

ADVANTEST CORP
Form 20-F
June 28, 2007
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As filed with the Securities and Exchange Commission on June 28, 2007

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, 2007

OR

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

For the transition period from to

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

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

(81-3) 3214-7500

(Address of principal executive offices)

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

Title of each class:

Name of each exchange on which registered:

Common Stock

The New York Stock Exchange

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

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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: 187,650,285 Common Stock at March 31, 2007

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 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 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 2006 refers to the twelve-month period ended March 31, 2007. All other references to years refer to the applicable calendar year.

In parts of this annual report, 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 = ¥118.05. This was the approximate exchange rate in Japan on March 30, 2007.

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 flow 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.

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

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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;

significant changes in the competitive environment in the major markets where Advantest purchases materials, components and supplies for the production of its products or where its products are produced, distributed or sold; and

changes in economic conditions, currency exchange rates or political stability in the major markets where Advantest procures materials, components and supplies for the production of its principal products or where its products are produced, distributed or sold.

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 as of March 31, 2006 and 2007 and for each of the years in the three year period ended March 31, 2007, together with the notes to such financial statements, included elsewhere 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 accounting principles generally accepted in the United States, or U.S. GAAP. Advantest's U.S. GAAP audited consolidated financial statements for fiscal 2004, fiscal 2005 and fiscal 2006 were included in its Japanese Securities Reports filed with the Director General of the Kanto Local Finance Bureau.

| | Year ended March 31, | | | | | |
|---|--|-----------|-----------|-----------|-----------|--|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2007 |
| | (in millions, except per share and share data) | | | | | (thousands, except per share and share data) |
| Consolidated Statement of Income Data: | | | | | | |
| Net sales | ¥ 97,740 | ¥ 174,218 | ¥ 239,439 | ¥ 253,922 | ¥ 235,012 | \$ 1,990,784 |
| Operating income (loss) | (16,743) | 30,960 | 60,719 | 64,458 | 56,792 | 481,084 |

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| | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Income before income taxes and equity in earnings (loss) of affiliated company | (18,688) | 28,878 | 61,808 | 67,454 | 61,090 | 517,493 |
| Net income (loss) | (12,994) | 17,329 | 38,078 | 41,374 | 35,556 | 301,194 |
| Net income (loss) per share: | | | | | | |
| Basic* | (66.00) | 88.19 | 194.77 | 223.17 | 190.01 | 1.61 |
| Diluted* | (66.00) | 88.01 | 194.25 | 221.98 | 188.85 | 1.60 |
| Basic weighted average shares outstanding* | 196,890,222 | 196,501,660 | 195,500,690 | 185,389,026 | 187,128,842 | 187,128,842 |
| Diluted weighted average shares outstanding* | 196,890,222 | 196,892,272 | 196,021,478 | 186,383,080 | 188,270,688 | 188,270,688 |

* On October 1, 2006, the Company conducted a two for one stock split of shares of its common stock. Net income (loss) per share and average number of shares outstanding for each period presented have been restated to reflect the effects of the stock split.

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| | As of March 31, | | | | | |
|---|-----------------------------------|-----------|-----------|-----------|-----------|----------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2007 |
| | (in millions) | | | | | (in thousands) |
| Consolidated Balance Sheet Data: | | | | | | |
| Assets | ¥ 281,224 | ¥ 330,808 | ¥ 296,769 | ¥ 350,776 | ¥ 366,374 | \$ 3,103,549 |
| Current installments of long-term debt | 2,243 | 4,543 | 20,043 | 30 | 10 | 85 |
| Long-term debt, less current installments | 24,626 | 20,083 | 40 | 10 | | |
| Stockholders equity | 210,663 | 221,768 | 206,749 | 257,927 | 294,797 | 2,497,221 |
| | Year ended March 31, | | | | | |
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2007 |
| | (in millions, except percentages) | | | | | (in thousands) |
| Other Data: | | | | | | |
| Capital expenditures | ¥ 7,564 | ¥ 5,621 | ¥ 9,348 | ¥ 8,323 | ¥ 8,336 | \$ 70,614 |
| Research and development expenses | 23,615 | 21,637 | 26,280 | 26,927 | 29,509 | 249,970 |
| Cash flows provided by operating activities | 4,967 | 28,215 | 90,327 | 59,480 | 48,951 | 414,663 |
| Cash flows used in investing activities | (8,419) | (5,070) | (8,250) | (8,542) | (8,013) | (67,878) |
| Cash flows used in financing activities | (14,488) | (6,376) | (63,036) | (18,336) | (3,662) | (31,021) |
| Operating margin ⁽¹⁾ | (17.13)% | 17.77% | 25.36% | 25.38% | 24.17% | |
| Net income margin ⁽²⁾ | (13.29)% | 9.95% | 15.90% | 16.29% | 15.13% | |

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

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

Dividends

Advantest normally pays cash dividends twice per year, at interim and at year-end. Pursuant to its articles of incorporation, the Company can make dividend payments pursuant to the 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 the 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. The periods shown are the six months ended on that date. The U.S. dollar equivalents for the dividends shown are based on the exchange rate in Japan on each record date shown. On October 1, 2006, the Company conducted a two for one stock split of shares of its common stock. Dividend per share information has been restated to reflect the effects of the stock split.

| Six months ended/Record date | Dividend per Share | |
|------------------------------|--------------------|---------|
| | Yen | Dollars |
| September 30, 2002 | ¥ 10.0 | \$ 0.08 |
| March 31, 2003 | 5.0 | 0.04 |

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| | | |
|--------------------|------|------|
| September 30, 2003 | 7.5 | 0.07 |
| March 31, 2004 | 12.5 | 0.12 |
| September 30, 2004 | 12.5 | 0.12 |
| March 31, 2005 | 12.5 | 0.12 |
| September 30, 2005 | 12.5 | 0.11 |
| March 31, 2006 | 22.5 | 0.19 |
| September 30, 2006 | 17.5 | 0.15 |
| March 31, 2007 | 32.5 | 0.28 |

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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.

Exchange Rates

In parts of this annual report, 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 = ¥118.05. This was the approximate exchange rate in Japan on March 30, 2007.

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 21, 2007 was \$1.00 = 123.68. Advantest 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/ending March 31, | At end of period | Average (of month-end rates) | High | Low |
|------------------------------------|---------------------|---------------------------------|----------------|----------|
| | | (¥ per \$1.00) | | |
| 2003 | ¥ 118.07 | ¥ 121.10 | ¥ 133.40 | ¥ 115.71 |
| 2004 | 104.18 | 112.75 | 120.55 | 104.18 |
| 2005 | 107.22 | 107.28 | 114.30 | 102.26 |
| 2006 | 117.48 | 113.67 | 120.93 | 104.41 |
| 2007 | 117.56 | 116.55 | 121.81 | 110.07 |
| 2008 (through June 21, 2007) | 123.68 | 121.63 | 123.68 | 117.69 |
| | | | | |
| Month ended | High | Low | | |
| | | | (¥ per \$1.00) | |
| December 31, 2006 | ¥ 119.02 | ¥ 114.98 | | |
| January 31, 2007 | 121.81 | 118.49 | | |
| February 28, 2007 | 121.77 | 118.33 | | |
| March 31, 2007 | 118.15 | 116.01 | | |
| April 30, 2007 | 119.84 | 117.69 | | |
| May 31, 2007 | 121.79 | 119.77 | | |

3.B CAPITALIZATION AND INDEBTEDNESS

Not applicable.

3.C REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

3.D RISK FACTORS

Risks Related to Advantest's Business

Advantest's business and results of operations are subject to significant demand volatility in the semiconductor industry

Advantest's business depends largely upon the capital expenditures of semiconductor manufacturers, test houses and foundries. These companies, in turn, determine their capital expenditure and investment levels largely based on current and anticipated market demand for semiconductors and demand for products incorporating semiconductors. Historically, the percentage reduction in capital expenditures by semiconductor manufacturers during downturns in the semiconductor industry, including investment in test system, has typically been much

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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 test systems, including those of Advantest. In particular, the market for memory semiconductors shows higher demand volatility as compared to non memory semiconductors. In fiscal 2006, 65.3% of Advantest's net sales from semiconductor and component test systems was derived from the sale of semiconductor test systems for memory semiconductors, a 12.9% increase from 52.4% in fiscal 2005. Accordingly, it still remains over 50%. Any downturns in the memory semiconductor market will therefore be likely to adversely affect Advantest's business more than that of its competitors which sell a lower proportion of memory semiconductors.

The worldwide semiconductor market contracted significantly during 2001 and grew by only 1.3% in 2002 as compared to 2001. The semiconductor market, however, grew substantially by 18.3% in 2003 and 28.0% in 2004. Thereafter, the semiconductor market maintained growth of 6.8% in 2005, and exceeding this moderate growth in 2005, the semiconductor market grew by 8.9% in 2006. Worldwide sales of memory semiconductors declined significantly in 2001 as compared to 2000, increased by 8.7% in 2002 as compared to 2001 and further increased by 20.2%, 45.0%, 2.9% and 20.5% in 2003, 2004, 2005 and 2006, respectively, on a year-to-year basis, primarily due to the increase in demand for flash memory semiconductors used in digital consumer products and for DRAM semiconductors used in personal computers. Also, worldwide sales of non memory semiconductors declined by 26.5% in 2001 as compared to 2000 and by 0.4% in 2002 as compared to 2001, but increased by 17.8% and 23.9% in 2003 and 2004, respectively, on a year-to-year basis, primarily due to the increase in demand for digital consumer products. Net sales were sluggish after the summer of 2004 due to adjustments of excess inventory by semiconductor manufacturers. However, demand recovered as the adjustment of excess inventory stabilized after the spring of 2005 and the market for personal computers (especially notebooks) and digital consumer devices (especially flat-panel TVs and portable music players) expanded. Accordingly, net sales of semiconductors increased by 7.9% in 2005, as compared with the previous year. Furthermore, in 2006, demand in the consumer market and automobile market has stabilized while the data processing market has shown double digit growth. Accordingly, worldwide sales of non memory semiconductors grew by 5.7% in 2006, as compared with the previous year.

The significant demand volatility of the market for semiconductors is affected by various factors such as:

the overall state of the global economy;

the consumer demand for digital consumer products such as flat-panel TVs, DVD recorders and portable devices, including portable audio players and game devices;

the sales levels in the personal computer industry;

the levels of investment in communications infrastructure and the effect on the mobile telecommunications industry; and

currency exchange rate fluctuations.

After recording record sales and profits in fiscal 2000, Advantest experienced a 65.6% decrease in net sales in fiscal 2001. In fiscal 2003, due to the recovery of investments in semiconductors, Advantest recorded an increase of 78.2% compared to fiscal 2002. Net sales for fiscal 2004 stood at ¥239,439 million, representing a 37.4% increase over fiscal 2003 and contributing to net income of ¥38,078 million. In fiscal 2005, the adjustment of excess inventory by semiconductor manufacturers ended, and net sales resumed its increase. Throughout fiscal 2005, net sales increased by 6.0% as compared with the previous fiscal year to ¥253,922 million, and net income achieved ¥41,374 million in fiscal 2005. Net sales for the first half of fiscal 2006 was ¥120,492 million, an increase of 12.5% as compared with the first half of fiscal 2005, due to continued strong sales from fiscal 2005 and net sales for the second half of fiscal 2006 was ¥114,520 million mainly due to a decrease in the price of semiconductors. Throughout fiscal 2006, net sales was ¥235,012 million, and net income achieved ¥35,556 million in fiscal 2006.

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Accordingly, Advantest believes that its results are significantly impacted by the significant demand volatility of the semiconductor industry. Significant downturns in, among others, the semiconductor industry are likely to therefore adversely affect Advantest's financial condition and results of operations.

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

Advantest sells its products to several industries that are characterized by rapid technological changes, the 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 advances in semiconductor technology, which create new testing requirements that are not adequately addressed by currently installed semiconductor test systems. These advances and customers' needs include:

the introduction of system-on-a-chip, or SoC, semiconductors that incorporate more advanced memory, logic and analog circuits;

investment by memory semiconductor manufacturers in facilities that are used to produce memory semiconductors, such as flash memory, DDR2-SDRAM and the next generation DDR3-SDRAM;

investment by semiconductor manufacturers in mechatronics related products which transport devices faster, more accurately and more stably;

the use of self-test technologies that employ circuit designs incorporated into the circuits of semiconductor chips;

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

prompt response and quick repair in the event of failure.

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

The failure of Advantest to meet its customers' technical requirements at a competitive price or to deliver conforming equipment in a timely manner can result in its products being replaced by equipment of a competitor or an alternative technology solution. Accordingly, Advantest's inability to provide a product that meets requested performance criteria at an acceptable cost when required by its customers would severely damage its reputation with that customer and could adversely affect future sales efforts with respect to that customer.

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

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levels, anticipated by Advantest. This risk is believed to be particularly acute with respect to test systems for SoC semiconductors because, in general, new SoC semiconductors 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.

Advantest faces substantial competition in its businesses and, if Advantest does not compete effectively, 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., Verigy Pte. Ltd., Credence Systems Corporation, Yokogawa Electronic Corporation, LTX Corporation, Eagle Test Systems, Inc. and Nextest Systems Corporation. In the mechatronics system market, Advantest has also been competing with Delta Design, Inc., Seiko Epson Corporation, Mirae Corporation and TechWing Inc. In addition, in the services, support and others segment, Advantest has been competing with competitors providing similar services. 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. To compete effectively, Advantest must continue to enhance its business processes to lower the cost of its products, as well as 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 increase their customer service and support offerings. Significant increases in competition may erode Advantest's profit margin and weaken its earnings.

Advantest's product lines are facing significant price pressure

Price pressure in Advantest's businesses is adversely affecting Advantest's operating margins. Advantest believes that price pressure with respect to semiconductors continues to grow even during periods when demand, in terms of volume, for semiconductors is increasing, resulting in continuous pressure on the market price for products in the Semiconductor and Component Test System Segment and Mechatronics System Segment. During these periods, Advantest's customers seek to increase their production capacities while minimizing their capital expenditures. Advantest believes that, despite the continued recovery in the semiconductor market since fiscal 2003, price pressure continues to persist. In addition, increased competition in the market for digital consumer products and personal computers drove down prices of these goods, subsequently creating significant price pressure on Advantest's product lines. A further increase in price pressure will adversely affect Advantest's future financial condition and results of operations.

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, test houses and foundries accounting for a large portion of total sales in the semiconductor test system industry. Advantest believes that this market concentration will become even more severe in the future as a move towards consolidation in the semiconductor industry has recently begun, with larger semiconductor device manufacturers, foundries and test houses acquiring smaller, often financially-troubled, semiconductor market participants. Advantest's ability to increase sales will depend in large part upon its ability to obtain or increase orders from large-volume customers.

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Advantest's largest customers currently account for a significant part of its net sales, and the loss of one or more of these customers or changes in their capital expenditures could harm its business

Advantest's success depends on its continued ability to develop and manage relationships with its major customers, a small number of which currently accounts for a significant portion of its net sales. Sales to Advantest's largest customer as a percentage of its total sales were approximately 15% in fiscal 2004, approximately 17% in fiscal 2005 and approximately 11% in fiscal 2006. Sales to Advantest's five largest customers accounted for approximately 42% of total net sales in fiscal 2004, approximately 41% in fiscal 2005 and approximately 35% in fiscal 2006. The loss of one or more of these major customers or changes in their capital expenditures could materially harm Advantest's business.

The failure by Advantest to meet demand for its products upon a significant expansion in the semiconductor and component test systems and mechatronics system markets would likely adversely affect its future market share and financial results

If the market for semiconductor and component test systems and mechatronics systems were to suddenly expand, Advantest would require a significant increase in production capabilities, including personnel, in order to fully capitalize on such expansion. The failure of Advantest to adjust to such unanticipated increases in demand for its products during any such a recovery could result in Advantest losing one or more of its existing large-volume customers or losing the opportunity to establish a strong relationship with large-volume customers with which it currently does little or no business. Any such failure would likely adversely affect Advantest's future market share and its financial results.

Advantest may not recoup its investment in OPENSTAR[®], as it may not be broadly accepted, or otherwise benefit from the successful adoption of OPENSTAR[®]

Advantest is now striving to enhance the adoption of OPENSTAR[®], an industry-wide, open architecture, because it believes that OPENSTAR[®] will provide an opportunity for late entrants to the test systems for SoC semiconductors market, such as Advantest, to increase their market share and thus improve their operation results.

However, even if OPENSTAR[®] is broadly accepted by the semiconductor industry, the consequences of the adoption of OPENSTAR[®] on Advantest's business are uncertain. OPENSTAR[®] is an open architecture that can be used by all semiconductor industry participants. The adoption of the new standard could therefore result in an increase in the number of market participants and in a loss of market share for Advantest. In addition, OPENSTAR[®] is a new standard that will require all test system manufacturers, including Advantest, to re-design their products. There can be no assurance that Advantest will be able to design and manufacture products based on this new standard that meet the cost and technical requirements of SoC semiconductor manufacturers. These and other uncertainties that can result from the adoption of OPENSTAR[®] could adversely affect Advantest's test systems for SoC semiconductors business.

Advantest's dependence on subcontractors and on sole source or a limited number of suppliers for its components and parts may prevent it from delivering an acceptable product on a timely basis

Advantest relies on subcontractors to perform the low-end assembly requirements for its products. For example, Advantest has been outsourcing the assembly of numerous circuit boards. In addition, many of the components used in Advantest's semiconductor and component test systems and 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,

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late delivery, substandard quality, lack of labor availability and high costs. In addition, Advantest depends on 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 suppliers become unable to provide

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components or parts in the volumes needed and at acceptable prices, Advantest would have to identify and procure acceptable replacements. Furthermore, the markets for semiconductors and other specialized components have, in the past, experienced periods of inadequate supply to meet demand. The process of selecting subcontractors or suppliers and of identifying suitable replacement components and parts is a lengthy process and can result in Advantest being unable to deliver products meeting customer requirements on a timely basis. Advantest has, in the past, been unable to deliver its products according to production schedules due to the inability of suppliers to supply components and parts based on Advantest's specifications and due to other shortages in components and parts.

If Advantest's main facilities for research and development, production or information technology systems for all of 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 systems segments production, as well as many of Advantest's services bases, are located in Japan and particularly concentrated in Saitama Prefecture and Gunma Prefecture. In addition, the main system server and parts of 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. Japan suffers from relatively frequent earthquake activity.

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 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 is in the process of drafting its Business Continuity Plan. However, if Advantest cannot complete such Business Continuity Plan, or if upon completion 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'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 doing business internationally because it sells its products, and purchases parts and components from, around the world. In fiscal 2006, 59.9% 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 and Korea, 4.3% from the Americas and 4.8% 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 Singapore, Taiwan, the People's Republic of China and Korea and some of Advantest's suppliers are also located overseas. Accordingly, Advantest's future results could be harmed by a variety of factors, including:

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

trade protection measures and import or export licensing requirements;

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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; and

risks with respect to social and political crises resulting from terrorism and war, among others.

Fluctuations in exchange rates could reduce Advantest's profitability

Advantest derives a majority of its net sales from products sold to customers located outside of Japan. Approximately 69% of Advantest's fiscal 2006 net sales were from products sold to overseas customers. Most of Advantest's products are manufactured in Japan, but approximately 18% of Advantest's net sales in fiscal 2006 were made in currencies other than the yen, predominantly the U.S. dollar. A strengthening in the yen relative to the U.S. dollar and, to a much lesser extent, currencies of those other countries where Advantest sells its products would increase the prices of Advantest products as stated in U.S. dollars and in those other currencies and could hurt sales in those countries. In addition, significant fluctuations in the exchange rate between the 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 yen, and reduce the yen equivalent amounts of its foreign sales for products that are based in U.S. dollars or other foreign currencies, and thus reduce its profitability. 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 yen and the currencies of countries in which Advantest does business.

Advantest's financial condition and results of operations are subject to factors relating to its marketing and sales capabilities and its branding

Advantest's financial condition and results of operations are 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;

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

order cancellations or delays by customers;

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delays in collection of, or increases in provisions for, accounts receivable due to the financial condition of customers;

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

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

uncertain market acceptance of products developed by its customers.

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

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used to manufacture its products, Advantest uses lead solder 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, Advantest uses a type of perfluorocarbon, or PFC, that is not currently regulated by laws related to the ozone layer protection and global warming. 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 the imposition of fines or restrictions on its ability to carry on or expand its operations.

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 might 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 models, 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 will 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 will 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.

Investor confidence and the value of Advantest's ADRs and ordinary shares may be adversely impacted if Advantest's independent registered public accounting firm is unable to provide adequate attestation over the adequacy of the internal control over Advantest's financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002

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The Securities and Exchange Commission, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring public companies to include a report of management on the company's internal control over financial reporting in its Annual Report that contains an assessment by management of the effectiveness of

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the company's internal control over financial reporting. In addition, the company's independent registered public accounting firm must attest to and report on management's assessment of the effectiveness of the company's internal control over financial reporting. Although Advantest intends to review its internal controls over financial reporting in accordance with Section 404 requirements, if Advantest's independent registered public accounting firm is not satisfied with Advantest's internal control over its financial reporting or the level at which its controls are documented, designed, operated or reviewed, then they may decline to attest to management's assessment. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of Advantest's financial statements, which ultimately could negatively impact the market price of Advantest's ADRs and ordinary shares.

Confidential information could be inadvertently disclosed, through unauthorized access or use, which could lead to substantial costs or harm Advantest's reputation

Advantest uses both paper documents and electronic data in managing confidential information. Although Advantest has established the Information Security Committee and is taking measures to keep information confidential through procedures designed to prevent accidental release of information through unauthorized access or use, such information may be inadvertently disclosed without Advantest's knowledge. If this occurs, Advantest could harm its reputation and incur substantial costs to remedy the situation. Accordingly, inadvertent disclosure of confidential information could have a material adverse effect upon Advantest's business results and financial condition.

Product defects and any damages caused by Advantest in respect of 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 conditions

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 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 and could have a material adverse effect upon Advantest's business results and financial condition if Advantest is liable for claims for damages.

Risks Related to Ownership of ADSs or Common Stock

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 will affect the U.S. dollar equivalent of the Japanese yen price of the shares on the Tokyo Stock Exchange and, as a result, are likely to affect the market price of the ADSs. Advantest has historically paid dividends on its shares twice a year. If Advantest 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 will 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.

As a holder of ADSs, you will have fewer rights than a shareholder has, and you 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 Advantest's register of shareholders or Advantest's register of beneficial shareholders. Because the depositary, through its custodian agents, is the registered holder of the shares underlying the ADSs, only the depositary can exercise those rights in connection

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with the deposited shares. The depository 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 depository.

There are restrictions on the withdrawal of shares from Advantest's depository receipt facility

Under Advantest's ADS program, each ADS represents the right to receive one share (Advantest changed the ratio of ADSs to underlying shares on October 1, 2006. The above ratio is the ratio after the change. Details are referred to in Advantest's press release dated July 26, 2006). 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 depository in lieu of withdrawal of fractions of shares or units. Holders of shares representing less than one unit, or 100 shares, may require Advantest 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 Advantest's ADS program, an ADS holder cannot cause the depository to require Advantest 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 Advantest'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

Advantest is a limited liability, joint-stock corporation incorporated under the laws of Japan. Almost all of Advantest's directors, executive officers and corporate auditors reside in Japan. Substantially all of Advantest'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 Advantest or these persons or to enforce against Advantest or these persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the U.S. Advantest's Japanese counsel, Nagashima Ohno & Tsunematsu, has advised Advantest 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

Advantest 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 Advantest Corporation in October 1985.

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Laws within the Commercial Code relating to companies were replaced by the Company Law as of May 2006, and a company that previously existed under the Commercial Code, such as Advantest, continues to exist under the Company Law.

Advantest applies its capital expenditures chiefly to the streamlining of development, production of new products, energy saving initiatives and the expansion of production capacity. Advantest's capital expenditures

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were ¥9.3 billion, ¥8.3 billion and ¥8.3 billion in fiscal 2004, 2005 and 2006, respectively. In fiscal 2007, Advantest plans to construct a new building equipped with clean room facilities for production on the premises of Advantest Laboratories Ltd. in Miyagi, Japan.

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

4.B BUSINESS OVERVIEW

Overview

The Advantest group is comprised of Advantest Corporation and its 40 consolidated subsidiaries and one investee which is accounted for by the equity method and 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.

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 and other test systems. This segment incorporates constituent technologies, sophisticated engineering teams, and other resources developed from the measuring instrument business.

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 the tests, device interfaces with measured devices, and operations related to nano-technology.

Services, Support and Others Segment

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 and an equipment lease business.

Sales by Segment

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

| Segment | Fiscal 2004 | | Fiscal 2005 | | Fiscal 2006 | |
|---|------------------|---------------|------------------|---------------|------------------|---------------|
| | Sales | | Sales | | Sales | |
| | (in millions) | % | (in millions) | % | (in millions) | % |
| Semiconductor and Component Test System Segment | ¥ 180,685 | 75.5 | ¥ 191,415 | 75.4 | ¥ 167,815 | 71.4 |
| Mechatronics System Segment | 46,395 | 19.4 | 48,260 | 19.0 | 52,025 | 22.1 |
| Services, Support and Others Segment | 19,680 | 8.2 | 19,062 | 7.5 | 18,312 | 7.8 |
| Intercompany transactions elimination | (7,321) | (3.1) | (4,815) | (1.9) | (3,140) | (1.3) |
| Total Net Sales | ¥ 239,439 | 100.0% | ¥ 253,922 | 100.0% | ¥ 235,012 | 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 semiconductor manufacturers, test houses and foundries. Advantest believes that the following factors will 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 higher performance servers and personal computers;

the increase in demand for digital consumer products such as flat-panel TVs, DVD recorders and portable music players;

the increasing market acceptance of new models of high-performance game machines;

the increasing levels of wireless communications penetration worldwide due to the expansion of the mobile telecommunications industry;

the development of higher speed communications infrastructure;

the use of fiber optic networks to provide high-speed voice, data and video services;

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

the increase in demand for electronic components including semiconductors and sensors, in response to technological advancement of automobiles.

Advantest believes that these factors will continue to provide it with long-term growth opportunities because they should 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 components technology; and

changes in semiconductor and electronic components 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 advanced logic circuits with analog and/or memory circuits on a single chip. SoC semiconductors are used in a variety of sophisticated products, including wireless communications, fiber optic equipments 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, worldwide semiconductor sales fell by approximately \$65.0 billion or 32.0%

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from approximately \$204.0 billion in 2000 to approximately \$139.0 billion in 2001. While sales in 2002 increased only marginally compared to the previous year, sales climbed sharply by approximately \$25.0 billion or 18.0% compared to the previous year to approximately \$166.0 billion in 2003. Sales in 2004 increased by approximately \$47.0 billion or 28.0% to approximately \$213.0 billion, and sales in 2005 increased by approximately \$14.5 billion or 6.8% to approximately \$227.5 billion, compared to the previous year. This upward trend had continued into 2006 and sales in 2006 increased by approximately \$20.2 billion or 8.9% to approximately \$247.7 billion, due to a market expansion of digital consumer devices, among others, including flat-panel TVs and portable audio players. The following table sets forth the size of the market for memory semiconductors, non memory semiconductors (including SoC semiconductors) and all semiconductors between 2000 and 2006 and the projected market size between 2007 and 2009 as compiled and estimated by World Semiconductor Trade Statistics as of May 2007.

| | Actual Year ended December 31, | | | | | | Projected Year ending December 31, | | | |
|--------------|--------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------------------------------|-------------------|-------------------|-------------------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| | (in millions) | | | | | | (in millions) | | | |
| Memory | \$ 49,227 | \$ 24,875 | \$ 27,041 | \$ 32,506 | \$ 47,136 | \$ 48,519 | \$ 58,473 | \$ 59,753 | \$ 64,068 | \$ 66,863 |
| Non memory | 155,167 | 114,088 | 113,672 | 133,920 | 165,891 | 178,965 | 189,243 | 193,753 | 215,175 | 226,906 |
| Total | \$ 204,394 | \$ 138,963 | \$ 140,713 | \$ 166,426 | \$ 213,027 | \$ 227,484 | \$ 247,716 | \$ 253,506 | \$ 279,243 | \$ 293,769 |

The non memory semiconductor market is less volatile than the memory semiconductor market because these 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 test systems, generally decline at a faster pace than the decline in semiconductor sales. In addition, sales of test systems generally do not experience significant increases following a downturn in the semiconductor market until semiconductor manufacturers determine that the market for semiconductors is experiencing a real recovery.

The semiconductor market bottomed out in the second half of fiscal 2001 and then improved from fiscal 2002 to the first half of fiscal 2004. However, the market slowed down beginning in the second half of fiscal 2004 due to the adjustment of excess inventories by semiconductor manufacturers. However, the market recovered sooner than expected, improving in the first half of fiscal 2005 and expanding further in the second half of fiscal 2005. According to data published by World Semiconductor Trade Statistics as of May 2007, the market for memory semiconductors will grow at a compound annual growth rate of approximately 4.6% over the next three years to approximately \$66.9 billion in 2009. Advantest believes that demand for memory semiconductors will be generated in the foreseeable future by the prevalence of DDR2-SDRAM, which has a higher operating speed than DDR-SDRAM, the next generation DDR3-SDRAM, flash memory and other high-end semiconductors. While World Semiconductor Trade Statistics estimates that the non memory semiconductor market will grow at a compound annual growth rate of approximately 6.3% over the next three years to approximately \$226.9 billion in 2009 as expected. Advantest believes that the demand for non memory semiconductors will generally grow in the foreseeable future, led by the further prevalence of digital consumer products, including flat-panel TVs, DVD recorders, and the new developments in personal computers or high performance mobile phones.

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. 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:

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growing demand for, and continuous improvements in, consumer electronics products, such as flat-panel TVs, DVD recorders, digital cameras, television game consoles and mobile phone handsets; and

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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.

Demand for personal computers and servers with higher performance and capabilities is also driving changes in the memory semiconductor sector. This demand is causing manufacturers to shift from the production of memory semiconductors, including memory semiconductors that allow high-speed data transfer such as DDR2-SDRAM to the next generation DDR3-SDRAM with higher speeds, and flash memory that feature large capacity and nonvolatility. 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 test systems, will be created and will grow in line with advances in semiconductor technologies.

The development of SoC semiconductors with lower cost, 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 also believes that the integration of SoC semiconductors into a range of digital consumer products will drive demand for low-cost test systems for SoC semiconductors. SoC semiconductors are often customized for applications in specific products, which results in a large variety of SoC semiconductors that are often produced in relatively smaller volumes.

Changes in Semiconductor and Electronic Component Manufacturing Technologies

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

Production Outsourcing

In recent years, semiconductor manufacturing and testing processes have become more complex and capital intensive. As a result, an increasing portion of the manufacturing and testing functions are being subcontracted out by companies that design, but outsource the production of, semiconductors, namely fabless design companies, 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 and component test system manufacturers, although it has not significantly affected total demand for Advantest's products. In addition, Advantest believes that semiconductor and component test systems which have been used for the product lines of multiple semiconductor designers are deemed most appropriate by fabless design companies, foundries and test houses. Advantest believes this compatibility requirement on the part of fabless design companies and test houses or foundries gives semiconductor and component test system manufacturers with broader product lines and larger market shares an advantage over smaller competitors. Outsourcing has also been utilized for electronic component manufacturing.

Technological Innovation in Manufacturing Processes

One of the recent innovations in semiconductor manufacturing processes is the production of semiconductors using 300 millimeter wafers. Wafers are circular flat pieces of silicon from which multiple

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semiconductor chips are constructed using photo-etching and other manufacturing processes. The use of 300 millimeter wafers will allow manufacturers to increase average semiconductor production per wafer by 125% when compared to production using conventional 200 millimeter wafers. Many manufacturers announced delays in investment in 300 millimeter wafer factories beginning in the second half of 2000 due to negative trends in the semiconductor market. However, investment in these factories by some manufacturers resumed at the end of 2002, investment increased from 2003 to 2006, and is expected to continue to increase during 2007. Investment in these facilities is expected to lead to demand for new semiconductor and component test systems and test handlers with increased throughput capabilities for semiconductor manufacturers to capture fully the cost efficiencies associated with the use of 300 millimeter wafers.

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 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 test systems to be energy efficient, smaller in size and less expensive. In order to respond to this demand, test system manufacturers are taking measures to reduce test system costs by making the development and manufacturing process of test systems more efficient, strengthening peripheral devices such as test handlers and device interfaces and improving service and support systems. Furthermore, although certain semiconductors are now tested in a simplified manner in which self-test technologies are designed into circuits or even sold without being tested, Advantest believes that it has become increasingly important for 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 cause test costs to occupy a higher percentage of the total cost of manufacturing and, therefore, increase price pressure on the test system industry. Advances in the semiconductor and electronic component industry will also require 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.

Business Strategy

Advantest's core business goals include:

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

growing its market share for test systems for SoC semiconductors and maintaining high market share for test systems for memory semiconductors;

growing its market share for test handlers for SoC semiconductors and maintaining its high market share for test handlers for memory semiconductors;

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

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enhancing its operating efficiency to improve profitability, through promotion of production innovations; and

strengthening its ability to provide comprehensive solutions to satisfy client needs.

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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 from their 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, SoC semiconductors and other semiconductors;

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

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

offering semiconductor and component test systems 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 the semiconductors with higher speed and large pin counts.

Strengthen the test system business for SoC semiconductors

Advantest believes that the market for test systems for SoC semiconductors in 2005 was approximately twice the size of the market for test systems for memory semiconductors. Advantest has therefore devoted its resources to develop test systems for SoC semiconductors to meet the demands of a large number of manufacturers for the testing of a wide variety of SoC semiconductors.

Advantest continues to promote the adoption of OPENSTAR[®], an industry-wide, open architecture for test systems for SoC semiconductors. Advantest believes that the primary benefits of OPENSTAR[®] for users of semiconductor and component test systems will be reduced testing costs and greater procurement options. In addition, Advantest hopes that the reduction in testing costs, and thus the lowering of overall manufacturing costs of SoC semiconductors, will help foster further demand for SoC semiconductors to be used in digital consumer products and other products. Finally, Advantest believes that the adoption of a new open architecture will provide an opportunity for late entrants to the test systems for SoC semiconductors market, such as Advantest, to increase their market share.

Focus sales and support efforts on key customer accounts

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Advantest believes that a small number of large semiconductor manufacturers, test houses and foundries 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 expand its business with these key customers and develop new relationships with the remaining potential major customers. Over the past several years, Advantest has opened additional overseas sales and support offices, many of which are located near the corporate headquarters or main research and development and manufacturing facilities of these key customers. These offices are expected to facilitate Advantest's efforts to continue conducting collaborative development activities with leading semiconductor manufacturers.

Table of Contents**Products**

As of fiscal 2006, Advantest's main products are products developed, manufactured and sold in the semiconductor and component test system segment and mechatronics system segment. They are as follows:

Semiconductor and Component Test Systems Segment***Semiconductor and Component Test Systems***

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 2004 | Fiscal 2005 | Fiscal 2006 |
|--|-------------|---------------|-------------|
| | | (in millions) | |
| Test systems for memory semiconductors | ¥ 123,856 | ¥ 100,311 | ¥ 109,541 |
| Test systems for non memory semiconductors | 56,829 | 91,104 | 58,274 |
| Total | ¥ 180,685 | ¥ 191,415 | ¥ 167,815 |

Test Systems for Memory Semiconductors

Advantest's test systems for memory semiconductors are test systems designed to test high-speed/high performance memory semiconductors used in applications such as personal computers and servers, as well as memory semiconductors used in digital consumer products.

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 attached to and detached from the device interface by a prober. Electric signals are transmitted between the die and the test systems for memory semiconductors through probe pins located in the device interface. 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 devices onto the test heads, and electric signals are transmitted between the semiconductor chips and the semiconductor test system via the device interface. The results are stored in a database, and then analyzed by the test systems for memory semiconductors' hardware circuits and software programs. Each different semiconductor design requires a customized software program to analyze the test data.

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 megahertz, or MHz.

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.

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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 66% in 2006 as compared with approximately 69% in 2005. Advantest believes that it maintained its overall market share for test systems for memory semiconductors primarily by increasing sales of its test systems for DRAM semiconductors and flash memory semiconductors. Advantest has a substantially larger market share in back-end test systems for memory semiconductors than in front-end test systems for memory semiconductors. Advantest is currently seeking to increase its market share in front-end test systems for memory semiconductors.

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

T5500 Series. The T5593 is a test system targeted at the market for high speed memory semiconductors such as the DDR2-SDRAM and SGRAM. SGRAM is a memory semiconductor for use in graphical processor units. The T5588, introduced in fiscal 2005 as the successor to the T5585, makes possible simultaneous measurement of up to 512 DDR2-SDRAM devices, twice that of the T5593, and is the latest test system for mass production. Advantest can also accommodate a greater variety of memory semiconductors by using testing functions for flash memory which are already long used in connection with the T5370 series and its newly developed throughputs enhancement functions. The top-of-the-line device in the T5500 series is the T5501, a memory semiconductor test system most suitable for testing and production of ultra high-speed memory semiconductors such as the next generation SGRAM. This model allows twice as much spectrum band to be covered in terms of testing speed as the T5593 and thus enhances the measurement accuracy.

T5300 Series. The T5375 and T5377 are multi-functional test systems for memory semiconductors that reduce testing costs for semiconductor manufacturers. The T5375 and T5377 are used for the front-end testing of DRAM semiconductors and for back-end testing of flash memory semiconductors. By increasing the functions of the system, Advantest has succeeded broadening its customer base. The T5375 and T5377 can test up to 256 devices at one time. The T5375 and T5377 are aimed at capturing an increased market share in front-end DRAM semiconductor testing and have twice the throughputs capabilities of the T5371, the predecessor to the T5375, thereby lowering overall testing costs for Advantest's customers. In particular, the T5377 optimizes its memory repair analytical structure to a user's memory repair algorithm and, due to its higher throughput capabilities, is suited for the production of semiconductors in manufacturing facilities that use 300 millimeter wafers. Advantest introduced the T5377S in response to customers' needs for a smaller sized model of the T5377. Also in fiscal 2005, Advantest introduced the T5372 to meet demand for 200mm wafer production lines as a successor model to the T5371, which contributed to a higher share of the front-end testing market. In fiscal 2006, Advantest introduced the T5383, which is capable of simultaneously testing up to 384 devices and has the same footprint as the T5377S with the capacity to test up to 50% more devices at one time. The maximum testing rate for the T5383 is 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 package testing for flash memory, at high-speed and with high-throughputs capabilities. In addition to these products, 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. Flash memory semiconductors require more types of front-end testing than other types of semiconductors. However, with respect to NAND-type flash memories, the volume of production is rapidly growing but prices have fallen substantially. There is therefore a demand for higher efficiency for test systems. In order to respond to this demand, Advantest has introduced the T5761/T5761ES. The T5761 covers the full range of testing, from NAND-type flash memory testing to package testing. The T5761 is capable of simultaneous testing up to 512 devices, which is twice the capability of Advantest's previous model, and allows for lower testing costs through its improved ability to detect failures. The T5761ES retains the same capabilities and functions as the T5761 with a substantially smaller size and at lower testing costs. The T5761ES is capable of simultaneous testing up to 16 devices, evaluating devices in a simplified manner and easily making testing programs available for mass-production. Through the use of the T5761/T5761ES, effective solutions can be structured, from the design of NAND-type flash memory to mass production.

Test Systems for Non Memory Semiconductors

Advantest's main line of test systems for non memory semiconductors relates to test systems for SoC semiconductors and other test systems for non memory semiconductors.

Test Systems for SoC Semiconductors

Test systems for SoC semiconductors test semiconductors with specific functions, such as SoC semiconductors that combine analog and/or memory circuits on a single semiconductor chip and LCD driver ICs 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 SoC semiconductors. Advantest's market share in test systems for SoC semiconductors decreased from approximately 28% in 2005 to approximately 23% in 2006.

T2000. In 2004, Advantest brought to market a test system for SoC semiconductors that is based on component modules compatible with OPENSTAR® open architecture. Advantest believes that the development of OPENSTAR® compatible semiconductor test systems for SoC semiconductors will increase Advantest's market share in test systems for SoC semiconductors. Currently, Advantest's OPENSTAR® compatible test systems for SoC semiconductors is the T2000. Main compatible component modules for the T2000 are the 250 MHz Digital Module, the Low Current DPS, the High Current DPS, 800 MHz Digital Module and 6.5Gbps Digital Module. The 6.5Gbps Digital Module primarily targets the testing of data processing and high speed interface used for chips and operates at a maximum of 6.5Gbps.

T6500 Series. The T6577 test systems for SoC semiconductors in the T6500 series are primarily designed to test MCU and SoC semiconductors that control digital consumer products at the production lines. The T6500 series are approximately one-third in size, and uses approximately 50% less power, as compared to Advantest's predecessor product line.

T6300 Series. The T6362 and T6372 are test systems for non memory semiconductors for semiconductors used with high-definition LCD displays. These systems can simultaneously test multiple semiconductors for LCD driver integrated circuits (ICs) with a total of up to 1,536 pins.

T7720 Series. The T7721 and T7722 are test systems for non memory semiconductors for mixed signal integrated circuits. The T7721 targets highly complex semiconductors used in car electronics and results from the development of Advantest's constituent technology that measures analog signals. The T7721 uses a direct current signal generator with a range of 150V to 64V and utilizes up to a maximum of 256 pins, and the

T7721 has the capacity to simultaneously measure multiple devices.

T8571. The T8571 is a test system for non memory semiconductors that is primarily used to evaluate and analyze CCDs that are image sensors. These semiconductors are used in digital consumer products, such as high-resolution digital cameras, mobile phone handset cameras and digital video cameras.

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Mechatronics System Segment

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, thermally condition, 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. During fiscal 2006, a majority of test handlers, measured in units, were 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 handler for memory semiconductors handle up to 256 semiconductors per test head at a time. Non memory semiconductors, including SoC semiconductors, require relatively short test times and Advantest's test handlers handle up to 16 semiconductors at a time.

Test Handlers for Memory Semiconductors. Advantest's test handler for test systems for memory semiconductors is the M6300 that handles up to 256 semiconductors at a time. The M6300 achieves maximum throughput of up to 12,000 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. Semiconductor manufacturers can decide to use two M6300 test handlers per semiconductor and component test system to double the handling capacity per semiconductor and component test system. The M6542AD is another test handler for memory semiconductors designed to be used during back-end testing of DDR-SDRAM and other high-speed SDRAM that handles up to 128 semiconductors at a time. The M6542AD is designed to prevent the generation of excessive heat during simultaneous measuring by employing a newly developed temperature control technology. Advantest also has other test handler product line-up 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 test systems for non memory semiconductors, including SoC semiconductors, are the M4741A and the M7521A, among others.

The M4741A is a back-end test handler for non memory semiconductors that utilizes vision alignment and can be used for small, narrow pitch semiconductors. The M4741A achieves maximum throughput of up to 4,000 semiconductors per hour. The M4741A can simultaneously handle up to four devices.

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The M7521A is a test handler that can be used for chip on film, or COF, and tape automated bonding, or TAB of integrated circuit drivers used in flat panel displays. The M7521A can test devices used in 35 millimeter, 48 millimeter, 70 millimeter, wide and superwide tapes.

Device Interfaces

A device interface is a mechanism through which test signals are transmitted between the device being tested and a semiconductor and component test system. Device interfaces that are compatible with various types of devices enhance the utility of a semiconductor and component test system by allowing it to test different semiconductor product lines and therefore reduce the cost for semiconductor and component test system users.

Advantest manufactures device interfaces for semiconductor and component test systems and is continuously developing and supplying new device interfaces, such as high performance connectors and socket boards, featuring increased throughput, precision and ease of maintenance to meet the demands of next- generation semiconductors that are becoming more high-speed. Advantest believes that the rate at which new

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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.

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.

Customers

Advantest's semiconductor and component test systems and mechatronics systems are shipped and delivered to many of the world's leading semiconductor manufacturers, as well as a number of foundries and test houses. Advantest's largest customer accounted for approximately 15% of net sales in fiscal 2004, approximately 17% in fiscal 2005 and approximately 11% in fiscal 2006. Advantest's five largest customers, all of which are semiconductor and component test system customers, accounted for approximately 42% of net sales in fiscal 2004, approximately 41% in fiscal 2005 and approximately 35% in fiscal 2006.

Geographic Sales

Approximately 69% of Advantest's fiscal 2006 net sales 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 2004 | | Fiscal 2005 | | Fiscal 2006 | |
|------------------------|----------------------------|--------|----------------------------|--------|----------------------------|--------|
| | Net Sales (in millions) | % | Net Sales (in millions) | % | Net Sales (in millions) | % |
| Japan | ¥ 60,025 | 25.1 | ¥ 81,140 | 32.0 | ¥ 72,834 | 31.0 |
| Asia (excluding Japan) | 144,120 | 60.2 | 132,708 | 52.3 | 140,782 | 59.9 |
| Americas | 23,024 | 9.6 | 25,516 | 10.0 | 10,158 | 4.3 |
| Europe | 12,270 | 5.1 | 14,558 | 5.7 | 11,238 | 4.8 |
| Total | ¥ 239,439 | 100.0% | ¥ 253,922 | 100.0% | ¥ 235,012 | 100.0% |

Japan. Advantest enjoys a significant market position in Japanese markets for test systems for memory semiconductors, with a market share of approximately 90% in 2006. In addition, Advantest had an approximately 53% market share in the Japanese test systems for SoC semiconductors market in 2006. Sales of test systems for SoC semiconductors used in DVD recorders and flat-panel TVs and sales of test systems for SoC semiconductors for LCD driver ICs used to display images on LCD panels comprised a substantial portion of total sales of test systems for non memory semiconductors in Japan in fiscal 2006. Advantest is working to maintain its market leadership in Japan by continuing to work closely with its major customers to identify their needs during the early stages of their product development cycles.

Asia (excluding Japan). Asia is the largest market for semiconductor and component test systems and mechatronics systems, with semiconductor manufacturers located in Taiwan, Korea, the People's Republic of 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

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U.S. and Europe. In addition, some of Advantest's customers have partnered with semiconductor manufacturers in Asia and outsourced manufacturing processes, thus shifting net sales to the Asia geographic market.

Americas. Advantest's marketing efforts in this region are centered in the U.S., which accounted for approximately 4% of its total sales in fiscal 2006. Advantest's market share of semiconductor and component test systems sold in the U.S. was approximately 24% in 2005 and decreased to approximately 16% in 2006 due to decreased sales to a major U.S. semiconductor manufacturer. Semiconductor and component test systems are marketed and sold in the Americas through Advantest's subsidiary, Advantest America Inc.

Europe. Sales in Europe constituted approximately 5% of Advantest's sales in fiscal 2006. Advantest's market share of semiconductor and component test systems sold in Europe decreased to approximately 18% in 2006 from approximately 29% in 2005. 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 through direct sales channels. 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 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:

Semiconductor Design Phase Support. Advantest engineers work with semiconductor manufacturing companies during the design phase of new semiconductor product lines and provide support to enable the use of semiconductor and component test systems for large-scale production.

Application Software Support. Each different semiconductor design requires customized software programs for analysis of test data. Advantest engineers assist customers in designing application software and test programs that optimize production throughput.

reliability and capacity.

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.

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.

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Training Support. Advantest offers on-site training, as well as training at Advantest's facilities, on the operation and maintenance of its semiconductor and component test systems and mechatronics systems.

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

Call Center Support. Advantest currently offers call center support services for hardware and software in Japan. This call center also offers support to the customer support centers that Advantest has overseas.

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 on-line 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, and Advantest has established a system under which it endeavors to deliver requested parts to customers in Japan within 24 hours of request, and for customers in Asia (excluding Japan), the Americas and Europe within 48 hours of request.

Remote Surveillance. Advantest can equip its semiconductor and component test systems with a remote surveillance function. This function allows Advantest engineers to remotely monitor the performance of its customers' semiconductor and component test systems for more timely and effective maintenance.

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 manufacturing factories for semiconductor and component test systems are its Kumagaya Factory located in Saitama Prefecture, Japan and its Gunma Factory located in Gunma Prefecture, Japan. At the Kumagaya Factory, printed circuit boards for use in test systems are manufactured, while the Gunma Factory produces test systems as final products. The production base for mechatronics systems is the Otone R&D Center located in Saitama Prefecture, Japan. 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.

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

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

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

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.

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Device interfaces, one of Advantest's products in its mechatronics system segment, are manufactured in Japan as well as overseas, including in Germany, 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 its business segments. Advantest believes that the principal factors of competition are:

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

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, as a result of increased efficiency of 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 in 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.

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, Advantest has maintained the highest share in the semiconductor and component test system market in the previous four years. Other companies following Advantest include, among others, Teradyne, Inc., Verigy Pte. Ltd., Credence Systems Corporation, Yokogawa Electronic Corporation, LTX Corporation, Eagle Test Systems, Inc. and Nextest Systems Corporation. In addition, Advantest also competes in the mechatronics system market with, among others, Delta Design, Inc., Seiko Epson Corporation, Mirae Corporation and TechWing Inc. Advantest also has been suggested by its customers to compete 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

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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 legal proceedings would not have a material adverse effect on Advantest's financial position, operating results or cash flows.

Environmental

Advantest has established an Environmental Management Plan, under which Advantest has committed to realizing a balance of corporate management and environmental protection activities. Advantest's primary environmental activities during fiscal 2006 are as follows:

ISO 14001 Certification. Advantest has received ISO 14001 Uniform Certification for all eight of its domestic manufacturing and research and development facilities. With respect to its overseas manufacturing and research and development activities, a subsidiary in Taiwan has received ISO 14001 Uniform Certification.

Environmental Measures for Products. Advantest is actively involved in the development of environmentally friendly product lines. Advantest conducts environmental assessments of all its new products from their development stages.

Reduce Waste. Advantest continues to retain less than 1% industrial output at all eight of its research and development and manufacturing facilities.

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. As a result, Advantest has eliminated most regulated toxic substances from its product parts and components, except lead solder, which is used for mounting parts and components for its products.

Prevention of Global Warming. Through usage 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. Advantest's carbon dioxide emissions resulting from its business activities decreased by approximately 10% per sales unit in fiscal 2006, as compared with fiscal 2000, and have achieved a reduction effect of approximately 1,671 tons carbon dioxide emissions per year.

Environmental Activities. Since January 2005, Advantest has implemented the reforestation of seedlings to assist in the rehabilitation of tropical forests in Southeast Asia, which have been severely impacted by commercial deforestation. Advantest has completed the reforestation of 7,500 primeval diptercarp trees over a total of 30 hectares within three years.

Advantest spent approximately ¥873 million during fiscal 2006 to further implement its environmental protection activities. Advantest expects to have similar levels of expenditures during fiscal 2007.

Advantest has been addressing issues of corporate management, social activities and environmental issues from a global perspective. With increased attention in recent years on corporate ethics, Advantest believes that it should focus more on the issue of CSR (Corporate Social Responsibility). Advantest has established a CSR Committee, under which it promotes CSR initiatives through nine subcommittees (Disclosure Committee, Personnel Mediation Committee, Human Rights Protection Committee, Information Security Committee, Committee on Environmental Conservation, Internal Control Committee, Corporate Ethics Committee, Product Liability Committee and Safety and Health Committee).

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Glossary

| | |
|------------------|--|
| 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. |
| COF | Chip on Film. A technology that allows for integrated circuits to be imprinted onto a tape film. |
| CMOS | Complementary Metal Oxide Semiconductor. A semiconductor that uses both negative and positive circuits. |
| 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. |
| DDR-SRAM | Double Data Rate Static Random Access Memory. Memory semiconductor that can be read from, or written to, at double the rate of traditional SRAM 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 | The next generation DDR-SDRAM semiconductors that be read from, or written to, at a significantly higher rate than DDR2-SDRAM semiconductors. |
| Data processing | IC with the arithmetic capability that is the core computer technology. |
| 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. |
| 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. |

Integrated circuit

An electric part made of a combination of many transistors on a silicon wafer.

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| | |
|--------------------------------|---|
| LCD driver integrated circuits | Integrated circuits that operate LCD (Liquid Crystal Display) |
| Logic circuits | Circuits that perform binary arithmetic functions. |
| Memory circuits | Circuits that store data and programs. |
| MPU | Micro Processing Unit. An integrated circuit that has data processing capability and forms the central technology of computers. |
| MCU | Micro Controller Unit. An integrated circuit that contains all necessary functions required for a small-scale computer system. |
| NAND | A type of flash memory that is primarily used for data storage due to its large storage capability. |
| NOR | A type of flash memory that is primarily used for memorization of programs due to its speedy capability to read and write. |
| OPENSTAR® | OPENSTAR is the name of the open architecture standard made publicly available by STC (Semiconductor Test Consortium, Inc.). It is a registered trade mark or brand name in the U.S., Japan, and other countries. |
| SGRAM | Synchronous Graphics Random Access Memory SDRAM with added graphics functions |
| 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. |
| STN | Super Twisted Nematic liquid crystal display. A type of LCD that uses simple matrix formation and has low manufacturing costs. |
| TAB | Tape-Automated Bonding. A technology that allows integrated circuit chips to be thinly mounted using tape film. |
| Test houses | Providers of semiconductor test services. |
| Testing for KGD | Known Good Die. Testing for KGD is conducted to guarantee that semiconductor bare chips are in good quality. |
| TFT | Thin Film Transistor liquid crystal display. A type of LCD that forms a membrane transistor on glass and has better display quality than STN. |

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

As of June 1, 2007, Advantest had 24 Japanese subsidiaries, 17 overseas subsidiaries and one investee which is accounted for by the equity method. 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 Customer Support Corporation | Japan | Maintenance service of Advantest's products |
| Advanmechatec Co., Ltd. | Japan | Manufacture of Advantest's products |
| Advantest Manufacturing, Inc. | Japan | Manufacture of Advantest's products |
| Advantest DI Corporation | Japan | Manufacture of Advantest's products |
| Japan Engineering Co., Ltd. | Japan | Development, manufacture and sales of Advantest's products |
| Advantest Finance Inc. | Japan | Leasing of Advantest products |
| Advantest America, Inc. | U.S. | Sales of Advantest's products |
| Advantest (Europe) GmbH | Germany | 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 (Suzhou) Co., Ltd. | China | Sales support of Advantest's products |

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

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 | 250,887 | Research and development of semiconductor and component test systems and device interfaces |
| Otone R&D Center | Saitama, Japan | 85,817 | Research and development for and manufacturing of mechatronics systems |

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| | | | |
|----------------------|----------------|--------|---|
| Advantest Laboratory | Miyagi, Japan | 66,904 | Basic technology research |
| Gunma Factory | Gunma, Japan | 88,512 | Manufacture of semiconductors and component test systems |
| Kumagaya Factory | Saitama, Japan | 63,788 | Manufacture of interim phase products for semiconductors and component test systems |

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In addition to the above-mentioned manufacturing facilities, Advantest has manufacturing facilities in the U.S., Korea, and Malaysia, sales offices and customer support centers throughout the world, and owned or leased research facilities in Japan, the U.S. and France. Advantest owns each of its significant properties.

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 does not exist any material environmental issues that may affect utilization of its assets.

In fiscal 2007, Advantest plans to construct a new building equipped with clean room facilities for production on the premises of the Advantest Laboratories Ltd. in Miyagi, Japan. This is in connection with Advantest's plan to relocate production facilities in Japan.

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 is in the process of drafting its Business Continuity Plan. However, if Advantest cannot complete such Business Continuity Plan, or if upon completion, such Business Continuity Plan is not effective, Advantest's core businesses could be disrupted at 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

You should read the following discussion and analysis of Advantest's financial condition and results of operations with Key Information Selected Financial Data and its audited consolidated financial statements at March 31, 2007 and for each of the three years then ended and the notes to such consolidated financial statements appearing elsewhere in this annual report. These consolidated financial statements have been prepared under accounting principles generally accepted in the U.S.

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 for memory semiconductor devices test systems and for SoC semiconductors for non memory semiconductor devices. This reportable business segment is the most important segment, with sales accounting for 71.4% of Advantest's net sales in fiscal 2006.

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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 22.1% of Advantest's net sales in fiscal 2006.

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 segment accounted for 7.8% of Advantest's net sales in fiscal 2006.

Semiconductor and Component Test System Segment

The market for semiconductor and component test systems is subject to high demand volatility and is competitive, and depends on the appetite for 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.

During fiscal 2006, the operating environment surrounding Advantest's semiconductor and component test system segment remained mostly steady, supported by an increase in demand in mobile phones, flat-panel TVs and game devices, even though a substantial decline in the price of flash memory semiconductors led some semiconductor manufacturers to restrict their capital expenditures. For a detailed discussion of these factors, see [Information on the Company](#) [Business Overview](#) [Industry Overview](#).

In the semiconductor and component test system segment, in the memory test system market, the price of DRAM semiconductors remained mostly stable throughout the fiscal year. Furthermore, investments in Korea and Taiwan related to DDR2-SDRAM semiconductors used in personal computers with a new operating system have rapidly increased during the second half of the fiscal year. Consequently, sales of test systems for high speed memory semiconductors remained positive. On the other hand, sales of test systems for flash memory semiconductors decreased during the second half of the fiscal year, due to the decline in capital expenditures of semiconductor manufacturers resulting from the substantial decrease in the price of flash memory semiconductors.

In the market for non memory semiconductor test system, sales of test systems for semiconductors for digital consumer devices remained steady. However, sales of the T2000, a test system for micro processing units (MPU), which was positive in the previous fiscal year, decreased primarily due to a decrease in capital expenditures of Advantest's major customers. Similarly, sales of test systems for LCD driver ICs, which was positive in the previous fiscal year, started to decrease as a result of the adjustment of liquid crystal display panel inventories.

As a result of the above, net sales of the semiconductor and component test system segment decreased by 12.3% to ¥167,815 million in fiscal 2006, as compared to the previous fiscal year.

Advantest's net sales, results of operations and financial condition in fiscal 2006 were affected by lower sales of test systems for non memory semiconductors and price pressure as compared with fiscal 2005. Net sales of test systems for memory semiconductors in fiscal 2006 increased by 9.2% as compared to the previous fiscal year, while net sales for test systems for non memory semiconductors decreased by 36.0% as compared to the previous fiscal year. Advantest's best selling test system for non memory semiconductor test systems in fiscal 2006 continued to be the T6500 series, Advantest's relatively lower cost test systems for SoC semiconductors. Demand for these semiconductor and component test systems was driven by expanded production of digital

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consumer electronics that incorporate semiconductors, including mobile phones, flat-panel TVs and game devices. These semiconductors typically are mass-produced and carry per unit market prices that are lower than high-end SoC semiconductors and high-bandwidth DRAM semiconductor and SRAM semiconductor products. Therefore, Advantest's customers that produce these semiconductors required less expensive semiconductor and component test systems in order to reduce their overall manufacturing costs.

Advantest believes that demand for its newer products was driven by customers' increased levels of capital expenditures towards the improvement of their production capacities, such as through investments relating to 300 millimeter wafers and to the next generation of memory semiconductor devices. In most cases, the sales prices of semiconductor and component test systems gradually decrease as their commercial life becomes longer.

Advantest believes that price pressure with respect to semiconductor and component test systems tends to be strongest during periods when demand, in terms of volume, for semiconductors is increasing, but there exists pressure on the market price for semiconductors. Advantest faced significant price pressure from fiscal 2001 to 2003. In fiscal 2004 and fiscal 2005, price pressure continued to exist. While 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 product lines. Advantest believes that despite this significant price pressure and new market entrants of test system manufacturers, Advantest was able to increase its competitiveness by bringing to market new products.

Mechatronics System Segment

With respect to the test handler business of the Mechatronics System Segment, sales of the M6300, a test handler for memory semiconductors that allows for the simultaneous measurement of 256 test systems, increased.

Although net sales of test handlers for SoC semiconductors also decreased with decreased sales of the TAB handler for LCD driver ICs due to sluggish market conditions for LCD driver ICs, sales of the M4741A series of test handlers for SoC semiconductors designed for fine pitch packages and with vision alignment functions was stable due to enhanced demand primarily through the strong performance of digital consumer devices in the market.

Net sales of device interfaces rose as compared with fiscal 2005 in fiscal 2006. Net sales in Korea and Taiwan were particularly strong in fiscal 2006 compared to fiscal 2005. Advantest believes that improvement in technologies by Advantest's local subsidiaries enhanced its competitive advantage over competitors due to lower production costs and the introduction of device interfaces with lower running costs for component replacement of measured devices resulted in significant market acceptance in Korea and Taiwan.

As a result of the above, net sales of the mechatronics system segment increased by 7.8% compared to fiscal 2005 to ¥52,025 million in fiscal 2006.

Services, Support and Others Segment

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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. Net sales of this segment decreased by 3.9% compared to fiscal 2005 to ¥18,312 million in fiscal 2006.

Research and Development

Research and development expenses represent a significant portion of Advantest's annual operating expenses. Advantest's research and development expenses were ¥26,280 million, ¥26,927 million and ¥29,509 million, or 11.0%, 10.6% and 12.6% of net sales, in fiscal 2004, 2005 and 2006, respectively.

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Personnel

As of March 31, 2007, Advantest had a total of 3,637 full-time employees, an increase of 42 persons, or 1.2%, over March 31, 2006.

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 other currencies of 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. Advantest does not hedge against translation risk.

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. Advantest produces substantially all of its products, including all semiconductor and component test systems, in Japan. A small portion of the components and parts used in Advantest's semiconductor and component test systems is purchased in currencies other than the yen, predominantly the U.S. dollar.

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, a weakening of the Japanese yen against other currencies, particularly the U.S. dollar, has a positive effect on Advantest's operating income and net income. A strengthening of the Japanese yen against other currencies, particularly the U.S. dollar, has the opposite effect. The Japanese yen generally strengthened against the U.S. dollar in fiscal 2004, but weakened from fiscal 2005 to fiscal 2006.

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

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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 Advantest's 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

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 in accordance with the guidance provided by the Securities and Exchange Commission's Staff Accounting Bulletin No.104, Revenue Recognition .

For equipment sales involving software that is more than incidental to the product, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection of the related receivable is probable in accordance with American Institute of Certified Public Accountant (AICPA) Statement of Position (SOP) No.97-2, Software Revenue Recognition , as amended by SOP No.98-9, Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions . Revenue for the separate elements is only recognized when the functionality of the undelivered element is not essential to the delivered element.

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 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.

Leasing Income

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

Multiple deliverables

Multiple Deliverables are accounted for under the Emerging Issues Task Force Issue No. 00-21 (EITF 00-21), Revenue Arrangements with Multiple Deliverables or SOP 97-2, Software Revenue Recognition .

Advantest obtains and utilizes objective evidence (Vendor-Specific Objective Evidence (VSOE) under SOP 97-2) of fair value to allocate revenue to elements in multiple element arrangements and recognizes revenue

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when the criteria for revenue recognition have been met for each element. If the criteria are not met, then revenue is deferred until such criteria are met or until the period(s) over which the last undelivered element is delivered. In the absence of objective evidence of fair value of a delivered element, Advantest allocates revenue to the fair value of the undelivered elements and the residual revenue to the delivered elements. The price charged when an element is sold separately generally determines fair value.

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's inventories increased by ¥2,065 million, or 6.9%, during fiscal 2006 to ¥31,976 million as of March 31, 2007. Advantest recorded inventory write-downs in the amount of ¥3,112 million in fiscal 2006 and ¥1,287 million in fiscal 2005. Advantest may be required to take additional charges for excess and obsolete inventory in fiscal 2007 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.

Trade Receivables

Advantest's trade receivables, less allowance for doubtful accounts was ¥54,264 million as of March 31, 2007, as compared with ¥69,567 million as of March 31, 2006. 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 has not recorded any allowances for trade receivables for its major customers, a majority of which are large, well-capitalized semiconductor manufacturers, test houses and foundries. Advantest receives deposits from most of its distributors for its other test systems. Advantest believes that the amounts of these deposits are sufficient to offset the amounts of any possible defaults on accounts receivable of these customers.

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.

At the end of fiscal 2006, Advantest decreased its allowance for doubtful accounts by ¥1,912 million from fiscal 2005 to ¥205 million, due to a write off of accounts receivable amounting to ¥1,722 million during the fiscal year. Increases in allowance for doubtful accounts are charged to selling, general and administrative expenses. However, additional allowances may be necessary if conditions in the industries of some of Advantest's customers do not improve in the near-term. Conversely, 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.

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Accrued Warranty Expenses

Advantest's products are generally subject to a 12-month free repair 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 and support expenses to corresponding sales. 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. Accrued warranty expenses were ¥4,135 million in fiscal 2006, down from ¥4,776 million in fiscal 2005.

Stock-Based Compensation

During the year ended March 31, 2005, Advantest adopted the fair value recognition provision of SFAS No. 123 (revised 2004) (SFAS 123R), Share Based Payments, using the modified retrospective method, effective April 1, 2004. The fair values of the option are estimated using a Black Scholes option pricing model and amortized to expense over the requisite service period.

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 government debt 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.

Accrued Pension and Severance Cost

The Company and certain of its subsidiaries have unfunded retirement and severance plans. On terminating employment, substantially all employees of the Company and certain subsidiaries are entitled to lump-sum payments.

On March 31, 2007, Advantest adopted the recognition and disclosure provisions of SFAS 158. SFAS 158 requires Advantest to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans 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) at adoption represents the unrecognized actuarial loss, and unrecognized prior service cost, all of which were previously netted against the plans' funded status in the consolidated balance sheet pursuant to the provisions of SFAS 87. These amounts will be subsequently recognized as net periodic benefit cost pursuant to Advantest's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of other comprehensive income (loss). Those amounts will be subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income (loss) at adoption of SFAS 158.

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

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differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. At March 31, 2006, Advantest has recorded on its consolidated balance sheet, net deferred tax assets of ¥19,774 million of which ¥330 million represents net operating losses, or NOL, carryforwards available to offset future taxable income. Net operating loss carryforwards utilized during the years ended March 31, 2005, 2006 and 2007 were ¥31,132 million, ¥777 million and ¥486 million, respectively.

At March 31, 2007, Advantest has recorded on its consolidated balance sheet, net deferred tax assets of ¥11,569 million (\$98,001 thousand). 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, at March 31, 2007.

Results of Operations Fiscal 2006 Compared with Fiscal 2005

Net Sales

Advantest's net sales decreased by ¥18,910 million, or 7.4%, compared with fiscal 2005, to ¥235,012 million in fiscal 2006. This decrease was primarily due to weak sales of test systems for SoC semiconductors for data processing and of test systems for non memory semiconductors used for LCD driver ICs within the semiconductor and component test system segment throughout fiscal 2006. The estimated effect of changes in exchange rates during fiscal 2006 was to increase Advantest's net sales by ¥1,145 million.

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 2006, net sales of Advantest's semiconductor and component test system segment accounted for 71.4% of total net sales. Net sales of Advantest's semiconductor and component test system segment decreased by ¥23,600 million, or 12.3%, compared with fiscal 2005, to ¥167,815 million in fiscal 2006. Advantest's net sales in this segment in the second half of fiscal 2006 were ¥81,841 million, resulting in a decrease by ¥4,133 million, or 4.8%, compared to the first half of fiscal 2006. The estimated effect of changes in exchange rates during fiscal 2006 was to increase Advantest's net sales from its semiconductor and component test system segment by ¥419 million.

Net sales of test systems for memory semiconductors increased by ¥9,230 million, or 9.2%, compared with fiscal 2005 to ¥109,541 million in fiscal 2006. This increase was mainly due to strong demand for DRAM semiconductor test systems for super high-speed memory devices targeting the next-generation DRAM semiconductors, resulting from full-scale launch of the production of DDR2-SDRAM by semiconductor manufacturers in the second half of fiscal 2006, despite lower than expected demand in the first half of fiscal 2006 for Advantest's DRAM semiconductor test systems for super high-speed memory devices, the T5500 series test systems, targeting the next-generation DRAM semiconductors, mainly due to lower capital expenditures by semiconductor manufacturers resulting from falling DRAM prices and delay in shift of their production to DDR2-SDRAM, among other things. Test systems for flash memory semiconductors, however, suffered from weak sales towards the second half of fiscal 2006, led by lower capital expenditures by semiconductor manufacturers resulting from a substantial decline of DRAM prices.

Net sales of test systems for non memory semiconductors decreased by ¥32,830 million, or 36.0%, compared with fiscal 2005 to ¥58,274 million in fiscal 2006. This decrease was mainly due to a decrease in sales of T2000 series test systems for SoC semiconductors, based on OPENSTAR®, primarily in the U.S. throughout fiscal 2006. This decrease was also due to weak sales, primarily in Japan, Korea and Taiwan, of the T6300 series test systems for non memory semiconductors used for LCD driver ICs.

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Mechatronics System Segment

Net sales of the mechatronics system segment such as test handlers and device interfaces increased by ¥3,765 million, or 7.8%, compared to fiscal 2005 to ¥52,025 million in fiscal 2006, reflecting increased sales of test systems for memory semiconductors that generated an increased need for test handlers and device interfaces.

The sales of test handlers for memory semiconductors were slow in the first half of the fiscal year primarily because the demand for DDR2-SDRAM semiconductors picked up slowly, but sales recovered with the growth in sales of test systems for DRAM semiconductors. Sales of test handlers for non memory semiconductors were steady in response to increased sales of test systems aimed at digital consumer devices in the first half of fiscal 2006. Also, sales of device interface products were steady, reflecting strong demand for DDR2-SDRAM semiconductors.

Services, Support and Other Segment

Net sales of the services, support and other segment decreased by ¥750 million, or 3.9%, compared with fiscal 2005 to ¥18,312 million in fiscal 2006. Main businesses in the services, support and others segment for fiscal 2006 include maintenance services and leases and rentals, but sales were weak.

Geographic Markets

Advantest experienced a decrease of 7.4% in its net sales in fiscal 2006, with sales in the Americas experiencing the most substantial decrease.

Net sales in Japan decreased by ¥8,306 million, or 10.2%, compared with fiscal 2005 to ¥72,834 million in fiscal 2006. This decrease was due to weak sales of test systems for non memory semiconductors used for LCD driver ICs, despite increased sales of test systems for SoC semiconductors used for digital consumer devices.

Net sales in the Americas decreased by ¥15,358 million, or 60.2%, compared with fiscal 2005 to ¥10,158 million in fiscal 2006. This decrease was due to lower sales of test systems for memory semiconductors and test systems for non-memory semiconductors to major semiconductor manufactures throughout fiscal 2006. The estimated effect of changes in exchange rates during fiscal 2006 was to increase Advantest's net sales from sales in the Americas by approximately ¥204 million.

Net sales in Europe decreased by ¥3,320 million, or 22.8%, compared to fiscal 2005 to ¥11,238 million in fiscal 2006. The sales of test systems for DRAM semiconductors and test handlers for SoC semiconductors decreased in Europe. The estimated effect of changes in exchange rates during fiscal 2006 was to increase Advantest's net sales from sales in Europe by approximately ¥88 million.

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Net sales in Asia (excluding Japan) increased by ¥8,074 million, or 6.1%, compared with fiscal 2005 to ¥140,782 million. Net sales in Korea and Taiwan increased by ¥15,423 million, or 43.1%, by ¥8,707 million, or 16.0%, compared with fiscal 2005, respectively. This increase was primarily due to increased sales of test systems for DRAM semiconductors to major semiconductor manufacturers and test houses in Korea and Taiwan. Net sales in China and the rest of Asia (excluding Japan, Taiwan and Korea) decreased by ¥16,056 million, or 37.7%, compared with fiscal 2005. This decrease is the result of lower sales of test systems for SoC semiconductors to major semiconductor manufacturers in Singapore and Malaysia. The estimated effect of changes in exchange rates during fiscal 2006 was to increase Advantest's net sales from sales in Asia by approximately ¥853 million.

Advantest's overseas sales as a percentage of total sales became 69.0% for fiscal 2006, compared with 68.0% for fiscal 2005.

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Operating Expenses

Advantest's operating expenses decreased by ¥11,244 million, or 5.9%, compared with fiscal 2005 to ¥178,220 million in fiscal 2006.

Cost of sales decreased by ¥12,711 million, or 10.5%, compared to fiscal 2005 to ¥108,718 million in fiscal 2006. This decrease was attributed to the decrease of ¥18,910 million in net sales and the improvement in sales cost ratio attained by cost reduction and improved product mix.

Research and development expenses increased by ¥2,582 million, or 9.6%, when compared to fiscal 2005, to ¥29,509 million in fiscal 2006. This rise in research and development expenses reflects additional resources required for the increased research and development themes for future products as well as increased expenses for research and development subcontractors.

Selling, general and administrative expenses decreased by ¥1,115 million, or 2.7%, compared to fiscal 2005 to ¥39,993 million in fiscal 2006. This decrease was due to a decrease of ¥1,219 million in accrued warranty expenses that resulted from the decreased sales.

Operating Income

Operating income decreased by ¥7,666 million, compared to ¥64,458 million in fiscal 2005, to ¥56,792 million in fiscal 2006.

Other Income and Expenses

Interest and dividend income increased by ¥1,266 million, or 71.9%, compared with fiscal 2005 to ¥3,026 million in fiscal 2006. This increase was primarily due to the increase in interest rates in the U.S. and the Euro area.

Interest expense decreased by ¥274 million, or 94.5%, compared with fiscal 2005 to ¥16 million in fiscal 2006. This decrease was primarily due to the repayment of bonds in the amount of ¥20,000 million during fiscal 2005.

Other income decreased by ¥238 million, compared with fiscal 2005, to ¥1,288 million in fiscal 2006. This decrease in non-operating income was due to the gain on sale of investment securities in fiscal 2005 in the amount of ¥1,040 million that did not recur in fiscal 2006. This was partially offset by the weakening of the euro against the yen, which resulted in improving foreign currency exchange gains by ¥566 million compared with fiscal 2005 to ¥1,323 million in fiscal 2006. This represents the difference between the value of foreign currency-denominated sales translated at prevailing exchange rates and either (i) the value of sales amounts settled during the year, including those settled using foreign exchange forward contracts, or (ii) the value of accounts receivable and payables outstanding remeasured at the exchange rate in effect at March 31, 2007.

Income Taxes

Advantest's effective tax rate was 38.7% in fiscal 2005 and 41.8% in fiscal 2006. The statutory tax rate of the Company and its domestic consolidated subsidiaries was 40.3% for fiscal 2006. The difference between the statutory tax rate of 40.3% in fiscal 2006 and the effective tax rate of 41.8% in fiscal 2006 was due to recognition of additional deferred tax liabilities on undistributed earnings of its foreign subsidiaries as a result of a change in the dividend policies of the foreign subsidiaries during fiscal 2006. This difference was partially offset by the availability of tax credits earned for research and development expenses. For a more detailed discussion of income taxes of Advantest in fiscal 2006 and fiscal 2005, see note 14 to Advantest's consolidated financial statements.

Table of Contents***Net Income***

Advantest's net income decreased by ¥5,818 million, or 14.1%, compared to fiscal 2005, to ¥35,556 million in fiscal 2006. The change in net income for fiscal 2006 compared to fiscal 2005 reflects the factors discussed above.

Other Comprehensive Income (Loss)

Advantest's other comprehensive income (loss) decreased by ¥5,461 million, compared to fiscal 2005, to ¥761 million in fiscal 2006. This decrease was mainly due to a ¥3,951 million decrease in foreign currency translation adjustment from an income of ¥5,074 million in fiscal 2005 to an income of ¥1,123 million in fiscal 2006 as the yen did not weaken against the U.S. dollar to the same extent as in fiscal 2005, as well as a ¥1,510 million decrease in net unrealized gain on marketable securities.

Results of Operations Fiscal 2005 Compared with Fiscal 2004***Net Sales***

Advantest's net sales increased by ¥14,483 million, or 6.0%, compared with fiscal 2004, to ¥253,922 million in fiscal 2005. This increase was primarily due to strong sales throughout fiscal 2005, within the semiconductor and component test system segment, of test systems for SoC semiconductors for MPUs, of test systems for non memory semiconductors used for LCD driver ICs and of test systems for SoC semiconductors for consumer digital devices. Sales of test systems for memory semiconductors, led by sales of test systems for flash memory semiconductors, were also strong. The estimated effect of changes in exchange rates during fiscal 2005 was to increase Advantest's net sales by ¥2,978 million.

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 2005, net sales of Advantest's semiconductor and component test system segment accounted for 75.4% of total net sales. Net sales of Advantest's semiconductor and component test system segment increased by ¥10,730 million, or 5.9%, compared with fiscal 2004, to ¥191,415 million in fiscal 2005. Advantest's net sales in this segment in the second half of fiscal 2005 were ¥110,583 million, resulting in an increase by ¥29,751 million, or 36.8%, compared to the first half of fiscal 2005. The estimated effect of changes in exchange rates during fiscal 2005 was to increase Advantest's net sales from its semiconductor and component test system segment by ¥2,067 million.

Net sales of test systems for memory semiconductors decreased by ¥23,546 million, or 19.0%, compared with fiscal 2004 to ¥100,311 million in fiscal 2005. This decrease was mainly due to lower than expected demand, particularly in the first half of fiscal 2005, for Advantest's DRAM

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semiconductor test systems for super high-speed memory devices (such as the T5500 series test systems) targeting the next-generation SDRAM semiconductors. Lower than expected demand was attributable, in part, to lower capital expenditures by semiconductor manufacturers resulting from falling DRAM prices and the shift of a higher than expected portion of their production to DDR2-SDRAM. Test systems for flash memory semiconductors, however, enjoyed strong sales throughout fiscal 2005, led by test systems for NAND-type flash memory semiconductors, such as the T5370 series multi-functional test systems for high-speed memory semiconductors. For a discussion of sales mix and price pressure, see Overview Semiconductor and Component Test System Segment.

Net sales of test systems for non memory semiconductors increased by ¥34,276 million, or 60.3%, compared with fiscal 2004 to ¥91,104 million in fiscal 2005. This increase was mainly due to an increase in sales of T2000 series test systems for SoC semiconductors, based on OPENSTAR®, led by a strong performance in the

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U.S. throughout fiscal 2005. This increase was also due to strong sales, primarily in Japan, Korea and Taiwan, especially during the first half of fiscal 2005, of the T6300 series test systems for non memory semiconductors used for LCD driver ICs and the T6500 series test systems for SoC semiconductors used in mobile phones and digital consumer products.

Mechatronics System Segment

Net sales of the mechatronics system segment such as test handlers and device interfaces increased by ¥1,865 million, or 4.0%, compared to fiscal 2004 to ¥48,260 million in fiscal 2005, reflecting increased sales of semiconductor and component test systems generating an increased need for test handlers and device interfaces.

The sales of test handlers for memory semiconductors were slow in the first half of the fiscal year primarily because the demand for DDR2-SDRAM semiconductors picked up slowly, but sales recovered with the growth in sales of test systems for DRAM semiconductors. Sales of test handlers for non memory semiconductors were steady in response to increased sales of the T2000 and test systems aimed at digital consumer devices. Also, sales of device interface products were steady, reflecting strong demand for flash memory semiconductors and SoC semiconductors.

Services, Support and Other Segment

Net sales of the services, support and other segment decreased by ¥618 million, or 3.1%, compared with fiscal 2004 to ¥19,062 million in fiscal 2005. Main businesses in the services, support and others segment for fiscal 2005 focused on, and performed well in, maintenance services and leases and rentals. However, because net sales of other products decreased during fiscal 2005, total net sales in fiscal 2005 decreased as compared with fiscal 2004.

Geographic Markets

Advantest experienced an increase of 6.0% in its net sales in fiscal 2005, with sales in Japan experiencing the largest increase.

Net sales in Japan increased by ¥21,115 million, or 35.2%, compared with fiscal 2004 to ¥81,140 million in fiscal 2005. This increase was due to increased sales throughout fiscal 2005, of test systems for non memory semiconductors, particularly the sales of test systems for non memory semiconductors used for LCD driver ICs, mobile phones and digital consumer devices, and test systems for flash memory semiconductors.

Net sales in the Americas increased by ¥2,492 million, or 10.8%, compared with fiscal 2004 to ¥25,516 million. Although the sales of test systems for memory semiconductors remained low, the sales of test systems for non-memory semiconductors to major semiconductor manufactures significantly increased. Accordingly, the total sales increased. The estimated effect of changes in exchange rates during fiscal 2005 was to increase Advantest's net sales from sales in the Americas by approximately ¥934 million.

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Net sales in Europe increased by ¥2,288 million, or 18.6%, compared to fiscal 2004 to ¥14,558 million in fiscal 2005. The sales of test systems for DRAM semiconductors and test handlers for SoC semiconductors contributed to the increased sales in Europe. The estimated effect of changes in exchange rates during fiscal 2005 was to increase Advantest's net sales from sales in Europe by approximately ¥200 million.

Net sales in Asia (excluding Japan) decreased by ¥11,412 million, or 7.9%, compared with fiscal 2004 to ¥132,708 million. Net sales in Korea decreased by ¥4,013 million, or 10.1%, compared with fiscal 2004. This decrease was primarily due to decreased sales of test systems for DRAM semiconductors to major semiconductor manufacturers in Korea. Net sales in China and the rest of Asia (excluding Japan, Taiwan and Korea) decreased by ¥10,016 million, or 19.0%, compared with fiscal 2004. This decrease is primarily the result of lower sales of test systems for memory semiconductors to major semiconductor manufacturers in Singapore and Malaysia. On

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the other hand, net sales in Taiwan increased by ¥2,617 million, or 5.1%, compared with fiscal 2004. The estimated effect of changes in exchange rates during fiscal 2005 was to increase Advantest's net sales from sales in Asia by ¥1,823 million.

As a result of a significant increase of sales in Japan, Advantest's overseas sales as a percentage of total sales became 68.0% for fiscal 2005, in comparison to 74.9% for fiscal 2004.

Operating Expenses

Advantest's operating expenses increased by ¥10,744 million, or 6.0%, compared with fiscal 2004 to ¥189,464 million in fiscal 2005.

Cost of sales increased by ¥5,435 million, or 4.7%, compared to fiscal 2004 to ¥121,429 million in fiscal 2005. While this increase can be attributed to the increase of ¥14,483 million in net sales from fiscal 2004 to fiscal 2005, such increase was partially offset by the improvement in sales cost ratio attained by cost reduction and improved product mix amidst an ongoing price pressure.

Research and development expenses increased by ¥647 million, or 2.5%, when compared to fiscal 2004, to ¥26,927 million in fiscal 2005. This rise in research and development expenses reflects additional resources required for the increased research and development themes for future products as well as to increased expenses for research and development subcontractors.

Selling, general and administrative expenses increased by ¥4,662 million, or 12.8%, compared to fiscal 2004 to ¥41,108 million in fiscal 2005. In fiscal 2004, Advantest accounted for ¥3,317 million as a deduction from its selling expenses due to the transfer of the substitutional portion of its EPF plan to the Japanese government and the resulting transition by Advantest to its defined benefit plans, but in fiscal 2005 there was no such deduction. This fact, along with the increase of ¥1,556 million in accrued warranty expenses, accounts for the significant increase over the previous fiscal year.

Operating Income

Operating income increased by ¥3,739 million, compared to ¥60,719 million in fiscal 2004, to ¥64,458 million in fiscal 2005.

Other Income and Expenses

Interest and dividend income increased by ¥1,163 million, or 194.8%, compared with fiscal 2004 to ¥1,760 million in fiscal 2005. This increase was primarily due to the increase in interest rates in the U.S. and Singapore.

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Interest expense decreased by ¥151 million, or 34.2%, compared with fiscal 2004 to ¥290 million in fiscal 2005. This decrease was primarily due to lower interest payments as a result of repayment of bonds in the amount of ¥20,000 million during fiscal 2005.

Other income improved by ¥593 million, compared with fiscal 2004, to ¥1,526 million in fiscal 2005. Improvement in the non-operating income was mainly due to the weakening of the dollar against the yen, which resulted in improving foreign currency exchange gains and losses by ¥834 million over fiscal 2004 to ¥757 million in fiscal 2005. This represents the difference between the value of foreign currency-denominated sales translated at prevailing exchange rates and either (i) the value of sales amounts settled during the year, including those settled using foreign exchange forward contracts, or (ii) the value of accounts receivable and payables outstanding remeasured at the exchange rate in effect at March 31, 2006.

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Income Taxes

Advantest's effective tax rate was 38.4% in fiscal 2004 and 38.7% in fiscal 2005. The statutory tax rate of the Company and its domestic consolidated subsidiaries was 40.3% for fiscal 2005. The difference between the statutory tax rate of 40.3% in fiscal 2005 and the effective tax rate of 38.7% in fiscal 2005 was primarily due to the availability of a tax credits for testing research fees. For a more detailed discussion of income taxes of Advantest in fiscal 2005 and fiscal 2004, see note 14 to Advantest's consolidated financial statements.

Net Income

Advantest's net income increased by ¥3,296 million, or 8.7% compared to fiscal 2004, resulting in a net income of ¥41,374 million in fiscal 2005. The change in net income for fiscal 2005 compared to fiscal 2004 reflect the factors discussed above.

Other Comprehensive Income (Loss)

Advantest's other comprehensive income improved by ¥3,039 million, compared to fiscal 2004, to ¥6,222 million in fiscal 2005. One of the reasons for this improvement was a ¥3,439 million increase in foreign currency translation adjustment from an income of ¥1,635 million in fiscal 2004 to an income of ¥5,074 million in fiscal 2005 as the yen became weaker against the euro. Another reason for this improvement was a ¥996 million increase in unrealized holding gain on investment. These gains were partially offset due to the elimination in fiscal 2004 of unfunded accumulated benefit obligations, which resulted in ¥1,396 million in additional minimum pension liabilities being returned as profit in fiscal 2004. In fiscal 2005 there was no such return.

5.B LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities decreased by ¥10,529 million, compared to ¥59,480 million in fiscal 2005, to ¥48,951 million in fiscal 2006. Net cash provided by operating activities in fiscal 2006 was primarily due to recording of ¥35,556 million in net income, the decrease in trade account receivables by ¥15,563 million, and the increase in non-cash expenses, including depreciation and amortization of ¥8,214 million, partially offset by the decrease in tax payable by ¥10,586 million in fiscal 2006. Outstanding trade account receivables decreased, as compared with fiscal 2005, as net sales decreased in fiscal 2006. The decrease in tax payable was mainly due to the decrease in net income before income taxes and equity in earnings of affiliated company and the increase in interim tax payment, compared to fiscal 2005, in fiscal 2006.

Net cash used in investing activities was ¥8,013 million in fiscal 2006, compared to ¥8,542 million in fiscal 2005. This results from the decrease in purchases of securities from ¥4,156 in fiscal 2005 to ¥0 in fiscal 2006, partially offset by the decrease in proceeds from the sales of available-for-sales securities from ¥2,977 million in fiscal 2005 to ¥0 in fiscal 2006.

Advantest's main capital expenditures during fiscal 2006 consisted of its investment in equipment used in Advantest's test equipment leasing program, its investment in equipment used for research and development and its investment in manufacturing and maintenance facilities.

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Advantest has budgeted ¥18.0 billion for capital expenditures in fiscal 2007. Advantest's expected capital expenditures in fiscal 2007 include:

¥6.0 billion allocated to building-related costs, including construction of new buildings and improvement, in connection with Advantest's plan to relocate production facilities in Japan;

¥4.0 billion allocated to equipment used in Advantest's test equipment leasing program; and

¥8.0 billion on equipment for research and development, manufacturing and maintenance.

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Advantest did not complete any large capital expenditures related to facilities and other infrastructure in fiscal 2006. For additional information about Advantest's capital expenditure projects, see "Information on the Company History and Development of the Company." In fiscal 2007, Advantest plans to construct a new building equipped with clean room facilities for production on the premises of Advantest Laboratories Ltd. in Miyagi, Japan. Advantest currently does not have any plans for large capital expenditure projects in fiscal 2008.

Net cash used in financing activities was ¥3,662 million in fiscal 2006, compared to ¥18,336 million in fiscal 2005. The significant decrease in net cash used in financing activities was primarily due to the decrease in repayment of unsecured bonds to ¥0 in fiscal 2006, compared to repayment of principal of unsecured bonds in the amount of ¥20,000 million in fiscal 2005. The outstanding amount of Advantest's total long-term debt (including current installments) decreased by ¥30 million, compared to March 31, 2006, to ¥10 million as of March 31, 2007, all of which was current.

Advantest has various retirement and severance plans for employees, including contributory defined benefit retirement and severance plans consisting primarily of the EPF plan. As mentioned in Note 17 to the consolidated financial statements, in the balance sheet as of March 31, 2007, the amount of ¥8,267 million has been recognized as accrued severance and pension costs. Advantest has contributed to the EPF plan in accordance with the funding requirements of applicable Japanese governmental regulations. Although there is presently no immediate or significant near-term increase expected in cash funding 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 ¥2,075 million in fiscal 2005 and ¥1,927 million in fiscal 2006. Advantest expects to contribute approximately ¥2,223 million to its domestic defined benefit plans in fiscal 2007.

Advantest's funding and treasury policy (including funding for capital expenditures), which is overseen and controlled by its Finance Department, has funded and is expected to continue to fund substantially all of its cash needs through cash from operating activities and cash and cash equivalents on hand. Advantest expects to fund its capital expenditures in fiscal 2007 from cash and cash equivalents on hand. If conditions in the semiconductor industry, and thus the semiconductor and component test system industry, experiences a downturn in the near to 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's cash and cash equivalents balance increased by ¥38,470 million in fiscal 2006 to ¥196,395 million as of March 31, 2007. At March 31, 2007, 65.8% of Advantest's cash and cash equivalents were held in Japanese yen.

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 developments of new products and the improvements of existing products. In particular, in the semiconductor and component test system segment, a large and ongoing investment in 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 ¥26.3 billion in fiscal 2004, ¥26.9 billion in fiscal 2005 and ¥29.5 billion in fiscal 2006. Advantest employs over 1,000 engineers and other personnel in its research and development division.

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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;

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 test systems for semiconductors and components.

Semiconductor and Component Test System Segment

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

development of semiconductor and component test systems that enhance the functionality of testing of DRAM semiconductors and flash memory semiconductors and requires 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 requires 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.

Mechatronics Systems Segment

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

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

Advantest has four research and development facilities in Japan, two in the U.S. and one in France.

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 engineers in Santa Clara, California in the development of open architecture platforms.

Advantest has been carrying out research and development activities for its burn-in system, concentrating its development resources on Japan Engineering Co., Ltd, a subsidiary of Advantest.

Advantest is currently engaged in the research and development of electron-beam, or e-beam, lithography technology used to draw circuit patterns on semiconductors, as well as the research and development of electron-beam length measuring systems used to measure the microscopic size of photomask. Due to their throughput limitations, e-beam lithography systems are currently only used in the production of high value-added

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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 design rule, 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 and Prospects Operating Results and Operating and Financial Review and Prospects Liquidity and Capital Resources.

5.E OFF-BALANCE SHEET ARRANGEMENTS

As of March 31, 2007, Advantest provided financial guarantees to third parties related to lease obligations by Advantest's customers of ¥108 million. Advantest would be required to satisfy the lease obligation of its customers in the event of default. The guarantees are collateralized by the leased asset. The fair value of the obligation with respect to such guarantees was insignificant.

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.

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 at March 31, 2007.

| | Payments due by Period | | | | |
|--|------------------------|---------------------|---------------|-------------|----------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Contractual Cash Obligation | | | | | |
| | | | (in millions) | | |
| Long-Term Debt, including current installments | ¥ 10 | ¥ 10 | ¥ | ¥ | ¥ |
| Operating Leases | 574 | 326 | 226 | 10 | 12 |
| Contractual Obligations | 1,024 | 1,024 | | | |
| Total Contractual Cash Obligations | ¥ 1,608 | ¥ 1,360 | ¥ 226 | ¥ 10 | ¥ 12 |

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.

Table of Contents**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****6.A DIRECTORS AND SENIOR MANAGEMENT****Board of Directors and Corporate Auditors**

As of June 27, 2007, the current members of the Board of Directors and corporate auditors of The Company are as follows:

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|-------------------|------------|--|
| Shimpei Takeshita | 66 | Chairman of the Board |
| Toshio Maruyama | 59 | Representative Board Director, President and CEO |
| Naoyuki Akikusa | 68 | Director |
| Yasushige Hagio | 59 | Director |
| Junji Nishiura | 61 | Director and Senior Executive Officer |
| Hiroji Agata | 60 | Director and Senior Executive Officer |
| Takashi Tokuno | 58 | Director and Senior Executive Officer |
| Hiroshi Tsukahara | 56 | Director and Managing Executive Officer |
| Yuichi Kurita | 57 | Director and Managing Executive Officer |
| Takashi Takaya | 65 | Corporate Standing Auditor |
| Hitoshi Owada | 61 | Corporate Standing Auditor |
| Megumi Yamamuro | 59 | Corporate Auditor |
| Jiro Haneda | 63 | Corporate Auditor |

The business address for each of the Company's board members and corporate auditors is c/o Advantest Corporation, Shin-Marunouchi Center Building, 1-6-2, Marunouchi, Chiyoda-ku, Tokyo 100-0005 Japan.

The term of each director listed above expires in June 2008. The term of each of Mr. Takaya as Corporate Standing Auditor and Mr. Yamamuro as Corporate Auditor expires in June 2008. The term of each of Mr. Owada as Corporate Standing Auditor and Mr. Haneda as Corporate Auditor expires in June 2011.

Shimpei Takeshita has served as the Chairman of the Board since 2005 and as a Director since 1985. Mr. Takeshita served as the Vice Chairman from 2001 to 2005 and as the Representative Board Director and Vice President of the Company from 1997 to 2001. Mr. Takeshita oversaw Advantest's Business division, also served as the General Manager of the Electron-Beam Lithography Division from 1997 to 2001 and as the Senior Vice President of Business Promotion. Mr. Takeshita has served as the Chairman of Japan Electric Measuring Instruments Manufacturers' Association from 2005 to 2007 and as its Vice Chairman from 2007. Since 2005, Mr. Takeshita has also served as a Director of the Japan Business Federation and a Director of the Semiconductor Equipment Association of Japan. Mr. Takeshita joined Advantest in 1964.

Toshio Maruyama has served as CEO since 2005, as the Representative Board Director and President since 2001 and as a Director since 1989. Mr. Maruyama has also served as the Director of the Environmental Management Center since 2003. Mr. Maruyama served as the Senior Vice President of ATE Sales and Marketing Group from 1999 to 2001. Mr. Maruyama has also served as a Director of Japan Electronics and Information Technology Industries Association since 2005 and a Director of the Association of Super-Advanced Electronics Technologies since 2006. Mr. Maruyama joined Advantest in 1973.

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Naoyuki Akikusa has served as a Director of the Company since 2006. Mr. Akikusa served as a Corporate Auditor of the Company from 2005 to 2006. Mr. Akikusa joined Fujitsu Limited in 1961 and has served as the Representative Board Director and Chairman of the Board of Fujitsu Limited since 2003. Mr. Akikusa served as the Representative Board Director and President of Fujitsu Limited from 1998 to 2003.

Yasushige Hagio has served as a Director of the Company since 2006. Mr. Hagio registered as an attorney-in-fact in 2004 and joined Seiwa Patent & Law in 2004. Mr. Hagio served as a President of the Shizuoka District Court from 2003 to 2004.

Junji Nishiura has served as a Director of the Company since 1993. Mr. Nishiura was appointed as a Senior Executive Officer in 2003 to oversee Advantest's Technology and Production. Mr. Nishiura served as the General Manager of the ATE Business Division of the ATE Business Group from 1997 to 2001, the Senior Vice President of the ATE Business Group from 2000 to 2001 and oversaw Advantest's products from 2001 to 2003. Mr. Nishiura joined Advantest in 1970.

Hiroji Agata has served as a Director of the Company since 1993. Mr. Agata was appointed as a Senior Executive Officer in 2003 to oversee Advantest's Sales and Marketing. Mr. Agata served as the Vice President of the ATE Sales Group from 1999 to 2001 and the Senior Vice President of the ATE Sales Group from 2001 to 2003. Mr. Agata currently serves as an outside corporate auditor of Tera Probe, Inc. since 2005. Mr. Agata joined Advantest in 1972.

Takashi Tokuno has served as a Director of the Company since 2004 and has overseen Advantest's Product since 2006. Mr. Tokuno was appointed as a Senior Executive Officer in 2006. Mr. Tokuno served as the General Manager of the ATE Software Division of the ATE Business Group from 1992 to 2001, the Vice President of the ATE Business Group from 2000 to 2001, Senior Vice President of the ATE Business Group from 2001 to 2005, and also oversaw Advantest's Product Development from 2004 to 2005. Mr. Tokuno served as a Director of the Company from 1996 to 2003 and as a Managing Executive Officer from 2003 to 2006, and also oversaw Advantest's Test System Business from 2005 to 2006. Mr. Tokuno joined Advantest in 1971.

Hiroshi Tsukahara was appointed as a Director of the Company in 2007 and has overseen Advantest's Technology and Development. Mr. Tsukahara has served as a Managing Executive Officer since 2005 and as the Senior Vice President of the 1st Test System Business Group since 2006. Mr. Tsukahara served as the Senior Vice President of the DI (Device Interface) Business Group and the General Manager of the DI Business Division from 2001 to 2006, and the Manager of the DI Technology R&D Department from 2001 to 2003. Mr. Tsukahara also served as a Director of the Company from 2001 to 2003, and an Executive Officer from 2003 to 2005. Mr. Tsukahara served as an outside director of Fujitsu Interconnect Technologies Limited from 2005 to 2007. Mr. Tsukahara joined Advantest in 1974.

Yuichi Kurita was appointed as a Director of the Company and as a Managing Executive Officer in 2007 to oversee Advantest's Corporate Affairs. Mr. Kurita has served as the Senior Vice President of the Corporate Planning Group since 2005. He served as the Vice President of the Corporate Affairs Group (overseeing Finance since 2004) from 2003 to 2005, the Senior Vice President of the Investor Relations Office from 2001 to 2005, the Senior Vice President of the Corporate Relations Group from 2004 to 2005, and the Manager of the Finance Department from 2002 to 2004. Mr. Kurita also served as an Executive Officer from 2003 to 2007. From 1973 to 2001, Mr. Kurita worked at Fujitsu Limited. Mr. Kurita has served as a Director of e-Shuttle, Inc. since 2006. Mr. Kurita joined Advantest in 2001.

Takashi Takaya was appointed as a Corporate Standing Auditor of the Company in 2007. Mr. Takaya served as a Corporate Auditor from 2003 to 2007. Mr. Takaya has worked at Fujitsu Limited since 1965 and served as its director from 1995 to 2003. He served as the Vice President of Fujitsu Limited from 2001 to April 2003 and served as the Representative Board Director of Fujitsu Limited from 2001 to June 2003. Mr. Takaya served as a corporate auditor of Fujitsu Limited from 2003 to 2007.

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Hitoshi Owada was appointed as a Corporate Standing Auditor of the Company in 2007. Mr. Owada served as the Manager of Accounting and Finance Department from 1991 to 2002, and the Senior Vice President of the Corporate Affairs Group and the Senior Vice President of the Auditing Group, both from 2001 to 2003. Mr. Owada also served as the Managing Executive Officer and oversaw Advantest's Corporate Affairs, both from 2003 to 2007 and as a Director from 1997 to 2007. Mr. Owada joined Advantest in 1970.

Megumi Yamamuro has served as a Corporate Auditor since 2006. Mr. Yamamuro registered as an attorney-in-fact in 2004 and joined CAST Itoga Law P.C. in 2004. Mr. Yamamuro has served as a Professor at the Graduate Schools for Law and Politics of the University of Tokyo since 2004. Mr. Yamamuro has also served as a Corporate Auditor of Fujitsu Limited since 2004. Mr. Yamamuro served as a Judge of the Tokyo District Court and the Tokyo High Court from 1997 to 2004.

Jiro Haneda was appointed as a Corporate Auditor of the Company in 2007. Mr. Haneda served as a Representative Director and Senior Managing Director of Kanematsu Corporation from 2003 to 2004. Mr. Haneda also served as a Corporate Standing Auditor of Nippon Office Systems Ltd. from 2004 to 2007.

Corporate Executive Officers

The Company's corporate executive officers as of June 27, 2007 are as follows:

| Name | Age | Position |
|-------------------|------------|----------------------------|
| Toshio Maruyama | 59 | President and CEO |
| Junji Nishiura | 61 | Senior Executive Officer |
| Hiroji Agata | 60 | Senior Executive Officer |
| Takashi Tokuno | 58 | Senior Executive Officer |
| Hiroshi Tsukahara | 56 | Managing Executive Officer |
| Yuichi Kurita | 57 | Managing Executive Officer |
| Yuri Morita | 59 | Managing Executive Officer |
| Jiro Katoh | 60 | Managing Executive Officer |
| Takao Tadokoro | 58 | Managing Executive Officer |
| Hiroyasu Sawai | 57 | Managing Executive Officer |
| Yoshiro Yagi | 55 | Managing Executive Officer |
| Masao Shimizu | 54 | Executive Officer |
| Masao Araki | 60 | Executive Officer |
| Hideaki Imada | 52 | Executive Officer |
| Akira Hatakeyama | 56 | Executive Officer |
| Yasuhiro Kawata | 53 | Executive Officer |
| Takashi Sugiura | 50 | Executive Officer |
| Shinichiro Kuroe | 48 | Executive Officer |
| Takashi Sekino | 50 | Executive Officer |
| Hiroshi Nakamura | 49 | Executive Officer |
| Yoshiaki Yoshida | 49 | Executive Officer |
| Minoru Morishita | 58 | Executive Officer |

Mr. Maruyama, Mr. Nishiura, Mr. Agata, Mr. Tokuno, Mr. Tsukahara and Mr. Kurita are also members of the Company's Board of Directors.

Yuri Morita was appointed as a Managing Executive Officer in 2003. He has served as the Manager of the Legal Department since 1996, the Senior Vice President of the Corporate Affairs Group and the Assistant Director of the Environmental Management Center since 2003 and the Assistant Director (Administration) of the Environmental Management Center since 2004, and has also overseen Corporate Ethic Office since 2005. Mr. Morita served as the Senior Vice President of the Export Control Division from 2000 to 2001 and the Vice President of the Corporate Affairs Group from 2001 to 2003 and the Manager of the General Affairs Department

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from February 2003 to June 2003. From 1972 to 1993, Mr. Morita worked at Fujitsu Limited and from 1994 to 1995 worked at Benesse Corporation. Mr. Morita served as a Director of the Company from 2000 to 2003. Mr. Morita joined Advantest in 1995.

Jiro Katoh was appointed as a Managing Executive Officer in 2004 and as the Senior Vice President of the Production Support Group in 2007. He has also served as an Assistant Director (Technology) of the Environmental Management Center since 2004. Mr. Katoh also served as the General Manager of the SE (System Engineering) Division of the Instrument Business Group from 2001 to 2002, the Vice President of the Instrument Business Group from 2000 to 2003, the General Manager of the Engineering Division from 2002 to 2003, the Manager of the Algorithm R&D Department from 2003 to 2004 and the Senior Vice President of the Technology Development Group from 2003 to 2007. Mr. Katoh served as a Director of the Company from 1997 to 2003 and as an Executive Officer from 2003 to 2004. Mr. Katoh joined Advantest in 1970.

Takao Tadokoro was appointed as a Managing Executive Officer in 2005 and has served as the Senior Vice President of the Sales and Marketing Group since 2004. Mr. Tadokoro served as the General Manager of the ATE System Engineering Division of the ATE Business Group from 1997 to 2003 and the Senior Vice President of the ATE Sales Group from 2003 to 2004. Mr. Tadokoro served as a Director of the Company from 1999 to 2003, and as an Executive Officer of the Company from 2003 to 2005. Mr. Tadokoro joined Advantest in 1974.

Hiroyasu Sawai was appointed as a Managing Executive Officer in 2005 and has served as the Senior Vice President of the SE Group. Mr. Sawai served as the Manager of the ATE International Account Sales Department (automated test equipment sales in Taiwan and Korea) of the ATE Sales Group between 1997 and 2003, the General Manager of the ATE International Account Sales Division between 2000 and 2003, the Manager of the ATE Fabless Outsourcing Solution Business Department between 2002 and 2003, the Vice President of the ATE Sales Group from 2001 to 2003, the General Manager of the ATE System Engineering Division in ATE Business Group from 2003 to 2005 and the Vice President of ATE Business Group (overseeing SE) from 2004 to 2005. Mr. Sawai served as a Director of the Company from 1999 to 2003 and an Executive Officer from 2003 to 2005. Mr. Sawai joined Advantest in 1974.

Yoshiro Yagi was appointed as a Managing Executive Officer in 2007. Since 2004, he has served as the Vice President of the Sales and Marketing Group (overseeing ATE from June 2004 to March 2005). He served as the General Manager of the Sales Division 1 since April 2005. From 2001 to 2003, Mr. Yagi served as the Manager of the ATE Account Sales Department 1 and from 2003 to 2004, Mr. Yagi served as the Vice President of the ATE Sales Group and the General Manager of the ATE Domestic Sales Division and the Manager of the ATE Department 1. He served as the General Manager of Domestic Sales Division 1 from April 2004 to March 2005. Mr. Yagi served as an Executive Officer from 2003 to 2007. Mr. Yagi joined Advantest in 1970.

Masao Shimizu was appointed as an Executive Officer in 2003. He has served as the General Manager of the DI Business Division and the Senior Vice President of the DI Business Group since 2006. Mr. Shimizu also served as the General Manager of the SoC Tester Business Division of the ATE Business Group from 2000 to 2001, the General Manager of the 1st SoC Tester Business Division from 2002 to 2005, the Vice President of the ATE Business Group (overseeing SoC Tester Product) from 2004 to 2005, and Senior Vice president of the 1st Test System Business Group from 2005 to 2006. Mr. Shimizu served as a Director of the Company from 2001 to 2003. Mr. Shimizu was appointed as an outside Director of Fujitsu Interconnect Technologies Limited in 2007 and has served as an outside Director since then. Mr. Shimizu joined Advantest in 1973.

Masao Araki was appointed as an Executive Officer in 2003. He has served as the President and CEO of Advantest Customer Support Corporation and the Director of Advantest (Suzhou) Co., Ltd. and Advantest Shanghai Ltd. since 2005. Mr. Araki served as a Director of Advantest (Suzhou) Co., Ltd. and Advantest Shanghai Ltd. in 2004 and as their President from 2004 to 2006 and their Chairman of the Board from 2005 to 2007. From 1997 to 2002, Mr. Araki served as the Vice President of Advantest Taiwan Inc., from 2002 to 2003,

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served as the President of Advantest Taiwan Inc. and Advantest Taiwan Engineering Inc. and from 2003 to 2004, served as the Vice President of the Corporate Affairs Group and the Manager of the General Affairs Department. Mr. Araki joined Advantest in 1973.

Hideaki Imada was appointed as an Executive Officer in 2003. He has served as the Senior Vice President of the 2nd Test System Business Group and the General Manager of Memory Tester Business Division since 2005. From 2002 to 2003, Mr. Imada served as the General Manager of the 2nd SoC Tester Business Division and from 2003 to 2004, he served as the Vice President of the ATE Sales Group. He served as the Leader of OAI Business Initiatives from 2003 to 2005, the Vice President of the Sales and Marketing Group from 2004 to 2005 (overseeing OAI from June 2004) and the General Manager of Product Design Initiatives 2 from 2005 to 2007. Mr. Imada joined Advantest in 1978.

Akira Hatakeyama was appointed as an Executive Officer in 2005. He has served as the President of Advantest Manufacturing, Inc. since 2005. Mr. Hatakeyama served as the General Manager of ATE Engineering and Manufacturing Department of the ATE Business Group from 1995 to 1997, the Manager of ATE Engineering and Manufacturing Department of the Production Group from 1997 to 1999. Mr. Hatakeyama served as a Managing Director of Advanmicrotec Co., Ltd. from 1999 to 2001 and the President of Japan Engineering Co, Ltd. from 2001 to 2005. Mr. Hatakeyama joined Advantest in 1973.

Yasuhiro Kawata was appointed as an Executive Officer in 2005. He has served as the Senior Vice President of the Cost Planning Group and the General Manager of the Cost Planning Division since 2007. Mr. Kawata served as the General Manager of ATE Product Engineering Division of the ATE Business Group from 2001 to 2002, the Manager of the 2nd Memory Tester Business Division in the ATE Business Group from 2002 to 2003, the Manager of the 2nd SoC Tester Business Division in the ATE Business Group from 2003 to 2005, and the General Manager of the 2nd SoC Tester Business Division in the 1st Test System Business Group from 2005 to 2007. Mr. Kawata joined Advantest in 1974.

Takashi Sugiura was appointed as an Executive Officer in 2005. He has served as the Senior Vice President of the FA Business Group and the General Manager of the Handler Division since 2006. Mr. Sugiura served as the Manager of the ATE Global Marketing Department in ATE Sales Group from 1998 to 2001, the Manager of ATE SoC Solution Business Department in the ATE Sales Group from 2001 to 2003, and also served as the General Manager of Product Design Initiatives from 2001 to 2002, the General Manager of the ATE Product Design Initiatives from 2002 to 2003, concurrently. And Mr. Sugiura served as the General Manager of the Product Design Initiatives from 2003 to 2005, and the General Manager of the Product Design Initiatives 1 in the 1st Test System Business Group from 2005 to 2006. Mr. Sugiura joined Advantest in 1979.

Shinichiro Kuroe was appointed as an Executive Officer in 2005. He has served as the Vice President of the Sales and Marketing Group and the General Manager of Solution Business Division since 2005, and the General Manager of the SoC Strategic Sales Team since 2007. Mr. Kuroe served as the Manager of the 1st Product Development Department in the ATE Business Group from 1998 to 2000, the Manager of the Memory Tester Development Department in the ATE Business Group from 2000 to 2001 and the General Manager of the Memory Tester Business Division in the ATE Business Group from 2001 to 2002. Mr. Kuroe oversaw the memory tester product in the ATE Business Group from 2002 to 2005, and served as the General Manager of the 1st Memory Tester Business Division in the ATE Business Group from 2002 to 2003 and the General Manager of the Memory Tester Division in the ATE Business Group from 2003 to 2005. Mr. Kuroe joined Advantest in 1981.

Takashi Sekino was appointed as an Executive Officer in 2006. Mr. Sekino has also served as the Senior Vice President of the Technology Development Group since 2007 and the General Manager of the 1st Technology Division in the Technology Development Group since 2005. Mr. Sekino also served as the Manager of ATE Technology 1st Development Department in the ATE Business Group from 1998, the Manager of ATE Technology 2nd Development Department in the ATE Business Group from June 1998 to June 2001, the

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Manager of ATE Technology 3rd Development Department in the ATE Business Group from June 2001, the General Manager of ATE Technology 1st Development Department in the ATE Business Group from November 2001 to 2005, and the Vice President of the Technology Development Group from 2006 to 2007. Mr. Sekino joined Advantest in 1982.

Hiroshi Nakamura was appointed as an Executive Officer in 2006. Mr. Nakamura has also served as the Senior Vice President of the Financial Group and Manager of the Accounting Department since 2007. Mr. Nakamura served as the Manager of the Business Accounting Department in the Corporate Affairs Group from 1998 to 2002, Manager of Accounting Department from 2002 to 2007 and Vice President of the Corporate Affairs Group from 2006 to 2007. Mr. Nakamura joined Advantest in 1981.

Yoshiaki Yoshida was appointed as an Executive Officer in 2006. Mr. Yoshida has served as Vice President of the Corporate Planning Group since 2007, and as Representative Director of Advantest Finance Inc. since 2000. Mr. Yoshida served as a Director of Advantest Finance Inc. from 1999 to 2000. Mr. Yoshida joined Advantest in 1999.

Minoru Morishita was appointed as an Executive Officer in 2007. Mr. Morishita has served as the Manager of the Nanotechnology 2nd Business Division since 2002. Mr. Morishita joined Advantest in 1973.

6.B COMPENSATION

Executive Compensation

The Company paid an aggregate of approximately ¥618 million* in compensation during the year ended March 31, 2007 to all of its directors and corporate auditors as a group. Compensation for directors and corporate auditors must be authorized by the resolutions of the general meetings of shareholders. For a description of the Company's equity-based compensation plans, see Share Ownership.

*1. The amount includes bonuses to executives pursuant to the resolution at the ordinary general meeting of shareholders held on June 27, 2007.

2. Of the compensation set forth above, the aggregate amount of compensation paid to outside directors and outside corporate auditors is ¥18 million.

3. Other than the above, an aggregate amount of ¥531 million, consisting of ¥496 million to directors and ¥35 million to corporate auditors, was paid as the Company's stock option-related compensation (of the ¥531 million above, an aggregate amount of ¥47 million was paid to outside directors and outside corporate auditors).

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 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 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

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directors (including persons who have previously 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.

Corporate Auditors

The Company's articles of incorporation provide for no more than five corporate auditors and the Company currently has two Corporate Standing Auditors and three outside corporate auditors (of the three outside corporate auditors, one is a Corporate Standing Auditor). Corporate auditors are elected at the general meeting of shareholders and the standard term of office of corporate auditors is four years. Under the Company law, at least half of the corporate auditors 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. Corporate auditors 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 corporate auditors from one to two, and again from two to three, at the general meetings of shareholders held in June 2003 and June 2007, respectively, in order to strengthen the auditing function of the board of corporate auditors. Corporate auditors are under a statutory duty to oversee the administration of 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.

Corporate auditors constitute the board of corporate auditors. The board of corporate auditors has a statutory duty to prepare and submit an audit report to the directors each year. A corporate auditor may note his or her opinion in the audit report if his or her opinion is different from the opinion expressed in the audit report. The board of corporate auditors is empowered to establish audit policy, methods to investigate the state of business operations and assets and other matters relating to the execution of duties by corporate auditors.

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 corporate auditors (including persons who have previously served as the Company's corporate auditors) for failing to perform their duties. The Company may enter into contracts with outside corporate auditors 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.

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 United States Securities and Exchange Commission, or the SEC, approved changes to the NYSE's listing standards related to corporate governance practices of listed companies 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 committee 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 material non-compliance with (a) and (b), and (d) the Company must submit annual and interim written affirmations to the NYSE. The Company's corporate

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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 two outside directors on its Board of Directors. Unlike NYSE Corporate Governance, the Company Law of Japan and related legislation (hereinafter in Item 6.C, the Company Law), do not require Japanese companies with boards of corporate auditors 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 corporate auditors based on the Company Law and integrated such system into the Company's corporate governance structure. In addition, in connection with such system of corporate auditors, the Company has elected to establish a nomination and compensation committee, which is an optional committee under the Company Law.

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 directors and all corporate auditors 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 corporate auditors is determined by the board of corporate auditors.

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 a board of corporate auditors, 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 corporate auditors through a resolution adopted at a general meeting of shareholders. The Company currently has four corporate auditors, which exceeds the minimum number of corporate auditors required pursuant to the Company Law.

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

The Company currently has three corporate auditors who satisfy the requirements of outside corporate auditor under the Company Law. Unlike NYSE Corporate Governance, under the Company Law, at least one-half of the corporate auditors of the Company must be outside corporate auditors, 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. Corporate auditors 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.

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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 Securities and Exchange Law of Japan or stock exchange rules. 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 Securities and Exchange Law, and applicable Cabinet ordinances and stock exchange rules in respect of timely disclosure.

5. Code of Business Conduct and Ethics. Unlike NYSE Corporate Governance, under Japanese law (including the Company Law and the Securities and Exchange Law of Japan), and stock exchange rules, 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.

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, 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), then the Company has 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.

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, 2005, March 31, 2006 and March 31, 2007.

| | As of March 31, | | |
|--------------------------|-----------------|-------|-------|
| | 2005 | 2006 | 2007 |
| Full-Time Employees | 3,565 | 3,595 | 3,637 |
| By Category of Activity: | | | |
| Administrative | 395 | 403 | 385 |
| Sales | 292 | 299 | 334 |
| Customer Support | 927 | 884 | 869 |
| Manufacturing | 790 | 798 | 836 |
| Research and Development | 1,071 | 1,120 | 1,128 |
| Other | 90 | 91 | 85 |
| By Geographic Location: | | | |
| Japan | 2,783 | 2,800 | 2,832 |
| Asia (excluding Japan) | 418 | 441 | 454 |
| Americas | 240 | 235 | 234 |

| | | | |
|--------|-----|-----|-----|
| Europe | 124 | 119 | 117 |
|--------|-----|-----|-----|

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Most regular employees of the Company and its subsidiaries in Japan are members of one of the seven 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 year ended March 31, 2007, Advantest averaged approximately 641 temporary employees at any one time.

6.E SHARE OWNERSHIP

The following table sets forth the beneficial ownership of shares of common stock of the Company as of March 31, 2007 of each of the Company's directors, corporate auditors and executive officers as of March 31, 2007. Also included is share ownership information with respect to Mr. Jiro Haneda, the Company's newly elected corporate auditor as of June 2007, and corporate executive officers newly appointed as of June 2007.

| <u>Name of Record/Beneficial Owner</u> | <u>Number of Shares</u> |
|--|-------------------------|
| Shimpei Takeshita | 266,530 |
| Toshio Maruyama | 186,694 |
| Hiroshi Oura | 156,172 |
| Naoyuki Akikusa | 16,069 |
| Yasushige Hagio | 10,066 |
| Junji Nishiura | 148,927 |
| Hiroji Agata | 145,518 |
| Takashi Tokuno | 81,804 |
| Hitoshi Owada | 111,217 |
| Noboru Yamaguchi | 25,402 |
| Tadahiko Hirano | 16,972 |
| Takashi Takaya | 18,136 |
| Megumi Yamamuro | 6,026 |
| Yuri Morita | 69,391 |
| Jiro Katoh | 131,357 |
| Takao Tadokoro | 116,017 |
| Hiroyasu Sawai | 70,152 |
| Hiroshi Tsukahara | 115,290 |
| Masao Shimizu | 96,000 |
| Masao Araki | 62,793 |
| Yuichi Kurita | 80,482 |
| Yoshiro Yagi | 100,682 |
| Hideaki Imada | 85,041 |
| Shinichiro Umeda | 64,650 |
| Akira Hatakeyama | 66,652 |
| Yasuhiro Kawata | 54,112 |
| Takashi Sugiura | 66,262 |
| Shinichiro Kuroe | 60,187 |
| Takashi Sekino | 37,695 |
| Hiroshi Nakamura | 37,337 |
| Yoshiaki Yoshida | 34,230 |
| Jiro Haneda | 0 |
| Minoru Morishita | 16,000 |

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

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The numbers of shares owned by the Company's directors, corporate auditors and officers include options that are currently exercisable for 2,372,000 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, corporate auditors and officers reflects the number of shares representing less than one unit (100 shares) that are owned through the director and corporate auditor stock ownership association and allocated to an individual director, corporate auditor or 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."

Stock Option Plan

At the general ordinary meetings of shareholders held in June 2003, June 2004, June 2005, June 2006 and June 2007, the shareholders of the Company approved stock option plans for selected directors, officers, corporate auditors and employees of Advantest. The shareholders of the Company also approved the compensation amount of stock acquisition rights to be granted as stock options to directors and corporate auditors. The following table shows selected information related to these stock options. On October 1, 2006, the Company conducted a two for one stock split of shares of its common stock. The number of shares and exercise price have been restated to reflect the effects of the stock split.

| | <u>Third series</u> | <u>Fourth series</u> | <u>Fifth series</u> |
|---|---------------------|-----------------------|------------------------|
| Date of grant | June 27, 2003 | August 29, 2003 | January 27, 2004 |
| Number of shares to be issued/ delivered | 1,468,000 | 12,000 | 14,000 |
| Exercise price per share | ¥2,580 | ¥4,045 | ¥4,610 |
| Beginning of exercise period | April 1, 2004 | April 1, 2004 | April 1, 2004 |
| End of exercise period | March 31, 2008 | March 31, 2008 | March 31, 2008 |
| Number of directors, officers and corporate auditors of the Company | 25 | 0 | 0 |
| Number of other employees | 159 | 3 | 1 |
| | <u>Sixth series</u> | <u>Seventh series</u> | <u>Eighth series</u> |
| Date of grant | March 31, 2004 | July 1, 2004 | November 15, 2004 |
| Number of shares to be issued/ delivered | 6,000 | 1,522,000 | 8,000 |
| Exercise price per share | ¥4,275 | ¥3,732 | ¥3,732 |
| Beginning of exercise period | April 1, 2004 | April 1, 2005 | April 1, 2005 |
| End of exercise period | March 31, 2008 | March 31, 2009 | March 31, 2009 |
| Number of directors, officers and corporate auditors of the Company | 0 | 26 | 0 |
| Number of other employees | 1 | 179 | 2 |
| | <u>Ninth series</u> | <u>Tenth series</u> | <u>Eleventh series</u> |
| Date of grant | April 1, 2005 | July 4, 2005 | December 1, 2005 |
| Number of shares to be issued/ delivered | 8,000 | 1,518,000 | 16,000 |
| Exercise price per share | ¥3,732 | ¥4,300 | ¥4,300 |
| Beginning of exercise period | April 1, 2005 | April 1, 2006 | April 1, 2006 |
| End of exercise period | March 31, 2009 | March 31, 2010 | March 31, 2010 |
| Number of directors, officers and corporate auditors of the Company | 0 | 27 | 0 |
| Number of other employees | 2 | 181 | 6 |

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| | <u>Twelfth series</u> | <u>Thirteenth series</u> | <u>Fourteenth series</u> |
|---|-----------------------|--------------------------|--------------------------|
| Date of grant | February 28, 2006 | July 12, 2006 | July 12, 2006 |
| Number of shares to be issued/ delivered | 3,980 | 360,000 | 1,218,000 |
| Exercise price per share | ¥6,702 | ¥5,880 | ¥5,880 |
| Beginning of exercise period | April 1, 2006 | April 1, 2007 | April 1, 2007 |
| End of exercise period | March 31, 2010 | March 31, 2011 | March 31, 2011 |
| Number of directors, officers and corporate auditors of the Company | 0 | | |