (¥6,328 million), (¥1,779 million), and ¥342 million respectively. Pension related adjustments of (¥6,328 million) for fiscal 2011 were recognized due to the reduction of discount rate used to determine benefit obligations for Japanese plans and losses on plan assets.

Advantest has recorded ¥2,251 million, ¥3,166 million and ¥3,426 million as benefit cost in fiscal 2011, 2012 and 2013, respectively.

Deferred Tax Assets

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon projections for future taxable income over the periods in which the deferred tax assets are deductible including management's expectations of future semiconductor market and semiconductor and component test systems market prospects and other factors, management believes it is more likely than not that Advantest will realize the benefits of these deductible differences, net of valuation allowance. The valuation allowance in fiscal 2013 was increased by

¥3,762 million primarily due to increase of net operating loss carry forwards (NOL). The net (decreases) increases in valuation allowance decreased (¥1,894) million and increased ¥8,884 million for fiscal years 2011 and 2012, respectively.

At March 31, 2013, Advantest has recorded on its consolidated balance sheet, deferred tax assets of ¥69,414 million of which ¥38,912 million represents NOL. Advantest has also recorded a valuation allowance of ¥59,072 million, and as a result, net deferred tax assets were ¥10,342 million. At March 31, 2014, Advantest has recorded on its consolidated balance sheet, deferred tax assets of ¥74,022 million of which ¥49,097 million represents NOL. Advantest has also recorded a valuation allowance of ¥62,834 million, and as a result, net deferred tax assets were ¥11,188 million. NOL carry forwards utilized were ¥25 million, ¥14,728 million and ¥2,712 million in fiscal years 2011, 2012 and 2013 respectively.

Although Advantest's management believes that the amount of net deferred tax assets may be realized, this could change in the near term if estimates of future taxable income are revised and effect on the Company's consolidated financial position and results of operations could be significant.

Income Taxes

Advantest recognizes the financial statement effects of tax positions when they are more likely than not, based on technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions that meet the more-likely-than-not recognition threshold are measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon settlement. Advantest recognizes interest and penalty accruals related to unrecognized tax benefits in income tax provision in the consolidated statements of operations.

Fair Value

Investment securities

The fair value of available-for-sale equity securities is based on quoted market prices at the reporting date for those investments.

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Plan assets

Plan assets are comprised principally of listed equity securities, pooled funds, hedge funds and investments in life insurance company's general accounts. Listed equity securities are based on quoted market prices on the reporting date for those investments. Pooled funds and hedge funds are valued at their net asset values which are calculated by the sponsors of the funds. Investments in life insurance company's general accounts are valued at conversion value.

Recently Issued Accounting Guidance

In May 2014, the FASB issued the accounting guidance for revenue from contracts with customers. This guidance supersedes virtually all existing revenue recognition requirements under US GAAP and requires an entity to apply the five steps to recognize revenue from contracts with customers unless the contracts are in the scope of other US GAAP requirements. Additionally, an entity should disclose quantitatively and qualitatively sufficient information including contract with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The entity should apply the amendments in this guidance using one of the following two methods; retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of the initial application. The guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The guidance is required to be adopted by Advantest in the first quarter beginning April 1, 2017. Advantest is currently evaluating the effect that this adoption will have on its consolidated results of operations and financial condition.

Results of Operations Fiscal 2013 Compared with Fiscal 2012

Net Sales

Advantest's net sales decreased by ¥21,025 million, or 15.8%, compared with fiscal 2012, to ¥111,878 million in fiscal 2013. This was primarily due to significant constraints in capital investments by some of Advantest's major customers since last summer, particularly for non memory test systems. It is estimated that the fluctuations in exchange rates during fiscal 2013 contributed to an increase of Advantest's net sales by ¥12,083 million in fiscal 2013.

The following is a discussion of net sales for Advantest's Semiconductor and Component Test System, Mechatronics System and Services, Support and Others Segments. Net sales amounts discussed include intercompany sales between segments.

Semiconductor and Component Test System Segment

In fiscal 2013, net sales of Advantest's Semiconductor and Component Test System Segment accounted for 65.3% of total net sales. Net sales of Advantest's Semiconductor and Component Test System Segment for fiscal 2013 decreased by ¥28,102 million, or 27.8%, compared with fiscal 2012, to ¥73,017 million. It is estimated that fluctuations in exchange rates during fiscal 2013 contributed to an increase of Advantest's net sales

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in its Semiconductor and Component Test System Segment by ¥7,229 million. Net sales of test systems for non memory semiconductors in fiscal 2013 decreased by ¥33,754 million, or 40.5%, compared with fiscal 2012 to ¥49,614 million. This decrease was mainly as a result of significant constraints in capital investments by some of Advantest's major customers due to prolonged production volume corrections and inventory adjustments for logic semiconductors for PCs and high-end smartphones.

Net sales of test systems for memory semiconductors in fiscal 2013 increased by ¥5,652 million, or 31.8%, compared with fiscal 2012 to ¥23,403 million. This increase was mainly because demand for DRAM and NAND flash memory devices continued to firm up, and memory test systems benefited from customers' continuing appetite for capacity expansion, which drove increased demand for new test systems.

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Mechatronics System Segment

Net sales of the Mechatronics System Segment including test handlers and device interfaces increased by ¥1,331 million, or 9.7%, compared to fiscal 2012 to ¥14,984 million in fiscal 2013. This increase was mainly due to a strong customer interest in the new nanotechnology products and successful cultivation of new customers for device interfaces, which helped to grow net sales and orders.

Services, Support and Other Segment

Net sales of the Services, Support and Other Segment increased by ¥4,074 million, or 20.3%, compared with fiscal 2012 to ¥24,151 million in fiscal 2013, mainly due to ongoing efforts to improve the profitability of the segment, which led to successes such as an increased number of annual maintenance contracts. Some of the new businesses also contributed to net sales. The main businesses in the Services, Support and Others Segment were maintenance services, leasing and rentals and new businesses.

Geographic Markets

Advantest experienced a decrease of 15.8% in net sales in fiscal 2013, which was primarily due to decrease in sales in the Americas.

Net sales in Japan decreased by ¥1,824 million, or 13.0%, compared with fiscal 2012 to ¥12,221 million in fiscal 2013. This decrease was mainly due to a reduced demand for digital household appliances resulting in significant constraints in capital investments by some of Advantest's major customers that led to a drop in demand for non memory test systems.

Net sales in the Americas decreased by ¥9,863 million compared with fiscal 2012 to ¥10,720 million in fiscal 2013. This decrease was mainly due to the weakening of the PC market resulting in significant constraints in capital investments by some of Advantest's major customers that led to a drop in sales of non memory test systems. It is estimated that fluctuations in exchange rates during fiscal 2013 contributed to an increase of Advantest's net sales in the Americas by approximately ¥1,707 million, primarily due to the appreciation of the U.S. dollar against the Japanese yen.

Net sales in Europe decreased by ¥1,785 million compared to fiscal 2012 to ¥7,276 million in fiscal 2013. This decrease was mainly due to the weakening of the high-end smartphone sales resulting in significant constraints in capital investments by some of Advantest's major customers that led to a drop in sales of non memory test systems. It is estimated that fluctuations in exchange rates during fiscal 2013 contributed to an increase of Advantest's net sales in Europe by approximately ¥1,219 million.

Net sales in Asia (excluding Japan) decreased by ¥7,553 million, or 8.5%, compared with fiscal 2012 to ¥81,661 million in fiscal 2013. Net sales in Korea and Taiwan decreased by ¥783 million, or 2.5%, and ¥2,479 million, or 6.9%, compared with fiscal 2012, respectively. This decrease was mainly due to the weakening of the high-end smartphone sales resulting in constraints in capital investments by Advantest's customers that led to a drop in sales of non memory test systems. Net sales in China and the rest of Asia (excluding Japan, Taiwan and Korea) decreased by ¥4,291 million, or 19.9%, compared with fiscal 2012. This decrease was mainly due to the weakening of the PC market resulting in significant

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constraints in capital investments by some of Advantest's major customers that led to a drop in sales of non memory test systems. It is estimated that fluctuations in exchange rates during fiscal 2013 contributed to an increase of Advantest's net sales in Asia by approximately ¥8,837 million.

Advantest's overseas sales as a percentage of total sales was 89.1% and 89.4% for fiscal 2013 and 2012, respectively.

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Operating Expenses

In fiscal 2013, Advantest's operating expenses increased by ¥15,424 million, or 11.6%, compared with fiscal 2012 to ¥148,247 million. The main reasons for operating expense increasing despite the decrease in net sales are as follows.

In fiscal 2013, cost of sales decreased by ¥1,438 million, or 2.2%, compared to fiscal 2012 to ¥62,545 million. This decrease was mainly due to a ¥21,025 million decrease in net sales. The decrease, however, has partially offset by the recording of inventory valuation losses of ¥3,952 million and impairment losses for long-lived assets of ¥427 million in the third quarter.

In fiscal 2013, research and development expenses decreased by ¥392 million, or 1.2%, compared to fiscal 2012 to ¥32,670 million.

In fiscal 2013, selling, general and administrative expenses increased by ¥4,186 million, or 11.7%, compared to fiscal 2012 to ¥39,964 million. This increase was mainly due to the continuing depreciation of the Japanese yen, which resulted in an increase of cost that is denominated in foreign currencies.

In fiscal 2013, aside from the recording of the cost of sales, Advantest recorded a one-time expense for impairment loss in an amount of ¥13,068 million as impairment charge.

Operating Income (Loss)

In fiscal 2013, operating income decreased by ¥36,449 million compared to fiscal 2012, resulting in a loss of ¥36,369 million.

Other Income and Expenses

In fiscal 2013, interest and dividend income decreased by ¥14 million, or 6.6%, compared with fiscal 2012 to ¥199 million.

In fiscal 2013, interest expenses increased by ¥8 million compared with fiscal 2012 to ¥140 million.

In fiscal 2013, gain on sale of investment securities increased by ¥1,008 million compared with fiscal 2012 to ¥1,396 million.

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In fiscal 2013, other expense improved by ¥1,255 million compared with fiscal 2012, to an expense of ¥587 million. This improvement was mainly due to a decrease in foreign currency exchange loss of ¥772 million compared with fiscal 2012 as a result of the appreciation of the U.S. dollar against Japanese yen. Currency exchange profits/losses represent the difference between the value of foreign currency-denominated sales, translated at prevailing exchange rates, and either (i) the value of sales settled during the same fiscal year, including those settled using foreign exchange forward contracts, or (ii) the value of cash and cash equivalents, accounts receivable and payables outstanding remeasured at the exchange rate in effect as of March 31, 2014.

Income Taxes (Benefit)

In fiscal 2013, Advantest's effective tax rate was 0.2%, while the tax rate for fiscal 2012 was 192.8%. The statutory tax rate of the Company and its domestic consolidated subsidiaries was 37.7% for fiscal 2013. For a more detailed discussion on income taxes of Advantest in fiscal 2013 and fiscal 2012, see Note 13 to Advantest's consolidated financial statements.

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Net Income (Loss)

As a result of the foregoing, in fiscal 2013, Advantest's net income decreased by ¥31,719 million compared to fiscal 2012, resulting in a loss of ¥35,540 million.

Other Comprehensive Income (Loss)

In fiscal 2013, Advantest's other comprehensive income (loss), net of tax, decreased by ¥3,390 million compared to fiscal 2012 to an income of ¥12,255 million. This was mainly due to a decrease of ¥4,695 million in foreign currency translation adjustments from an income of ¥17,250 million in fiscal 2012, resulting in an income of ¥12,555 million in fiscal 2013. The decrease, however, was partially offset by an improvement of ¥2,121 million in pension related adjustments from a loss of ¥1,779 million in fiscal 2012, resulting in an income of ¥342 million in fiscal 2013.

Results of Operations Fiscal 2012 Compared with Fiscal 2011

In April 2012, Advantest reorganized its international subsidiaries to create a new structure based on a principle of one company per country, and fully integrated with Verigy. Therefore, in fiscal 2012, it was difficult to calculate the amount of the effect of the integration with Verigy because operations were carried out in an integrated manner in each country. Additionally, Verigy's results of operations for the first quarter of fiscal 2011 are not included in Advantest's results of operations because it was prior to the acquisition.

Net Sales

Advantest's net sales decreased by ¥8,145 million, or 5.8%, compared with fiscal 2011, to ¥132,903 million in fiscal 2012. This was primarily due to a slowdown in the semiconductor market and resultant capital expenditure restrictions made by semiconductor manufacturers. It is estimated that the fluctuations in exchange rates during fiscal 2012 contributed to an increase of Advantest's net sales by ¥3,374 million in fiscal 2012.

The following is a discussion of net sales for Advantest's Semiconductor and Component Test System, Mechatronics System and Services, Support and Others Segments. Net sales amounts discussed include intercompany sales between segments.

Semiconductor and Component Test System Segment

In fiscal 2012, net sales of Advantest's Semiconductor and Component Test System Segment accounted for 76.1% of total net sales. Net sales of Advantest's Semiconductor and Component Test System Segment for fiscal 2012 decreased by ¥4,489 million, or 4.3%, compared with fiscal 2011, to ¥101,119 million. It is estimated that fluctuations in exchange rates during fiscal 2012 contributed to an increase of Advantest's net sales

in its Semiconductor and Component Test System Segment by ¥2,691 million.

Net sales of test systems for non memory semiconductors in fiscal 2012 increased by ¥3,673 million, or 4.6%, compared with fiscal 2011 to ¥83,368 million. This increase was mainly due to a steady growth in the sales of V93000 series test systems for SoC semiconductors.

Net sales of test systems for memory semiconductors in fiscal 2012 decreased by ¥8,162 million, or 31.5%, compared with fiscal 2011 to ¥17,751 million. This decrease was mainly due to a reduced demand for memory test systems caused by a fall in demand for PCs.

Mechatronics System Segment

Net sales of the Mechatronics System Segment including test handlers and device interfaces decreased by ¥6,963 million, or 33.8%, compared to fiscal 2011 to ¥13,653 million in fiscal 2012. This decrease was mainly due to a drop in memory test system demand. Device interface and test handler product demand, which is highly correlated to memory test system business, also fell.

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Services, Support and Other Segment

Net sales of the Services, Support and Other Segment increased by ¥1,270 million, or 6.8%, compared with fiscal 2011 to ¥20,077 million in fiscal 2012, mainly due to stable growth in demand for support services. The main businesses in the Services, Support and Others Segment were maintenance services and leasing and rentals.

Geographic Markets

Advantest experienced a decrease of 5.8% in net sales in fiscal 2012, which was primarily due to decrease of sales in the Americas.

Net sales in Japan decreased by ¥2,050 million, or 12.7%, compared with fiscal 2011 to ¥14,045 million in fiscal 2012. This decrease was mainly due to a reduced demand for digital household appliances, resulting in a drop in demand for T2000 test systems.

Net sales in the Americas decreased by ¥9,159 million compared with fiscal 2011 to ¥20,583 million in fiscal 2012. This decrease was mainly due to a drop in sales of the T2000 for MPU testers resulting from the counter effect of the major capital expenditures in fiscal 2011, and the weakening of the PC market in fiscal 2012. It is estimated that fluctuations in exchange rates during fiscal 2012 contributed to an increase of Advantest's net sales in the Americas by approximately ¥619 million, primarily due to the appreciation of the U.S. dollar against the Japanese yen.

Net sales in Europe increased by ¥2,046 million compared to fiscal 2011 to ¥9,061 million in fiscal 2012. This increase was mainly due to increased sales of the V93000. It is estimated that fluctuations in effect of changes in exchange rates during fiscal 2012 contributed to an increase of Advantest's net sales in Europe by approximately ¥291 million.

Net sales in Asia (excluding Japan) increased by ¥1,018 million, or 1.2%, compared with fiscal 2011 to ¥89,214 million in fiscal 2012. Net sales in Korea and Taiwan increased by ¥2,090 million, or 7.0% and ¥8,235 million, or 29.8%, compared with fiscal 2011, respectively. This increase was mainly due to increased capital expenditures in a variety of semiconductors for communication devices such as smartphones. Net sales in China and the rest of Asia (excluding Japan, Taiwan and Korea) decreased by ¥9,307 million, or 30.1%, compared with fiscal 2011. This decrease resulted from decreased sales of the T2000 for MPU testers. It is estimated that fluctuations in exchange rates during fiscal 2012 contributed to an increase of Advantest's net sales in Asia by approximately ¥2,362 million.

Advantest's overseas sales as a percentage of total sales was 89.4% and 88.6% for fiscal 2012 and 2011, respectively.

Operating Expenses

In fiscal 2012, Advantest's operating expenses decreased by ¥7,388 million, or 5.3%, compared with fiscal 2011 to ¥132,823 million.

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In fiscal 2012, cost of sales decreased by ¥8,317 million, or 11.5%, compared to fiscal 2011 to ¥63,983 million. This decrease was mainly due to a ¥8,145 million decrease in net sales and the accounting for ¥3,532 million in one-time costs associated with acquisition accounting for Verigy in fiscal 2011.

In fiscal 2012, research and development expenses increased by ¥2,759 million, or 9.1%, compared to fiscal 2011 to ¥33,062 million. This increase in research and development expenses was mainly due to increased costs for materials for future product development.

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In fiscal 2012, selling, general and administrative expenses decreased by ¥1,830 million, or 4.9%, compared to fiscal 2011 to ¥35,778 million. This decrease was mainly due to personnel expenses and costs of ¥3,819 million applicable to the acquisition of Verigy in fiscal 2011.

Operating Income

In fiscal 2012, operating income decreased by ¥757 million, compared to fiscal 2011, to a profit of ¥80 million.

Other Income and Expenses

In fiscal 2012, interest and dividend income decreased by ¥110 million, or 34.1%, compared with fiscal 2011 to ¥213 million.

In fiscal 2012, interest expenses decreased by ¥21 million compared with fiscal 2011 to ¥132 million.

In fiscal 2012, impairment loss on investment securities decreased by ¥1,854 million compared with fiscal 2011 to ¥400 million.

In fiscal 2012, other expense decreased by ¥1,141 million, compared with fiscal 2011, to ¥1,054 million. This decrease was mainly due to a decrease in foreign currency exchange loss of ¥892 million compared with fiscal 2011 as a result of the appreciation of the U.S. dollar against Japanese yen. Currency exchange profits/losses represent the difference between the value of foreign currency-denominated sales, translated at prevailing exchange rates, and either (i) the value of sales settled during the same fiscal year, including those settled using foreign exchange forward contracts, or (ii) the value of cash and cash equivalents, accounts receivable and payables outstanding remeasured at the exchange rate in effect as of March 31, 2013.

Income Taxes

In fiscal 2012, Advantest's effective tax rate was 192.8%, while the tax rate for fiscal 2011 was -36.0%. The statutory tax rate of the Company and its domestic consolidated subsidiaries was 37.8% for fiscal 2012. For a more detailed discussion on income taxes of Advantest in fiscal 2012 and fiscal 2011, see Note 13 to Advantest's consolidated financial statements.

Net Income

As a result of the foregoing, in fiscal 2012, Advantest's net income decreased by ¥1,626 million compared to fiscal 2011, to a loss of ¥3,821 million.

Other Comprehensive Income (Loss)

In fiscal 2012, Advantest's other comprehensive income (loss), net of tax, improved by ¥19,949 million compared to fiscal 2011, to an income of ¥15,645 million. This improvement was mainly due to an increase of ¥15,828 million in foreign currency translation adjustments from an income of ¥1,422 million in fiscal 2011 to an income of ¥17,250 million in fiscal 2012.

5.B. LIQUIDITY AND CAPITAL RESOURCES

In accordance with Advantest's funding and treasury policy (including funding for capital expenditures), which is overseen and controlled by its Accounting Department, Advantest funds its cash needs through cash from operating activities and cash and cash equivalents on hand, and is able to procure funds as necessary by issuance of debt and equity securities in domestic and foreign capital markets and bank loans.

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If conditions in the semiconductor industry, and thus the semiconductor and component test system industry, experience a downturn in the medium term, Advantest may need to fund future capital expenditures and other working capital needs through the incurrence of additional debt or dilutive issuances of equity securities.

Advantest issued ¥25.0 billion in corporate bonds in Japan on May 25, 2012, and repaid the short-term loans from banks used to fund the acquisition of Verigy. Furthermore, Advantest issued Zero Coupon Convertible Bonds (bonds with stock acquisition rights) in the aggregate principal amount of ¥30.0 billion on March 14, 2014, with a maturity date of March 14, 2019.

Advantest's cash and cash equivalents balance increased by ¥23,329 million in fiscal 2013 to ¥68,997 million as of March 31, 2014. As of March 31, 2014, approximately 46% of Advantest's cash and cash equivalents were held in Japanese yen. This large increase from 20% of Advantest's cash and cash equivalents held in Japanese yen on March 31, 2013 resulted from the issuance of ¥30.0 billion in Zero Coupon Convertible Bonds (bonds with stock acquisition rights) in March, 2014.

Net loss in operating activities was ¥35,540 million. As a result of a decrease of ¥7,891 million in trade receivables and an adjustment of noncash items such as impairment losses and depreciation, net cash used in operating activities was ¥3,776 million in fiscal 2013. Net cash provided by operating activities worsened by ¥1,561 million in fiscal 2013 compared to ¥2,215 million in net cash used in operating activities in fiscal 2012. The main reason for the worsening in fiscal 2013 was a decrease in net sales, which resulted in an increase of net loss, which was partially offset by the decrease in trade receivables and increase in trade accounts payable.

Net cash used in investing activities was ¥4,711 million in fiscal 2013, which was a decrease of ¥6,787 million compared to net cash used in investing activities in the amount of ¥11,498 million in fiscal 2012. The main reason for the decrease in fiscal 2013 was primarily due to payments made to purchase tangible fixed assets, such as in connection with the building of the Cheonan Factory in Korea, in the amount of ¥11,386 million in fiscal 2012, whereas the amount paid for tangible fixed assets in fiscal 2013 was ¥5,511 million.

Net cash provided by financing activities was ¥27,202 million in fiscal 2013, an improvement of ¥30,116 million compared to net cash used in financing activities in the amount of ¥2,914 million in fiscal 2012. Such improvement was primarily attributable to not having any increase in borrowings in fiscal 2012, as the ¥25.0 billion obtained from issuing corporate bonds was used to repay short-term loans from banks in the amount of ¥25.0 billion, and to issuance of Zero Coupon Convertible Bonds (bonds with stock acquisition rights) in the aggregate principal amount of ¥30.0 billion in fiscal 2013.

Net effect of exchange rate changes on cash and cash equivalents was favorable by ¥4,614 million in fiscal 2013, an improvement of ¥537 million compared to fiscal 2012.

Advantest has entered into agreements for committed lines of credit with several banks to ensure that necessary financing may be procured efficiently. From March 26, 2012, the term of a commitment line agreement is three years and Advantest can elect to obtain a two year loan at the end of the term. A commitment line agreement generally has financial covenants. For Advantest, it is annually required to maintain certain minimum net asset levels. Also it is required to maintain a BBB- rating or above with Rating and Investment Information, Inc. (R&I). Advantest's unused commitment lines totaled ¥10.0 billion as of March 31, 2014. R&I's issuer rating of Advantest as of March 31, 2014 is A-, but R&I announced on January 29 2014 that it has changed its rating outlook of Advantest from stable to negative.

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Advantest has various retirement and severance plans for employees, including non-contributory defined benefit retirement and severance plans consisting primarily of the Employees Provident Fund (EPF) plan. As mentioned in Note 16 to the consolidated financial statements, in the balance sheet as of March 31, 2014, the amount of ¥28,641 million has been recognized as accrued severance and pension costs. Advantest has

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contributed to the EPF plan in accordance with local statutory requirements. Advantest's cash funding requirements would be affected by any changes in interest rates, rate of returns on plan assets and government regulations. The contributions paid by Advantest under the EPF were ¥1,785 million in fiscal 2012 and ¥1,901 million in fiscal 2013. Advantest expects to contribute ¥1,470 million under the EPF in fiscal 2014.

5.C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Research and Development and Product Enhancement

In order to support technology on the leading-edge, Advantest undertakes research and development initiatives to develop products which play a central role in the area of measuring technologies to support electronics, information and communications, and semiconductor manufacturing. Advantest's research and development focuses on the development of new products and the improvement of existing products. In particular, in the Semiconductor and Component Test System Segment, a large and ongoing investment in research and development is necessary in order to maintain market competitiveness and to provide many types of products that meet the various needs of the customers. Advantest also conducts research of basic technologies. Advantest's expenditures for research and development were approximately ¥30.3 billion in fiscal 2011, approximately ¥33.1 billion in fiscal 2012 and approximately ¥32.7 billion in fiscal 2013. Advantest employs over 1,000 engineers and other personnel in its research and development division.

The contents and achievements to date of Advantest's current research and development activities include:

Basic Technology

development of constituent technologies in the field of terahertz waves;

development of constituent technologies, including high speed, energy-saving micro switches and high speed samplers used in semiconductor and component test systems and millimeter wave measuring instruments;

development of methods to detect timing jitters in high bit-rate signals; and

development of compound semiconductor devices, including less-distortion devices used for semiconductor and component test systems.

Semiconductor and Component Test System Segment

development of semiconductor and component test systems that enable testing of super high speed memory semiconductors at actual motion speed;

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development of semiconductor and component test systems that enhance the functionality of testing of DRAM semiconductors and flash memory semiconductors and require less floor space;

development of semiconductor and component test systems that have the capacity to simultaneously test multiple complex SoC semiconductors with large pin counts and require less floor space;

development of semiconductor and component test systems with specialized applications;

development of measurement modules for devices that operate at extremely high frequencies and for networks that carry extremely high density transmissions;

development of high speed transmission technologies for high speed large pin counts and high speed transmission signal contact technologies; and

development of application software for interface between the semiconductor designing environment and semiconductor and component test systems, as well as development of software to analyze defective semiconductors.

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Mechatronics System Segment

development of test handlers for memory semiconductors enabling measuring of multiple semiconductors for high throughput testing;

development of test handlers for SoC semiconductors that respond to diversified device types and packages; and

development of real Active Thermal Control technology with high speed response for high power devices.

Advantest has research and development facilities in Japan, the U.S., Europe and China.

Advantest promotes joint development efforts between its various research facilities to capitalize on the capabilities of its researchers worldwide. Advantest's research and development team for semiconductor and component test systems in Japan works closely with Advantest research and development teams in the U.S. and Europe for the development of hardware and software.

Advantest is currently engaged in the research and development of electron-beam, or e-beam, lithography technology used to draw circuit patterns directly on semiconductor wafers, as well as the research and development of electron-beam length measuring systems used to measure the microscopic size of the circuit pattern of a photomask. Due to their throughput limitations, e-beam lithography systems are currently only used in the production of high value-added semiconductors with limited production volumes and semiconductor prototypes. Advantest believes that further research and development will be necessary in order to attain high precision technologies for the leading semiconductor design and manufacturing process, in addition to the development of technologies for throughput responding to the demand for next generation equipment.

For a description of Advantest's patents, licenses and other intellectual property, see [Information on the Company Business Overview Licenses and Intellectual Property Rights](#).

5.D. TREND INFORMATION

For a discussion of the trends that affect Advantest's business and financial condition and results of operations, see [Information on the Company Business Overview, Operating and Financial Review Operating Results and Operating and Financial Review and Liquidity and Capital Resources](#).

5.E. OFF-BALANCE SHEET ARRANGEMENTS

As of March 31, 2014, Advantest had no material off-balance sheet arrangements.

Advantest does not participate in transactions that derecognize assets or liabilities through unconsolidated entities, structured finance or special purpose entities that were created for the purpose of facilitating off-balance sheet arrangements or other limited purposes.

Table of Contents**5.F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

The following table reflects Advantest's current obligations and commitments to make future payments under contracts, contractual obligations and commercial commitments as of March 31, 2014.

Contractual Cash Obligation	Total	Payments due by Period			More than 5 years
		Less than 1 year	1-3 years (in millions)	3-5 years	
Short-Term Debt	¥	¥	¥	¥	¥
Long-Term Debt, including current portion	55,000		10,000	45,000	
Operating Leases	3,368	834	1,086	604	844
Contractual Obligations	5,195	5,195			
Total Contractual Cash Obligations	¥ 63,563	¥ 6,029	¥ 11,086	¥ 45,604	¥ 844

The contractual cash obligation table excludes our long-term deferred tax liabilities because we cannot make a reliable estimate of the timing of cash payments. For details see Note 13, Income Taxes.

5.G. SAFE HARBOR

All information that is not historical in nature disclosed under Item 5. Operating and Financial Review and Prospects Off-Balance Sheet Arrangements and Tabular Disclosure of Contractual Obligations is deemed to be a forward-looking statement. See Cautionary Statement with Respect to Forward-Looking Statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**6.A. DIRECTORS AND SENIOR MANAGEMENT****Directors and Audit & Supervisory Board Members**

Directors and audit & supervisory board members of the Company as of June 25, 2014 and their respective business experience are listed below.

Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Toshio Maruyama (April 17, 1948)	Chairman of the Board and Representative Director	4/1973	Joined Advantest Corporation
		6/1989	Director
		6/1995	Managing Director

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		6/1999	Senior Managing Director Senior Vice President, ATE Sales Group
		6/2001	Representative Director and President
		6/2003	Representative Director, President and COO
		6/2005	Representative Director, President and CEO
		6/2009	Chairman of the Board and Representative Director (present position)
		6/2012	Audit & Supervisory Board Member, PFU LIMITED (present position)
		5/2013	Chairman of Semiconductor Equipment Association of Japan (present position)
Haruo Matsuno (February 14, 1960)	Representative Director, President and CEO	4/1984	Joined Advantest Corporation
		1/2008	Senior Vice President, Production Group
		6/2008	Executive Officer
		6/2009	Representative Director, President and CEO (present position)

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Yasushige Hagio (November 24, 1947)	Director	4/1972	Assistant Judge, Tokyo District Court
		4/1982	Judge, Tokyo District Court
		4/1998	Instructor, Legal Training and Research Institute
		12/2003	Chief of the Shizuoka District Court
		6/2004	Registered as an attorney-at-Law
		6/2006	Joined Seiwa Patent office & Law (present position) Director, Advantest Corporation (present position)
Osamu Karatsu (April 25, 1947)	Director	4/1975	Joined Nippon Telegraph and Telephone Public Corporation
		6/1991	Executive Manager, LSI Laboratories, Nippon Telegraph and Telephone Corporation
		6/1997	Vice President and Director, Advanced Telecommunications Research Institute International
		4/1999	Principal Consultant, SRI Consulting K.K.
		4/2000	Chief Executive Director, SRI International, Japan
6/2012	Director, Advantest Corporation (present position)		
Seiichi Yoshikawa (March 22, 1946)	Director	7/1969	Joined Fujitsu Limited
		6/2000	Director, Fujitsu Laboratories Ltd.
		6/2004	Managing Director, Fujitsu Laboratories Ltd.
		3/2011	Chairman, QD Laser, Inc.
		9/2012	Principal Fellow, Center for Research and Development Strategy, Japan Science and Technology Agency (present position)
6/2013	Director, Advantest Corporation (present position)		
Shinichiro Kuroe (March 30, 1959)	Director,	4/1981	Joined Advantest Corporation
	Corporate Vice President	2/2003	General Manager, Memory Tester Business Division
	Products and Technology	6/2005	Executive Officer
		6/2008	Vice President, Sales and Marketing Group
		4/2009	Senior Vice President, SoC Tester Business Group
		6/2009	Senior Vice President, Test System Business Group
			Director, Managing Executive Officer
			Technology Development Group and Test System Business Group
		6/2010	Test System Business
		6/2011	Strategic Business
	8/2012	Executive Vice President, Strategic Business Unit Products and Technology (present position)	
	6/2013	Executive Vice President, Marketing Group Director, Corporate Vice President (present position)	

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Sae Bum Myung (September 16, 1954)	Director, Managing Executive Officer	4/1989	Joined Advantest Corporation
		6/2006	Representative Director and President, Advantest Korea Co., Ltd.
	Sales and Marketing	6/2008	Executive Officer
		6/2011	Asia Sales, Sales and Marketing Group Director, Managing Executive Officer (present position) Sales and Marketing (present position) Executive Vice President, Sales and Marketing Group
		8/2012	Executive Vice President, Sales Group (present position)
Hiroshi Nakamura (December 4, 1957)	Director, Managing Executive Officer	4/1981	Joined Advantest Corporation
		6/2002	Manager, Accounting Department, Corporate Affairs Group
		6/2006	Executive Officer
	Corporate Administration		Vice President, Corporate Affairs Group
		6/2007	Senior Vice President, Financial Group
		6/2008	Vice President, Corporate Administration Group
		6/2009	Managing Executive Officer
		6/2010	Executive Vice President, Corporate Administration Group (present position)
			Director, Managing Executive Officer (present position)
		6/2012	Corporate Administration (present position)
Yoshiaki Yoshida (February 8, 1958)	Director, Managing Executive Officer	4/1999	Joined Advantest Corporation
		6/2000	Representative Director, Advantest Finance Inc.
	Corporate Planning	6/2006	Executive Officer
		6/2007	Vice President, Corporate Planning Group
	and Corporate	6/2008	
			Executive Vice President, Corporate Planning Group
	Communications	3/2009	Senior Vice President (Officer), New Concept Product Initiative
		6/2009	Managing Executive Officer
		4/2012	Leader, Power Device Enabling Group (present position)
		6/2012	Assistant Director (Administration), CSR & Environmental
		Affairs Promotion Center (present position)	
	6/2013	Director, Managing Executive Officer (present position) Corporate Planning and Corporate Communications (present position) Executive Vice President, Corporate Relations Group (present position) Director, Fujitsu Interconnect Technologies Limited (present position)	

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Yuichi Kurita (July 28, 1949)	Standing Audit & Supervisory Board Member	4/1973	Joined Fujitsu Limited
		3/2001	Joined Advantest Corporation
		4/2002	Manager, Finance Department
		6/2003	Executive Officer
		6/2004	Vice President, Corporate Affairs Group
			Vice President, Corporate Affairs Group (overseeing Finance)
		6/2005	Senior Vice President, Corporate Relations Group
			Senior Vice President, Corporate Planning Group
		6/2007	Director, Managing Executive Officer
		6/2008	Corporate Affairs
			Corporate Administration
			Senior Vice President, Corporate Administration Group
		4/2009	Assistant Director (Administration), Environmental Management Center
In Charge of Corporate Ethics Office			
Assistant Director (Administration), CSR & Environmental Affairs Promotion Center			
6/2009	Corporate Planning and Administration		
6/2010	Director, Senior Executive Officer		
6/2012	Standing Audit & Supervisory Board Member (present position)		
Akira Hatakeyama (December 20, 1950)	Standing Audit & Supervisory Board Member	4/1973	Joined Advantest Corporation
		4/2001	Representative Director, President and CEO, Japan Engineering Co., Ltd.
		6/2005	Executive Officer
		6/2008	Advisor
		6/2011	Standing Audit & Supervisory Board Member (present position)
Megumi Yamamuro (March 8, 1948)	Audit & Supervisory Board Member	4/1974	Assistant Judge, Tokyo District Court
		4/1984	Judge, Tokyo District Court
		4/1988	Instructor, Legal Training and Research Institute
		4/1997	Judge, Tokyo High Court
		7/2004	Registered as an attorney-at-Law
		10/2004	Joined CAST Law P.C. (currently URYU & ITOGA) (present position)
			Professor, The University of Tokyo Graduate School of Law and Politics
		6/2005	Audit & Supervisory Board Member, Fujitsu Limited (present position)
		6/2006	Audit & Supervisory Board Member, Advantest Corporation (present position)
		6/2009	Audit & Supervisory Board Member, NIFTY Corporation (present position)
		10/2010	Professor, The University of Nihon Graduate School of Law
		6/2013	Audit & Supervisory Board Member, Yachiyo Industry Co., Ltd. (present position)

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Masamichi Ogura (June 30, 1946)	Audit & Supervisory Board Member	4/1969 6/2000 6/2002 4/2003 6/2003 6/2004 6/2006 6/2008 6/2011	Joined Fujitsu Limited Director, Fujitsu Limited Managing Executive Officer, Fujitsu Limited Senior Executive Officer, Fujitsu Limited Director, Senior Executive Officer, Fujitsu Limited Audit & Supervisory Board Member, Fujitsu General Limited (present position) Vice President and Representative Director, Fujitsu Limited Standing Audit & Supervisory Board Member, Fujitsu Limited Audit & Supervisory Board Member, Advantest Corporation (present position)

The Company's Executive Officers (excluding officers who also hold the position of Director) under the operating officer system, as voluntarily disclosed in Japan as follows.

Name	Position (Group executive/function)	Assignment in the Company
Hideaki Imada	Managing Executive Officer New Business Relations	Senior Vice President (Officer), New Concept Product Initiative
Hans-Juergen Wagner	Managing Executive Officer SoC Test Business Groups	Managing Director (R&D, CTO), Advantest Europe GmbH
Takashi Sugiura	Executive Officer	Executive Vice President, Quality Assurance Group
Takashi Sekino	Executive Officer	Senior Vice President (Officer) (Advanced Technology), Technology Development Group
Soichi Tsukakoshi	Executive Officer	Executive Vice President, Production Group
Josef Schraetzenstaller	Executive Officer	Managing Director (CEO), Advantest Europe GmbH
R. Keith Lee	Executive Officer	Director, President and CEO, Advantest America, Inc.
Makoto Nakahara	Executive Officer	Senior Vice President (Officer), Sales Group
Toshiyuki Okayasu	Executive Officer	Executive Vice President, SoC Test Business Group Executive Vice President, Technology Development Group
CH Wu	Executive Officer	Chairman of the Board, President and CEO, Advantest Taiwan Inc.
Kazuhiro Yamashita	Executive Officer	Executive Vice President, System Solution Group
Kenji Sato	Executive Officer	Senior Vice President (Officer), Sales Group
Takayuki Nakamura	Executive Officer	Division Manager, Nanotechnology Business Division
Wilhelm Radermacher	Executive Officer	Vice President and General Manager V93000 SoC, Advantest Europe GmbH

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Name	Position (Group executive/function)	Assignment in the Company
Masuhiko Yamada	Executive Officer	Executive Vice President, Memory Test Business Group
Satoru Nagumo	Executive Officer	Executive Vice President, ASD Test & Measurement System Business Group
Isao Sasaki	Executive Officer	Executive Vice President, Field Service Group
Koichi Tsukui	Executive Officer	Senior Vice President (Officer), New Concept Product Initiative
Keith Hardwick	Executive Officer	Chief Financial Officer, Advantest America, Inc.

None of the persons listed above was selected as director, audit & supervisory board member or executive officer pursuant to an arrangement or understanding with Advantest's major shareholders, customers, suppliers or others. There are no family relationships between any of the persons listed above.

6.B. COMPENSATION**Executive Compensation**

The aggregate amount of compensation of all of the Company's directors and audit & supervisory board members was approximately ¥542 million during fiscal 2013. Of the foregoing, the aggregate amount of compensation for the Company's directors (outside corporate directors excluded) was ¥449 million (¥307 million in fixed compensation and ¥142 million in qualifying stock options), ¥46 million for the Company's audit & supervisory board members (outside audit & supervisory board members excluded) (¥41 million in fixed compensation and ¥5 million in qualifying stock options) and ¥47 million for outside directors and outside audit & supervisory board members (¥36 million in fixed compensation and ¥11 million in qualifying stock options). The amount of compensation for Director Toshio Maruyama was ¥100 million (¥68 million in fixed compensation and ¥32 million in qualifying stock options).

Compensation for directors and audit & supervisory board members was authorized by resolutions of the general meeting of shareholders on June 27, 2007 and to the extent compensation is within the authorized range, further authorization is not required. For a description of the Company's equity-based compensation plans, see [Share Ownership](#).

The amounts of compensation for directors and audit & supervisory board members set forth above includes fixed compensation paid to one outside director who retired from their positions as of the closing of the 71st ordinary general meeting of shareholders, which was held on June 26, 2013.

6.C. BOARD PRACTICES**Directors**

The Board of Directors has the ultimate responsibility for the administration of the affairs of the Company. The Company's articles of incorporation limit the number of directors to ten. Directors are elected at a general meeting of shareholders, and the standard term of directors is

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one year. 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 the Company. From among its members, the Board of Directors may elect the chairman and the vice chairman. None of the directors of the Company has a service contract with the Company that provides for benefits upon termination of service.

Pursuant to the Company Law of Japan (hereinafter in Item 6.C., "Company Law") and the Company's articles of incorporation, and to the extent permitted by the laws and regulations, the Company may, by resolution of the Board of Directors, exempt liabilities of its directors (including persons who have previously

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served as the Company's directors) for failing to perform their duties. The Company may enter into contracts with outside directors to limit their liabilities for a failure to perform their duties, provided that the maximum amount of liabilities under such contracts shall be the total of the amounts provided in each item of Article 425, Paragraph 1 of the Company Law.

Audit & Supervisory Board Members

The Company's articles of incorporation provide for no more than five audit & supervisory board members and the Company currently has two Standing Audit & Supervisory Board Members and two outside audit & supervisory board members. Audit & supervisory board members are elected at the general meeting of shareholders and the standard term of office of audit & supervisory board members is four years. Under the Company Law, at least half of the audit & supervisory board members are required to be persons who have not been a director, accounting counselor (if an accounting counselor is a corporation, an employee of such corporation who executes its duties), executive officer, manager, or employee of the Company or any of its subsidiaries at any time in the past. Audit & supervisory board members may not at the same time be directors, accounting counselors (if an accounting counselor is a corporation, an employee who executes its duties), executive officers, managers, or employees of the Company or any of its subsidiaries. The Company increased the number of required outside audit & supervisory board members from one to two at the general meetings of shareholders held in June 2003 in order to strengthen the auditing function of the audit & supervisory board. Audit & supervisory board members are under a statutory duty to oversee the administration of the Company's affairs by its directors, to audit its financial statements to be submitted by its Board of Directors to the general meetings of the shareholders 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.

Audit & supervisory board members constitute the audit & supervisory board. The audit & supervisory board has a statutory duty to prepare and submit an audit report to the directors each year. An audit & supervisory board member 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 audit & supervisory board is empowered to establish audit policy, methods to investigate the state of business operations and assets and other matters relating to the execution of duties by audit & supervisory board members.

Pursuant to the Company Law and the Company's articles of incorporation, and to the extent permitted by the laws and regulations, the Company may, by resolution of the Board of Directors, exempt liabilities of its audit & supervisory board members (including persons who have previously served as the Company's audit & supervisory board members) for failing to perform their duties. The Company may enter into contracts with outside audit & supervisory board members to limit their liabilities for a failure to perform their duties, provided that the maximum amount of liabilities under such contracts shall be the total of the amounts provided in each item of Article 425, Paragraph 1 of the Company Law.

Table of Contents**6.D. EMPLOYEES**

Set forth below is a table listing the total number of full-time employees and a breakdown of persons employed by main category of activity and by geographic location, as of March 31, 2012, March 31, 2013 and March 31, 2014.

	As of March 31,		
	2012	2013	2014
Full-Time Employees	4,464	4,575	4,625
By Category of Activity:			
Administrative	444	474	499
Sales	475	398	469
Customer Support	1,123	1,214	1,229
Manufacturing	829	806	779
Research and Development	1,510	1,628	1,649
Other	83	55	0
By Geographic Location:			
Japan	2,504	2,500	2,507
Asia (excluding Japan)	816	892	911
Americas	585	587	542
Europe	559	596	665

Most regular employees of the Company and its subsidiaries in Japan are members of one of the four labor unions. None of Advantest's overseas employees is a member of a union. Advantest considers its labor relations with all of its workers to be good.

During the fiscal years ended March 31, 2012, 2013 and 2014, Advantest had an annual average of 279, 330 and 278 temporary employees, respectively.

Table of Contents**6.E. SHARE OWNERSHIP**

The following table sets forth the beneficial ownership of shares of common stock of the Company as of March 31, 2014 of each of the Company's directors, audit & supervisory board members and executive officers as of March 31, 2014 and of directors, audit & supervisory board members and executive officers newly elected in June 2014.

Name of Record/Beneficial Owner	Number of Shares
Toshio Maruyama	242,155
Haruo Matsuno	247,454
Yasushige Hagio	22,821
Osamu Karatsu	10,791
Seiichi Yoshikawa	6,293
Shinichiro Kuroe	147,620
Sae Bum Myung	129,584
Hiroshi Nakamura	133,973
Yoshiaki Yoshida	107,335
Yuichi Kurita	75,788
Akira Hatakeyama	27,652
Megumi Yamamuro	21,131
Masamichi Ogura	15,000
Hideaki Imada	123,187
Hans-Juergen Wagner	260,485
Takashi Sugiura	113,778
Takashi Sekino	104,739
Soichi Tsukakoshi	98,518
Josef Schraetzenstaller	96,000
R. Keith Lee	66,000
Makoto Nakahara	85,463
Toshiyuki Okayasu	91,145
CH Wu	64,000
Kazuhiro Yamashita	56,000
Kenji Sato	66,515
Takayuki Nakamura	42,689
Wilhelm Radermacher	51,685
Masuhiko Yamada	40,423
Satoru Nagumo	39,000
Isao Sasaki	27,000
Koichi Tsukui	27,000
Keith Hardwick	17,000

Each of the persons listed above owns less than one percent of the issued and outstanding shares of common stock of the Company.

The number of shares owned by the Company's directors, audit & supervisory board members and executive officers include options that are currently exercisable for 2,541,685 shares of the Company's common stock. For a description of these options, see [Stock Option Plan](#) below. The number of shares of common stock owned by the Company's directors, audit & supervisory board members and executive officers reflects the number of shares that are owned through the director and audit & supervisory board member stock ownership association and allocated to an individual director, audit & supervisory board member or executive officer. For a description of this association, see [Stock Ownership Associations](#). For a description of the unit share system, see [Additional Information](#) [The Unit Share System](#).

Table of Contents**Stock Option Plan**

At the meeting of Board of Directors held in June 2010, June 2011, July 2011, June 2012 and June 2013, the Board of Directors of the Company approved stock option plans for selected directors, audit & supervisory board members, executive officers and employees of Advantest. The Board of Directors of the Company also approved the compensation amount of stock acquisition rights to be granted as stock options to directors and audit & supervisory board members of the Company. The following table shows selected information related to these stock options.

	Twenty-fourth series	Twenty-fifth series	Twenty-sixth series
Date of grant	July 12, 2010	July 12, 2011	August 16, 2011
Number of shares to be issued/ delivered	308,000	988,000	658,000
Issuance price per unit (100 shares)	¥53,500	¥49,600	¥26,100
Exercise price per share	¥2,089	¥1,529	¥1,529
Beginning of exercise period	April 1, 2011	April 1, 2012	April 1, 2012
End of exercise period	March 31, 2015	March 31, 2016	March 31, 2016
Number of directors, audit & supervisory board members and executive officers of the Company	23	23	5
Number of other employees	0	228	55
	Twenty-seventh series	Twenty-eighth series	
Date of grant	July 12, 2012	July 12, 2013	
Number of shares to be issued/ delivered	2,521,000	2,763,000	
Issuance price per unit (100 shares)	¥34,700	¥46,000	
Exercise price per share	¥1,207	¥1,669	
Beginning of exercise period	April 1, 2013	April 1, 2014	
End of exercise period	March 31, 2017	March 31, 2018	
Number of directors, audit & supervisory board members and executive officers of the Company	28	30	
Number of other employees	321	354	

The Company acquired Verigy in July 2011. As one of the conditions precedent to such acquisition, the Company has assumed the stock options which had been granted by Verigy to the directors and employees of Verigy and its subsidiaries at the time of the acquisition, and has granted them stock options with terms and conditions that are substantively the same as those under which the relevant stock options were granted by Verigy. The Board of Directors of the Company in July 2011 passed a resolution to grant to the directors and employees of Verigy and its subsidiaries the stock options to be issued by the Company. The following table shows selected information related to these stock options.

	Plan first ~ Plan
	eighty-ninth
Date of grant	July 20, 2011
Number of shares to be issued/ delivered	2,387,046 (total 89 types of stock options)
Issuance price per unit (100 shares)	¥4 ~ ¥854
Exercise price per share	\$7.84 ~ \$34.76
Beginning of exercise period	July 20, 2011
End of exercise period	July 29, 2011 ~ January 31, 2018
Number of directors, audit & supervisory board members and executive officers of the Company	0
Number of other employees	386 (total 89 types of stock options)

Table of Contents**Employee Stock Purchase Program**

Since August 1, 2002, eligible employees of Advantest America, Inc. and its U.S. subsidiaries are able to participate in an employee stock purchase program. Since January 1, 2013, any employee except for employees in Japan and certain countries are eligible to participate in an employee stock purchase program. Under the program, each eligible employee may authorize payroll deductions of up to 15% of their base salary toward the purchase of ADRs representing shares of common stock of the Company. In addition, each subsidiary that employs the eligible employee will make an additional contribution equal to 15% of each eligible employee's payroll deductions toward the purchase of the ADRs.

Stock Ownership Associations

The Company's director and audit & supervisory board member stock ownership association is a partnership formed by the current and former directors, executive officers and audit & supervisory board members of the Company for the purpose of acquiring the Company's shares of common stock. Only current directors, executive officers and audit & supervisory board members and company advisors that formerly were directors, audit & supervisory board members and executive officers of the Company may join the director and audit & supervisory board member stock ownership association. The Company established its director and audit & supervisory board member stock ownership association in 1983. Any member of the association may request that record ownership of the stock held by that member be transferred, in lots of a single unit, to that member. As of March 31, 2014, 20 current and former directors, executive officers, audit & supervisory board members and company advisors were members of the director, executive officer and audit & supervisory board member stock ownership association, and the association held 58,116 shares of the Company's common stock. The Company also has an employee stock ownership association for other employees in Japan. As of March 31, 2014, the association had 734 members and held 624,516 shares of the Company's common stock.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**7.A. MAJOR SHAREHOLDERS**

As of March 31, 2014, 174,197,942 shares of the Company's common stock were outstanding. Beneficial ownership of the Company's common stock in the table below was prepared from publicly available records of the filings made by the Company's shareholders regarding their ownership of the Company's common stock under the Financial Instruments and Exchange Law of Japan.

Under the Financial Instruments and Exchange Law of Japan, any person who becomes, beneficially and solely or jointly, a holder, including, but not limited to, a deemed holder who manages shares for another holder pursuant to a discretionary investment agreement, of more than 5% of the shares with voting rights of a company listed on a Japanese stock exchange (including ADSs representing such shares) must file a report concerning the shareholding with the Director of the relevant local finance bureau. A similar report must be filed, with certain exceptions, if the percentage of shares held by a holder, solely or jointly, of more than 5% of the total issued shares of a company increases or decreases by 1% or more, or if any change to a material matter set forth in any previously filed reports occurs.

Based on publicly available information, the following table sets forth the beneficial ownership of holders of more than 5% of the Company's common stock as of the dates indicated in the reports described below.

Name of Beneficial Owner

Number of Shares

		Percentage of Outstanding Shares
Fujitsu Limited	20,142,792	10.09%
The Bank of Tokyo-Mitsubishi UFJ, Ltd., and its related entities	16,706,237	8.37%
Nomura Securities Co., Ltd. and its related entities	16,470,424	8.11%
Sumitomo Mitsui Trust Bank, Limited and its related entities	15,116,824	7.57%
Morgan Stanley MUFG Securities Co., Ltd. and its related entities	10,270,059	5.13%

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The number of shares owned by Fujitsu Limited is based on a report filed under the Securities and Exchange Law of Japan stating that Fujitsu held or was deemed to hold beneficially, as of February 23, 2005, 20,142,792 shares of the Company's common stock. This figure includes 20,142,600 shares of the Company's common stock held by the trustee of a retirement benefit plan of Fujitsu. Fujitsu retained beneficial ownership of these 20,142,600 shares of common stock.

The number of shares owned by The Bank of Tokyo-Mitsubishi UFJ, Ltd. and its related entities is based on reports filed under the Financial Instruments and Exchange Law of Japan stating that The Bank of Tokyo-Mitsubishi UFJ, Ltd. and its related entities held or were deemed to hold beneficially, as of February 24, 2014, 16,706,237 shares of the Company's common stock.

The number of shares owned by Nomura Securities Co., Ltd. and its related entities is based on reports filed under the Financial Instruments and Exchange Law of Japan which state that Nomura Securities Co., Ltd. and its related entities held or were deemed to hold beneficially, as of March 14, 2014, 16,470,424 shares of the Company's common stock.

The number of shares owned by Sumitomo Mitsui Trust Bank, Limited and its related entities is based on reports filed under the Financial Instruments and Exchange Law of Japan stating that Sumitomo Mitsui Trust Bank, Limited and its related entities held or were deemed to hold beneficially, as of June 19, 2014, 15,116,824 shares of the Company's common stock.

The number of shares owned by Morgan Stanley MUFG Securities Co., Ltd. and its related entities is based on reports filed under the Financial Instruments and Exchange Law of Japan which state that Morgan Stanley MUFG Securities Co., Ltd. and its related entities held or were deemed to hold beneficially, as of February 28, 2014, 10,270,059 shares of the Company's common stock.

Based on information made publicly available on or after April 1, 2011, the following table describes transactions resulting in a 1% or more change in the percentage ownership held by major beneficial owners of the Company's common stock.

Name of Shareholder	Date of Transaction	Shares Owned Prior to Transaction	Percentage	Number of Shares Changed	Shares Owned After the Transaction	Percentage
The Sumitomo Trust and Banking Co., Ltd. and its related entities	April 15, 2011				13,703,400	6.87%
Manning & Napier Advisors, Inc.	May 27, 2011	14,274,147	7.15%	2,436,500	16,710,647	8.37%
Manning & Napier Advisors, Inc.	August 15, 2011	16,710,647	8.37%	(2,569,120)	14,141,527	7.09%
Manning & Napier Advisors, Inc.	August 18, 2011	14,141,527	7.09%	(2,044,900)	12,096,627	6.06%
Manning & Napier Advisors, Inc.	August 23, 2011	12,096,627	6.06%	(2,440,100)	9,656,527	4.84%
Mitsubishi UFJ Financial Group, Inc. and its related entities	December 12, 2011	13,569,645	6.80%	2,671,146	16,240,791	8.14%
Nomura Securities Co., Ltd. and its related entities	April 13, 2012				10,074,023	5.05%
Sumitomo Mitsui Trust Bank, Limited. and its related entities	July 31, 2012	13,703,400	6.87%	2,066,700	15,770,100	7.90%
Nomura Securities Co., Ltd. and its related entities	October 31, 2012	10,074,023	5.05%	2,738,313	12,812,336	6.42%
Mitsubishi UFJ Financial Group, Inc. and its related entities	May 13, 2013	16,240,791	8.14%	2,281,003	18,521,794	9.26%
Nomura Securities Co., Ltd. and its related entities	May 31, 2013	12,428,891	6.23%	(2,015,565)	10,413,326	5.22%
Mitsubishi UFJ Financial Group, Inc. and its related entities	August 12, 2013	18,521,794	9.26%	(2,047,994)	16,473,800	8.24%

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Mitsubishi UFJ Financial Group, Inc. and its related entities	October 28, 2013	16,473,800	8.24%	3,305,315	19,779,115	9.89%
Nomura Securities Co., Ltd. and its related entities	January 15, 2014	10,413,326	5.22%	3,209,107	13,622,433	6.83%

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Name of Shareholder	Date of Transaction	Shares Owned Prior to Transaction	Percentage	Number of Shares Changed	Shares Owned After the Transaction	Percentage
Deutsche Bank London Office and its related entities	January 31, 2014				11,443,399	5.73%
Deutsche Bank London Office and its related entities	February 14, 2014	11,443,399	5.73%	(2,081,473)	9,361,926	4.69%
Mitsubishi UFJ Financial Group, Inc. and its related entities	February 24, 2014	19,779,115	9.89%	(3,072,878)	16,706,237	8.37%
Morgan Stanley MUFG Securities Co., Ltd. and its related entities	February 28, 2014				10,270,059	5.13%
Nomura Securities Co., Ltd. and its related entities	March 14, 2014	13,622,433	6.83%	2,847,991	16,470,424	8.11%

As of March 31, 2014, the Company had 174,197,942 outstanding shares of common stock. According to JPMorgan Chase Bank, depository for the Company's ADSs, as of March 31, 2014, 1,226,091 shares of the Company common stock were held in the form of ADRs and there were 1,090 ADR holders of record in the U.S. According to the Company's register of shareholders, as of March 31, 2014, there were 45,508 holders of common stock of record worldwide. As of March 31, 2014, there were 91 record holders of the Company's common stock with addresses in the U.S., whose shareholdings represented 5.7% of the outstanding common stock on that date. Because some of these shares were held by brokers or other nominees, the number of record holders with addresses in the U.S. might not fully show the number of beneficial owners in the U.S.

None of the Company's shares of common stock entitles the holder to any preferential voting rights.

Advantest knows of no arrangements the operation of which may at a later time result in a change of control.

7.B. RELATED PARTY TRANSACTIONS**Business Relationships**

Advantest sells products to and purchases parts from Fujitsu Limited (Fujitsu), which owns approximately 12% of the voting rights of the company. Advantest sells products to Fujitsu and its subsidiaries in arm's-length transactions. Advantest purchases parts from Fujitsu and its subsidiaries after receiving competitive bids from several suppliers. Advantest derived net sales of ¥802 million in fiscal 2013 from the sale of products to Fujitsu and its subsidiaries. Advantest purchased parts from Fujitsu and its subsidiaries in the amount of ¥2,800 million in fiscal 2013. Advantest had receivables from Fujitsu and its subsidiaries in the amount of ¥114 million as of March 31, 2014. Advantest had payables to Fujitsu and its subsidiaries in the aggregate amount of ¥1,336 million as of March 31, 2014. Advantest expects to continue to engage in arm's-length transactions with Fujitsu and its subsidiaries in the future.

Mr. Yamamuro, an audit & supervisory board member of the Company since 2006, currently serves as an audit & supervisory board member of Fujitsu Limited. Mr. Ogura, an audit & supervisory board member of the Company since 2011, served as a full-time standing audit & supervisory board member of Fujitsu Limited until June 23, 2014.

Loans

As of March 31, 2014, the Company has no outstanding loans to its directors and executive officers.

7.C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

Table of Contents**ITEM 8. FINANCIAL INFORMATION****8.A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

1-4. Consolidated Financial Statements. Advantest's audited consolidated financial statements are included under Item 18 Financial Statements. Except for Advantest's consolidated financial statements included under Item 18, no other information in this annual report has been audited by Advantest's independent registered public accounting firm.

5. Not applicable.

6. Export Sales. See Information on the Company Business Overview Geographic Sales.

7. Legal and Arbitration Proceedings. See Information on the Company Business Overview Legal Proceedings.

8. Dividend Policy. See Key Information Selected Financial Data Dividends.

8.B. SIGNIFICANT CHANGES

See Operating and Financial Review and Prospects, Key Information Risk Factors and Information on the Company Business Overview Industry Overview for a discussion of significant adverse changes since the date of Advantest's latest annual financial statements.

ITEM 9. THE OFFER AND LISTING**9.A. OFFER AND LISTING DETAILS**

The following table sets forth for the periods shown the reported high and low sales prices of the Company's common stock on the Tokyo Stock Exchange and the ADSs on the New York Stock Exchange.

Fiscal year ended March 31,	Tokyo Stock Exchange Price Per Share		New York Stock Exchange Price Per ADS	
	High	Low	High	Low
2010	¥ 2,615	¥ 1,423	\$ 28.07	\$ 15.14
2011	2,516	1,179	26.89	15.86
2012	1,663	671	19.95	8.89
2013	1,525	838	17.22	10.81
2014	1,887	988	18.11	9.91

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Financial quarter ended/ending

June 30, 2012	¥ 1,386	¥ 952	\$ 17.22	\$ 12.44
September 30, 2012	1,261	914	15.60	12.11
December 31, 2012	1,374	838	16.12	10.81
March 31, 2013	1,525	1,156	16.59	12.52
June 30, 2013	1,887	1,246	18.11	13.56
September 30, 2013	1,710	1,121	17.00	11.65
December 31, 2013	1,343	1,061	13.06	11.19
March 31, 2014	1,315	988	12.24	9.91

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Month ended	Tokyo Stock Exchange Price Per Share		New York Stock Exchange Price Per ADS	
	High	Low	High	Low
December 31, 2013	¥ 1,327	¥ 1,207	\$ 12.91	\$ 11.92
January 31, 2014	1,315	1,079	12.24	10.57
February 28, 2014	1,143	1,008	11.18	10.25
March 31, 2014	1,123	988	10.88	9.91
April 30, 2014	1,218	1,068	11.74	10.69
May 31, 2014	1,165	1,063	11.38	10.58

9.B. PLAN OF DISTRIBUTION

Not applicable.

9.C. MARKETS

The Company's common stock is traded on the First Section of the Tokyo Stock Exchange. In April 2000, the Company's common stock was added to the Nikkei Stock Average, which is an index of 225 selected stocks from the First Section of the Tokyo Stock Exchange.

Since September 17, 2001, ADSs evidenced by ADRs have been traded and listed on the New York Stock Exchange through a sponsored ADR facility operated by JPMorgan Chase Bank, as depositary. Each ADS represents one share of the Company's common stock.

9.D. SELLING SHAREHOLDERS

Not applicable.

9.E. DILUTION

Not applicable.

9.F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A. SHARE CAPITAL

Not applicable.

10.B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Set forth below is information relating to the Company's common stock, including brief summaries of the relevant provisions of the Company's articles of incorporation and share handling regulations and of the Company Law of Japan (the Company Law, hereinafter in Item 10.B. the same) and related legislation, all as currently in effect.

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General

The Company's authorized number of shares to be issued is 440,000,000 shares. The number of the Company's issued share capital as of March 31, 2014, including treasury shares, was 199,566,770. All of the issued shares are fully paid and non-assessable.

The Company's share registration agent is Mitsubishi UFJ Trust and Banking Corporation, located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan. The shares have no par value.

The registered holder of deposited shares underlying the ADSs is the depository for the ADSs. Accordingly, holders of ADSs will not be able to directly assert their shareholders' rights against the Company.

In January 2009, the share certificates of all Japanese companies listed on stock exchanges in Japan, including the common stock of the Company, were delisted and became subject to a new book-entry transfer system. Under the new system, the Company's shares are administered by being recorded in a shareholder's transfer account book at the Japan Securities Depository Center, Inc. (JASDEC), which is a book-entry transfer institution, or at securities firms, banks and other account management institutions. JASDEC will provide the Company with information pertaining to the Company's shareholders that it has collated from each of the relevant account management institutions as of March 31 and September 30, or at such time as the Company makes a request for information pertaining to its shareholders based on justifiable grounds. The Company will record or register such information received from JASDEC on its register of shareholders.

Shareholders wishing to assert the minority rights and other rights set forth in Article 147, Paragraph 4 of the Law on Book-Entry Transfer of Corporate Bonds, Stock and Other Securities must submit an individual shareholder notice to the account management institution at which such shareholder has opened a transfer account. The account management institution will promptly inform JASDEC of such individual shareholder notice and JASDEC will, in turn, provide information pertaining to the shareholder (the individual shareholder notice) to Advantest through its share registration agent.

In order for a transfer of shares to become effective, the amount of shares transferred must be recorded on the transfer account books. Moreover, the Company requires that a transfer of shares must be recorded in its shareholders' register in order for such transfer to be perfected.

Objects and Purposes

Article 2 of the Company's articles of incorporation states that its objective is to engage in the following business activities:

the manufacture and sale of electric, electronic and physicochemical appliances and their applied equipment;

the manufacture and sale of medical equipment;

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the manufacture and sale of appliances, equipment and software related to each of the foregoing items;

the lease and rental of equipment, appliances and other products incidental to each of the foregoing items;

the temporary personnel service business; and

any and all businesses incidental to any of the foregoing items.

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Dividends

Dividends General

Under its articles of incorporation, the Company's fiscal year closes on March 31 of each year, and year-end dividends, if any, are paid to shareholders (or registered pledgees thereof) of record at that date.

Under the Company Law, subject to certain limitation on the distributable surplus, dividends, if any, may be paid to shareholders and pledgees of shares of record as of a record date as set forth by the Company's articles of incorporation or as determined by the Board of Directors from time to time. Dividends shall be paid by way of distribution of surplus. Dividends may be distributed in cash, or in kind subject to certain conditions being met. The Company may make distribution of dividends by a resolution of a general meeting of shareholders or by a resolution of the Board of Directors.

Dividends Interim cash dividends

In addition to year-end cash dividends, pursuant to Article 459, Paragraph 1, Item 4 of the Company Law, the Board of Directors may by resolution declare, an interim cash surplus dividend to shareholders, and pledges of record at September 30 of each year.

Dividends Legal reserve

When a stock company like the Company makes distribution of surplus, it shall set aside in its legal reserve or additional paid-in capital an amount equal to 10 percent of the amount of the surplus to be decreased as a result of such distribution of surplus in accordance with the provisions set forth in an ordinance of the Ministry of Justice.

Dividends Distributable amount

Under the Company Law, the Company is permitted to make distribution of surplus to the extent that the aggregate book value of the assets to be distributed to shareholders does not exceed the Distributable Amount (as defined below) as at the effective date of such distribution of surplus.

The amount of surplus at any given time shall be the amount of the Company's assets and the book value of the Company's treasury stock after subtracting the amounts of the following items (1) through (4) as they appear on the Company's non-consolidated balance sheet as at the end of the Company's last fiscal year, and after reflecting the changes in the Company's surplus after the end of the Company's last fiscal year, by adding the amounts of the following items (5), (6) and (7) and/or subtracting the amounts of the following items (8), (9) and (10):

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- (1) its liabilities;
- (2) its stated capital;
- (3) its additional paid-in capital and legal reserve;
- (4) other amounts as provided for by an ordinance of the Ministry of Justice;
- (5) (if the Company transferred its treasury stock after the end of the last fiscal year) the amount of the transfer price of its treasury stock after subtracting the book value thereof;
- (6) (if the Company decreased its stated capital after the end of the last fiscal year) the amount of decrease in its stated capital (excluding the amount transferred to the additional paid-in capital or legal reserve);
- (7) (if the Company decreased its additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of decrease in its additional paid-in capital or legal reserve (excluding the amount transferred to the stated capital);

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- (8) (if the Company cancelled its treasury stock after the end of the last fiscal year) the book value of its treasury stock so cancelled;
- (9) (if the Company distributed surplus to shareholders after the end of the last fiscal year) the amount of the assets distributed to shareholders by way of such distribution of surplus; and
- (10) other amounts as provided for by an ordinance of the Ministry of Justice including (if the Company reduced the surplus and increased its stated capital, additional paid-in capital or legal reserve after the end of the last business year) the amount of such reduction and (if the Company has distributed the surplus to the shareholders after the end of the last fiscal year) the amount set aside in additional paid-in capital or legal reserve (if any) as required by the ordinances of the Ministry of Justice.

The Distributable Amount of the Company at any given time shall be the aggregate amount of (a) the surplus and (b) the amount of the transfer price of its treasury stock in the same period, after subtracting the amounts of the following items:

- (1) the book value of its treasury stock;
- (2) (if the Company transferred its treasury stock after the end of the last fiscal year) the amount of the transfer price of its treasury stock; and
- (3) other amounts as provided for by an ordinance of the Ministry of Justice including (if the sum of one-half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last fiscal year) all or certain part of such exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice.

In addition, if the Company elects to become a company that uses its consolidated balance sheet for calculating distributable dividends (thus, becomes a company subject to regulations in respect of dividends determined based on consolidated accounts), the Company would be required to deduct the excess amount calculated in the following manner from the distributable amount of surplus. Such excess amount is determined as (x) the total amount of the amount of shareholders' equity on unconsolidated balance sheet at the end of the last fiscal year and other amounts as provided for by an ordinance of the Ministry of Justice exceeds (y) the total amount of the amount of shareholders' equity on its consolidated balance sheet at the end of its last fiscal year and other amounts as provided for by an ordinance of the Ministry of Justice.

If the Company prepares extraordinary financial statements (as described below) and such extraordinary financial statements are approved at a meeting of the Board of Directors or the shareholders (if the Company Law so requires), the Company would be required to adjust the distributable amount for surplus by considering the profits and losses and the amount in respect of issuance of treasury stock during the period covered in such extraordinary financial statements.

The Company may prepare extraordinary unconsolidated financial statements that consist of a balance sheet as of a date within the fiscal year immediately following the last fiscal year (an extraordinary settlement date) and profit and loss covering a period of the first day of the current fiscal year up to such extraordinary settlement date. Such extraordinary financial statements prepared in the foregoing manner must be audited by audit & supervisory board members and accounting auditors.

Dividends Ex-dividend date and prescription

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividend to be paid. The market price of shares generally becomes ex-dividend on the third business day before the record date.

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Under the articles of incorporation, the Company is not required to pay any cash dividends unclaimed for a period of three years after the date on which the dividends first become payable.

For information as to Japanese taxes on dividends, see [Taxation Japanese Taxation](#).

Capital Accounts

The amount of the issue price of new shares (with certain exceptions) is required to be accounted for as stated capital, although the Company may account for an amount not exceeding one-half of the issue price as additional paid-in capital.

Under the Company Law, a resolution of general meetings of shareholders is generally required for such transfer of the additional paid-in capital and legal reserve to the stated capital.

The Company may also reduce the sum of its legal reserve and additional paid-in capital by resolution of a general meeting of shareholders. Under the Company Law, the Company may reduce the sum of its legal reserve and additional paid-in capital without the limitation of the amount to be reduced as mentioned above.

All or any part of the surplus which may be distributed as dividends may also be transferred to stated capital by resolution of a general meeting of shareholders.

Stock Split

The Company may at any time split the outstanding shares into a greater number of shares by resolution of the Board of Directors. The Company must give public notice of the stock split, specifying a record date for the stock split, not less than two weeks prior to the record date.

Consolidation of Shares

The Company may at any time consolidate shares in issue into a smaller number of shares by a special shareholders resolution (See [Voting Rights](#)). When a consolidation of shares is to be made, the Company must give public notice or notice to each shareholder within two weeks from the date of entry into force. The Company must disclose the reason for the consolidation of shares at the general meeting of shareholders.

The Unit Share System

General

Consistent with the requirements of the Company Law, the Company's articles of incorporation provide that 100 shares constitute one unit. Although the number of shares constituting a unit is included in the articles of incorporation, any amendment to the articles of incorporation reducing (but not increasing) the number of shares constituting a unit or eliminating the provisions for the unit of shares may be made by a resolution of the Board of Directors rather than by a special shareholders resolution, which is otherwise required for amending the articles of incorporation. The number of shares constituting one unit, however, cannot exceed 1,000 shares or one-200th of the number of the Company's issued share capital (including treasury stock).

Voting Rights under the Unit Share System

Under the unit share system, shareholders shall have one voting right for each unit of shares that they hold. Any number of shares less than a full unit will carry no voting rights.

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Repurchase by the Company of Shares Constituting Less Than a Full Unit

A holder of shares constituting less than a full unit may require the Company to purchase those shares at their market value in accordance with the provisions of the Company's share handling regulations.

Request by a Holder of Shares of Sales by the Company of Shares to Constitute a Full Unit

The Company's articles of incorporation provide that a holder of shares constituting less than a full unit may request the Company to sell to such holder such amount of shares which will, when added together with the shares constituting less than a full unit, constitute a full unit of shares in accordance with the provisions of the Company's share handling regulations.

Effect of the Unit Share System on Holders of ADRs

A holder who owns ADRs evidencing less than 100 ADSs will indirectly own less than a whole unit of shares of common stock. Although, as discussed above, under the unit share system holders of less than a unit have the right to require the Company to purchase their shares, holders of ADRs evidencing ADSs that represent other than integral multiples of whole units are unable to withdraw the underlying shares of common stock representing less than a unit and, therefore, are unable, as a practical matter, to exercise the rights to require the Company to purchase such underlying shares. As a result, access to the Japanese markets by holders of ADRs through the withdrawal mechanism will not be available for dispositions of shares of common stock in lots less than a unit. The unit share system does not affect the transferability of ADSs, which may be transferred in lots of any size.

General Meeting of Shareholders

The Company holds its ordinary general meeting of shareholders within three months after the end of a fiscal year and normally in June of each year in Tokyo, Japan. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks' advance notice. Under the Company Law, notice of any shareholders' meeting must be given to each shareholder having voting rights or, in the case of a non-resident shareholder, to his resident proxy or mailing address in Japan in accordance with the Company's share handling regulations, at least two weeks before the date of the meeting. The record date for an ordinary general meeting of shareholders is March 31 each year.

Any shareholder holding at least 300 voting rights or 1% of the total number of voting rights for a period of six months or longer may propose a matter to be considered at a general meeting of shareholders by submitting a request to a representative director of the Company at least eight weeks before the date of such meeting.

Voting Rights

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A holder of shares constituting one or more whole units is entitled to one voting right per unit of shares subject to the limitations on voting rights set forth in the following paragraph. In general, under the Company Law, a resolution can be adopted at a general meeting of shareholders by a majority of voting rights represented at the meeting. The Company Law and the Company's articles of incorporation require a quorum for the election of directors and audit & supervisory board members of not less than one-third of the voting rights of all shareholders. The Company's shareholders are not entitled to cumulative voting in the election of directors. A corporate shareholder whose outstanding shares are directly or indirectly owned by the Company or, due to other causes, whose management is being controlled in substance by the Company as provided for by an ordinance of the Ministry of Justice, does not have voting rights.

Shareholders may exercise their voting rights through proxies if those proxies are also shareholders who have voting rights.

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The Company Law provides that a quorum of at least one-third of voting rights of shareholders that are eligible to vote must be present at a shareholders' meeting to approve any material corporate actions, such as:

- (1) amendment of the articles of incorporation (except in cases in which a shareholders' resolution is not required);
- (2) acquisition of its own shares from a specific party;
- (3) consolidation of shares;
- (4) any issue or transfer of new or treasury shares at a specially favorable price (or any issue of stock acquisition rights, or bonds with stock acquisition rights at specially favorable conditions) to any persons other than shareholders;
- (5) the removal of an audit & supervisory board member;
- (6) the exemption of liability of a director or audit & supervisory board member with certain exceptions;
- (7) a reduction of stated capital meeting certain conditions;
- (8) a distribution of in-kind dividends which meets certain requirements;
- (9) dissolution, merger or consolidation with certain exceptions in which a shareholders' resolution is not required;
- (10) the transfer of the whole or a material part of the business;
- (11) the taking over of the whole of the business of any other corporation with certain exceptions in which a shareholders' resolution is not required;
- (12) share exchange or share transfer for the purpose of establishing 100% parent-subsidary relationships with certain exceptions in which a shareholders' resolution is not required; or
- (13) separating of the corporation with certain exceptions in which a shareholders' resolution is not required.

At least two-thirds of voting rights eligible to vote that are represented at the meeting must approve these actions.

The voting rights of holders of ADSs are exercised by the depositary based on instructions from those holders. With respect to voting by holders of ADRs, see Description of American Depositary Receipts set forth in the Company's registration statement on Form F-1 filed with the Securities and Exchange Commission on July 22, 2002.

Rights to be Allotted Shares

Holders of shares have no preemptive rights under the Company's articles of incorporation. Under the Company Law, the Board of Directors may, however, determine that shareholders shall be given rights to be allotted shares in connection with a particular issue or transfer of new or treasury shares, or stock acquisition rights. In this case, the rights must be given on uniform terms to all shareholders as of a specified record date by at least two weeks' prior public notice to shareholders of the record date.

Rights to be allotted new or treasury shares are non-transferable. A shareholder, however, may be allocated stock acquisition rights for free, in which case such stock acquisition rights may be transferred to a third party.

Stock Acquisition Rights

Subject to certain requirements, the Company may issue stock acquisition rights by resolution of the Board of Directors. Except where the issue would be on especially favorable terms, the issue of stock acquisition

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rights may be authorized by a resolution of the Board of Directors. Holders of stock acquisition rights may exercise their rights to acquire a certain number of shares within the exercise period as prescribed in the terms of their stock acquisition rights. Upon exercise of stock acquisition rights, the Company will be obliged to issue the relevant number of new shares or alternatively to transfer the necessary number of existing shares held by it.

Liquidation Rights

In the event of a liquidation of the Company, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among the shareholders in proportion to the respective numbers of shares they own.

Liability to Further Calls or Assessments

All of the Company's currently outstanding shares, including shares represented by the ADSs, are fully paid and non-assessable.

Record Date

March 31 of each year is the record date for the Company's year-end dividends, if declared. A holder of shares constituting one or more whole units who is registered as a holder on the Company's register of shareholders at the close of business as of March 31 is entitled to exercise shareholders' voting rights at the ordinary general meeting of shareholders with respect to the fiscal year ending on that March 31. September 30 of each year is the record date for interim dividends, if declared. In addition, the Company may set a record date for determining the shareholders entitled to other rights and for other purposes by giving at least two weeks' public notice.

The shares generally trade ex-dividend or ex-rights in the Japanese stock exchanges on the third business day before a record date (or if the record date is not a business day, the fourth business day prior thereto), for the purpose of dividends or rights offerings.

Repurchase by the Company of Shares

The Company may acquire its own shares (i) through a stock exchange on which such shares are listed or by way of tender offer (pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the Board of Directors), (ii) by purchase from a specific party (pursuant to a special resolution of a general meeting of shareholders), or (iii) from a subsidiary of the Company (pursuant to a resolution of the Board of Directors). When such acquisition is made by the Company from a specific party other than a subsidiary of the Company, any other shareholder may make a demand to a representative director, more than five calendar days prior to the relevant shareholders' meeting, that the Company also purchase the shares held by such shareholder. However, under the Company Law, the acquisition of its own shares at a price not exceeding the then market price to be provided under an ordinance of the Ministry of Justice will not trigger the right of any shareholder to include him/her as the seller of his/her shares in such proposed purchase. Any such acquisition of shares must satisfy certain requirements and shall be integrated into regulations governing financial resources relating to the distribution of distributable surplus to shareholders. See Additional Information Memorandum and Articles of Association Dividends Distributable amount.

Shares acquired by the Company may be held by it for any period or may be cancelled by resolution of the Board of Directors. The Company may also transfer to any person the shares held by it, subject to a resolution of the Board of Directors, and subject also to other requirements similar to those applicable to the issuance of new shares. The Company may also utilize its treasury stock for the purpose of transfer to any person upon exercise of stock acquisition rights or for the purpose of acquiring another company by way of merger, share exchange or corporate split through exchange of treasury stock for shares or assets of the acquired company.

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The Company Law generally prohibits any subsidiary of the Company from acquiring shares of the Company.

Disposal of the Shares by the Company

The Company is not required to send notices to a shareholder if notices to such shareholder fail to arrive continuously for five years or more at the registered address of the shareholder in the Company's register of shareholders or at the address otherwise notified to the Company.

In addition, the Company may dispose of the Shares at the then market price of the Shares by a resolution of the Board of Directors and after giving at least three months' prior public notice as well as individual notice to the shareholder at the registered address of the shareholder in the Company's register of shareholders or to the address otherwise notified to the Company, and hold or deposit the proceeds for the shareholder, the location of which is unknown, if (i) notices to the shareholder fail to arrive continuously for five years or more at the registered address of the shareholder in the Company's register of shareholders or at the address otherwise notified to the Company, and (ii) the shareholder fails to receive surplus dividends on the Shares continuously for five years or more at the address registered in the Company's register of shareholders or at the address otherwise notified to the Company.

Acquisition or Disposition of Shares

Under the Foreign Exchange and Foreign Trade Law and the cabinet orders and ministerial ordinances thereunder (collectively, the Foreign Exchange Regulations), all aspects of regulations on foreign exchange and trade transactions are, with minor exceptions relating to inward direct investments (which are not generally applicable to the Company's shares), only subject to post transaction reporting requirements. Acquisitions and dispositions of shares of common stock or ADSs by non-residents of Japan (including foreign corporation not resident in Japan) are generally not subject to this reporting requirement. However, the Minister of Finance has the power to impose a licensing requirement for transactions in limited circumstances.

Dividends and Proceeds of Sales

Under the Foreign Exchange Regulations as currently in effect, dividends paid on, and the proceeds of sales in Japan of, shares held by non-residents of Japan may in general be converted into any foreign currency and repatriated abroad. The acquisition of shares by non-residents of Japan by way of stock splits is not subject to any of the foregoing notification or reporting requirements.

Reporting of Substantial Shareholdings

Pursuant to the Financial Instruments and Exchange Law of Japan and regulations thereunder, a person or group of persons beneficially holding more than 5% of the total shares with voting rights (for this purpose shares issuable upon exercise of stock acquisition rights held by the person or persons are counted in the calculation of the holding and the total shares in issue) of a company listed on any Japanese stock exchange is required to file with the director of a competent local finance bureau, within five business days a report containing the identity of such person or persons, the purpose of such holding and certain other information prescribed by regulations. A similar report must also be made (with certain

exceptions) if the percentage of such holding subsequently increases or decreases by 1% or more or if any change occurs in material matters set out in reports previously filed.

10.C. MATERIAL CONTRACTS

All contracts concluded by the Company during the two years preceding this filing were entered into in the ordinary course of business.

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10.D. EXCHANGE CONTROLS

The Foreign Exchange Regulations govern the acquisition and holding of shares of capital stock of the Company by exchange non-residents and by foreign investors. The Foreign Exchange Regulations currently in effect do not, however, affect transactions between exchange non-residents to purchase or sell shares outside Japan using currencies other than Japanese yen.

Exchange non-residents are:

individuals who do not reside in Japan; and

corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations that are located within Japan are regarded as residents of Japan. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

Foreign investors are:

individuals who are exchange non-residents;

corporations that are organized under the laws of foreign countries or whose principal offices are located outside of Japan; and

corporations (1) of which 50% or more of the total voting rights of their shares are held by individuals who are exchange non-residents or corporations (a) that are organized under the laws of foreign countries or (b) whose principal offices are located outside of Japan or (2) a majority of whose officers, or officers having the power of representation, are individuals who are exchange non-residents.

In general, the acquisition of shares of a Japanese company (such as the shares of capital stock of the Company) by an exchange non-resident from a resident of Japan is not subject to any prior filing requirements. In certain limited circumstances, however, the Minister of Finance may require prior approval of an acquisition of this type. While prior approval, as described above, is not required, in the case where a resident of Japan transfers shares of a Japanese company (such as the shares of capital stock of the Company) for consideration exceeding ¥100 million to an exchange non-resident, the resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer, unless the transfer was made through a bank, securities company or financial futures trader licensed under Japanese law.

If a foreign investor acquires shares of a Japanese company that is listed on a Japanese stock exchange (such as the shares of capital stock of the Company) and, as a result of the acquisition, the foreign investor, in combination with any existing holdings, directly or indirectly holds 10% or more of the issued shares of the relevant company, the foreign investor must file a report of the acquisition with the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese company within 15 days from and including the date of the acquisition, except where the offering of the company's shares was made overseas. In limited circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, a prior notification of the acquisition must be filed with the Minister

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of Finance and any other competent Ministers, who may then modify or prohibit the proposed acquisition.

Under the Foreign Exchange Regulations dividends paid on, and the proceeds of sales in Japan of, shares held by non-residents of Japan may in general be converted into any foreign currency and repatriated abroad. Under the terms of the deposit agreement pursuant to which the Company's ADSs are issued, the Depositary is required, to the extent that in its judgment it can convert Japanese yen on a reasonable basis into dollars and transfer the resulting dollars to the U.S., to convert all cash dividends that it receives in respect of deposited shares into dollars and to distribute the amount received (after deduction of applicable withholding taxes) to the holder of ADSs.

Table of Contents**10.E. TAXATION**

The following discussion is a general summary of the principal U.S. federal income and Japanese national tax consequences of the acquisition, ownership and disposition of the shares of common stock of the Company (the Shares) or ADSs. This summary does not purport to address all the material tax consequences that may be relevant to the holders of the Shares or ADSs, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, investors liable for alternative minimum tax, partnerships and other pass-through entities, investors that own or are treated as owning 10% or more of the Company's voting stock, investors that hold the Shares or ADSs as part of an arbitrage, options trading, hedge, conversion or constructive sale transaction or other integrated transaction and U.S. Holders (as defined below) whose functional currency is not the U.S. dollar) may be subject to special tax rules. This summary is based on the federal income tax laws and regulations of the United States and the national tax laws of Japan, judicial decisions and published rulings and administrative pronouncements as in effect on the date hereof, as well as on the current income tax convention between the United States and Japan (the Treaty), as described below, all of which are subject to change (possibly with retroactive effect), and/or to differing interpretations.

For purposes of this discussion, a U.S. Holder is any beneficial owner of the Shares or ADSs that, for U.S. federal income tax purposes, is:

- (1) an individual who is a citizen or resident of the United States;
- (2) a corporation or other entity organized in or under the laws of the United States or any State thereof or the District of Columbia;
- (3) an estate the income of which is subject to U.S. federal income tax without regard to its source; or
- (4) a trust that is subject to the primary supervision of a U.S. court and the control of one or more U.S. persons, or that has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

An Eligible U.S. Holder is a U.S. Holder that:

- (1) is a resident of the United States for purposes of the Treaty;
- (2) does not maintain a permanent establishment in Japan (a) with which the Shares or ADSs are effectively connected and through which the U.S. Holder carries on or has carried on a business or (b) of which the Shares or ADSs form part of the business property; and
- (3) is eligible for benefits under the Treaty with respect to income and gain derived in connection with the Shares or ADSs.

If a partnership (including any entity treated as a partnership for U.S. federal income taxation purposes) holds the Shares or ADSs, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding the Shares or ADSs is urged to consult its tax advisor.

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This summary does not address any aspects of U.S. federal tax law other than income taxation and does not discuss any aspects of Japanese tax law other than income taxation as limited to national taxes, inheritance and gift taxation and securities transfer taxation. This summary also does not cover any state or local, or non-U.S., non-Japanese tax considerations. Investors are urged to consult their tax advisors regarding the U.S. federal, state, local and Japanese and other tax consequences of acquiring, owning and disposing of Shares or ADSs. In particular, where relevant, investors are urged to confirm their status as Eligible U.S. Holders with their tax advisors and to discuss with their tax advisors any possible consequences of their failure to qualify as Eligible U.S. Holders.

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This summary is also based in part upon the representations of the depository and the assumption that each obligation in the deposit agreement referred to in Description of American Depositary Receipts set forth in the Company's registration statement on Form F-1 filed with the Securities and Exchange Commission on July 22, 2002, and in any related agreement, will be performed under its terms.

In general, for purposes of the Treaty, and for U.S. federal and Japanese national income tax purposes, owners of ADRs evidencing ADSs will be treated as the owners of the Shares represented by those ADSs, and exchanges of the Shares for ADSs, and exchanges of ADSs for the Shares, will not be subject to U.S. federal or Japanese income tax.

This discussion below is intended for general information only and does not constitute a complete analysis of all tax consequences relating to ownership of Shares or ADSs. Investors in Shares or ADSs should consult their own tax advisors concerning the tax consequences of their particular situations.

Japanese Taxation

The following is a summary of the principal Japanese tax consequences (limited to national taxes) to holders of the Shares and of ADRs evidencing ADSs representing the Shares who are either individuals who are not residents of Japan or non-Japanese corporations, without a permanent establishment in Japan (non-resident Holders).

Generally, a non-resident of Japan or a non-Japanese corporation is subject to Japanese withholding tax on dividends paid by Japanese corporations. Stock splits in themselves are, in general, not a taxable event.

In the absence of an applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to non-residents of Japan or non-Japanese corporations is generally 20.42%. With respect to dividends paid on listed shares issued by a Japanese corporation (such as the Shares) to any corporate or individual shareholders (including those shareholders who are non-Japanese corporations or non-residents of Japan, such as non-resident Holders), other than any individual shareholder who holds 5% or more of the total issued shares of the relevant Japanese corporation, the aforementioned 20.42% withholding tax rate is reduced to (i) 7.147% for dividends due and payable on or after January 1, 2013 and on or before December 31, 2013, and (ii) as a general rule, 15.315% for dividends due and payable on or after January 1, 2014. At the date of this annual report, Japan has income tax treaties, conventions or agreements whereby the above-mentioned 20.42% withholding tax rate is reduced, in most cases to 15% for portfolio investors with, among other countries, Australia, Belgium, Canada, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, New Zealand, Norway, Singapore, Spain, Sweden and Russia, and 10% for portfolio investors under the income tax treaty with, among others, France, the U.K., India, Australia, China, Pakistan, Vietnam, Poland, Romania, the Netherlands, Switzerland, Kuwait, Portuguese Republic and the United States.

Under the Treaty, the maximum rate of Japanese withholding tax which may be imposed on dividends paid by a Japanese corporation to an Eligible U.S. Holder that is a portfolio investor is generally reduced to 10% of the gross amount actually distributed and Japanese withholding tax with respect to dividends paid by a Japanese corporation to an Eligible U.S. Holder that is a pension fund is exempt from Japanese taxation by way of withholding or otherwise, unless such dividends are derived from the carrying on of a business, directly or indirectly, by such pension fund.

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If the maximum tax rate provided for in the income tax treaty applicable to dividends paid by the Company to any particular non-resident Holder is lower than the withholding tax rate otherwise applicable under Japanese tax law or any particular non-resident Holder is entitled to a reduced rate or exemption from Japanese income tax with respect to such dividends under the income tax treaty applicable to such particular non-resident Holder, such non-resident Holder who is entitled to a reduced rate of, or exemption from, Japanese withholding tax on

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payment of dividends on the Shares by the Company is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends (together with any other required forms and documents) in advance through the Company to the relevant tax authority before the payment of dividends. A standing proxy for non-resident Holders of a Japanese corporation may provide this application service. With respect to ADSs, this reduced rate or exemption is applicable if the Depositary or its agent submits two Application Forms (one before payment of dividends, the other within eight months after the Company's fiscal year-end or semi-fiscal year-end). To claim this reduced rate or exemption, any relevant non-resident Holder of ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership (as applicable) and to provide other information or documents as may be required by the Depositary. A non-resident Holder who is entitled, under an applicable income tax treaty, to a reduced treaty rate lower than the withholding tax rate otherwise applicable under Japanese tax law or an exemption from the withholding tax, but failed to submit the required application in advance will be entitled to claim the refund of withholding taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident Holder is entitled to a reduced treaty rate under the applicable income tax treaty) or the whole of the withholding tax withheld (if such non-resident Holder is entitled to exemption under the applicable income tax treaty) from the relevant Japanese tax authority.

Gains derived from the sale of the Shares or ADSs outside Japan by a non-resident Holder holding such Shares or ADSs as a portfolio investor are, in general, not subject to Japanese income tax or corporation tax. Eligible U.S. Holders are not subject to Japanese income or corporation tax with respect to such gains under the Treaty.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired the Shares or ADSs as a legatee, heir or donee even though neither the individual nor the deceased nor donor is a Japanese resident.

Holders of the Shares or ADSs should consult their tax advisors regarding the effect of these taxes and, in the case of U.S. Holders, the possible application of the Estate and Gift Tax Treaty between the U.S. and Japan.

U.S. Federal Income Taxation

U.S. Holders

The following discussion is a summary of the principal U.S. federal income tax consequences to U.S. Holders that hold Shares or ADSs as capital assets (generally, for investment purposes).

Taxation of Dividends

Subject to the passive foreign investment company (PFIC) rules discussed below, the gross amount of any distribution made by the Company in respect of Shares or ADSs (without reduction for Japanese withholding taxes) will constitute a taxable dividend to the extent paid out of current or accumulated earnings and profits of the Company, as determined under U.S. federal income tax principles. The U.S. dollar amount of such a dividend generally will be included in the gross income of a U.S. Holder, as ordinary income, when the dividend is actually or constructively received by the U.S. Holder, in the case of Shares, or by the depositary, in the case of ADSs. Dividends paid by us will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations.

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Dividends received on shares or ADSs of certain foreign corporations by non-corporate U.S. investors may be subject to U.S. federal income tax at lower rates than other types of ordinary income if certain conditions are met. Dividends received by non-corporate U.S. Holders with respect to Shares or ADSs are expected to be eligible for these reduced rates of tax. U.S. Holders should consult their own tax advisors regarding the eligibility of such dividends for a reduced rate of tax.

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The U.S. dollar amount of a dividend paid in Japanese yen will be determined based on the Japanese yen/U.S. dollar exchange rate in effect on the date that dividend is included in the gross income of the U.S. Holder, regardless of whether the payment is converted into U.S. dollars on such date. If the Japanese yen received as a dividend is not converted into U.S. dollars on the date of receipt, a U.S. Holder will have a tax basis in such Japanese yen equal to its U.S. dollar value on the date of receipt. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is included in the gross income of a U.S. Holder through the date that payment is converted into U.S. dollars (or the U.S. Holder otherwise disposes of the Japanese yen) will be treated as U.S. source ordinary income or loss. U.S. Holders should consult their own tax advisors regarding the calculation and U.S. federal income tax treatment of foreign currency gain or loss.

To the extent, if any, that the amount of any distribution received by a U.S. Holder in respect of Shares or ADSs exceeds the Company's current and accumulated earnings and profits, as determined under U.S. federal income tax principles, the distribution first will be treated as a tax-free return of capital to the extent of the U.S. Holder's adjusted tax basis in those Shares or ADSs, and thereafter will be treated as U.S. source capital gain.

Distributions of additional Shares that are made to U.S. Holders with respect to their Shares or ADSs and that are part of a pro rata distribution to all of the Company's shareholders generally will not be subject to U.S. federal income tax.

For U.S. foreign tax credit purposes, dividends included in gross income by a U.S. Holder in respect of Shares or ADSs will constitute income from sources outside the United States, and will generally be passive category income or, for certain U.S. Holders, general category income. Subject to generally applicable limitations under U.S. federal income tax law and the Treaty, any Japanese withholding tax imposed in respect of the Company dividend may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, or if the U.S. Holder does not elect to claim a foreign tax credit for any foreign taxes paid during the taxable year, as a deduction from such U.S. Holder's taxable income. Special rules generally will apply to the calculation of foreign tax credits in respect of dividend income that qualifies for preferential tax rates of U.S. federal income tax. Additionally, special rules may apply to individuals whose foreign source income during the taxable year consists entirely of qualified passive income and whose creditable foreign taxes paid or accrued during the taxable year do not exceed \$300 (\$600 in the case of a joint return). Further, under some circumstances, a U.S. Holder that:

- (i) has held Shares or ADSs for less than a specified minimum period, or
- (ii) is obligated to make payments related to the Company dividends,

will not be allowed a foreign tax credit for Japanese taxes imposed on the Company dividends. Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Taxation of Capital Gains

In general, upon a sale or other taxable disposition of Shares or ADSs, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other taxable disposition and the U.S. Holder's adjusted tax basis in those Shares or ADSs. A U.S. Holder generally will have an adjusted tax basis in the Shares or ADSs equal to their U.S. dollar cost. Subject to the PFIC rules discussed below, gain or loss recognized on the sale or other taxable disposition generally will be capital gain or loss and, if the U.S. Holder's holding period for those Shares or ADSs exceeds one year, will be long-term capital gain or loss. Non-corporate U.S. Holders, including individuals, are currently eligible for preferential rates of U.S. federal income tax in respect of long-term capital gain. Under

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U.S. federal tax law, the deduction of capital losses is subject to limitations. Any gain or loss recognized by a U.S. Holder in respect of the sale or other disposition of Shares or ADSs generally will be treated as derived from U.S. sources for foreign tax credit purposes.

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Deposits and withdrawals of Shares in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

PFIC

A non-U.S. corporation generally will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying look-through rules, either (1) at least 75% of its gross income is passive income, or (2) on average at least 50% of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions. The PFIC determination is made annually and generally is based on the value of a non-U.S. corporation's assets (including goodwill) and the composition of its income for the relevant tax year.

Based on current estimates of its income and assets, the Company does not believe that it will be a PFIC for its current taxable year, and intends to continue its operations in such a manner that it will not become a PFIC in the future. However, because the PFIC determination is made annually at the close of the taxable year, the Company can provide no assurance that it will not become a PFIC in the current or any future taxable year due to changes in its asset or income composition, a decrease in the price of its Shares (which is used as a measure of goodwill as an active asset) or for other reasons. If the Company becomes a PFIC, U.S. Holders could be subject to additional U.S. federal income taxes on gain recognized with respect to the Shares or ADSs and on certain excess distributions (generally distributions in excess of 125% of the average distribution over a three-year period, or, if shorter, the holding period for the Shares or ADSs). In addition, an interest charge may apply to the portion of the U.S. federal income tax liability on such gains or distributions treated under the PFIC rules as having been deferred by the U.S. Holder. Moreover, dividends that a non-corporate U.S. Holder receives from the Company will not be eligible for the reduced U.S. federal income tax rates applicable to dividends described above if the Company is a PFIC either in the taxable year of the distribution or the preceding taxable year. The Company will inform U.S. Holders if it believes that it will be classified as a PFIC in any taxable year. If a U.S. Holder holds Shares or ADSs in any taxable year in which the Company is a PFIC, such U.S. Holder generally will be required to file an information statement or form specified by the U.S. Department of the Treasury with the U.S. Internal Revenue Service (IRS) on an annual basis, subject to certain exceptions based on the value of PFIC stock held.

U.S. Holders are urged to consult their tax advisors concerning the U.S. federal income tax consequences of holding Shares or ADSs if the Company were considered a PFIC in any year.

Non-U.S. Holders

The following discussion is a summary of the principal U.S. federal income tax consequences to beneficial holders of Shares or ADSs that are neither U.S. Holders nor partnerships, nor entities taxable as partnerships for, U.S. federal income tax purposes (Non-U.S. Holders).

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax in respect of distributions in respect of the Shares or ADSs unless the distributions are effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States (and, if an applicable tax treaty requires, are attributable to a U.S. permanent establishment or fixed base of such Non-U.S. Holder).

A Non-U.S. Holder generally will not be subject to U.S. federal income tax in respect of gain recognized on a sale or other taxable disposition of Shares unless (i) the gain is effectively connected with a trade or business conducted by the Non-U.S. Holder within the United States (and, if an

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applicable tax treaty requires, is attributable to a U.S. permanent establishment or fixed base of such Non-U.S. Holder), or (ii) the Non-U.S. Holder is an individual who was present in the United States for 183 or more days in the taxable year of the disposition and other conditions are met.

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Income that is effectively connected with a U.S. trade or business of a Non-U.S. Holder (and, if an applicable income tax treaty applies, is attributable to a U.S. permanent establishment or a fixed base of such Non-U.S. Holder) generally will be taxed in the same manner as the income of a U.S. Holder. In addition, under certain circumstances, any effectively connected earnings and profits realized by a corporate Non-U.S. Holder may be subject to additional branch profits tax at the rate of 30% or at a lower rate that may be prescribed by an applicable income tax treaty.

Backup Withholding and Information Reporting

In general, except in the case of certain exempt recipients, information reporting requirements will apply to dividends paid to a U.S. Holder in respect of Shares or ADSs, and to the proceeds received by a U.S. Holder upon the sale, exchange or redemption of Shares or ADSs within the United States or through certain U.S.-related financial intermediaries. Furthermore, backup withholding (currently at a rate of 28%) may apply to such payments or proceeds if a U.S. Holder fails to provide an accurate tax identification number and make appropriate certifications in the required manner.

Dividends paid to a Non-U.S. Holder in respect of Shares or ADSs, and proceeds received upon the sale, exchange or redemption of Shares or ADSs by a Non-U.S. Holder generally are exempt from information reporting and backup withholding under current U.S. federal income tax law. However, a Non-U.S. Holder may be required to provide certification under penalty of perjury to ensure that exemption. Persons required to establish their exempt status generally must provide such certification on IRS Form W-9, entitled Request for Taxpayer Identification Number and Certification, in the case of U.S. Holders, and on IRS Form W-8BEN, entitled Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding (or other appropriate IRS Form W-8), in the case of Non-U.S. Holders.

Backup withholding is not an additional tax. The amount of backup withholding imposed on a payment may generally be refunded or allowed as a credit against the holder's U.S. federal income tax liability provided that the required information is properly and promptly furnished to the IRS in a timely manner.

Certain U.S. Holders who are individuals that hold certain foreign financial assets (which may include the Shares or ADSs) are required to report information relating to such assets, subject to certain exceptions. U.S. Holders should consult their tax advisors regarding the effect, if any, of this reporting requirement on their ownership and disposition of the Shares or ADSs.

THE SUMMARY OF U.S. FEDERAL INCOME AND JAPANESE NATIONAL TAX CONSEQUENCES SET OUT ABOVE IS INTENDED FOR GENERAL INFORMATION PURPOSES ONLY. INVESTORS IN THE SHARES OR ADSs ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING OR DISPOSING OF SHARES OR ADSs BASED ON THEIR PARTICULAR CIRCUMSTANCES.

10.F. DIVIDENDS AND PAYING AGENTS

Not applicable.

10.G. STATEMENT BY EXPERTS

Not applicable.

10.H. DOCUMENTS ON DISPLAY

The Company files annual reports on Form 20-F and furnishes quarterly and other periodic reports on Form 6-K with the Commission. You may read and copy any reports, statements or other information on file at the

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public reference facilities maintained by the Commission at 100F Street, N.E., Room 1580, Washington, D.C. 20549 or by accessing the Commission's home page (<http://www.sec.gov>). Copies of the Company's annual reports on Form 20-F, semi-annual and other periodic reports on Form 6-K are also available on its website at <https://www.advantest.com/US/investors/irLibrary/index.htm>. The ADSs are listed on the New York Stock Exchange under the symbol ATE, and the Company's reports and other information may also be inspected at the New York Stock Exchange, 20 Broad Street, New York, New York 10005. In addition, copies of contracts referred to in this annual report may be inspected at the principal executive offices of the Company, located at Shin Marunouchi Center Building, 1-6-2, Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan.

10.I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Advantest is exposed to market risk from changes in foreign currency exchange rates, interest rates and equity security prices and credit.

Foreign Currency Exchange Rate Risk

The tables below summarize information as of March 31, 2014 and March 31, 2013 on instruments and transactions that are sensitive to foreign currency exchange rates, including assets and liabilities denominated in U.S. dollars, Euros, New Taiwan dollars and Korean won, and forward contracts. The information in each table is presented in Japanese yen equivalents, which is the Company's reporting currency.

Foreign Currency Denominated Assets and Liabilities

Foreign currency denominated assets and liabilities that are sensitive to exchange rates between such foreign currency and the Japanese yen are presented by denominated currency. All of these assets and liabilities are stated at fair value.

	As of March 31, 2014			
	Assets and Liabilities Denominated in			
	U.S.\$	Euro	NT\$	KRW
	(in millions)			
Cash, cash equivalents and short-term investments	¥ 20,060	¥ 8,260	¥ 372	¥ 1,535
Accounts receivable	10,845	57	407	1,160
Accounts payables and accruals	(6,709)	(204)	(237)	(662)

	As of March 31, 2013			
	Assets and Liabilities Denominated in			
	U.S.\$	Euro	NT\$	KRW
	(in millions)			

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Cash, cash equivalents and short-term investments	¥ 20,646	¥ 7,407	¥ 2,106	¥ 3,208
Accounts receivable	14,405	103	362	912
Accounts payables and accruals	(5,186)	(296)	(208)	(527)

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Other foreign currency denominated assets and liabilities that are sensitive to exchange rates between such foreign currency and a currency other than the Japanese yen are presented on a combined basis below. All of the assets and liabilities are stated at fair value.

	As of March 31, 2014 Yen Value of Cross Currency Assets and Liabilities (in millions)	
Cash and cash equivalents and short-term investments	¥	6,960
Accounts receivable		633
Accounts payables and accruals		(1,947)

	As of March 31, 2013 Yen Value of Cross Currency Assets and Liabilities (in millions)	
Cash and cash equivalents and short-term investments	¥	2,278
Accounts receivable		373
Accounts payables and accruals		(1,450)

Foreign Exchange Contracts

Advantest uses foreign exchange forward contracts and currency options to manage currency exposure, resulting from changes in foreign currency exchange rates, on planned foreign currency transactions and trade receivables. Foreign exchange contracts have terms of a year. Foreign exchange forward contracts are presented by the notional balances with weighted average exchange rates. Advantest has no foreign exchange forward contracts as of March 31, 2014 and all of the foreign exchange forward contracts outstanding as of March 31, 2013 are listed below.

	As of March 31, 2013		
	Contract Amounts	Fair Value (in millions)	Average Contractual Exchange Rate
To sell Japanese yen/receive Euro	¥ 147	¥ 15	¥ 109.362

Interest Rate Risk

Advantest had ¥25.0 billion in corporate bonds with fixed interest rates outstanding as of March 31, 2014 and 2013.

Securities Value Risk

The table below shows the acquisition price and fair value of securities that Advantest holds as of March 31, 2014 and March 31, 2013. Advantest does not hold or issue financial commodities with the purpose to trade. Advantest holds equity or debt securities as available-for-sale securities.

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	As of March 31, 2013		As of March 31, 2014	
	Acquisition Price	Fair Value	Acquisition Price	Fair Value
Marketable Securities	¥ 3,079	¥ 5,455	¥ 2,055	¥ 3,272

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ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

12.A. DEBT SECURITIES

Not applicable.

12.B. WARRANTS AND RIGHTS

Not applicable.

12.C. OTHER SECURITIES

Not applicable.

12.D. AMERICAN DEPOSITARY SHARES

Fees and Charges for Holders of American Depositary Receipts

JPMorgan Chase Bank, N.A. (Depositary), as depositary of the Company s ADS, collects the following fees from holders of ADRs or intermediaries acting in their behalf. The Depositary may sell (by public or private sale) sufficient securities and property received prior to such deposit to pay such fees.

- (a) Depositing or substituting the underlying shares

Each person to whom ADSs are issued, will be charged U.S. \$5.00 for each 100 ADSs (or portion thereof) issued or delivered (as the case may be).

- (b) Receiving or distributing dividends

A fee of U.S. \$0.02 or less per ADS (or portion thereof) for any cash distribution made.

- (c) Selling or exercising rights

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A fee for the distribution or sale of securities, being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged U.S.\$5.00 for each 100 ADSs (or portion thereof) as a result of the deposit of such securities (treating all such securities as if they were shares of stock).

(d) Withdrawing an underlying security

Each person surrendering ADSs for withdrawal of deposited securities or whose ADSs are cancelled or reduced for any other reason will be charged U.S. \$5.00 for each 100 ADSs (or portion thereof) reduced, cancelled or surrendered (as the case may be).

(e) Transferring, splitting or grouping receipts

A fee of U.S. \$1.50 per ADR or ADRs for transfers made.

(f) General depositary services, particularly those charged on an annual basis

A fee of U.S. \$0.02 per ADS (or portion thereof) per year for the services performed by the Depositary in administering the ADRs (which fee shall be assessed against holders as of the record date or dates set by the Depositary not more than once each calendar year and shall be payable at the sole discretion of the Depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions).

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(g) Expenses of the Depositary

Such fees and expenses incurred by the Depositary (including without limitation expenses incurred on behalf of holders in connection with foreign exchange control regulations or any law or regulation relating to foreign investments) in connection with the delivery of deposited securities or otherwise to comply with the Depositary's or its custodian's compliance procedures, applicable law, rule or regulation.

- (i) stock transfer or other taxes and other governmental charges (which are payable by holders or persons depositing stock);
- (ii) cable, telex and facsimile transmission and delivery charges incurred at the request of persons depositing, or Holders delivering stock, ADRs or deposited securities (which are payable by such persons or holders);
- (iii) transfer or registration fees for the registration or transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;
- (iv) expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars; and
- (v) any other charge payable by any of the Depositary, any of the Depositary's agents, including, without limitation, the custodian, or the agents of the Depositary's agents in connection with the servicing of the stock or other deposited securities.

Fees and Other Payments Made by the Depositary to the Company

The Depositary has agreed to reimburse certain reasonable expenses of the Company related to the Company's ADR program and incurred by the Company in connection with the ADR program. In fiscal 2013, the Company received the following payments from JPMorgan Chase Bank, N.A., as depositary of the Company's ADS.

Category of Expenses (Direct Payments)	Amount Reimbursed for FY2013	
Listing fees	US\$	38,000.00
Investor relations	US\$	50,000.00
Total	US\$	88,000.00

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

Advantest performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as of March 31, 2014. Disclosure controls and procedures are designed to ensure that the material financial and non-financial information required to be disclosed in the reports that Advantest files, or submits, under the Exchange Act is accumulated and communicated to its management including the chief executive officer and principal accounting and financial officer to allow timely decisions regarding required disclosure. The disclosure controls and procedures also ensure that the reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. The evaluation was performed under the supervision of Advantest's Representative Director, President and CEO and Director and Senior Executive Officer. Advantest's disclosure and controls and procedures provide reasonable assurance that its objectives will be met. Managerial judgment was necessary to evaluate the cost-benefit relationship of possible controls and procedures. Advantest's Representative Director, President and CEO and Director and Senior Executive Officer have concluded that Advantest's disclosure controls and procedures are effective at the reasonable assurance level.

(b) Management's Annual Report on Internal Control Over Financial Reporting

The management of Advantest is responsible for establishing and maintaining adequate internal control over financial reporting. Advantest's internal control system was designed to provide reasonable assurance with respect to the preparation of financial statements in accordance with U.S. GAAP and the reliability of such financial statements.

Internal control over financial reporting has inherent limitations underlying internal control systems and misstatements may not be prevented or detected. Furthermore, if the evaluation results regarding the effectiveness of internal control are expected to remain the same going forward, it is important to recognize that there are risks, under which changes in circumstances may lead the controls in place to be inadequate or that the extent to which policies or procedures are complied with may lower.

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Advantest's management assessed the effectiveness of the company's internal control over financial reporting as of March 31, 2014. In making this assessment, it used the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework). Based on this assessment, management has concluded that, as of March 31, 2014, Advantest's internal control over financial reporting was effective.

Ernst & Young ShinNihon LLC, Advantest's independent registered public accounting firm, has issued an attestation report on the effectiveness of our internal control over financial reporting as of March 31, 2014. This report appears in Item 18.

(c) Attestation Report of the Independent Registered Public Accounting Firm

This report appears in Item 18.

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There has been no change in our internal control over financial reporting that occurred during the year ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Company's audit & supervisory board has determined that Masamichi Ogura is an audit committee financial expert as defined by Item 16.A. of Form 20-F. Mr. Ogura met the independence requirements, as the term is defined under the New York Stock Exchange listing standards. For details regarding Mr. Ogura's business experiences, see 6.A. DIRECTORS AND SENIOR MANAGEMENT.

ITEM 16B. CODE OF ETHICS

The Company has adopted a code of ethics that applies to its directors and executive officers, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of the Company's code of ethics was attached to the annual report on Form 20-F for fiscal 2003 and is attached as an exhibit to this Form 20-F for reference.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Ernst & Young ShinNihon LLC served as the Company's independent registered public accounting firm for fiscal 2011, 2012 and 2013. The audited financial statements for these fiscal years are included in the respective year's annual report filed on Form 20-F.

The chart below sets forth the aggregate fees for professional services and other services rendered to Advantest by Ernst & Young ShinNihon LLC and its member firms in fiscal 2012 and 2013.

	Fiscal 2012	Fiscal 2013
	(in millions)	
Audit Fees ⁽¹⁾	¥ 358	¥ 373
Audit-Related Fees ⁽²⁾		
Tax Fees ⁽³⁾	30	46
All Other Fees ⁽⁴⁾		14
Total	¥ 388	¥ 433

- (1) Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor reasonably can provide, and include the group audit; statutory audits; the issuance of consents; and assistance with and review of documents filed with the SEC.
- (2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements or that are traditionally performed by the external auditor, and include consultations concerning financial accounting and reporting standards; and review of security controls and operational effectiveness of systems.
- (3) Tax Fees include fees billed for tax compliance services, including the preparation of original and amended tax returns and claims for refund; tax consultations, such as assistance in connection with tax audits and advice related to transfer pricing, and requests for rulings or technical advice from taxing authorities; and expatriate tax services.
- (4) All Other Fees include fees billed for training; and process improvement and advice.

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Below is a summary of the current policies and procedures of the audit & supervisory board for the pre-approval of audit and permissible non-audit services performed by Advantest's independent public accountants.

Under the policy, the audit & supervisory board authorizes general pre-approval of audit and permissible non-audit services for the following fiscal year. Upon the general pre-approval of the audit & supervisory board, no specific pre-approval for audit and permissible non-audit services is required so long as those services fall within the scope of the general pre-approval provided.

Applications to provide services that require specific pre-approval by the audit & supervisory board will be submitted to the audit & supervisory board.

The audit & supervisory board makes further determination as to whether or not to revise the general pre-approval for the applicable fiscal year. Such request may include adding to or subtracting from any audit or permissible non-audit services listed in the general pre-approval. The performance of audit and permissible non-audit services and the payment of fees are subject to the review by the audit & supervisory board once every fiscal year.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

The Company does not have an audit committee. The Company is relying on the general exemption contained in Rule 10A-3(c)(3) under the Exchange Act, which provides an exemption from the NYSE's listing standards relating to audit committees for foreign companies like the Company that have an audit & supervisory board. The Company's reliance on Rule 10A-3(c)(3) does not, in its opinion, materially adversely affect the ability of its audit & supervisory board to act independently and to satisfy the other requirements of Rule 10A-3.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The following table sets forth Advantest's purchases of its common stock during fiscal 2013:

Period	(a) Total Number of Shares Purchased ¹	(b) Average Price Paid per Share (Yen)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ²	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
2013				
April 1 - April 30	80	¥ 1,338	N/A	N/A
May 1 - May 31	46	1,576	N/A	N/A
June 1 - June 30	220	1,582	N/A	N/A

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July 1	July 31	156	1,622	N/A	N/A
August 1	August 31	42	1,291	N/A	N/A
September 1	September 30	132	1,242	N/A	N/A
October 1	October 31	84	1,114	N/A	N/A
November 1	November 30	116	1,269	N/A	N/A
December 1	December 31	118	1,283	N/A	N/A
2014					
January 1	January 31	102	1,256	N/A	N/A
February 1	February 28	292	1,142	N/A	N/A
March 1	March 31	70	1,054	N/A	N/A
Total		1,458	¥ 1,321	N/A	N/A

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- 1 All purchases are made through repurchase of shares constituting less than one unit, which is 100 shares of common stock, or through repurchase of shares pursuant to a resolution of Board of Directors. The purchase of shares that are a fraction of a unit are made in accordance with the provisions of the Company's share handling regulations. The Company is required to comply with such requests pursuant to the Company Law. See Additional Information Memorandum and Articles of Association The Unit Share System.
- 2 The Company can repurchase its shares through stock exchanges where the Company's shares are listed or pursuant to a takeover bid when there is a resolution of Board of Directors in accordance to Article 41 of the Articles of Incorporation.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Significant Differences in Corporate Governance Practices between the Company 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, the Company is permitted to follow certain corporate governance practices complying with Japanese laws, regulations and stock exchange rules in lieu of NYSE's listing standards. The SEC approved changes to the NYSE's listing standards related to corporate governance practices of listed companies in November 2003, as further amended in November 2004. The Company is exempted from the approved changes, except for requirements that (a) the Company's audit & supervisory board satisfy the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934 as amended, or the Exchange Act, (b) the Company must disclose significant differences in the corporate governance practices followed by the Company as compared to those followed by domestic companies under the NYSE listing standards, (c) the Company's CEO must notify the NYSE of any non-compliance with (a) and (b), and (d) the Company must submit annual and interim written affirmations to the NYSE. The Company'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. The Company currently has three outside directors on its Board of Directors. Unlike NYSE Corporate Governance, the Company Law of Japan and related legislation (hereinafter in Item 16G., the Company Law), do not require Japanese companies with audit & supervisory board such as the Company to have any outside 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, the Company currently has no non-management director on its Board of Directors. Unlike NYSE Corporate Governance, the Company Law does not require, and accordingly the Company does not have, an internal corporate organ or committee comprised of only outside directors.

2. Committees. The Company has not established committees responsible for director nomination, corporate governance and executive compensation as required by NYSE Corporate Governance, but it has adopted a system of audit & supervisory board members based on the Company Law and integrated such system into the Company's corporate governance structure. In addition, in connection with such system of audit & supervisory board members, the Company has elected to establish a nomination and compensation committee, which is an optional committee under the Company Law.

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Pursuant to the Company Law, the Company's Board of Directors nominates and submits a proposal for appointment of directors for shareholder approval. The shareholders vote on such nomination at the Company's general meeting of shareholders. The Company Law requires that the respective total amount of remuneration, among others, (remuneration, bonus, and other consideration for services related to employment) to be paid to all

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directors and all audit & supervisory board members must be determined by a resolution of the general meeting of shareholders, unless their remuneration is provided for in the articles of incorporation. The distribution of remuneration among directors is broadly delegated to the Company's Board of Directors and the distribution of remuneration among audit & supervisory board members is determined by the audit & supervisory board.

3. Audit Committee. The Company avails 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 an audit & supervisory board, subject to certain requirements which continue to be applicable under Rule 10A-3.

Consistent with the requirements of the Company Law, the Company elects its audit & supervisory board members through a resolution adopted at a general meeting of shareholders. The Company currently has four audit & supervisory board members, which exceeds the minimum number of audit & supervisory board members required pursuant to the Company Law.

Unlike NYSE Corporate Governance, the Company Law, among others, does not require audit & supervisory board members to establish an expertise in accounting nor are they required to present other special knowledge and experience. Under the Company Law, the audit & supervisory board may determine audit policy, methods to investigate the state of business operations and assets and other matters relating to the execution of duties by audit & supervisory board members, prepare audit & supervisory board members' reports and give consent to proposals of the nomination of audit & supervisory board members and accounting auditors.

The Company currently has two audit & supervisory board members who satisfy the requirements of outside audit & supervisory board member under the Company Law. Unlike NYSE Corporate Governance, under the Company Law, at least one-half of the audit & supervisory board members of the Company must be outside audit & supervisory board members, which is a person who was not a director, an accounting counselor (if an accounting counselor is a corporation, an employee of such corporation who carries out its duties), executive officer, general manager, or any other employee of the Company or any of its subsidiaries at any time in the past. Audit & supervisory board members may not at the same time be directors, an accounting counselor (if an accounting counselor is a corporation, an employee who carries out its duties), executive officer, general manager, or any other employee of the Company or any of its subsidiaries.

4. Corporate Governance Guidelines. The Company is required to adopt or disclose corporate governance guidelines under Japanese laws and regulations, including the Company Law and the Financial Instruments and Exchange Law of Japan or rules of Tokyo stock exchange. Pursuant to the Company Law, the Company is required to decide to implement a structure as required by an ordinance of the Ministry of Justice (the Internal Control System) in order to ensure directors' compliance with applicable laws and regulations and the Company's articles of incorporation while executing their duties and joint stock companies' proper business operation, and is required to disclose the decision to implement the Internal Control System, policies and the conditions of its corporate governance in its business report, annual securities report and certain other disclosure documents in accordance with the Company Law, the Financial Instruments and Exchange Law, and applicable Cabinet ordinances and rules of Tokyo stock exchange in respect of timely disclosure.

5. Code of Business Conduct and Ethics. Unlike NYSE Corporate Governance, under Japanese law (including the Company Law and the Financial Instruments and Exchange Law of Japan), and the rules of the Tokyo stock exchange, the Company is not required to adopt a code of business conduct and ethics for directors, officers and employees. Accordingly, the Company is not required to adopt and disclose a code of business conduct and ethics for these individuals. However, in accordance with the Company Law, the Company has decided to implement the Internal Control System as a structure to ensure that director's execution of their duties at meetings of the Board of Directors complies with applicable laws and regulations and the Company's articles of incorporation. Furthermore, the Company has established a code of ethics consistent with Section 406 of the Sarbanes-Oxley Act.

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6. Shareholder Approval of Equity Compensation Plans. Unlike NYSE Corporate Governance, in which material revisions to equity-compensation plans of the listed companies are subject to shareholder approval, pursuant to the Company Law, if a joint stock company desires to adopt an equity-compensation plan for directors as compensation to directors other than cash, such company is generally required to obtain shareholder approval by an ordinary resolution. In addition to the above approval, in the past, when the Company previously desired 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 shareholders on a pro-rata basis at the same time), the Company obtained shareholder approval by a special resolution of a general meeting of shareholders, 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.

ITEM 16H. MINE SAFETY DISCLOSURE

None.

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PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

The following financial statements are filed as part of this annual report on Form 20-F.

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ADVANTEST CORPORATION

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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All schedules are omitted as permitted by the rules and regulations of the Securities and Exchange Commission, as the required information is presented in the notes to consolidated financial statements, or the schedules are not applicable.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of

Advantest Corporation

We have audited the accompanying consolidated balance sheets of Advantest Corporation and subsidiaries as of March 31, 2013 and 2014, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advantest Corporation and subsidiaries at March 31, 2013 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Advantest Corporation's internal control over financial reporting as of March 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated June 26, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young ShinNihon LLC

Tokyo, Japan
June 26, 2014

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of

Advantest Corporation

We have audited Advantest Corporation and subsidiaries' internal control over financial reporting as of March 31, 2014, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Advantest Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Advantest Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Advantest Corporation and subsidiaries as of March 31, 2013 and 2014, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2014 and our report dated June 26, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young ShinNihon LLC

Tokyo, Japan
June 26, 2014

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**ADVANTEST CORPORATION
AND SUBSIDIARIES**

Consolidated Balance Sheets

March 31, 2013 and 2014

	Yen (Millions)	
	2013	2014
Assets		
Current assets:		
Cash and cash equivalents	¥ 45,668	68,997
Trade receivables, net	26,953	20,404
Inventories	31,849	30,200
Other current assets	8,319	5,218
Total current assets	112,789	124,819
Investment securities	5,923	3,741
Property, plant and equipment, net	41,368	39,925
Intangible assets, net	15,833	3,545
Goodwill	41,670	46,846
Other assets	7,932	10,980
Total assets	¥ 225,515	229,856

See accompanying notes to consolidated financial statements.

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ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2013 and 2014

	Yen (Millions)	
	2013	2014
Liabilities and Stockholders Equity		
Current liabilities:		
Trade accounts payable	¥ 10,380	12,353
Accrued expenses	7,910	6,775
Income taxes payable	1,436	1,089
Accrued warranty expenses	1,889	1,589
Customer prepayments	3,198	2,488
Other current liabilities	3,087	2,313
Total current liabilities	27,900	26,607
Corporate bonds	25,000	25,000
Convertible bonds		30,149
Accrued pension and severance costs	26,785	28,641
Other liabilities	4,589	3,207
Total liabilities	84,274	113,604
Commitments and contingent liabilities		
Stockholders' equity:		
Common stock,		
Authorized 440,000,000 shares; issued 199,566,770 shares	32,363	32,363
Capital surplus	42,801	43,906
Retained earnings	170,626	130,740
Accumulated other comprehensive income (loss)	(6,929)	5,326
Treasury stock, 25,773,688 shares in 2013 and 25,368,828 shares in 2014, at cost	(97,620)	(96,083)
Total stockholders' equity	141,241	116,252
Total liabilities and stockholders' equity	¥ 225,515	229,856

See accompanying notes to consolidated financial statements.

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**ADVANTEST CORPORATION
AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended March 31, 2012, 2013 and 2014

	2012	Yen (Millions) 2013	2014
Net sales	¥ 141,048	132,903	111,878
Cost of sales	72,300	63,983	62,545
Gross profit	68,748	68,920	49,333
Research and development expenses	30,303	33,062	32,670
Selling, general and administrative expenses	37,608	35,778	39,964
Impairment charge			13,068
Operating income (loss)	837	80	(36,369)
Other income (expense):			
Interest and dividend income	323	213	199
Interest expense	(153)	(132)	(140)
Gain on sale of investment securities		388	1,396
Impairment losses on investment securities	(2,254)	(400)	
Other, net	(2,195)	(1,442)	(587)
Total other income (expense)	(4,279)	(1,373)	868
Income (loss) before income taxes and equity in earnings (loss) of affiliated company	(3,442)	(1,293)	(35,501)
Income taxes (benefit)	(1,240)	2,493	61
Equity in earnings (loss) of affiliated company	7	(35)	22
Net income (loss)	¥ (2,195)	(3,821)	(35,540)
	2012	Yen 2013	2014
Net income (loss) per share:			
Basic	¥ (12.67)	(22.03)	(204.10)
Diluted	(12.67)	(22.03)	(204.10)

See accompanying notes to consolidated financial statements.

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**ADVANTEST CORPORATION
AND SUBSIDIARIES**

Consolidated Statements of Comprehensive Income (Loss)

Years ended March 31, 2012, 2013 and 2014

	2012	Yen (Millions) 2013	2014
Comprehensive income (loss)			
Net income (loss)	¥ (2,195)	(3,821)	(35,540)
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	1,422	17,250	12,555
Net unrealized gains (losses) on investment securities:			
Net unrealized gains (losses)	602	174	(642)
Pension related adjustments	(6,328)	(1,779)	342
Total other comprehensive income (loss)	(4,304)	15,645	12,255
Total comprehensive income (loss)	¥ (6,499)	11,824	(23,285)

See accompanying notes to consolidated financial statements.

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ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years ended March 31, 2012, 2013 and 2014

	2012	Yen (Millions) 2013	2014
Common stock			
Balance at beginning of year	¥ 32,363	32,363	32,363
Changes in the year			
Balance at end of year	32,363	32,363	32,363
Capital surplus			
Balance at beginning of year	40,628	42,280	42,801
Changes in the year			
Stock option compensation expense	1,652	861	1,283
Exercise of stock options		(340)	(178)
Total changes in the year	1,652	521	1,105
Balance at end of year	42,280	42,801	43,906
Retained earnings			
Balance at beginning of year	183,009	179,081	170,626
Changes in the year			
Net income (loss)	(2,195)	(3,821)	(35,540)
Cash dividends	(1,733)	(3,468)	(3,480)
Sale of treasury stock	(0)	(1,166)	(866)
Total changes in the year	(3,928)	(8,455)	(39,886)
Balance at end of year	179,081	170,626	130,740
Accumulated other comprehensive income (loss)			
Balance at beginning of year	(18,270)	(22,574)	(6,929)
Changes in the year			
Other comprehensive income (loss), net of tax	(4,304)	15,645	12,255
Balance at end of year	(22,574)	(6,929)	5,326
Treasury stock			
Balance at beginning of year	(99,598)	(99,598)	(97,620)
Changes in the year			
Purchases of treasury stock	(1)	(1)	(2)
Sale of treasury stock	1	1,979	1,539

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Total changes in the year	0	1,978	1,537
Balance at end of year	(99,598)	(97,620)	(96,083)
Total stockholders' equity			
Balance at beginning of year	138,132	131,552	141,241
Changes in the year			
Net income (loss)	(2,195)	(3,821)	(35,540)
Other comprehensive income (loss), net of tax	(4,304)	15,645	12,255
Cash dividends	(1,733)	(3,468)	(3,480)
Stock option compensation expense	1,652	861	1,283
Exercise of stock options		(340)	(178)
Purchases of treasury stock	(1)	(1)	(2)
Sale of treasury stock	1	813	673
Total changes in the year	(6,580)	9,689	(24,989)
Balance at end of year	¥ 131,552	141,241	116,252

See accompanying notes to consolidated financial statements.

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ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended March 31, 2012, 2013 and 2014

	2012	Yen (Millions) 2013	2014
Cash flows from operating activities:			
Net income (loss)	¥ (2,195)	(3,821)	(35,540)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	6,838	8,063	8,268
Deferred income taxes	(3,663)	693	(1,897)
Stock option compensation expense	583	861	1,283
Impairment losses on investment securities	2,254	400	
Gain on sale of investment securities		(388)	(1,396)
Impairment charge			13,495
Changes in assets and liabilities, net of effect of acquisition:			
Trade receivables	616	(1,004)	7,891
Inventories	4,613	(566)	2,806
Trade accounts payable	902	(6,475)	1,114
Accrued expenses	39	(4,529)	(1,376)
Income taxes payable	(659)	677	(424)
Accrued warranty expenses	164	(302)	(348)
Customer prepayments	(1,815)	611	(966)
Accrued pension and severance costs	975	841	998
Other	3,650	2,724	2,316
Net cash provided by (used in) operating activities	12,302	(2,215)	(3,776)
Cash flows from investing activities:			
(Increase) decrease in short-term investments	14,387		
Proceeds from sale of available-for-sales securities	10,717	287	2,354
Acquisition of subsidiary, net of cash acquired	(57,145)		(1,273)
Decrease of other investment in equity method investee	620		
Proceeds from distribution of equity method investee			135
Proceeds from sale of property, plant and equipment	89	32	379
Purchases of property, plant and equipment	(5,931)	(11,386)	(5,511)
Purchases of intangible assets	(329)	(443)	(830)
Other	(78)	12	35
Net cash provided by (used in) investing activities	(37,670)	(11,498)	(4,711)
Cash flows from financing activities:			
Increase (decrease) in short term debt	25,466	(25,000)	
Proceeds from issuance of corporate bonds		25,000	
Proceeds from issuance of convertible bonds			30,150
Redemption of senior convertible notes of acquired subsidiary	(13,835)		

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Dividends paid	(1,729)	(3,460)	(3,474)
Other	(15)	546	526
Net cash provided by (used in) financing activities	9,887	(2,914)	27,202
Net effect of exchange rate changes on cash and cash equivalents	(1,624)	4,077	4,614
Net change in cash and cash equivalents	(17,105)	(12,550)	23,329
Cash and cash equivalents at beginning of year	75,323	58,218	45,668
Cash and cash equivalents at end of year	¥ 58,218	45,668	68,997
Supplemental data:			
Cash paid during the year for:			
Income taxes	¥ 3,267	1,519	2,711
Interest	153	87	140

See accompanying notes to consolidated financial statements.

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ADVANTEST CORPORATION

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Description of Business and Summary of Significant Accounting Policies and Practices

(a) Description of Business

The Company and its consolidated subsidiaries (collectively, Advantest) manufacture and sell semiconductor and component test system products and mechatronics-related products such as test handlers and device interfaces. Advantest also engages in research and development activities and provides maintenance and support services associated with these products.

Description of the business by segment is as follows:

The semiconductor and component test system segment provides customers with test system products for the semiconductor industry and the electronic parts industry. Product lines provided in the semiconductor and component test system segment include test systems for memory semiconductors for memory semiconductor devices and test systems for SoC (System-on-a-Chip) semiconductors for non memory semiconductor devices.

The mechatronics system segment provides product lines such as test handlers, mechatronic-applied products for handling semiconductor devices, device interfaces that serve as interfaces with the devices that are measured and operations related to nano-technology products.

The services, support and others segment consists of comprehensive customer solutions provided in connection with the above segments, support services, equipment lease business and others.

(b) Principles of Consolidation

Advantest s consolidated financial statements include financial statements of the Company and its subsidiaries, all of which are wholly-owned. Investment in an affiliated company over which Advantest has the ability to exercise significant influence, but does not hold a controlling financial interest, is accounted for by the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Cash Equivalents

Cash equivalents consist of deposits and certificates of deposit with an original maturity of three months or less from the date of purchase. Advantest considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(d) Allowance for Doubtful Accounts

Advantest recognizes an allowance for doubtful accounts to ensure that trade receivables are not overstated due to uncollectability, which represents Advantest's best estimate of the amount of probable credit losses in Advantest's existing trade receivables. An allowance for doubtful accounts is provided at an amount calculated based on historical write off experience and a specific allowance for estimated amounts considered to be uncollectable after reviewing individual factors such as the customer's current financial position, significant changes in the semiconductor industry, other information that is publicly available and the customer's credit worthiness.

(e) Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the average cost method.

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ADVANTEST CORPORATION

AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(f) Investment Securities

Investment securities consist of marketable and non-marketable equity securities. Fair value is determined based on quoted market prices, projected discounted cash flow or other valuation techniques as appropriate.

Marketable Equity Securities

Advantest classifies its marketable equity securities as available-for-sale.

Available-for-sale securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a component of accumulated other comprehensive income (loss) until realized. A decline in the fair value of any available-for-sale security below cost that is deemed to be other than temporary results in an impairment loss. The impairment loss is charged to earnings and a new cost basis for the security is established. Dividend and interest income are recognized when earned.

On a periodic basis, Advantest evaluates the available-for-sale securities for possible impairment. Factors considered in assessing whether an indication of other than temporary impairment exists include: the degree of change in ratio of market prices per share to book value per share at the date of evaluation compared to the acquisition date, the financial condition and prospects of each investee company, industry conditions in which the investee company operates, the period of time the fair value of an available-for-sale security has been below the cost basis of the investment and other relevant factors. Advantest generally has the intention and ability to retain available-for-sale securities which it determines that their impairment is not other than temporary for a period of time sufficient to allow for any anticipated recovery in market value. The impairment to be recognized is measured based on the amount by which the carrying amount of the investment exceeds the fair value of the investment.

The cost of a security sold or the amount reclassified out of accumulated other comprehensive income (loss) into earnings is determined by the average cost method.

Non-marketable Equity Securities

Non-marketable equity securities are carried at cost. On a periodic basis, Advantest evaluates these investments for possible impairment. Non-marketable equity securities that have impairment indicators were evaluated to determine whether the investments were impaired and the impairment, if any, is other than temporary. If the impairment is other than temporary, Advantest recognizes an impairment loss to reduce the carrying amount to the fair value and a new cost basis for the security is established.

(g) Derivative Financial Instruments

All derivative instruments in the consolidated balance sheets are stated at fair value. The accounting for changes in the fair value (that are, gains or losses) of a derivative instrument depends on the objective for holding such instrument and whether it meets the criteria for designation as a cash flow hedge or a fair value hedge. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair values, cash flows, or foreign currencies.

If the hedged exposure is a fair value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the

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ADVANTEST CORPORATION

AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

risk being hedged. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (loss) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of the gain or loss are reported in earnings immediately. If the derivative instrument is not designated as a hedge, the gain or loss is recognized in earnings in the period of change.

(h) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is computed principally using the straight-line method over estimated useful lives of the assets.

The depreciation period for major assets ranges from 15 years to 50 years for buildings, 4 years to 10 years for machinery and equipment, and 2 years to 5 years for tools, furniture and fixtures.

(i) Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually. Intangible assets with definite useful lives are amortized on a straight-line basis over their respective estimated useful lives and reviewed for impairment.

Business combinations are accounted for using the acquisition method. Advantest allocates the purchase price to the assets acquired and liabilities assumed based on the estimated fair values at the date of acquisition, including intangible assets that can be identified. The purchase price in excess of the fair value of the net assets is recorded as goodwill. Acquisition costs are expensed as incurred.

Intangible assets consist of customer relationships and other intangible assets. Advantest has estimated the weighted average amortization period for the customer relationships relating to services to be 7 years. The weighted average amortization period for all intangible assets is approximately 6 years.

(j) Impairment of Long-Lived Assets

Advantest reviews impairment of long-lived assets including identifiable intangibles with definite useful lives whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In such circumstances, if the carrying value of the asset is less than the estimated undiscounted cash flows expected to be generated by the asset or asset group, Advantest recognizes an impairment loss. The impairment loss recognized is the amount by which the carrying amount of the asset or asset group exceeds the fair value.

(k) Accrued Warranty Expenses

Advantest's products are generally subject to warranty, and Advantest provides an allowance for such estimated costs when product revenue is recognized. To provide for future repairs during warranty periods, estimated repair expenses over the warranty period are accrued based on the historical ratio of actual repair expenses to corresponding sales, and any facts and circumstances that occurred.

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ADVANTEST CORPORATION

AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(l) Convertible Bonds

Advantest is not required to bifurcate any of the embedded features contained in the ¥30,000 million zero coupon convertible bonds due 2019 (bonds with stock acquisition rights), which was issued in March 2014, for accounting purposes.

(m) Accrued Pension and Severance Costs

The Company and certain of its subsidiaries have retirement and severance defined benefit plans covering substantially all of their employees. Prior service benefit and cost, and actuarial gains and losses are recognized in accumulated other comprehensive income (loss) and are amortized using the straight-line method over the average remaining service period of active employees. The funded status, which is the difference between the fair value of plan assets and the projected benefit obligations, of pension plans is recognized in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax. The adjustment to accumulated other comprehensive income (loss) represents the unrecognized actuarial loss and unrecognized prior service cost. These amounts will be subsequently recognized as net periodic benefit cost pursuant to Advantest's accounting policy for amortizing such amounts.

(n) Revenue Recognition

General

Advantest recognizes revenue when there is persuasive evidence of an arrangement, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured.

Sales of Products

Sales of products which require installation are recognized when the related installation is completed and other sales recognition criteria are met since the installation is essential to the functionality of the equipment. When customer acceptance is uncertain, revenue is deferred until customer acceptance has been received. When the final payment is subject to customer acceptance, a portion of revenue for the final payment is deferred until an enforceable claim has become effective.

Sales of products and components which do not require installation service by Advantest is recognized upon shipment if the terms of the sale are free on board (FOB) shipping point or upon delivery if the terms are FOB destination which coincide with the passage of title and risk of loss.

Long-term Service Contracts

Revenue from fixed-price, long-term service contracts is recognized on the straight-line basis over the contract term.

Leasing Income

Revenue from operating leases is primarily recognized on the straight-line basis over the lease term.

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Multiple Deliverables

Advantest's revenue recognition policies provide that, when a sales arrangement contains multiple elements, such as hardware and software products and services, Advantest allocates revenue to each element based on a selling price hierarchy and recognizes revenue when the criteria for revenue recognition have been met for each element. The selling price for a deliverable is based on its vendor specific objective evidence (VSOE), if available, third party evidence (TPE) if VSOE is not available, or estimated selling price if neither VSOE nor TPE is available.

(o) Shipping and Handling Costs

Shipping and handling costs totaled ¥1,409 million, ¥1,564 million and ¥1,591 million for the years ended March 31, 2012, 2013 and 2014, respectively, and are included in selling, general and administrative expenses in the consolidated statements of operations.

(p) Research and Development Expenses

Research and development costs are expensed as incurred.

(q) Advertising Costs

Advertising costs totaled ¥178 million, ¥497 million and ¥341 million for the years ended March 31, 2012, 2013 and 2014, respectively, and are expensed as incurred.

(r) Stock-Based Compensation

Advantest applies the fair-valued-based method of accounting for stock-based compensation and recognizes stock-based compensation expense in the consolidated statements of operations. The cost of employee services received in exchange for an award of equity instruments is measured based on the grant-date fair value of the stock options granted to employees. The cost is recognized on the straight line basis over the period

during which an employee is required to provide service in exchange for the award. The Black Scholes pricing model is used to estimate the value of stock options.

Expected dividend yield is determined by the Company's dividend ratio of the past and other associated factors. Risk free interest rate is determined by Japanese government bond yield for the period corresponding to expected life. Expected volatility is determined by historical volatility and trend of the Company's share prices, and other associated factors. Expected life is determined by the Company's option exercise history, post vesting employment termination behavior for similar grants, and other pertinent factors.

(s) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss carryforwards and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Advantest records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

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Advantest establishes reserves for uncertain tax positions when it is more likely than not, based on technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions that meet the more-likely-than-not recognition threshold are measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon settlement. Advantest recognizes interest and penalty accruals related to unrecognized tax benefits in income taxes in the consolidated statements of operations.

(t) Net Income (Loss) per Share

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares outstanding during the year. Diluted net income per share reflects the maximum possible dilution from conversion, exercise, or contingent issuance of securities. All potentially dilutive securities are excluded from the calculation in a situation where there is a net loss attributable to Advantest's stockholders.

(u) Foreign Financial Statements

The financial statements of foreign operations whose functional currency is a local currency are translated into Japanese Yen. Assets and liabilities are translated at the period-end exchange rates and revenues and expenses are translated at the average exchange rate for the period. Resulting translation adjustments are shown as a component of other comprehensive income (loss).

The financial statements of foreign operations whose functional currency is Japanese Yen are remeasured into Japanese Yen. All exchange gains and losses from remeasurement of monetary assets and liabilities denominated in the local currency are included in other income (expense) for the period in which the remeasurement is made.

(v) Foreign Currency Transactions

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated by using the applicable current rate prevailing at that date. All revenue and expenses associated with foreign currencies are translated by using the rate of exchange prevailing when such transactions occur. Those gains (losses) are included in other income (expense) in the accompanying consolidated statements of operations.

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Foreign exchange gains (losses) were (¥2,319) million, (¥1,427) million and (¥655) million for the years ended March 31, 2012, 2013 and 2014, respectively.

(w) Use of Estimates

Management of Advantest has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the periods to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP). Significant items subject to such estimates and assumptions include valuation of trade receivables, inventories, goodwill, long-lived assets and deferred tax assets, various accruals such as accrued warranty expenses, and assets and obligations related to employees retirement and severance plans. Actual results could differ from those estimates.

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(x) New Accounting Standards

In July 2012, the FASB amended the accounting guidance to simplify how entities test indefinite-lived intangible assets for impairment which improve consistency in impairment testing requirements among long-lived asset categories. The guidance permits an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, the guidance eliminates the requirement to perform quantitative impairment testing as outlined in the previously issued standards. The guidance was adopted by Advantest in the first quarter beginning April 1, 2013. The adoption of the guidance did not have a significant impact on its consolidated results of operations and financial condition.

In February 2013, the FASB finalized the accounting guidance for reporting of amounts reclassified out of accumulated other comprehensive income. This new guidance requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. The guidance was adopted by Advantest in the first quarter beginning April 1, 2013. The adoption of the guidance did not have a significant impact on its consolidated results of operations and financial condition.

In May 2014, the FASB issued the accounting guidance for revenue from contracts with customers. This guidance supersedes virtually all existing revenue recognition requirements under U.S. GAAP and requires an entity to apply the five steps to recognize revenue from contracts with customers unless the contracts are in the scope of other U.S. GAAP requirements. Additionally, an entity should disclose quantitatively and qualitatively sufficient information including contract with customers, significant judgments, and assets recognized from the costs to obtain or fulfill a contract. The entity should apply the amendments in this guidance using one of the following two methods; retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of the initial application. The guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The guidance is required to be adopted by Advantest in the first quarter beginning April 1, 2017. Advantest is currently evaluating the effect that this adoption will have on its consolidated results of operations and financial condition.

(y) Reclassifications

Certain reclassifications have been made to the prior years consolidated financial statements to conform to the current year presentation.

(2) Trade Receivables

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Trade receivables at March 31, 2013 and 2014 were as follows:

	Yen (Millions)	
	2013	2014
Notes	¥ 2,570	1,448
Accounts	24,437	19,084
	27,007	20,532
Less allowance for doubtful accounts	54	128
	¥ 26,953	20,404

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(3) Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts for the years ended March 31, 2012, 2013 and 2014 were as follows:

	Yen (Millions)		
	2012	2013	2014
Balance at beginning of year	¥ 67	75	54
Provision for (reversal of) allowance	8	(13)	74
Amounts written off		(8)	0
Balance at end of year	¥ 75	54	128

(4) Inventories

Inventories at March 31, 2013 and 2014 were composed of the following:

	Yen (Millions)	
	2013	2014
Finished goods	¥ 6,485	6,509
Work in process	11,378	11,467
Raw materials and supplies	13,986	12,224
	¥ 31,849	30,200

(5) Property, Plant and Equipment

Property, plant and equipment at March 31, 2013 and 2014 were composed of the following:

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	Yen (Millions)	
	2013	2014
Land	¥ 14,557	14,822
Buildings	26,213	31,304
Machinery and equipment	24,071	22,088
Tools, furniture and fixtures	16,191	15,444
Construction in progress	4,205	1,099
	85,237	84,757
Less accumulated depreciation	43,869	44,832
	¥ 41,368	39,925

Depreciation expense was ¥4,326 million, ¥5,778 million and ¥6,106 million for the years ended March 31, 2012, 2013 and 2014, respectively.

During the year ended March 31, 2014, as a result of lower than expected future cash flows and changes in the business environment including a larger-than-expected contraction in the semiconductor test equipment market, chiefly in the smartphone semiconductor test space, Advantest recognized impairment losses of ¥1,099 million and ¥497 million in its semiconductor and component test system segment and its mechatronics system segment, respectively. The total impairment loss of ¥1,596 million was included in cost of sales and impairment charge in the accompanying consolidated statements of operations.

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(6) Goodwill and Intangible Assets

The components of intangible assets excluding goodwill at March 31, 2013 and 2014 were as follows:

	Yen (Millions)			
	2013		2014	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Intangible assets subject to amortization:				
Software	¥ 2,306	1,624	¥ 1,623	852
Customer relationships	2,549	573	1,184	482
Patented technologies	4,995	1,037		
Developed technologies	7,524	1,652		
Other	2,005	473	640	336
	19,379	5,359	3,447	1,670
Intangible assets not subject to amortization:				
In-process technologies	1,589		1,544	
Other	224		224	
	1,813		1,768	
Intangible assets:				
Balance at end of year	¥ 21,192	5,359	¥ 5,215	1,670

Aggregate amortization expense for the years ended March 31, 2012, 2013 and 2014 was ¥2,512 million, ¥2,285 million and ¥2,162 million, respectively. Estimated amortization expense for the next five years ending March 31 is ¥655 million in 2015, ¥742 million in 2016, ¥625 million in 2017, ¥575 million in 2018, and ¥196 million in 2019, respectively.

During the year ended March 31, 2014, as a result of lower than expected future cash flows and changes in the business environment including a larger-than-expected contraction in the semiconductor test equipment market, chiefly in the smartphone semiconductor test space, Advantest recognized impairment losses of ¥11,671 million and ¥228 million in its semiconductor and component test system segment and its mechatronics system segment, respectively. The total impairment loss of ¥11,899 million was included in cost of sales and impairment charge in the accompanying consolidated statements of operations.

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Changes in the carrying amount of goodwill for the years ended March 31, 2013 and 2014 were as follows:

	Yen (Millions) 2013			Total
	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	
Balance at beginning of year	¥ 21,911		14,585	36,496
Translation adjustments	3,069		2,105	5,174
Balance at end of year	24,980		16,690	41,670

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	Yen (Millions)			Total
	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	
Balance at beginning of year	¥ 24,980		16,690	41,670
Acquisition of subsidiary			1,252	1,252
Translation adjustments	2,295		1,629	3,924
Balance at end of year	27,275		19,571	46,846

Advantest performed its annual impairment test for goodwill at the reporting unit level and identified no impairments at March 31, 2012, 2013 and 2014.

(7) Investment Securities

Marketable equity securities are classified as available-for-sale securities. The acquisition cost, gross unrealized gains, gross unrealized losses and fair value at March 31, 2013 and 2014 were as follows:

	Yen (Millions)			Fair value
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	
Noncurrent:				
Available-for-sale:				
Equity securities	¥ 3,079	2,377	1	5,455

	Yen (Millions)			Fair value
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	
Noncurrent:				
Available-for-sale:				
Equity securities	¥ 2,055	1,244	27	3,272

Equity securities consist primarily of stocks issued by Japanese listed companies.

Proceeds from the sale of available-for-sale securities and gross realized gains on available-for-sale securities for the year ended March 31, 2012 were ¥10,717 million and ¥19 million. Gross realized losses on the sale of available-for-sale securities for the year ended March 31, 2012 were insignificant. Proceeds from the sale of available-for-sale securities and gross realized gains on available-for-sale securities for the year ended March 31, 2013 were ¥425 million and ¥388 million. No losses were realized on the sale of available-for-sale securities for the year ended March 31, 2013. Proceeds from the sale of available-for-sale securities and gross realized gains on available-for-sale securities for the year ended March 31, 2014 were ¥2,482 million and ¥1,396 million. No losses were realized on the sale of available-for-sale securities for the year ended March 31, 2014.

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For the years ended March 31, 2012 and 2013, Advantest recognized impairment losses of ¥1,259 million and ¥388 million, respectively, on available-for-sale securities, which were considered other-than-temporarily impaired and wrote them down to the fair value. There were no impairment losses on available-for-sale securities, which were not considered other-than-temporarily impaired for the year ended March 31, 2014.

Gross unrealized losses on available-for-sale securities and the fair value of the related securities, aggregated by length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2013 and 2014, were as follows:

	Yen (Millions)			
	2013			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Noncurrent:				
Available-for-sale:				
Equity securities	¥		5	1

	Yen (Millions)			
	2014			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Noncurrent:				
Available-for-sale:				
Equity securities	¥ 289	27		

Advantest maintains non-marketable equity securities, which are recorded at cost. The carrying amounts of non-marketable equity securities were ¥468 million and ¥469 million at March 31, 2013 and 2014, respectively. Advantest had not estimated the fair value of other non-marketable equity securities aggregating ¥460 million and ¥469 million at March 31, 2013 and 2014, respectively, since it was not practicable to estimate the fair value of the investments due to the lack of readily determinable fair values and difficulty in estimating fair value without incurring excessive cost. Non-marketable equity securities that had impairment indicators were evaluated to determine whether the investments were impaired and the impairment, if any, was other than temporary. For the years ended March 31, 2012 and 2013, non-marketable equity securities with a purchase cost of ¥1,395 million and ¥20 million were written down to their estimated fair values of ¥400 million and ¥8 million, resulting in other-than-temporary impairment charges of ¥995 million and ¥12 million, respectively, which were included in impairment losses on investment securities in the accompanying consolidated statements of operations. No impairment indicators were recognized and, accordingly, no impairment losses were recorded on non-marketable equity securities for the year ended March 31, 2014.

(8) Derivative Financial Instruments

Advantest uses derivative instruments primarily to manage exposures to foreign currency. The primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency. The instruments are not designated for trading or speculative purposes. Derivative financial

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instruments contain an element of risk in the event the counterparties are unable to meet the terms of the agreements. However, Advantest minimizes risk exposure by limiting the counterparties to major international banks and financial institutions meeting established credit guidelines. Management of Advantest does not expect any counterparty to default on its obligations and, therefore, does not expect to incur any losses due to counterparty default on its obligations. Advantest generally does not require or place collateral for these derivative financial instruments.

In accordance with U.S. GAAP, Advantest recognizes derivative instruments as either assets or liabilities on the balance sheet at fair value. Changes in fair value of the derivatives are recorded as other income (expense).

Derivatives not designated as hedging instruments

Derivatives not designated as hedging instruments consist primarily of forward contracts to reduce Advantest's risk associated with exchange rate fluctuations, as gains and losses on these contracts are intended to offset exchange losses and gains on underlying exposures. Changes in fair value of foreign exchange contracts are recognized in earnings under the caption of other income (expense).

Advantest had foreign exchange contracts to exchange currencies among Japanese yen, US dollar and Euro during the year ended March 31, 2013 and 2014. The notional amounts of outstanding forward contracts for foreign currency sales were ¥147 million at March 31, 2013. However, there were no outstanding forward contracts for foreign currency purchases and sales as of March 31, 2014.

Fair Value of Derivative Contracts

Fair values of derivatives not designated as hedging instruments at March 31, 2013 and 2014 were as follows:

Derivatives not designated as hedging instruments

	Yen (Millions)			
	March 31, 2013	Fair Value	March 31, 2014	Fair Value
Assets	Balance Sheet Location		Balance Sheet Location	

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Foreign exchange contracts	Other current assets	¥	16	Other current assets
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Liabilities

Foreign exchange contracts	Other current liabilities	¥	0	Other current liabilities
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Effect of derivative instruments on the consolidated statements of operations

Derivatives not designated as hedging instruments

The effects of derivatives not designated as hedging instruments on the consolidated statements of operations for the years ended March 31, 2012, 2013 and 2014 were as follows:

	Location of gain (loss) recognized in income on derivatives	Yen (Millions)		
		Amount of gain (loss) recognized in income on derivatives		
		2012	2013	2014
Foreign exchange contracts	Other income (expense)	¥ 630	(96)	96

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(9) Fair Value Measurement**Disclosure about the fair value of Financial Instruments**

The following table presents the carrying amounts and estimated fair values of Advantest's financial instruments at March 31, 2013 and 2014. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

	Yen (Millions)			
	2013		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Investment securities				
Available-for-sale securities	¥ 5,455	5,455	¥ 3,272	3,272
Foreign exchange contracts	16	16		
Financial liabilities:				
Foreign exchange contracts	0	0		
Corporate bonds	25,000	25,026	25,000	24,975
Convertible bonds			30,149	31,518

The carrying amounts of available-for-sale securities are included in the consolidated balance sheets under investment securities. The carrying amounts of foreign exchange contracts are included in other current assets and other current liabilities.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, trade receivables and trade accounts payable: The carrying amounts approximate fair value because of the short maturity of these instruments.

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Available-for-sale securities: The fair values of available-for-sale equity securities are based on quoted market prices at the reporting date for those investments.

Foreign exchange contracts: The fair value of foreign exchange contracts are estimated by obtaining quotes from financial institutions.

Corporate bonds and convertible bonds: The fair values of corporate bonds and convertible bonds are estimated using quoted market prices, and are classified as Level 2.

Fair Value Hierarchy

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally the inputs to valuation techniques used to measure fair value are prioritized into the following three levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

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Level 2 Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3 Unobservable inputs for the asset or liability.

Assets / Liabilities Measured at Fair Value on a Recurring Basis

As of March 31, 2013 and 2014, carrying amount of assets and liabilities that were measured at fair value on a recurring basis by level was as follows:

	Yen (Millions)			
	Fair Value Measurements at March 31, 2013			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale equity securities	¥ 5,455	5,455		
Foreign exchange contracts	16		16	
Total assets measured at fair value	5,471	5,455	16	
Liabilities				
Foreign exchange contracts	0		0	
Total liabilities measured at fair value	¥ 0		0	

	Yen (Millions)			
	Fair Value Measurements at March 31, 2014			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale equity securities	¥ 5,455	5,455		
Foreign exchange contracts	16		16	
Total assets measured at fair value	5,471	5,455	16	
Liabilities				
Foreign exchange contracts	0		0	
Total liabilities measured at fair value	¥ 0		0	

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		Markets (Level 1)	(Level 2)	(Level 3)
Assets				
Available-for-sale equity securities	¥ 3,272	3,272		
Total assets measured at fair value	3,272	3,272		

Adjustments to fair value of available-for-sale equity securities are recorded as an increase or decrease, net of tax, in accumulated other comprehensive income (loss) except where losses are considered to be other than temporary, in which case the losses are recorded in impairment losses on investment securities. Changes in fair value of foreign exchange contracts are recorded as other income (expense).

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Assets / Liabilities Measured at Fair Value on a Nonrecurring Basis

As of March 31, 2013 and 2014, carrying amounts of assets and liabilities, which were measured at fair value on a nonrecurring basis by level during the years ended March 31, 2013 and 2014, were as follows:

	Yen (Millions) Fair Value Measurements at March 31, 2013			Total gains (losses) for the year ended March 31, 2013
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	
Assets				
Non-marketable equity securities	¥ 8			(12)
Assets held for sale	1,337			(134)
Total assets measured at fair value	1,345			
Total gains (losses) for assets held as of March 31, 2013				(146)

	Yen (Millions) Fair Value Measurements at March 31, 2014			Total gains (losses) for the year ended March 31, 2014
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	
Assets				
Property, plant and equipment	¥			(1,596)
Intangible assets				(11,899)
Total assets measured at fair value				
Total gains (losses) for assets held as of March 31, 2014				(13,495)

As of March 31, 2013, Advantest reclassified certain land measured at fair value on a nonrecurring basis of ¥1,337 million as asset held for sale. As of March 31, 2013, Advantest reclassified certain land of ¥1,144 million as asset held for sale. The assets held for sale were included in other

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current assets on the consolidated balance sheets. As a result of lower than expected future cash flows and changes in the business environment impact on profits, for the year ended March 31, 2014, Advantest recognized impairment losses of ¥13,495 million on property, plant and equipment and intangible assets. The impairment loss was included in cost of sales and impairment charge in the accompanying consolidated statements of operations.

Advantest recognized impairment losses of non-marketable equity securities when their fair values were below the carrying amounts and the decline in fair values was considered to be other than temporary. The non-marketable equity securities are valued using the market and income approaches. The fair value of non-marketable equity securities is based on quoted prices in markets that are not active at the reporting date, or present value of expected future cash flows for those investments. The fair value was determined based on a third-party appraisal using similar assets and sales. The property, plant and equipment and the intangible assets are valued using the income approaches based on present value of expected future cash flows. The fair value is classified as Level 3 because significant unobservable inputs were involved in the fair value measurements.

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(10) Leases Lessor

Advantest provides leases that enable its customers to use its semiconductor test systems. All leases are classified as operating leases. Lease terms range from 1 year to 5 years, and certain of the lease agreements are cancelable. The gross amount of machinery and equipment and the related accumulated depreciation under operating leases as of March 31, 2013 and 2014 were as follows:

	Yen (Millions)	
	2013	2014
Machinery and equipment	¥ 9,419	8,354
Less accumulated depreciation	5,840	6,661
	¥ 3,579	1,693

Depreciation of machinery and equipment held under operating leases is included with depreciation expense. These assets are included in property, plant and equipment.

Future minimum lease income under noncancelable operating leases as of March 31, 2014 is as follows:

Year ending March 31	Yen (Millions)	
2015	¥	664
2016		154
2017		
2018		
2019		
Thereafter		
Total minimum lease income	¥	818

(11) Leases Lessee

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Advantest has several noncancelable operating leases, primarily for office space and office equipment. Rent expense, including rental payments for cancelable leases, for the years ended March 31, 2012, 2013 and 2014 was ¥1,565 million, ¥1,800 million and ¥2,039 million, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of March 31, 2014 are as follows:

Year ending March 31	Yen (Millions)
2015	¥ 834
2016	721
2017	365
2018	332
2019	272
Thereafter	844
	3,368
Less sublease income to be received in the future under noncancelable subleases	585
Net minimum lease payments	¥ 2,783

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(12) Corporate Bonds and Convertible Bonds

The carrying values of corporate bonds and convertible bonds at March 31, 2013 and 2014 were as follows:

	Yen (Millions)	
	2013	2014
Unsecured 0.416% bonds, due May 25, 2015	¥ 10,000	10,000
Unsecured 0.606% bonds, due May 25, 2017	¥ 15,000	15,000
Corporate bonds	¥ 25,000	25,000
Unsecured zero coupon convertible bonds, due March 14, 2019	¥	30,000
Add unamortized premium	¥	149
Convertible bonds	¥	30,149

As of March 31, 2013, the Company had no convertible bonds. In March 2014, the Company issued ¥30,000 million zero coupon convertible bonds due 2019 (the "Zero Coupon Convertible Bonds"). The bondholders are entitled to stock acquisition rights effective from April 1, 2014 to February 28, 2019. The initial conversion price is ¥1,655 per common share. Aside from the standard anti-dilution provisions, the conversion price is reduced for a certain period before an early redemption is triggered upon the occurrence of certain corporate events including a merger, corporate split, delisting and squeeze-out event. The reduced amount of the conversion price will be determined by a formula which is based on the effective date of the reduction and the Company's common stock price. The reduced conversion price ranges from ¥1,123 to ¥1,655 per common share. The conversion price is also adjusted for dividends in excess of 15 yen per common share per fiscal year. The bondholders may require the Company to redeem the Zero Coupon Convertible Bonds, on or after a reduction in the conversion price is triggered, at 100.0% of its principal amount, together with a redemption premium which begins at 3.0% of the principal amount and ends at zero, amortized on a straight-line basis over the term of the Zero Coupon Convertible Bonds. In addition, the Company has the option to redeem all of the Zero Coupon Convertible Bonds outstanding at 100.0% of the principal amount, if less than 10.0% of the original issuance is outstanding.

The combined aggregate amounts of maturities for corporate bonds and convertible bonds as of March 31, 2014, by year payable, were as follows:

Year ending March 31	Yen (Millions)
2015	¥
2016	10,000
2017	

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2018	15,000
2019	30,000
Thereafter	
Total	¥ 55,000

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(13) Income Taxes

The components of income (loss) before income taxes and equity in earnings (loss) of affiliated company and provision (benefit) for income taxes as shown in the consolidated statements of operations were as follows:

	Yen (Millions)		
	2012	2013	2014
Income (loss) before income taxes and equity in earnings (loss) of affiliated company:			
The Company and domestic subsidiaries	¥ (2,775)	(16,721)	(29,581)
Foreign subsidiaries	(667)	15,428	(5,920)
	¥ (3,442)	(1,293)	(35,501)

	Yen (Millions)		
	2012	2013	2014
Provision (benefit) for income taxes:			
Current:			
The Company and domestic subsidiaries	¥ 555	411	248
Foreign subsidiaries	1,841	1,243	2,027
Deferred:			
The Company and domestic subsidiaries	(1,513)	(272)	545
Foreign subsidiaries	(2,123)	1,111	(2,759)
	¥ (1,240)	2,493	61

The Company and its domestic subsidiaries are subject to a number of income taxes, which in the aggregate resulted in statutory income tax rates of 40.4%, 37.8% and 37.7% for the years ended March 31, 2012, 2013 and 2014, respectively.

Following the promulgation on March 31, 2014 of Act for Partial Amendment of the Income Tax Act, etc. (Act No. 10 of 2014), the Company is no longer subject to Special Reconstruction Corporation Tax for the consolidated fiscal year starting from April 1, 2014. Following enactment of the act, the effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 37.8% to 35.4% for temporary differences expected to be eliminated in the fiscal year beginning on April 1, 2014. The amendment did not have a significant impact on its consolidated results of operations and financial condition.

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Prior to the acquisition, Verigy was a Singapore corporation and had negotiated tax incentives with the Singapore Economic Development Board (EDB), an agency of the Government of Singapore, which had been approved by Singapore's Ministry of Finance and Ministry of Trade and Industry. Subsequent to the acquisition, our reorganization of subsidiaries in Singapore was developed, and such tax incentives were terminated on March 31, 2012. New tax incentives were granted by the EDB effective April 1, 2012. Under the new incentive, a majority of the income earned in Singapore during the incentive periods is subject to reduced rates of Singapore income tax. The incentive expired on March 31, 2014. The Singapore corporate income tax rates that would

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apply, absent of the incentive, is 17% for the fiscal years ended March 31, 2013 and 2014. Due to the low level of taxable income attributable to Singapore, the impact on income taxes was immaterial for the fiscal years ended March 31, 2013 and 2014.

A reconciliation of the Japanese statutory income tax rate and the effective income tax rate as a percentage of income before income taxes was as follows:

	2012	2013	2014
Statutory rates for expense (benefit)	(40.4)%	(37.8)%	(37.7)%
Effects on income taxes resulting from:			
Earnings of foreign subsidiaries taxed at different rates from the statutory rate in Japan	12.3	(319.8)	8.6
Tax credits	(60.9)	(176.5)	15.8
Expenses not deductible for tax purposes	4.3	11.3	0.5
Expiration of stock options	9.5	16.6	0.1
Undistributed earnings of foreign subsidiaries	(20.0)	(6.0)	0.2
Change in valuation allowance	(92.1)	704.3	10.5
Effect of enacted changes in tax laws and rates on Japanese tax	149.9		3.7
Other, net	1.4	0.7	(1.5)
	(36.0)%	192.8%	0.2%

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2013 and 2014 were presented below.

	Yen (Millions)	
	2013	2014
Deferred tax assets:		
Inventories	¥ 3,327	3,708
Accrued warranty expenses	614	474
Accrued pension and severance costs	9,212	9,455
Accrued expenses	1,358	1,001
Research and development expenses capitalized for tax purposes	2,470	2,381
Operating loss carryforwards	38,912	49,097
Property, plant and equipment	3,340	3,614
Tax credits	8,122	2,368
Other	2,059	1,924
Total gross deferred tax assets	69,414	74,022
Less valuation allowance	(59,072)	(62,834)

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Net deferred tax assets	10,342	11,188
Deferred tax liabilities:		
Intangible assets	(2,558)	(567)
Net unrealized gains on marketable securities	(805)	(316)
Undistributed earnings of foreign subsidiaries	(689)	(769)
Other	(43)	(157)
Total gross deferred tax liabilities	(4,095)	(1,809)
Net deferred tax assets (liabilities)	¥ 6,247	9,379

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Management of Advantest intends to reinvest undistributed earnings of the Company's certain foreign subsidiaries for an indefinite period of time. As a result, no deferred tax liabilities has been recognized on undistributed earnings of these subsidiaries not expected to be remitted in the foreseeable future, aggregating ¥9,697 million and ¥13,049 million at March 31, 2013 and 2014, respectively. Deferred tax liabilities will be recognized when Advantest expects that it will realize those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. The related deferred tax liability would have been ¥1,426 million and ¥1,922 million at March 31, 2013 and 2014, respectively.

Included in other current assets and other assets were deferred tax assets of ¥7,639 million and ¥10,247 million at March 31, 2013 and 2014, respectively.

Included in other current liabilities and other liabilities were deferred tax liabilities of ¥1,392 million and ¥868 million at March 31, 2013 and 2014, respectively.

At March 31, 2014, Advantest had total net operating loss carry forwards for income tax purposes of ¥145,173 million which are available to reduce future taxable income. Net operating loss carry forwards of ¥124,252 million attributable to the Company and domestic subsidiaries in Japan will expire during the years ending March 31, 2015 through 2023. Other net operating loss carry forwards of ¥17,912 million have no expiration dates and the remaining other net operating loss carry forwards of ¥3,009 million will expire predominately during the years ending March 31, 2032. Net operating loss carryforwards utilized during the years ended March 31, 2012, 2013 and 2014 were ¥25 million, ¥14,728 million and ¥2,712 million, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon projections for future taxable income including management's expectations of future semiconductor market and semiconductor and component test systems market prospects over the periods in which the deferred tax assets are deductible and other factors, management believes it is more likely than not that Advantest will realize the benefits of these deductible tax differences, net of valuation allowance.

The changes in valuation allowance for the years ended March 31 were as follows:

	Yen (Millions)		
	2012	2013	2014
Balance at beginning of year	¥ 52,082	50,188	59,072

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Additions		8,884	3,762
Reductions	1,894		
Balance at end of year	¥ 50,188	59,072	62,834

For the year ended March 31, 2012, the valuation allowance decreased due to reductions in deferred tax assets associated with change of tax rate in Japan. For the year ended March 31, 2013 and 2014, valuation allowance increased primarily due to an increase in net operating loss carryforwards.

The management believes the amount of the deferred tax assets, net of valuation allowance were considered realizable.

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However, the amount of the deferred tax assets considered realizable could be changed in the future if estimates of future taxable income are revised. This could result in the significant impact on the Company's consolidated financial position and results of operations.

Unrecognized tax benefits for the years ended March 31, 2012, 2013 and 2014 were as follows:

	Yen (Millions)		
	2012	2013	2014
Balance at beginning of year	¥	1,484	1,418
Acquisition of verigy	1,671		
Increase for tax positions of previous years	148	84	84
Increase for tax positions of current year	57	0	0
Settlements	(47)	(58)	0
Lapse of the applicable statute of limitations	(341)	(248)	(274)
Translation adjustments	(4)	156	124
Balance at end of year	1,484	1,418	1,352

Although Advantest believes its estimates and assumptions of unrecognized tax benefits are reasonable, uncertainty regarding the final determination of tax audits, settlements and any related litigation could affect the effective tax rate in the future periods. The total amount of unrecognized tax benefits that would reduce the effective tax rate, if recognized, is ¥1,352 million at March 31, 2014. As of March 31, 2014, Advantest does not expect changes in its tax positions that would significantly increase or decrease unrecognized tax benefits within next 12 months. Both interest and penalties accrued are included in other liabilities in the accompanying consolidated balance sheets, and both interest and penalties are included in the income tax provision in the accompanying consolidated statements of operations are immaterial.

Advantest files income tax returns in Japan and various foreign tax jurisdictions. As of March 31, 2014, Advantest open tax years are from 2007 in Japan, 2012 in Taiwan, and 2009 in the United States.

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(14) Other Comprehensive Income (Loss)

The accumulated balances for each classification of other comprehensive income (loss), net of tax, for the years ended March 31, 2012, 2013 and 2014 were as follows:

	Yen (Millions)				
	Foreign currency translation adjustments	Net unrealized gains (losses) on investment securities	Pension related adjustment	Net unrealized gains (losses) on derivative instruments	Accumulated other comprehensive income (loss)
Balance at March 31, 2011	¥ (14,738)	773	(4,305)		(18,270)
Change during the year	864	(216)	(6,565)	(55)	(5,972)
Reclassification adjustments	558	818	237	55	1,668
	1,422	602	(6,328)		(4,304)
Balance at March 31, 2012	¥ (13,316)	1,375	(10,633)		(22,574)
Change during the year	17,250	165	(2,251)		15,164
Reclassification adjustments		9	472		481
	17,250	174	(1,779)		15,645
Balance at March 31, 2013	¥ 3,934	1,549	(12,412)		(6,929)
Change during the year	12,555	260	(603)		12,212
Reclassification adjustments		(902)	945		43
	12,555	(642)	342		12,255
Balance at March 31, 2014	¥ 16,489	907	(12,070)		5,326

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The related tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2012, 2013 and 2014 were as follows:

	Before-tax amount	Yen (Millions) Tax (expense) or benefit	Net-of-tax amount
Year ended March 31, 2012:			
Foreign currency translation adjustments	¥ 1,422		1,422
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) arising during the year	(509)	293	(216)
Less reclassification adjustments for net gains (losses) realized in earnings	1,267	(449)	818
Net unrealized gains (losses)	758	(156)	602
Pension related adjustment	(7,191)	863	(6,328)
Other comprehensive income (loss)	¥ (5,011)	707	(4,304)
Year ended March 31, 2013:			
Foreign currency translation adjustments	¥ 17,250		17,250
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) arising during the year	321	(156)	165
Less reclassification adjustments for net gains (losses) realized in earnings	(1)	10	9
Net unrealized gains (losses)	320	(146)	174
Pension related adjustment	(1,908)	129	(1,779)
Other comprehensive income (loss)	¥ 15,662	(17)	15,645
Year ended March 31, 2014:			
Foreign currency translation adjustments	¥ 12,555		12,555
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) arising during the year	361	(101)	260
Less reclassification adjustments for net gains (losses) realized in earnings	(1,396)	494	(902)
Net unrealized gains (losses)	(1,035)	393	(642)
Pension related adjustment	165	177	342
Other comprehensive income (loss)	¥ 11,685	570	12,255

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Reclassifications out of accumulated other comprehensive income (loss) for the year ended March 31, 2014 was as follow:

	Amount reclassified from accumulated other comprehensive income (loss) *(1)	Yen (Millions) Year ended March 31, 2014 Affected line items in consolidated statements of income
Unrealized gains and losses on investment securities	¥ (1,396)	Other income (expense): Other, net
	494	Income taxes
	(902)	Net income (loss)
Pension liability adjustments		
Amortization of actuarial loss	1,264	(2)
Amortization of prior service cost	(168)	(2)
	(151)	Income taxes
	945	Net income
Total amount reclassified, net of tax	¥ 43	

- (1) Amounts in parentheses indicate a gain in the consolidated statements of operations.
(2) The accumulated other comprehensive income components are included in the computation of net periodic pension cost (see note 16 for additional details).

(15) Stock-Based Compensation

Advantest has stock-based compensation plans using stock options as incentive plans for directors, executive officers, corporate auditors and selected employees. Stock options have been issued to directors, executive officers, corporate auditors and certain employees of the Company and its subsidiaries under stock option plans approved by the Board of Directors. Options were generally granted with an exercise prices of per share that were equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options have an exercise period of 4 years.

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In connection with the acquisition of Verigy, the Company assumed the stock options previously granted to Verigy directors and employees. Therefore, replacement options were granted for all 89 types of stock options arrangements previously granted to the directors and employees of Verigy and its subsidiaries under a stock option plan approved by the Board of Directors of Advantest. The terms and conditions of the granted options are substantially the same as those for the Verigy stock options. The number of granted shares totaled 2,387,046. Options were granted with exercise prices from ¥807 to ¥3,577 per share. All options are exercisable from July 20, 2011. The options have expiration dates from July 29, 2011 to January 31, 2018.

The exercise price of the stock options is subject to adjustment, if there is a stock split or consolidation of shares, or if new shares are issued or treasury stocks are sold at a price that is less than the market price.

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Stock option activity during the years ended March 31, 2012, 2013 and 2014 was as follows:

	2012		2013		2014	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at beginning of year	1,948,000	¥ 3,392	4,888,206	¥ 1,616	5,704,699	¥ 1,418
Granted	4,033,046	1,399	2,521,000	1,207	2,763,000	1,669
Exercised			(522,297)	880	(406,318)	1,237
Expired	(595,840)	5,302	(592,354)	2,590	(669,605)	2,056
Forfeited	(497,000)	2,396	(589,856)	1,461	(297,437)	2,090
Outstanding at end of year	4,888,206	1,616	5,704,699	1,418	7,094,339	1,523
Exercisable at end of year	3,585,206	¥ 1,648	3,222,699	¥ 1,580	4,442,339	¥ 1,437

Stock based compensation expense recognized was ¥583 million, ¥861 million and ¥1,283 million, which was included in selling, general and administrative expenses for the years ended March 31, 2012, 2013 and 2014, respectively. The recognized tax benefits were ¥153 million, ¥235 million and ¥324 million for the years ended March 31, 2012, 2013 and 2014, respectively. In addition, the stock options, granted during the fiscal years ended March 31, 2007 and 2008 subsequent to a change in Japanese tax law effective April 1, 2006, expired unused during the fiscal year ended March 31, 2013 and 2014, and the related deferred tax assets of ¥214 million and ¥19 million were reversed, respectively. As of March 31, 2012, 2013 and 2014, a valuation allowance was recorded against substantially all related deferred tax assets.

The weighted average fair value per share for stock options that were granted during the years ended March 31, 2012, 2013 and 2014 were ¥448, ¥347 and ¥460, respectively. These figures were calculated based on the Black Scholes option pricing model by using the following weighted average estimates:

	2012	2013	2014
Expected dividend yield	0.4%	1.1%	1.1%
Risk free interest rate	0.5%	0.1%	0.2%
Volatility	49.3%	50.7%	44.7%
Expected life	3.1 years	3.9 years	2.8 years

No stock options were exercised during the year ended March 31, 2012. Cash proceeds from options exercised for the years ended March 31, 2013 and 2014 was ¥472 million and ¥494 million, respectively. The total fair value of shares vested during the years ended March 31, 2012, 2013 and 2014 was ¥1,244 million, ¥583 million and ¥ 861 million, respectively. No intrinsic value of options exercised was recognized for the years ended March 31, 2012. The total intrinsic values of options exercised for the year ended March 31, 2013 and 2014 was ¥131 million and

¥151, respectively.

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At March 31, 2014, all of the outstanding stock options were as follows:

Exercise price	Outstanding			Exercisable		
	Number of options	Weighted average exercise price	Weighted average remaining contractual life	Number of options	Weighted average exercise price	Weighted average remaining contractual life
¥897 - ¥1,668	3,767,889	1,327	2.6 years	3,767,889	1,327	2.6 years
¥1,669 - ¥3,529	3,326,450	1,746	3.5 years	674,450	2,051	1.4 years
	7,094,339	1,523	3.0 years	4,442,339	1,437	2.4 years

The aggregate intrinsic value for the options outstanding and exercisable at March 31, 2014 was ¥4 million.

(16) Accrued Pension and Severance Costs

The Company and certain of its Japanese subsidiaries have unfunded retirement and severance plans (point-based benefits system). Under a point-based benefits system, the benefits are calculated based on accumulated points allocated to employees each year according to their job classification and their performance. The Company and its Japanese subsidiaries also have a defined benefit corporate pension plan covering substantially all employees. Under the cash balance pension plan, the benefits are calculated based on accumulated points allocated to employees each year according to their job classification and their performance with a certain interest rate calculated based on the upper and lower limit of a market interest rate.

Certain overseas subsidiaries also have defined benefit pension plans covering substantially all of their employees. Benefits payable under the plans are based on employee compensation levels and years of service.

Information about the retirement and severance plans of Advantest for the years ended March 31 was as follows:

	Yen (Millions)	
	2013	2014
2012		

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	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans
Components of net periodic benefit cost:						
Service cost	¥ 1,355	227	1,487	345	1,735	377
Interest cost	748	242	689	348	565	448
Expected return on plan assets	(405)	(237)	(299)	(267)	(464)	(331)
Amortization of unrecognized:						
Net actuarial (gain) or loss	511		790	241	919	345
Prior service (benefit) cost	(172)		(168)		(168)	
Other	(18)					
Net periodic benefit cost	¥ 2,019	232	2,499	667	2,587	839

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The following table sets forth the plans' benefit obligation, fair value of plan assets, funded status at March 31, 2013 and 2014.

	Yen (Millions)			
	2013		2014	
	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans
Change in benefit obligation:				
Balance at beginning of year	¥ 38,433	10,214	43,589	11,932
Service cost	1,487	345	1,735	377
Interest cost	689	348	565	448
Actuarial (gain) or loss	3,645	420	1,451	724
Plan amendment		34		
Plan participants' contributions		16		126
Benefits paid	(665)	(548)	(708)	(90)
Translation adjustments		1,103		2,102
Balance at end of year	43,589	11,932	46,632	15,619
Change in plan assets:				
Balance at beginning of year	19,995	4,636	23,207	5,436
Employer contributions	1,759	26	1,868	40
Plan participants' contributions		131		126
Actual return or (loss) on plan assets	2,010	297	2,244	271
Benefits paid	(557)	(158)	(534)	(90)
Translation adjustments		504		954
Balance at end of year	23,207	5,436	26,785	6,737
Funded status	¥ (20,382)	(6,496)	(19,847)	(8,882)

Amounts recognized in the consolidated balance sheets at March 31, 2013 and 2014 were as follows:

	Yen (Millions)			
	2013		2014	
	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans
Accrued expenses	¥ (196)	(107)	(157)	(57)
Accrued pension and severance costs	(20,186)	(6,389)	(19,690)	(8,825)

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(20,382) (6,496) (19,847) (8,882)

Pension related adjustments (before tax) recognized in accumulated other comprehensive income (loss) at March 31, 2013 and 2014 were as follows:

	Yen (Millions)			
	2013		2014	
	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans
Actuarial loss	¥ (11,517)	(3,522)	(10,270)	(4,436)
Prior service benefit	1,173		1,005	
	(10,344)	(3,522)	(9,265)	(4,436)

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Changes in pension related adjustments (before tax) recognized in other comprehensive income (loss) for the year ended March 31, 2013 and 2014 were summarized as follows:

	Yen (Millions)			
	2013		2014	
	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans
Current year actuarial gain (loss)	¥ (1,935)	(403)	328	(797)
Amortization of actuarial gain	790	241	919	345
Current year prior service benefit				
Amortization of prior service benefit and other	(168)		(168)	
Translation adjustments		(433)		(462)
	(1,313)	(595)	1,079	(914)

The estimated prior service cost and actuarial loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next year are summarized as follow:

	Yen (Millions)	
	Japanese Plans	Non-Japanese plans
Actuarial loss	¥ 898	392
Prior service benefit	(168)	
	730	392

Pension plans with accumulated benefit obligations in excess of plan assets at March 31, 2013 and 2014 were summarized as follows:

	Yen (Millions)			
	2013		2014	
	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans
Projected benefit obligation	¥ 43,589	11,932	46,632	15,619
Accumulated benefit obligation	42,573	10,076	45,693	13,454
Fair value of plan assets	23,207	5,436	26,785	6,737

Other information about the retirement and severance plans of Advantest was as follows:

Measurement date:

The measurement date for the pension plans is March 31.

Assumptions:

Weighted-average assumptions used to determine benefit obligations as of March 31:

	2013		2014	
	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans
Discount rate	1.3%	3.5%	1.3%	3.4%
Rate of compensation increase	3.0%	2.6%	2.6%	2.8%

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Weighted-average assumptions used to determine net periodic benefit cost for the years ended March 31:

	2012		2013		2014	
	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans
Discount rate	2.2%	4.8%	1.8%	3.7%	1.3%	3.5%
Expected return on plan assets	2.0%	6.6%	1.5%	5.7%	2.0%	5.9%
Rate of compensation increase	3.0%	2.8%	3.0%	2.8%	3.0%	2.6%

Advantest determines the expected return based on the asset portfolio, historical returns and estimated future returns.

Plan assets:

Advantest's investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants by attaining necessary long-term total returns on plan assets. Taking into consideration the expected returns, associated risks and correlations of returns between asset categories in plan assets, Advantest determines an optimal combination of equity, debt securities and other investments as Policy Asset Allocation (PAA). Plan assets are invested in accordance with PAA with mid-term to long-term viewpoint, which is revised periodically to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

Japanese benefit plans' weighted-average asset allocation at March 31, 2013 and 2014 by asset category were as follows:

	2013	2014	Target
Equity securities	34.5%	37.9%	30.0%
Debt securities	30.1	26.2	35.0
Cash	9.5	5.2	2.0
Life insurance company general accounts	13.0	10.8	13.0
Other	12.9	19.9	20.0
	100.0%	100.0%	100.0%

Non-Japanese benefit plans' weighted-average asset allocation at March 31, 2013 and 2014 by asset category were as follows:

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	2013	2014	Target
Equity securities	42.8%	43.1%	43.5%
Debt securities	35.1	25.0	25.3
Cash	18.2	28.9	28.2
Other	3.9	3.0	3.0
	100.0%	100.0%	100.0%

The three levels of inputs that may be used to measure fair value of plan assets are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets.

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Level 2: Observable inputs other than quoted prices included within Level 1 for the assets, either directly or indirectly.

Level 3: Unobservable inputs for the assets.

Japanese benefit plans asset allocation at March 31, 2013 and 2014 by asset level were as follows:

	Total	Yen (Millions)		
		Fair Value Measurements at March 31, 2013		
		(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	2,202	2,202		
Equity securities:				
Japanese companies	1,379	1,379		
Pooled funds (a)	6,633		6,633	
Debt securities:				
Pooled funds (b)	6,975		6,975	
Hedge funds (c)	2,993		1,980	1,013
Life insurance company general accounts	3,025		3,025	
Total	23,207	3,581	18,613	1,013

- (a) These funds invested in listed equity securities consisting of approximately 60% Japanese listed companies and 40% foreign listed companies.
- (b) These funds invested in approximately 80% Japanese government bonds, 15% Japanese corporate bonds, and 5% Japanese municipal bonds.
- (c) These hedge funds invested in stock price index futures / options, bond futures / options, bonds and private equity funds and others.

	Total	Yen (Millions)		
		Fair Value Measurements at March 31, 2014		
		(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	1,400	1,400		
Equity securities:				
Japanese companies	937	937		
Pooled funds (d)	9,211		9,211	
Debt securities:				
Pooled funds (e)	7,025		7,025	
Hedge funds (f)	5,316		3,139	2,177
Life insurance company general accounts	2,896		2,896	
Total	26,785	2,337	22,271	2,177

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- (d) These funds invested in listed equity securities consisting of approximately 55% Japanese listed companies and 45% foreign listed companies.
- (e) These funds invested in approximately 80% Japanese government bonds, 15% Japanese corporate bonds, and 5% Japanese municipal bonds.
- (f) These hedge funds invested in stock price index futures / options, bond futures / options, bonds and private equity funds and others.

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Level 1 assets are comprised principally of listed equity securities, which are valued based on quoted market prices at the reporting date for those investments.

Level 2 assets are comprised principally of pooled funds and investments in life insurance company general accounts. Pooled funds are valued at their net asset values that are calculated by the sponsors of the funds. Investments in life insurance company general accounts are valued at conversion value. Level 2 also includes certain hedge funds that are redeemable in the near term at their net asset values.

Level 3 assets are comprised of hedge funds, which are valued at their net asset values that are calculated by the sponsors of the funds.

Changes in the Level 3 plan assets for the years ended March 31, 2013 and 2014 were as follows:

	Yen (Millions)	
	2013 Hedge funds	2014 Hedge funds
Balance at beginning of year	¥ 1,137	1,013
Net realized / unrealized gain (loss)	23	186
Purchases, issuances and settlements	(147)	978
Transfer in and / or out of Level 3		
Balance at end of year	¥ 1,013	2,177

Non-Japanese benefit plan asset allocation at March 31, 2013 and 2014 by asset level were as follows:

	Total	Yen (Millions) Fair Value Measurements at March 31, 2013		
		(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents (a)	992	992		
Equity securities:				
Pooled funds (b)	2,326		2,326	
Debt securities:				
Pooled funds (c)	1,910		1,910	
Commodities	208		208	

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Total	5,436	992	4,444
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- (a) Cash equivalents were primarily in short-term investment funds, which consisted of short-term money market instruments that were valued using quoted prices for similar assets and liabilities in active markets.
- (b) These funds invested in listed equity securities consisting of foreign equities.

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(c) These funds invested in international bonds.

	Yen (Millions)		
	Fair Value Measurements at March 31, 2014		
	Total	(Level 1)	(Level 2) (Level 3)
Cash and cash equivalents (d)	1,949	1,949	
Equity securities:			
Pooled funds (e)	2,901		2,901
Debt securities:			
Pooled funds (f)	1,687		1,687
Commodities	200		200
Total	6,737	1,949	4,788

(d) Cash equivalents were primarily in short-term investment funds, which consisted of short-term money market instruments that were valued using quoted prices for similar assets and liabilities in active markets.

(e) These funds invested in listed equity securities consisting of foreign equities.

(f) These funds invested in international bonds.

Cash flows:

Advantest expects to contribute ¥1,422 million and ¥48 million to its Japanese defined benefit plans and Non-Japanese benefit plans during the year ending March 31, 2015.

Estimated future benefit payments:

The following benefit payments, which reflect expected future service, as appropriate, are estimated as follows:

Year ending March 31	Yen (Millions)	
	Japanese plans	Non-Japanese plans
2015	¥ 788	138
2016	915	118
2017	1,011	250

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2018	1,153	173
2019	1,335	215
2020 through 2024	9,045	2,934

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(17) Stockholders' Equity

Changes in the number of shares issued and treasury stock during the years ended March 31, 2012, 2013 and 2014 were as follows:

	Total shares of common stock	Shares of treasury stock
Number of shares as of April 1, 2011	199,566,770	26,294,819
Purchase of shares		899
Sale of shares		(328)
Number of shares as of March 31, 2012	199,566,770	26,295,390
Purchase of shares		671
Exercise of stock options		(522,297)
Sale of shares		(76)
Number of shares as of March 31, 2013	199,566,770	25,773,688
Purchase of shares		1,458
Exercise of stock options		(406,318)
Sale of shares		
Number of shares as of March 31, 2014	199,566,770	25,368,828

The Companies Act of Japan provides that an amount equal to 10% of distributions paid by the Company shall be appropriated as additional paid-in capital or a legal reserve until the total amount of the additional paid-in capital and the legal reserve equals to 25% of common stock. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of the respective countries.

Cash dividends for the years ended March 31, 2012, 2013 and 2014 represent dividends paid out during those years. The accompanying consolidated financial statements do not include any provision for a dividend of ¥5 per share, aggregating ¥871 million for the second-half of the year ended March 31, 2014, subsequently proposed by the Board of Directors.

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The amount available for future payment of dividends was determined under the Companies Act of Japan and amounted to ¥29,349 million at March 31, 2014.

(18) Accrued Warranty Expenses

Advantest issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period. Changes in accrued warranty expenses for the years ended March 31, 2012, 2013 and 2014 were summarized as follows:

	Yen (Millions)		
	2012	2013	2014
Balance at beginning of year	¥ 1,754	2,129	1,889
Acquisition of Verigy	209		
Addition	3,432	3,172	2,319
Reduction	(3,269)	(3,474)	(2,667)
Translation adjustments	3	62	48
Balance at end of year	¥ 2,129	1,889	1,589

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Notes to Consolidated Financial Statements (Continued)

(19) Operating Segment and Geographic Information

Advantest manufactures and sells semiconductor and component test system products and mechatronics-related products such as test handlers and device interfaces. Advantest also engages in research and development activities and provides maintenance and support services associated with these products. Advantest's organizational structure consists of three reportable operating segments, which are the design, manufacturing, and sale of semiconductor and component test systems, mechatronics systems and services, support and others. These reportable operating segments are determined based on the nature of the products and the markets. Segment information is prepared on the same basis that Advantest's management reviews financial information for operational decision making purposes.

The semiconductor and component test system segment provides customers with test system products for the semiconductor industry and the electronic parts industry. Product lines provided in the semiconductor and component test system segment include test systems for memory semiconductors for memory semiconductor devices and test systems for SoC semiconductors for non memory semiconductor devices.

The mechatronics system segment provides product lines such as test handlers, mechatronic-applied products, for handling semiconductor devices, device interfaces that serve as interfaces with the devices that are measured and operations related to nano-technology products.

The services, support and others segment consists of comprehensive customer solutions provided in connection with the above segments, support services, equipment lease business and others.

Fundamental research and development activities and headquarters functions are represented by Corporate.

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Reportable operating segment information during the years ended March 31, 2012, 2013 and 2014 was as follows:

	Yen (Millions)				
	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Total
As of and for the year ended March 31, 2012:					
Net sales to unaffiliated customers	¥ 101,831	20,410	18,807		141,048
Inter-segment sales	3,777	206		(3,983)	
Net sales	105,608	20,616	18,807	(3,983)	141,048
Depreciation and amortization	2,658	627	3,070	483	6,838
Operating income (loss) before stock option compensation expenses	9,845	(1,324)	1,614	(8,715)	1,420
Adjustment:					
Stock based compensation expense					583
Operating income					837
Expenditures for additions to long- lived assets	2,398	750	3,492	344	6,984
Total assets	93,603	12,789	30,713	82,121	219,226
As of and for the year ended March 31, 2013:					
Net sales to unaffiliated customers	¥ 99,719	13,107	20,077		132,903
Inter-segment sales	1,400	546			