ADVANTEST CORP
Form 20-F
June 27, 2012
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As filed with the Securities and Exchange Commission on June 27, 2012

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

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

For the fiscal year ended March 31, 2012

OR

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

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

Date of event requiring this shell company report .

For the transition period from to

Commission file number: 1-15236

KABUSHIKI KAISHA ADVANTEST

(Exact name of registrant as specified in its charter)

ADVANTEST CORPORATION

(Translation of registrant s name into English)

Japan

(Jurisdiction of incorporation or organization)

Shin-Marunouchi Center Building

1-6-2, Marunouchi

Chiyoda-ku

Tokyo 100-0005

Japan

(Address of principal executive offices)

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

Shin-Marunouchi Center Building

1-6-2, Marunouchi

Chiyoda-ku

Tokyo 100-0005

Japan

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

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

Title of each class:	Name of each exchange on which registered:
American Depositary Shares*	The New York Stock Exchange
Common Stock**	

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

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

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

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

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

Title of class:	Outstanding as of March 31, 2012:
Common Stock	173,271,380
American Depositary Shares each representing one share of Common Stock	720,843

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x 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 x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).: Yes x 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 x Accelerated filer ¨ Non-accelerated filer ¨

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

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

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

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

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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 2011 refers to the twelve-month period ended March 31, 2012. All other references to years refer to the applicable calendar year.

In parts of this annual report, certain amounts reported in Japanese yen have been translated into U.S. dollars for the convenience of readers. Unless otherwise noted, the rate used for this translation was $1.00 = ¥82.19. This was the approximate exchange rate in Japan on March 31, 2012.

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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.

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

Cautionary Statement with Respect to Forward-Looking Statements

This annual report contains forward-looking statements that are based on Advantest s current expectations, estimates and projections. These statements include, among other things, the discussion of Advantest s business strategy, outlook and expectations as to market and business developments, production and capacity plans. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate, believe, estimate, expect, intend, project, should and similar expressions. Forward-looking statements a 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;
- the environment in which Advantest purchases materials, components and supplies for the production of its products, including the availability of necessary materials, components and supplies during a significant expansion in the market in which Advantest operates;
- 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; and
- changes in economic conditions, competitive environment, currency exchange rates or political stability in the major markets where Advantest produces, distributes or sells its products.

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A. SELECTED FINANCIAL DATA

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

U.S. GAAP Selected Consolidated Financial Data

The following selected financial data have been derived from Advantest s audited consolidated financial statements. These consolidated financial statements were prepared under U.S. GAAP. Advantest s U.S. GAAP audited consolidated financial statements for fiscal 2009, fiscal 2010 and fiscal 2011 were included in its Japanese Securities Reports filed with the Director General of the Kanto Local Finance Bureau.

	Year ended March 31,					
	2008	2009	2010	2011	2012	2012
	(in millions, except per share and share data)					(thousands of $, except per share and share data)
Consolidated Statement of Income Data:						
Net sales	¥182,767	¥76,652	¥53,225	¥99,634	¥141,048	$1,716,121
Operating income (loss)	22,716	(49,457)	(11,639)	6,111	837	10,184
Income (loss) before income taxes and equity in earnings (loss) of affiliated company	23,533	(52,761)	(9,926)	5,551	(3,442)	(41,879)

Net income (loss)	16,550	(74,902)	(11,454)	3,163	(2,195)	(26,706)
Net income (loss) per share						
Basic	90.72	(419.09)	(64.09)	18.03	(12.67)	(0.15)
Diluted	90.57	(419.09)	(64.09)	18.03	(12.67)	(0.15)
Basic weighted average shares outstanding	182,418,821	178,724,884	178,722,505	175,481,854	173,271,717	173,271,717
Diluted weighted average shares outstanding	182,723,982	178,724,884	178,722,505	175,495,458	173,271,717	173,271,717

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	2008	2009	2010	2011	2012	2012
			As of March 31, (in millions)			(in thousands)
Consolidated Balance Sheet Data:						
Total assets	¥ 298,684	¥ 202,059	¥ 188,663	¥ 180,312	¥ 219,226	$ 2,667,307
Short term debt					25,000	304,173
Common stock	32,363	32,363	32,363	32,363	32,363	393,758
Stockholders equity	254,184	163,616	150,242	138,132	131,552	1,600,584

	2008	2009	2010	2011	2012	2012
			As of March 31, (in millions, except per share data)			(in thousands)
Other Data:						
Capital expenditures	¥ 14,083	¥ 4,608	¥ 3,425	¥ 3,793	¥ 6,984	$ 84,974
Research and development expenses	30,507	23,713	17,896	21,197	30,303	368,694
Net cash provided by (used in) operating activities	24,166	2,357	(17,746)	(693)	12,302	149,678
Net cash provided by (used in) investing activities	(16,322)	(32,507)	10,824	(5,828)	(37,670)	(458,328)
Net cash provided by (used in) financing activities	(46,770)	(8,930)	(1,803)	(12,028)	9,887	120,294
Operating margin[1]	12.43%	(64.52%)	(21.87%)	6.13%	0.59%	
Net income margin[2]	9.06%	(97.72%)	(21.52%)	3.17%	(1.56%)	

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

Dividends

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

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

	Dividend per Share	
Six months ended/Record date	**Yen**	**Dollars**
September 30, 2007	25.0	0.25
March 31, 2008	25.0	0.25
September 30, 2008	25.0	0.24
March 31, 2009	5.0	0.05
September 30, 2009	5.0	0.06
March 31, 2010	5.0	0.05
September 30, 2010	5.0	0.06
March 31, 2011	5.0	0.06
September 30, 2011	5.0	0.07
March 31, 2012	10.0	0.12

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, certain Japanese yen amounts have been translated into U.S. dollars for the convenience of investors. Unless otherwise noted, the rate used for the translation was $1.00 = ¥82.19. This was the approximate exchange rate in Japan on March 31, 2012.

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 15, 2012 was $1.00 = 78.65. The Company does not intend to imply that the Japanese yen or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Japanese yen, as the case may be, at any particular rate, or at all.

Fiscal year ended/ending March 31,	**At end of period**	**Average (of month-end rates)**	**High**	**Low**
		(¥ per $1.00)		
2008	99.85	113.61	124.09	96.88
2009	99.15	100.85	110.48	87.80
2010	93.40	92.49	100.71	86.12
2011	82.76	85.00	94.68	78.74
2012	82.41	78.86	85.26	75.72

Month ended	**High**	**Low**
	(¥ per $1.00)	
December 31, 2011	¥ 78.13	¥ 76.98
January 31, 2012	78.13	76.28
February 29, 2012	81.10	76.11
March 31, 2012	83.78	80.86
April 30, 2012	82.62	79.81
May 31, 2012	80.36	78.29

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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, foundries and test houses. These companies, in turn, determine their capital expenditure and investment levels largely based on current and anticipated market demand for semiconductors and products incorporating semiconductors. Such demand is influenced significantly by the overall condition of the global economy. Historically, the percentage reduction in capital expenditures by semiconductor manufacturers during downturns in the semiconductor industry, including investment in semiconductor test systems, has typically been much greater than the percentage reduction in worldwide sales of semiconductors. The semiconductor industry has been highly cyclical with recurring periods of excess inventory, which often have had a severe effect on the semiconductor industry s demand for semiconductor test systems, including those of Advantest. In particular, the market for memory semiconductors shows higher demand volatility as compared to the market for non-memory semiconductors. In fiscal 2011, net sales of test systems for memory semiconductors decreased by 18.8% from 43.3% in fiscal 2010; however, Advantest continues to derive significant sales from test systems for memory semiconductors of 24.5% in the semiconductor and component test systems. Therefore, any downturn in the memory semiconductor market may continue to adversely affect Advantest s business and results of operations.

The worldwide semiconductor market grew by 3.2% in 2007. In 2008 and 2009, the semiconductor market contracted by 2.8% and 9.0%, respectively, compared to the previous year, reflecting the global economic downturn that stemmed from the financial crisis. After the negative growth in 2008 and 2009, the market significantly recovered in 2010, growing by 31.8% compared to 2009, primarily due to a surge in demand for electronic equipment in developing nations. In 2011, due to the global economic recession and natural disasters such as the Great East Japan Earthquake and the floods in Thailand reducing production activities of electronic products, the semiconductor market only increased by 0.4% compared to 2010. Worldwide sales of memory semiconductors declined by 1.1% and 19.9% in 2007 and 2008, respectively, mainly due to a substantial reduction in capital expenditure by semiconductor manufacturers in response to a substantial decline in the price of DRAM semiconductors and NAND-type flash memory semiconductors. Although the markets for personal computers and cellular phones including smart phones remained steady in 2009, worldwide sales of memory semiconductors in 2009 declined by 3.3% compared to 2008, reflecting the global economic downturn, resulting in negative growth for three consecutive years. In 2010, primarily due to a steady demand for mobile DRAM test systems for mobile devices, worldwide sales of memory semiconductors increased by 55.4% compared to 2009. In 2011, worldwide sales decreased by 12.7% compared to 2010 due to a drop in the price of DRAM triggered by a downturn in demand for PCs and similar devices. Worldwide sales of non-memory semiconductors in 2007 increased by 4.5% from 2006, since demand in the consumer market and automobile market stabilized and the data processing market was strong. Worldwide sales of non-memory semiconductors in 2008 increased by 2.3% from 2007, primarily due to steady demand for mobile PCs despite the deterioration in the overall condition of the global economy. In 2009, worldwide sales of non-memory semiconductors decreased by 10.3% compared to 2008, primarily as a result of the impact of the global economic downturn stemming from the financial crisis that started in 2008. In 2010, worldwide sales of non-memory semiconductors increased by 26.0% compared to 2009,

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primarily due to robust demand for smartphones, tablet-type devices, and other consumer electronics. In 2011, worldwide sales of non-memory semiconductors further increased by 4.4% compared to 2010, due to continuing robust demand for smartphones, tablet-type devices, and similar devices.

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

- the overall state of the global economy;
- demand in personal computer and server industries;
- demand in communication devices such as tablet-type devices and smartphones;
- consumer demand for digital consumer products such as flat-panel TVs, DVD/Blu-ray disc recorders, portable audio players and electronic books;
- levels of investment in communications infrastructure and trends in the mobile device industry;
- demand in the automobile industry; and
- trends in the semiconductor industry.

In fiscal 2007, the price of semiconductors continued to decline and many semiconductor manufacturers froze or postponed their capital expenditures. Primarily reflecting the foregoing, Advantest s net sales in fiscal 2007 decreased by 22.2%, as compared to fiscal 2006, to ¥182,767 million, and net income decreased by 53.5%, as compared to fiscal 2006, to ¥16,550 million. Furthermore, in fiscal 2008, the global economic downturn that stemmed from the financial crisis led semiconductor manufacturers to maintain their prudent position, with many implementing inventory adjustments and freezing or postponing their capital expenditures. Primarily reflecting the foregoing, Advantest s net sales in fiscal 2008 decreased by 58.1% as compared with fiscal 2007 to ¥76,652 million. In fiscal 2009, the semiconductor manufacturers gradually resumed capital expenditures as semiconductor prices rose and equipment utilization rates climbed. Despite the gradual recovery in fiscal 2009, Advantest s net sales in fiscal 2009 decreased by 30.6%, as compared to fiscal 2008, to ¥53,225 million, primarily due to the drop in orders seen in the second half of fiscal 2008. In fiscal 2010, despite a difficult business environment with factors such as continuing appreciation of the Japanese yen and intensified price competition, Advantest seized the positive growth opportunity in the semiconductor market and strived to expand orders and revenues. As a result of the above, Advantest s net sales in fiscal 2010 increased by 87.2% as compared to fiscal 2009, to ¥99,634 million, and Advantest recorded a net income of ¥3,163 million in fiscal 2010. In fiscal 2011, Advantest expanded sales to meet areas of increasing demand growth such as test equipment for application processors, CMOS image sensors, and other non-memory semiconductor sectors. In addition, after the completion of the acquisition of Verigy Ltd. (Verigy) in July 2011, Advantest has enhanced sales promotion to customers in the U.S. and Europe and has provided products tailored to better meet increasing customer demand in the communications semiconductor market. As a result of the above, Advantest s net sales in fiscal 2011 increased by 41.6%, as compared to fiscal 2010, to ¥141,048 million. However, cumulative costs associated with the Verigy acquisition and impairment losses on investment securities led to a year-on-year decline in earnings, and Advantest recorded a net loss in fiscal 2011 of ¥2,195 million.

Advantest believes that its results are significantly impacted by the significant volatility in demand in the semiconductor industry. While Advantest is unable to predict future trends in the semiconductor industry, if there is a significant downturn in the semiconductor industry, Advantest s financial condition and results of operations will be adversely affected. Prices of semiconductors, which have continued to decrease significantly in recent years, may not return to their original levels if, for example, the over-supply of semiconductors persists. Should semiconductor prices remain at low levels, semiconductor manufacturers earnings could deteriorate, resulting in their further restraint towards capital expenditures, and Advantest s results of operations could be adversely affected.

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

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

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

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

- test solutions of non-memory semiconductors that incorporate more advanced memory semiconductors, logic and analog circuits;
- test solutions of power semiconductors that control small and large motor drives;
- solutions for complexed IC incorporating RF, logic and memory chips in a single package in order to achieve IC with advanced 3D integration as well as downsizing and technical advantages, with TSV technology;
- mechatronics related products which transport devices faster, more accurately and more stably;
- test solutions of testing technologies that employ self-test circuit designs incorporated into semiconductor chips;
- test solutions of testing technologies that employ test circuit designs for Device Under Test (DUT);
- introduction of mechatronics products that respond to reduced testing time resulting from advances in customers back-end testing;
- prompt response and quick repair in the event of failure; and
- total solutions that allow customers to reduce their testing costs.

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

A failure by Advantest to meet its customers technical requirements at competitive prices or to deliver conforming equipment in a timely manner may result in its products being replaced by those of a competitor or

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

Advantest may not realize the full anticipated benefits of the business combination with Verigy

Advantest believes that the business combination with Verigy would enable it to better satisfy customer needs through the development and sale of a wider variety of high quality products, and to better address customer needs through technological innovation that is supported by a stable financial base, leading to continued growth amidst a rapidly changing and challenging semiconductor market.

However, the business integration of two companies will be time-consuming and complex, and the business combination may not realize the anticipated benefits. The difficulties in integrating the two companies may arise during various stages of combining the operations, including the following:

- consolidation of the two companies differing research and development, manufacturing and sales processes;
- the elimination of inefficiencies that may arise out of overlapping departments and processes between the two companies;
- the retention of Verigy s valuable key management and employees; and
- the integration of two companies with differing corporate cultures and languages.

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

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

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

Advantest relies on subcontractors to perform some of the assembly requirements for its products. In addition, many of the components used in Advantest s semiconductor and component test systems and mechatronics systems are produced by suppliers based on Advantest s specifications. Advantest s reliance on these subcontractors and suppliers gives it less control over the manufacturing process and exposes it to significant risks, especially inadequate manufacturing capacity, late delivery, substandard quality, lack of labor availability and high costs. In addition, Advantest depends on a sole source or a limited number of suppliers for a portion of its components and parts. Advantest does not maintain long-term supply agreements with most of its suppliers, and it purchases most of its components and parts through individual purchase orders. If suppliers become unable to provide 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. Moreover, there may be a shortage of components if a large scale natural disaster or electricity shortage occurs. The process of selecting subcontractors or suppliers and of identifying suitable replacement components and parts is lengthy and may result in Advantest being unable to deliver products meeting customer requirements in a timely manner. Advantest has, in the past, been unable to deliver its products according to production schedules primarily due to the inability of suppliers to supply components and parts based on Advantest s specifications and by other shortages in components and parts. Moreover, a deterioration in the financial position of Advantest s subcontractors or suppliers reflecting the decline in the economic environment may result in certain subcontractors and suppliers being unable to meet Advantest s requirements.

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

Advantest faces substantial competition throughout the world. Advantest s primary competitors in the semiconductor and component test system market include, among others, Teradyne, Inc., LTX-Credence Corporation, Yokogawa Electronic Corporation, FROM30 CO., LTD., EXICON Ltd. and UniTest Inc. In the mechatronics system related market, Advantest also competes with Delta Design, Inc., Seiko Epson Corporation, Mirae Corporation and TechWing, Inc. in test handler devices, and with TSE Co., Ltd. and Secron Co., Ltd. in device interfaces. Some of Advantest s competitors have greater financial and other resources than Advantest.

Advantest faces many challenges in its businesses, including increased pressure from customers to produce semiconductor and component test systems and mechatronics systems that reduce testing costs. To compete effectively and maintain and expand its market share, Advantest must continue to enhance its business processes to lower the cost of its products, 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 increasing their customer service and support offerings, and Advantest expects new market participants to launch low-price testers. Significant increases in competition may erode Advantest s profit margin and weaken its earnings.

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

Advantest s success depends on its continued ability to develop and manage relationships with its major customers. A small number of such major customers currently account for a significant portion of its net sales. Sales to Advantest s largest customer as a percentage of its total sales were approximately 20% in fiscal 2009, approximately 20% in fiscal 2010 and approximately 29% in fiscal 2011. Sales to Advantest s five largest customers accounted for approximately 43% of its total sales in fiscal 2009, approximately 49% in fiscal 2010 and approximately 56% in fiscal 2011. The loss of one or more of these major customers or changes in their capital expenditures could materially harm Advantest s business. Furthermore, if Advantest s major customers experience deterioration in their financial position and are unable to fulfill their payment obligations to Advantest in accordance with the applicable terms, Advantest s business, results of operations and financial position may be adversely affected.

Advantest s product lines are facing significant price pressure

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

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

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

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

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

Fluctuations in exchange rates could reduce Advantest s profitability

The majority of Advantest s net sales derive from products sold to customers located outside of Japan. Of Advantest s fiscal 2011 net sales, 88.6% were from products sold to overseas customers. Most of Advantest s products are manufactured in Japan, but approximately 42% of Advantest s net sales in fiscal 2011 were derived from currencies other than the Japanese yen, predominantly the U.S. dollar. If the Japanese yen remains strong, or further strengthens relative to foreign currencies (mostly U.S. dollar and, to a much lesser extent, other currencies), it would increase the prices of Advantest products as stated in U.S. dollars and in those other currencies, which could hurt sales in those countries.

In addition, significant fluctuations in the exchange rate between the Japanese yen and foreign currencies, especially the U.S. dollar, could require Advantest to lower its prices with respect to foreign sales of its products that are priced in Japanese yen, and reduce the Japanese yen equivalent amounts of its foreign sales for products that are based in U.S. dollars or other foreign currencies, thereby reducing its profitability overall. These fluctuations could also cause prospective customers to push out or delay orders because of the increased relative cost of Advantest s products. In the past, there have been significant fluctuations in the exchange rate between the Japanese yen and the foreign countries in which Advantest s sales are denominated.

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

If a natural disaster comparable to the Great East Japan Earthquake, which struck on March 11, 2011, were to occur, and as a result suppliers facilities are destroyed, public utilities such as electricity, gas, and water at the

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facilities suspend their services, or there is a shortage of necessary energy supply for the domestic industry, Advantest may not be able to procure necessary components or resources, and may be unable to meet market demand for the supply of its products. Furthermore, market trends for the semiconductor industry, and finished products that are closely related to semiconductors such as household electric appliances, various computer equipment and automobiles, may become uncertain. Advantest s business may be adversely affected as a result of these factors.

Similar to the accident that occurred at the Fukushima Daiichi Nuclear Power Station, if a large quantity of radioactive material is released as a result of substantial damage to a nuclear power plant caused by an aftershock or a tsunami, and radiations on Advantest s products as a result exceed the radiation standards set by importing countries, or the radiation levels in Gunma Prefecture where Advantest s major production facilities are located exceed national radiation standards and it becomes a quarantine zone, or electricity supply becomes unstable for long periods of time due to a shut-down of nuclear plants, Advantest may be unable to meet market demand for the supply of its products, or the competitiveness of its products may be impaired and Advantest s business may be adversely affected.

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

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

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

Advantest has prepared itself for crises such as large-scale natural disasters, and each department of Advantest has documented its own disaster-response procedures and manuals. Furthermore, in order to prevent any disruption of its core businesses, or in case of suspension, to re-start the suspended businesses, including the recovery of important facilities, in the shortest possible time, Advantest has formulated and is in the process of implementing a Business Continuity Plan. However, if Advantest cannot implement such Business Continuity Plan, or if upon implementation 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 conducting business internationally because it sells its products, and purchases parts and components from around the world. In fiscal 2011, 62.5% 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, 21.1% from the Americas and 5.0% from Europe. Advantest anticipates that net

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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, including further turmoil in connection with the European debt crisis, natural calamities, epidemics 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;
- 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.

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

Advantest may be required to record an impairment charge for the difference between the carrying amount of long-lived assets and the implied fair value of long-lived assets if circumstances indicate that impairment may have occurred and the carrying amount of the assets may not be recoverable. Advantest has recorded a significant amount of goodwill on its consolidated balance sheet in accordance with U.S. GAAP and goodwill is tested for impairment at least annually. If the testing performed indicates that the carrying amount of reporting unit goodwill exceeds, the implied fair value of that goodwill, Advantest recalculates the fair value of each reporting unit goodwill and an impairment loss shall be recognized in an amount equal to that excess. Therefore, depending on the expected future cash flow of long-lived assets or business operations to which goodwill relates, Advantest may be required to record a significant impairment charge, which could have a material adverse effect on Advantest s financial condition and results of operations.

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

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

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

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

order cancellations or postponement of capital expenditures by customers;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Enforcement of Civil Liabilities

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

ITEM 4. INFORMATION ON THE COMPANY

4.A. HISTORY AND DEVELOPMENT OF THE COMPANY

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

Advantest applies its capital expenditures chiefly to the streamlining of development, production of new products, the expansion of production capacity and capital leases to its customers. Advantest s capital expenditures were ¥3.4 billion, ¥3.8 billion and ¥7.0 billion in fiscal 2009, 2010 and 2011, respectively.

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

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

The Company s agent in the United States is Advantest America Inc., located at 3201 Scott Boulevard, Santa Clara, California 95054, U.S.A.

4.B. BUSINESS OVERVIEW

Overview

As of June 27, 2012, Advantest is comprised of the Company and its 29 consolidated subsidiaries and one investee which is accounted for by the equity method. Advantest conducts its business in the following segments:

- Semiconductor and Component Test System Segment;
- Mechatronics System Segment, focusing on peripheral devices including test handlers and device interfaces; and
- Services, Support and Others Segment.

Semiconductor and Component Test System Segment

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

Mechatronics System Segment

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

Services, Support and Others Segment

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.

	Fiscal 2009		Fiscal 2010		Fiscal 2011	
Segment	**Sales (in millions)**	**%**	**Sales (in millions)**	**%**	**Sales (in millions)**	**%**
Semiconductor and Component Test System Segment	¥ 32,572	61.2	¥ 69,333	69.6	¥ 105,608	74.9
Mechatronics System Segment	11,237	21.1	18,515	18.6	20,616	14.6
Services, Support and Others Segment	11,838	22.2	14,166	14.2	18,807	13.3
Intercompany transactions elimination	(2,422)	(4.5)	(2,380)	(2.4)	(3,983)	(2.8)
Total Net Sales	¥ 53,225	100.0%	¥ 99,634	100.0%	¥ 141,048	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, foundries and test houses. Advantest believes that the following factors promote growth of the business carried out by its main customers:

- the move to lower-cost, smaller, faster and more powerful and energy efficient semiconductors and electronic components;
- the increase in demand for higher performance servers and personal computers;
- the increase in demand for communication devices such as tablet-type devices and smartphones;
- the increase in demand for digital consumer products such as flat-panel TVs, DVD/Blu-ray disc recorders, portable audio players and electronic books;
- the increasing levels of wireless high-speed data transmission worldwide reflecting the expansion of the mobile device industry;
- the increasing demand for electronic devices that incorporate semiconductor and communications technologies in developing countries;
- the development of higher speed and high capacity communications infrastructure; and
- the increase in demand for electronic components including semiconductors and sensors, in response to technological advancement of automobiles such as electric vehicles (EV) and hybrid electric vehicles (HEV).

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

- the level of demand for semiconductors and electronic components;
- advancements in semiconductor and electronic component technology; and
- changes in semiconductor and electronic component manufacturing processes.

Demand for Semiconductors and Electronic Components

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

Semiconductors are generally classified as either memory semiconductors or non memory semiconductors. Memory semiconductors are used in electronic systems to store data and programs. Non memory semiconductors include various semiconductors that incorporate non memory circuits, which include logic and analog circuits. Logic circuits process digital data to control the operations of electronic systems. Analog circuits process analog signals translated from real world phenomena such as sound, light, heat and motion. SoC semiconductors are a subset of non memory semiconductors that combine digital circuits with analog, memory and RF circuits, among others, on a single semiconductor chip. SoC semiconductors are used in a variety of sophisticated products, including wireless communications, fiber optic 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 (WSTS), worldwide semiconductor sales in 2007 increased by approximately

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$7.9 billion or 3.2% to approximately $255.6 billion. However, sales in 2008 decreased by approximately $7.0 billion or 2.8% compared to the previous year to approximately $248.6 billion, mainly due to the substantial decline in the price of memory semiconductors. Sales in 2009 also decreased compared to the previous year, by approximately $22.3 billion or 9.0% to approximately $226.3 billion, mainly due to the slow economy persisting since the previous year. Sales in 2010 increased compared to the previous year, by approximately $72.0 billion or 31.8% to approximately $298.3 billion, mainly due to increased demand for electronic components in developing nations. Sales in 2011 increased compared to the previous year, by approximately $1.2 billion or 0.4% to approximately $299.5 billion, mainly due to the global economic recession and natural disasters such as the Great East Japan Earthquake and the floods in Thailand reducing production activities of electronic products. The following table sets forth the size of the market for memory semiconductors, non memory semiconductors and all semiconductors between 2007 and 2011 and the projected market size between 2012 and 2014 as compiled and estimated by WSTS as of June 2012.

	Actual Year ended December 31,					Projections for Years ending December 31,		
	2007	2008	2009	2010	2011	2012	2013	2014
					(in millions)			
Memory	$ 57,854	$ 46,348	$ 44,797	$ 69,614	$ 60,749	$ 58,861	$ 61,714	$ 62,470
Non memory	197,791	202,255	181,516	228,701	238,772	241,998	260,710	274,035
Total	$ 255,645	$ 248,603	$ 226,313	$ 298,315	$ 299,521	$ 300,859	$ 322,424	$ 336,505

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

The semiconductor market remained steady in 2007. However, the semiconductor market experienced negative growth in 2008 for the first time in seven years primarily due to the global economic crisis and further declined in 2009 reflecting the conditions continuing from the previous year. The market significantly recovered in 2010 compared to the previous year, due to a surge in demand for electronic equipment in developing nations. In 2011 the market only increased slightly compared to the previous year due to the global economic recession and natural disasters such as the Great East Japan Earthquake and the floods in Thailand reducing production activities of electronic products. According to data published by WSTS, the market for memory semiconductors is expected to decrease slightly by 3.1% in 2012 as compared with 2011, after which it is expected to grow by approximately 5% in 2013 and by approximately 1% in 2014. WSTS expects that the market for memory semiconductors will grow to approximately $62.5 billion in 2014. Advantest believes that demand for memory semiconductors will be generated in the foreseeable future by the prevalence of DDR3-SDRAM, the next generation DDR4-SDRAM, flash memory and other high-end semiconductors. WSTS estimates that the non memory semiconductor market will grow by approximately 1% in 2012, by approximately 8% in 2013, and by approximately 5% in 2014. WSTS expects that the market for non memory semiconductors will grow to approximately $274.0 billion in 2014. Advantest believes that the demand for non memory semiconductors will generally grow in the foreseeable future, led by the further prevalence of, and new developments in, digital consumer products and personal computers.

Advancements in Semiconductor and Electronic Component Technology

Advantest believes that demand for semiconductor and component test systems and mechatronics systems is also affected by the rate of change and development in semiconductor and electronic component technology. Current changes in the semiconductor and electronic component industry relate to the innovation of digital consumer products and communications technologies.

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

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

- growing demand for, and continuous improvements in, personal computers and digital consumer products, such as flat-panel TVs, DVD/Blu-ray disc recorders, digital cameras, electronic books and mobile phone handsets;
- increase in demand for, and improvements in technology for, communication devices such as tablet-type devices and smartphones;
- 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; and
- the move from vehicles with internal combustion engines to hybrid or electric vehicles partially or wholly driven by electric motors in response to society s increasing call for environmental measures and greater energy efficiency

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

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

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

Changes in Semiconductor and Electronic Component Manufacturing Processes

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

Production Outsourcing

In recent years, semiconductor manufacturing and testing processes have become more complex and capital intensive. Primarily reflecting the foregoing, an increasing portion of the manufacturing and testing functions are

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

Technological Innovation in Manufacturing Processes

One of the innovations in semiconductor manufacturing processes is the use of 300 millimeter wafers. Wafers are circular flat pieces of silicon from which multiple semiconductor chips are made using photo-etching and other manufacturing processes. The use of 300 millimeter wafers allows manufacturers to increase semiconductor production per wafer twofold or more when compared to production using the conventional 200 millimeter wafers. From 2007, investment has remained at low levels mainly due to factors such as excess supply and increased price competition. However from the latter half of 2010, as a result of a rapid expansion of the mobile device market which resulted in an increase in the manufacture of low power memory, capital expenditures related to 300mm wafers have increased, and demand for new semiconductor and component test systems and test handlers has been increasing.

New Testing Technologies

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

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

Business Strategy

Advantest is currently facing a challenging business environment primarily due to the recent downturn in the global economy and weakened demand for semiconductors. In order to create a stable foundation amidst the

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fast-changing and challenging semiconductor market, on July 4, 2011, Advantest acquired Verigy, pursuant to which Verigy became a wholly-owned subsidiary of Advantest. On April, 2012, Advantest reorganized its subsidiaries and integrates with Verigy. Furthermore Advantest has established the following core business goals to achieve mid- to long-term growth:

- focusing on the development of semiconductor test systems which can respond to changes in capabilities of memory and non memory semiconductors;
- increasing its market share for test systems for non memory semiconductors and maintaining its large market share for test systems for memory semiconductors;
- increasing its market share for test handlers for memory and non memory semiconductors;
- developing, designing and supplying high quality device interfaces in a shorter period of time;
- reducing product cost of goods to withstand price pressures on products
- enhancing its operating efficiency to improve profitability, through promotion of production innovations;
- strengthening its ability to provide comprehensive solutions to satisfy customer needs; and
- promoting the development and establishment of new businesses in the measuring instruments field outside of its semiconductor-related business.

To achieve these goals, Advantest plans to:

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

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

- developing semiconductor and component test systems with increased test speeds and throughput capabilities and test handlers in line with the technological development of memory semiconductors and non memory semiconductors;
- proactively developing products to address the recent shift in emphasis in the semiconductor industry toward front-end testing of dies;

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

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

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

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

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

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Strengthen the test system business for non memory semiconductors

Advantest believes that in 2011 the market for test systems for non memory semiconductors was approximately four times the size of the market for test systems for memory semiconductors. Advantest has therefore devoted its resources to develop test systems and modules for non memory semiconductors to meet the demands of a large number of manufacturers for the testing of a wide variety of non memory semiconductors.

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

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

Focus sales and support efforts on key customer accounts

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

Advantest acquired Verigy, then Advantest reorganized its subsidiaries and integrates with Verigy

On July 4, 2011, Advantest acquired all of the outstanding shares of common stock of Verigy, a leading manufacturer of semiconductor test systems, which became a wholly-owned subsidiary of Advantest. In April, 2012, Advantest reorganized its subsidiaries and integrates with Verigy, and currently sells Verigy s products under the Advantest brand. The purpose of this acquisition and business combination is mainly threefold as set out below.

(1) Highly Complementary Technology and Products

Building on Advantest s strength in memory semiconductor test systems and mass production lines and Verigy s strength in non memory semiconductor test systems and research and development, Advantest expects to drive technological innovation in the more comprehensive field of automatic semiconductor test equipment. Advantest will also work to enhance growth and profitability by reallocating resources currently devoted to areas of duplicative research and development, with a goal of accelerating Advantest s combined technical capabilities and developing new business.

(2) Customer Relationships

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

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(3) Global Business Development

Through the combination of Advantest, which has developed its business primarily in Japan and Asia, and Verigy, which has a significant presence in the United States and Europe, Advantest intends to expand its global customer base. Advantest expects to accelerate its globalization efforts at the operation level by acquiring excellent human resources on a global scale.

Products

As of fiscal 2011, 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 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 2009**	**Fiscal 2010**	**Fiscal 2011**
		(in millions)	
Test systems for memory semiconductors	¥ 12,444	¥ 30,016	¥ 25,913
Test systems for non memory semiconductors	20,128	39,317	79,695
Total	¥ 32,572	¥ 69,333	¥ 105,608

Test Systems for Memory Semiconductors

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

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

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.

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

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

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

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

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

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

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

Advantest estimates that its market share in test systems for memory semiconductors was approximately 37% in fiscal 2009, but recovered to approximately 62% and 57% (which includes Verigy for 2011) in 2010 and 2011, respectively, as a result of increasing capital expenditure in test system for DRAM semiconductors. Advantest has a substantially larger market share in test systems for DRAM memory semiconductors than in test systems for flash memory semiconductors. Advantest is currently seeking to increase its market share in test systems for flash memory semiconductors.

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

T5500 Series. The T5588 is a test system for mass production suitable for testing speeds of up to 800 Mbps for DDR3-SDRAM cell testing and LPDDR. The T5503 and T5503A are memory semiconductor test systems suitable for the mass production of DDR3-SDRAM, LPDDR2 and LPDDR3 (1 Gbps-2 Gbps class high-speed memory semiconductors). The T5511, which is the top of the range model in the T5500 series, is a memory semiconductor test system which can handle testing speeds of up to 8 Gbps and is suitable for the evaluation and production of ultra high-speed memory semiconductors such as DDR4-SDRAM and GDDR. The T5500 series are Advantest s best selling line of test systems used for the back end testing of DRAM semiconductors.

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

T5700 Series. Because variations in memory cell characteristics must be kept within a defined range, front-end testing for flash memory semiconductors require more types of testing than is required in front-end

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testing for DRAM semiconductors. Accordingly, front-end testing for flash memory semiconductors contributes to higher testing costs. Furthermore, although the volume of production with respect to NAND-type flash memory semiconductors is rapidly growing, prices have fallen substantially and there is a demand for higher efficiency for test systems. As a result, by specializing in NAND-type flash memories Advantest introduced the T5773 memory test system, which enabled a significant reduction in testing costs compared to existing products. The T5700 series will provide effective solutions that will enable everything from design to mass production of flash memories.

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

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

Test Systems for Non Memory Semiconductors

Advantest s main line of test systems for non memory semiconductors relates to test systems for SoC semiconductors, test systems for LCD driver integrated circuits, test systems for image sensor and test systems for semiconductors used in car electronics. Test systems for SoC semiconductors test SoC semiconductors that combine circuits such as digital, analog, memory and RF circuits on a single semiconductor chip. Test systems for LCD driver integrated circuits test semiconductors with specific functions, such as LCD driver integrated circuits that display images on LCD panels. The factors that are important to customers in the performance and other characteristics of test systems for memory semiconductors described above also apply to test systems for non memory semiconductors. Advantest s market share in test systems for non memory semiconductors was approximately 47% (which includes Verigy for 2011) as a result of the integration with Verigy in fiscal 2011, compared with approximately 18% in fiscal 2010.

Advantest s main product lines of test systems for non memory semiconductors are the T2000, the V93000 series, the T6500 series, the T6300 series and the T7720 series.

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

V93000 series. The V93000 series are non memory semiconductor test systems developed by Verigy, using a test module structure. These products feature test processor per pin architecture and scalable platform and as a result of higher performance and lower test costs, Advantest believes that these products are capable of expanding their share of the non memory semiconductor test system market. The main modules in the line up are the top of the line 12.8 Gbps digital module, 6 GHz BW analog module, 8 GHz RF module and DC module.

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

T6300 Series. The T6300 series are test systems for LCD driver integrated circuits used with high-definition LCD displays. A maximum of 1,536 LCD testing pins may be used with the T6362 and T6372 systems and a maximum of 3,072 LCD testing pins may be used with the T6373 system. Each of these systems can simultaneously test multiple LCD driver integrated circuits.

T7720 Series. The T7721, T7722 and T7723 are test systems for non memory semiconductors for mixed signal integrated circuits. The T7723 targets highly complex semiconductors used in car electronics and is the result of the development of Advantest s constituent technology that measures analog signals. Also, the T7723 uses a direct current signal generator with a range of 150V to 64V and floating power supply of 60V/10A or 30V/30A (pulse), utilizes up to a maximum of 256 pins, and has the capacity to simultaneously measure multiple devices.

Mechatronics System Segment

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

Test Handlers

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

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

Test handlers are designed with different characteristics for memory and non memory semiconductors. Memory semiconductors require relatively long test times. Advantest s test handlers for memory semiconductors handle up to 512 semiconductors per test head at a time. Non memory semiconductors, including SoC semiconductors, require relatively short test times. Advantest s test handlers for non memory semiconductors require short time and handle up to 16 semiconductors at a time.

Test Handlers for Memory Semiconductors. The M6242 test handler for test systems for memory semiconductors, including DDR-3SDRAM, can handle up to 512 semiconductors at a time. The M6242 s maximum throughput is 42,200 semiconductors per hour through the use of a new high-speed handling technology that shortens the time between tests to approximately half of the time associated with Advantest s ordinary model. In addition, the M6242 has a built-in temperature control device which can minimize the temperature fluctuation within a 1.5°C range for temperatures between -10°C and 100°C. Advantest also has other test handler product line for test systems for memory semiconductors that meet varying cost and functional needs of its customers.

Test Handlers for Non Memory Semiconductors. Advantest s test handlers for non memory semiconductors, including SoC semiconductors, are the M4841, the M4741A and the M4742A, among others. With a rate of 16 semiconductors at a time, the M4841 can handle approximately twice as many semiconductors at a time as Advantest s previous model. The M4841 s maximum throughput of up to 18,500 semiconductors per hour is triple the maximum throughput of the previous model. Furthermore, the M4841 is also capable of testing in a wide range of temperatures, from as low as -55°C or as high as 125°C.

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The M4741A employs the vision alignment system which enables high-accuracy positioning of contact sockets for smallsized/narrow-pitched integrated circuits used in cellular phones and other products. Through the adoption of the vision alignment system, various types of measurement device can be operated under certain conditions without switching the change kit. M4742A realizes a reduction in contact pitch exchange time in handling of various products, visualization of operation screen, visibility check of internal devices, and improvement of operability, hence contributing to the reduction of test costs.

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

Device Interfaces

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

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

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

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

Sockets: Advantest provides sockets for test systems for memory semiconductors. Advantest provides low-inductance (0.4nH) sockets and fine pitch (0.4mm) sockets for semiconductors that are becoming more high-speed and more compact in size.

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

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

Advantest competes with numerous small and independent electronics manufacturers in providing device interfaces for its semiconductor and component test systems. However, Advantest believes that as the complexity of the testing requirements of next-generation semiconductors increases, Advantest will enjoy competitive advantages by applying its technical knowledge, such as high speed signal transmission, derived from designing and manufacturing semiconductor and component test systems to device interfaces.

Customers

Advantest s semiconductor and component test systems and mechatronics systems are shipped and delivered to world s leading semiconductor manufacturers, as well as some foundries and test houses. Sales to

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INTEL Corporation in fiscal 2009, INTEL Corporation and Hynix Semiconductor Inc. in fiscal 2010 and INTEL Corporation and Samsung Electronics Co., Ltd. in fiscal 2011 each accounted for 10% or more of Advantest s net sales in each of those respective years. Advantest s five largest customers, all of which are semiconductor and component test system customers, accounted for approximately 43% of net sales in fiscal 2009, approximately 49% in fiscal 2010 and approximately 56% in fiscal 2011.

Geographic Sales

Of Advantest s fiscal 2011 net sales, 88.6% 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.

	Fiscal 2009		**Fiscal 2010**		**Fiscal 2011**	
Market	**Net Sales (in millions)**	**%**	**Net Sales (in millions)**	**%**	**Net Sales (in millions)**	**%**
Japan	¥ 11,976	22.5	¥ 22,398	22.5	¥ 16,095	11.4
Asia (excluding Japan)	34,182	64.2	65,706	65.9	88,196	62.5
Americas	4,930	9.3	9,278	9.3	29,742	21.1
Europe	2,137	4.0	2,252	2.3	7,015	5.0
Total	¥ 53,225	100.0%	¥ 99,634	100.0%	¥ 141,048	100.0%

Japan. Advantest enjoys a significant market position in Japanese markets for test systems for memory semiconductors, with a market share of approximately 73% in 2011. In addition, Advantest had a market share of approximately 48% in the Japanese test systems for non memory semiconductors market in 2011. Sales of SoC semiconductors in the Japanese non memory semiconductor market were led by peripheral devices predominantly consisting of Blu-ray disc recorders and flat-panel TVs in 2010, but 2011 was a significant change and sales were led by analog/power devices and CMOS image sensor devices. Advantest is working to maintain and expand its large market share in Japan by continuing to work closely with its major customers to identify their needs during the early stages of their product development cycles. Since 2011 Japan s semiconductor manufacturers have been increasingly outsourcing its manufacturing to Taiwan, Korea and China rather than investing in-house, and Advantest has also been actively pursuing outsourcing its manufacturing support overseas.

Asia (excluding Japan). Asia is the largest market for semiconductor and component test systems and mechatronics systems, with semiconductor manufacturers, assembly makers and test houses 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 U.S. and Europe. In addition, some of Advantest s customers have partnered with semiconductor manufacturers in Asia and outsourced manufacturing processes, thus further increasing the reliance on net sales to the Asia geographic market.

Americas. Advantest s marketing efforts in this region are centered in the United States, which accounted for approximately 21% of its total sales in fiscal 2011. Advantest s market share of semiconductor and component test systems sold in the U.S. increased by approximately 63% (which includes Verigy for 2011) as a result of the integration with Verigy compared to a 16% increase in 2010. Semiconductor and component test systems are marketed and sold in the Americas primarily through Advantest s subsidiary, Advantest America, Inc.

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Europe. Sales in Europe constituted approximately 5% of Advantest s sales in fiscal 2011. Advantest s market share of semiconductor and component test systems sold in Europe increased by approximately 40% (which includes Verigy for 2011) as a result of the integration with Verigy from approximately 8% in 2010. Advantest s principal European markets are Germany, Italy and France.

Sales and Marketing

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

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

Support and Customer Service

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

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

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

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.

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

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Maintenance Support. Advantest s maintenance support services consist of:

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

Internet Support. The Advantest customer support website offers maintenance tips and access to a database with possible solutions to semiconductor and component test system problems. Advantest customers can also make 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. 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. Equipment for maintenance is located in Germany, Singapore and Japan to supplement each other in the event of a major natural disaster. To provide for quick and efficient repairs, Advantest s repair factories in Japan serve as the hub, and those in Germany, Singapore, U.S., Korea, Taiwan and China also undertake repairs of test boards.

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

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

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 is reducing its electricity consumption and setting up its own electricity generator in order to avoid manufacturing disruptions as a result of possible future scheduled blackouts as a result of the Great East Japan Earthquake and the nuclear power plant accident.

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

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

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

Seasonality

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

Competition

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

Performance. The performance of products is determined by 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, primarily as a result of increased efficiency in the fabrication process and lower market prices for semiconductors, test costs have come to represent a higher proportion of the total cost of manufacturing. Advantest currently faces significant price pressure on its Semiconductor and Component Test System Segment.

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

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 maintained the highest market share in the semiconductor test system market for five consecutive years until 2007. However, from 2008 to 2010, Teradyne,

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Inc. achieved the highest share. In 2011 Advantest achieved the highest share (which includes Verigy for 2011). Other companies following Advantest include Teradyne, Inc., LTX-Credence Corporation and Yokogawa Electronic Corporation. Some of Advantest s other competitors include FROM30 CO., LTD., EXICON Ltd., and UniTest Inc. In addition, Advantest also competes in the mechatronics system market with, among others, Delta Design, Inc., Seiko Epson Corporation, Mirae Corporation and TechWing Inc. for test handlers, and TSE Co., Ltd. and Secron Co., Ltd. for device interfaces. In addition, in the Services, Support and Others Segment, Advantest has been competing with companies providing similar services. It also has been suggested by customers that Advantest competes with start-up companies with newer technologies or products in the market for both the test systems for memory semiconductors and test systems for non memory semiconductors.

Licenses and Intellectual Property Rights

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

Legal Proceedings

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

Environmental

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

Advantest s primary environmental activities during fiscal 2011 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, seven principal facilities in Asia, Europe and North America regions are receiving 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. In fiscal 2011, twelve models complied with Advantest s internal environment-oriented design standards, and have qualified as environmentally friendly Green products.

Reduce Waste. Advantest has implemented a recycling program and introduced liquid waste disposal capabilities at its facilities. Through such initiatives, Advantest s waste volume was a total of 296 tons in fiscal 2011.

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. Primarily reflecting the foregoing, Advantest has eliminated most regulated toxic substances from approximately 97% of the surface-mounted components on its new products after 2008, except lead solder, which is used for mounting parts and components for its products.

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Prevention of Global Warming. Through the use of energy efficient equipment and the re-evaluation of manufacturing processes, Advantest strives to reduce levels of carbon dioxide emissions resulting from energy consumption relating to its business activities. Advantest s carbon dioxide emissions was 27,373-CO_2 tons in fiscal 2011.

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

Advantest spent approximately ¥572 million during fiscal 2011 to further implement its environmental protection activities.

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). Accordingly, Advantest has established a CSR & Environmental Affairs Promotion Office and nine committees (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), and engages in corporate social responsibility efforts.

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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.
DDR-SDRAM	Double Data Rate Synchronous Dynamic Random Access Memory. Memory semiconductor that can be read from, or written to, at double the rate of traditional SDRAM semiconductors.
DDR2-SDRAM	Advanced DDR-SDRAM semiconductors that can be read from, or written to, at a significantly higher rate than DDR-SDRAM semiconductors.
DDR3-SDRAM	DDR-SDRAM semiconductors that be read from, or written to, at a significantly higher rate than DDR2-SDRAM semiconductors.
DDR4-SDRAM	The next generation advanced DDR-SDRAM semiconductors that can be read from, or written to, at a significantly higher rate than DDR3-SDRAM semiconductors.
Digital circuits	Circuits that perform binary arithmetic functions on data represented by a series of on/off states.
DRAM	Dynamic Random Access Memory. Devices that store a large volume of data and can read and write data freely. Because of their volatile characteristics, periodic re-writing of data is required to maintain memory information.
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.
GDDR	Graphics DDR. DDR memory standard specifically designed for use in RAM video cards.
Integrated circuit	An electric part made of a combination of many transistors on a silicon wafer.
LCD driver integrated circuits	Integrated circuits that operate LCD (Liquid Crystal Display).

Logic circuits	Circuits that perform binary arithmetic functions.
LPDDR	Low Power DDR memory.

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LPDDR 2	DDR2 memory that has higher speed and lower power consumption than LPDDR.
LPDDR 3	DDR3 memory that has higher speed and lower power consumption than LPDDR2.
Memory circuits	Circuits that store data and programs.
MCP	Multi Chip Package. A package which combines multiple chips with different functions.
MCU	Micro Controller Unit. An integrated circuit that contains all necessary functions required for a small-scale computer system.
MPU	Microprocessor unit. A microprocessor that incorporates most or all of the functions of a computer s central processing unit on a single integrated circuit.
NAND	A type of flash memory that is primarily used for data storage due to its large storage capability.
Per site processor architecture	Computing architecture that can control test functions, at each target device for testers that simultaneously measure multiple devices.
SDRAM	Synchronous Dynamic Random Access Memory DRAM that is synchronized with the system bus.
SoC	System on a Chip. A chip that integrates functions, including logic, memory and signaling, that are conventionally executed with multiple chips and requires smaller space and significantly less electricity.
Scalable platform	Platform that can be optimally structured for small systems through to large systems, depending on the size/type of the target devices and the number of devices being measured simultaneously.
Test houses	Providers of semiconductor test services.
Test processor per pin architecture	Architecture which is able to perform test functions using sequencers mounted on a single pin.
Testing for KGD	Known Good Die. Testing for KGD is conducted to guarantee that semiconductor bare chips are in good quality.
TSV	(Through-Silicon Via) A technique for mounting semiconductors which are electronic components. Involves a vertical electrode passing through a silicon semiconductor chip.

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4.C. ORGANIZATIONAL STRUCTURE

As of June 1, 2012, Advantest had 11 Japanese subsidiaries, 18 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
Japan Engineering Co., Ltd.	Japan	Development, manufacture and sales of Advantest s products
Advantest Finance Inc.	Japan	Leasing Advantest s products and sales of second-hand products
Advantest America, Inc.	U.S.	Development and sales of Advantest s products
Advantest Europe GmbH	Germany	Development and sales of Advantest s products
Advantest Taiwan Inc.	Taiwan	Sales of Advantest s products
Advantest (Singapore) Pte. Ltd.	Singapore	Sales of Advantest s products
Advantest Korea Co., Ltd.	Korea	Sales support of Advantest s products
Advantest (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 the Company.

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 (m^2)	Use
Gunma R&D Center	Gunma, Japan	250,887	Research and development of semiconductor and component test systems and mechatronics systems
Saitama R&D Center	Saitama, Japan	56,978	Research and development for and manufacturing of mechatronics systems
Kitakyushu R&D Center	Fukuoka, Japan	5,461	Research and development of semiconductor and component test systems
Advantest Laboratory and Sendai Factory	Miyagi, Japan	66,904	Basic technology research, and research for and manufacturing of key devices installed in semiconductor and component test systems
Gunma Factory	Gunma, Japan	88,512	Manufacture of semiconductors and component test systems and test handlers
Gunma Factory 2	Gunma, Japan	93,112	Manufacture of semiconductor and component test systems and device interfaces

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

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

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

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.A. OPERATING RESULTS

The following discussion and analysis of Advantest s financial condition and results of operations should be read with Key Information Selected Financial Data and the audited consolidated financial statements for fiscal 2009, 2010 and 2011 as well as the notes to such consolidated financial statements appearing elsewhere in this annual report. These consolidated financial statements have been prepared in accordance with U.S. GAAP.

Overview

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

The Semiconductor and Component Test System Segment provides customers with test system products for the semiconductor industry and the electronic parts industry. Product lines in the Semiconductor and Component Test System Segment include test systems for memory semiconductors and non memory semiconductors. Test systems for non memory semiconductors include test systems for SoC semiconductors, test systems for LCD driver ICs and test systems for semiconductors used in car electronics. This business segment is the most important segment, accounting for 74.9% of Advantest s net sales in fiscal 2011.

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 14.6% of Advantest s net sales in fiscal 2011.

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The Services, Support and Others Segment consists of comprehensive customer solutions provided in connection with the Semiconductor and Component Test Systems and Mechatronics System Segments, support services, equipment lease business and others. This business segment accounted for 13.3% of Advantest s net sales in fiscal 2011.

Semiconductor and Component Test System Segment

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

- demand for semiconductors and electronic components;
- innovation in semiconductor and electronic component technology; and
- changes in semiconductor and electronic component manufacturing processes.

The business environment in which the Semiconductor and Component Test System Segment operates grew less than expected in fiscal 2011, and many semiconductor manufacturers adjusted supply levels downwards following the summer of 2011 as demand for products such as PCs and LCD televisions suffered a sharp downturn.

As a result, despite strong sales inquiries from customers for non memory semiconductors used in smartphones and tablet-type devices, the overall semiconductor test equipment market contracted in fiscal 2011. The drop in prices for DRAM semiconductors for computers was particularly significant, and most capital expenditure in memory semiconductor test systems was frozen.

Amidst these market conditions, Advantest has focused on expanding sales of non memory semiconductors such as application processors and CMOS image sensors. Advantest has also focused on maximizing the benefits of its acquisition of Verigy in July 2011, including enhancing Advantest s product marketing to customers in the U.S. and Europe and tailoring products to meet the needs of customers in the communications semiconductor market.

As a result of the above, net sales of the Semiconductor and Component Test Systems Segment totaled ¥105,608 million in fiscal 2011, a 52.3% increase compared to that of fiscal 2010. For a detailed discussion of these factors, see Information on the Company Business Overview Industry Overview.

Performance of the test systems for the non memory semiconductor business in the Semiconductor and Component Test Systems Segment improved significantly, due to a number of large orders for microprocessor (MPU) test equipment. Against a backdrop of growth in the smartphone and tablet-type device, and with the added contribution of sales of Verigy products, which are strong in this area, sales of test systems for semiconductors such as application processors to be used for these devices grew solidly.

Performance of the test systems for the non memory semiconductor business in the Semiconductor and Component Test Systems Segment, however, continued to suffer, despite active capital investment in DRAM semiconductors for PCs from spring to early summer, as weaker demand later in the year in the PC market, which is a major source of revenue for DRAM semiconductors, forced manufacturers to cut back their DRAM capital investment programs.

Advantest believes that price pressure with respect to semiconductor and component test systems tends to be the strongest during periods when semiconductor manufactures are subject to price pressure despite an increase in demand for their products. Advantest continues to face significant price pressure. Even when the

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semiconductor industry experienced a recovery, increased competition in the market for digital consumer products and personal computers drove down prices of these goods, subsequently creating significant price pressure on its products and restriction on capital expenditure.

Mechatronics System Segment

In the Mechatronics System Segment sales of scanning electron microscopes used for inspection of photo masks increased significantly against a backdrop of progress in semiconductor miniaturization.

Mainly as a result of the above, net sales of the Mechatronics System Segment totaled ¥20,616 million in fiscal 2011, an 11.3% increase compared to that of fiscal 2010.

Services, Support and Others Segment

In the Services, Support and Others Segment, Advantest has focused on maintenance services such as installation and repair of Advantest s products and lease and rental services of its products as a part of Advantest s effort to provide customers with comprehensive solutions. In fiscal 2011, net sales of the Services, Support and Others Segment expanded as a result of overall increased sales of test systems, as well as benefits from the integration with Verigy.

As a result of the above, net sales of the Services, Support and Others Segment totaled ¥18,807 million in fiscal 2011, a 32.8% increase compared to that of fiscal 2010.

Research and Development

Research and development expenses represent a significant portion of Advantest s annual operating expenses. Advantest s research and development expenses were ¥17,896 million and ¥21,197 million in fiscal 2009 and 2010, respectively. In fiscal 2011, as a result of the combination with Verigy, research and development expenses were ¥30,303 million. Consequently research and development expenses were 33.6%, 21.3% and 21.5% of net sales, in fiscal 2009, 2010 and 2011, respectively.

Personnel

As of March 31, 2012, Advantest had a total of 4,464 full-time employees, an increase of 1,301 persons, or 41.1%, compared to that of March 31, 2011. The result of this increase is primarily due to the acquisition of Verigy as a wholly-owned subsidiary of Advantest.

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

Currency Fluctuations

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

Translation risk is the risk that Advantest s consolidated financial statements for a particular period or for a particular date will be affected by changes in the prevailing exchange rates of the currencies in which

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subsidiaries of the Company prepare their financial statements against the Japanese yen. Even though the fluctuations of currencies against the Japanese yen can be substantial and, therefore, significantly impact comparisons with prior accounting periods and among various geographic markets, the translation effect is a reporting consideration and does not reflect Advantest s underlying results of operations.

Transaction risk is the risk that the currency structure of Advantest s costs and liabilities will deviate from the currency structure of sales proceeds and assets. Advantest produces many of its products, including all semiconductor and component test systems, in Japan. A portion of the components and parts used in Advantest s semiconductor and component test systems is purchased in currencies other than the Japanese 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, the weakening of the Japanese yen against other foreign currencies, particularly the U.S. dollar, has a positive effect on Advantest s operating income and net income. The strengthening of the Japanese yen against other foreign currencies, particularly the U.S. dollar, has the opposite effect. In fiscal 2009, the Japanese yen started from the high ¥90s to the dollar and strengthened gradually to the ¥80s to the dollar during the third quarter of the fiscal year, yet the Japanese yen depreciated to the low ¥90s to the dollar to the dollar toward the end of the fiscal year. In the first quarter of fiscal 2010, the Japanese yen started from the low ¥90s to the dollar and strengthened to the high ¥80s to the dollar and appreciated to the low ¥80s to the dollar during the second half of the fiscal year. Immediately after the Great East Japan Earthquake on March 11, 2011, the Japanese yen appreciated to the ¥70s to the dollar, but then depreciated to the low ¥80s to the dollar by the end of fiscal 2010. In fiscal 2011, the appreciation of the yen continued, going from the low ¥80s to the dollar to the high ¥70s to the dollar after the second quarter and at one point reaching the ¥76 mark in the third quarter, the highest level since World War II. However, by the end of the fiscal year, the Japanese yen had returned to the low ¥80s to the dollar.

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

Critical Accounting Policies and Estimates

Advantest has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities in preparing its consolidated financial statements in conformity with U.S. GAAP. Critical accounting policies are accounting policies that require the application of management s most difficult, subjective or complex judgments and often require management to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The following is not intended to be a comprehensive list of all of Advantest s accounting policies. Advantest s significant accounting policies are more fully described in note 1 to 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

In October 2009, the Financial Accounting Standards Board (FASB) amended the accounting guidance for revenue recognition under multiple-deliverable arrangements. The guidance modifies the criteria for

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separating deliverables and allocating consideration in multiple-deliverable arrangements. The allocation of revenue is based on estimated selling price if neither vendor-specific objective evidence nor third-party evidence of selling price is available. The guidance was adopted by the Company and its subsidiaries in the first quarter 2011. The adoption of the guidance did not have a significant impact on its consolidated results of operations and financial condition.

In October 2009, the FASB amended accounting guidance for software revenue recognition. This guidance changes the accounting model for revenue arrangements that include both tangible products and software elements. It provides guidance on how to determine which software, if any, relating to the tangible product would be excluded from the scope of the software revenue guidance. The guidance was adopted by Advantest in the first quarter 2011. The adoption of the guidance did not have a significant impact on its consolidated results of operations and financial condition.

General

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

Sales of Products

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

Sales of products and 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

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

Multiple deliverables

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

Inventories

Advantest s inventories consist of on-hand inventory, including inventory located at customer sites, and inventory that is on-order and subject to a contract that is non-cancelable. Advantest states its inventories at the lower of cost or market. Cost is determined using the average cost method. Advantest determines the market for finished goods by determining net realizable value and for raw materials by identifying replacement cost. Advantest reviews its inventories and determines the appropriate amount of any inventory write-downs periodically based on these reviews. Write-downs occur from the discontinuation of product lines, inventory in excess of estimated usage, the release of new products which renders inventory obsolete and declines in net realizable value of Advantest s inventory leased to customers. Advantest recognizes inventory write-downs in cost of sales. Advantest may be required to take additional charges for excess and obsolete inventory in fiscal 2012 or other future periods if future weakness in its businesses causes further reductions to Advantest s inventory valuations. In addition, unexpected changes in testing technology can render Advantest s inventories obsolete. Advantest evaluates its inventory levels based on its estimates and forecasts of demand for its products.

Advantest s inventories increased by ¥6,343 million, or 27.0%, during fiscal 2011 to ¥29,836 million as of March 31, 2012 due to improvements in backlogs of orders and expansion of the business scale by integration with Verigy.

Property, Plant and Equipment

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

On April 1, 2011, the Company and its domestic subsidiaries elected to change the method of depreciating fixed assets from the fixed-percentage-on-declining base application to the straight line method.

The Company analyzed the sales mixture of memory and non-memory business to evaluate the future production requirements and pattern of benefit from utilizing its fixed assets. Based on this analysis, Advantest s management believes that the straight line method of depreciation is preferable as it better reflects the pattern of consumption of the future benefits to be derived from those assets being depreciated and provides a better matching of costs and revenues over the assets estimated useful lives, in light of product life cycles and current change in product mix to expand non-memory business. In accordance with Accounting Standards Codification (ASC) 250, Accounting Changes and Error corrections , this change in depreciation method represents a change in accounting estimate effected by a change in accounting principle.

Accordingly, the effects of the change are accounted for prospectively beginning with the period of change and prior period results have not been restated. The change in depreciation method reduced depreciation expense and resulted in decreases in loss before income taxes and equity in earnings of affiliated company and net loss by ¥560 million, respectively, for year ended March 31, 2012. Also basic net income per share and diluted net income per share decreased by ¥3.23, respectively, for year ended March 31, 2012.

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

Depreciation expense was ¥4,101 million, ¥3,977 million and ¥4,326 million for the fiscal years 2009, 2010 and 2011, respectively.

Impairment of Long-Lived Assets

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

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In fiscal 2009 and 2010, Advantest did not incur impairment of long-lived assets. In fiscal 2011, Advantest recognized an impairment loss of ¥920 million on certain building and land asset that was reclassified as assets held for sale.

Business Combinations

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

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

Goodwill and Intangible Assets

Advantest reviews goodwill and intangible assets with indefinite lives for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The provisions of the accounting standard for goodwill and other intangibles require that Advantest performs a two-step impairment test on goodwill. In the first step, Advantest compares the fair value of each reporting unit to its carrying value. Advantest s reporting units are consistent with the reportable segments identified in Note 20 to the Consolidated Financial Statements. Advantest determines the fair value of its reporting units based on an income approach. Under the income approach, Advantest calculates the fair value of a reporting unit based on the present value of estimated future cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and Advantest is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then Advantest must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit s goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, then Advantest records an impairment loss equal to the difference.

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

Advantest s annual goodwill impairment analysis indicated no impairments of goodwill. In order to evaluate the sensitivity of the fair value calculations on the goodwill impairment analysis, Advantest applied a hypothetical and approximate 10% decrease to the fair value of each reporting unit. As a result of the sensitivity analysis, as of March 31, 2012, Advantest does not have any reporting units that are at risk that the carrying amount of the reporting unit would reasonably likely exceed its fair value.

Intangible assets primarily consist of customer relationships, patented technologies, developed technologies and other intangible assets. Advantest has estimated the weighted average amortization period for the customer relationship, patented technologies and developed technologies to be 8 years, 9 years and 8 years, respectively. The weighted average amortization period for all intangible assets is approximately 8 years.

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Trade Receivables

Advantest s trade receivables, less allowance for doubtful accounts was ¥24,119 million as of March 31, 2012, as compared with ¥22,707 million as of March 31, 2011. Advantest maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Advantest provides an allowance for doubtful accounts for all specific accounts receivable that it judges are probable of not being collected.

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

At the end of fiscal 2011, Advantest increased its allowance for doubtful accounts to ¥483 million, an increase of ¥331 million from fiscal 2010. A reversal of allowances made for accounts receivable that are later collected, depending upon the recovered financial status of its customers and Advantest s collection efforts, will decrease the selling, general and administrative expenses for the accounting period during which such collection takes place. Conversely, additional allowances may be necessary in the future if conditions in the industries of some of Advantest s customers do not improve in the near-term.

Accrued Warranty Expenses

Advantest s products are generally subject to a product warranty. In addition, under certain circumstances, Advantest is responsible for the repair of defective components and parts. Advantest provides an allowance for estimated product warranty expenses when product revenue is recognized as part of its selling, general and administrative expenses. The allowance for estimated product warranty expenses represents management s best estimate at the time of sale of the total costs that Advantest will incur to repair or replace components or parts that fail while still under warranty. Advantest records its allowance for estimated product warranty expenses based on the historical ratio of actual repair expenses to corresponding sales, and any facts and circumstances that occurred. The foregoing evaluations are inherently uncertain as they require estimates as to maintenance costs and failure rates related to different product lines. Consequently, actual warranty costs may differ from the estimated amounts and could result in additional product warranty expenses. If actual warranty costs significantly exceed the amount of Advantest s allowance for product warranty expenses, it would negatively affect the future results of operations of Advantest.

Accrued warranty expenses were ¥2,129 million at March 31, 2012, an increase of ¥375 million from ¥1,754 million at March 31, 2011.

Stock-Based Compensation

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

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

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Advantest has recorded ¥143 million, ¥165 million and ¥583 million as stock-based compensation expense in fiscal 2009, 2010 and 2011, respectively.

Accrued Pension and Severance Cost

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

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

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

Pension related adjustments (net of tax) recognized in other comprehensive income (loss) for the year ended March 31, 2010, 2011 and 2012 were ¥1,566 million, (¥121 million), and (¥6,328 million), respectively. Pension related adjustments of (¥6,328 million) for the year ended March 31, 2012 were recognized due to the reduction of discount rate used to determine benefit obligations for Japanese plans and losses on plan assets.

Advantest has recorded ¥2,158 million, ¥1,911 million and ¥2,251 million as benefit cost in fiscal 2009, 2010 and 2011, respectively.

Deferred Tax Assets

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon projections for future taxable income over the periods in which the deferred tax assets are deductible including management s expectations of future semiconductor market and semiconductor and component test systems market prospects and other factors, management believes it is more likely than not that Advantest will realize the benefits of these deductible differences, net of valuation allowance. The valuation allowance in fiscal 2011 was decreased by 1,894 million primarily due to the reduction of the effective tax rate resulting from the tax reform in Japan. The net (decreases) increases in valuation allowance increased ¥3,274 million and ¥793 million for fiscal years 2009 and 2010, respectively.

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As a result of acquisition Verigy on July 4, 2011, at March 31, 2011, Advantest has recorded on its consolidated balance sheet, deferred tax assets of ¥53,480 million of which ¥30,352 million represents net operating loss (NOL). Advantest has also recorded a valuation allowance of ¥52,082 million, and as a result, net deferred tax assets were ¥1,398 million. At March 31, 2012, Advantest has recorded on its consolidated balance sheet, deferred tax assets of ¥59,694 million of which ¥31,800 million represents NOL. Advantest has also recorded a valuation allowance of ¥50,188 million, and as a result, net deferred tax assets were ¥9,506 million. NOL carry forwards utilized were ¥2,421 million, ¥554 million and ¥25 million in fiscal years 2009, 2010 and 2011 respectively.

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

Income Taxes

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

Fair Value

Investment securities

The fair value of available-for-sale equity securities is based on quoted market prices at the reporting date for those investments. The fair value of available-for-sale debt securities is based on unobservable inputs as the market for the assets was not active at the measurement date.

Plan assets

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

Results of Operations Fiscal 2011 Compared with Fiscal 2010

Net Sales

Advantest s net sales increased by ¥41,414 million, or 41.6%, compared with fiscal 2010, to ¥141,048 million in fiscal 2011. This was primarily due to robust sales for test systems for non memory semiconductors and the integration with Verigy. It is estimated that the fluctuations in exchange rates during fiscal 2011 brought down Advantest s net sales by ¥4,433 million in fiscal 2011.

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.

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Semiconductor and Component Test System Segment

In fiscal 2011, net sales of Advantest s Semiconductor and Component Test System Segment accounted for 74.9% of total net sales. Net sales of Advantest s Semiconductor and Component Test System Segment for fiscal 2011 increased by ¥36,275 million, or 52.3%, compared with fiscal 2010, to ¥105,608 million. It is estimated that fluctuations in exchange rates during fiscal 2011 brought down Advantest s net sales in its Semiconductor and Component Test System Segment by ¥3,226 million.

Net sales of test systems for non memory semiconductors in fiscal 2011 increased by ¥40,378 million, or 102.7%, compared with fiscal 2010 to ¥79,695 million. This increase was mainly due to a steady growth in the sales of T2000 series test systems for SoC semiconductors and the addition of sales of Verigy s V93000.

Net sales of test systems for memory semiconductors in fiscal 2011 decreased by ¥4,103 million, or 13.7%, compared with fiscal 2010 to ¥25,913 million. This decrease was mainly due to reduced inquiries for T5300 series front-end test systems which resulted from weaker demand for PCs which constrained new capital expenditures.

Mechatronics System Segment

Net sales of the Mechatronics System Segment including test handlers and device interfaces increased by ¥2,101 million, or 11.3%, compared to fiscal 2010 to ¥20,616 million in fiscal 2011. This increase was mainly due to a significant increase in the number of units sold for Multi Vision Metrology Scanning Electron Microscope testing system for photomasks, which benefited from the developments of semiconductor miniaturization.

Services, Support and Other Segment

Net sales of the Services, Support and Other Segment increased by ¥4,641 million, or 32.8%, compared with fiscal 2010 to ¥18,807 million in fiscal 2011, mainly due to a steady growth in sales of test systems, and the integration with Verigy. The main businesses in the Services, Support and Others Segment for fiscal 2011 were maintenance services and leasing and rentals.

Geographic Markets

Advantest experienced an increase of 41.6% in net sales in fiscal 2011, which was primarily due to the growth in sales in the Americas, Korea and Taiwan.

Net sales in Japan decreased by ¥6,303 million, or 28.1%, compared with fiscal 2010 to ¥16,095 million in fiscal 2011. This decrease was mainly due to demand for the T5300 series front-end test systems for mobile DRAM test systems, which had shown strong demand in fiscal

2010.

Net sales in the Americas increased by ¥20,464 million compared with fiscal 2010 to ¥29,742 million in fiscal 2011. This increase was mainly due to a steady growth in sales of the T2000 for MPU testers for major semiconductor manufacturers and the accounting for sales of Verigy s V93000. It is estimated that fluctuations in exchange rates during fiscal 2011 brought down Advantest s net sales in the Americas by approximately ¥1,232 million, primarily due to a continued Japanese yen appreciation against the U.S. dollar.

Net sales in Europe increased by ¥4,763 million compared to fiscal 2010 to ¥7,015 million in fiscal 2011. This increase was mainly due to increased sales of the T2000 for MPU testers. It is estimated that fluctuations in effect of changes in exchange rates during fiscal 2011 brought down Advantest s net sales in Europe by approximately ¥285 million.

Net sales in Asia (excluding Japan) increased by ¥22,490 million, or 34.2%, compared with fiscal 2010 to ¥88,196 million in fiscal 2011. Net sales in Korea increased by ¥8,935 million, or 43.1%, compared with fiscal

2010. This increase was mainly due to increased capital expenditures in a variety of semiconductors for communication devices such as smartphones. Net sales in Taiwan increased by ¥5,756 million, or 26.4%, compared with fiscal 2010. This increase was mainly due to the accounting for sales of Verigy s V93000. Net sales in China and the rest of Asia (excluding Japan, Taiwan and Korea) increased by ¥7,799 million, or 33.7%, compared with fiscal 2010. This increase resulted from increased sales of the T2000 for MPU testers. It is estimated that fluctuations in exchange rates during fiscal 2011 brought down Advantest s net sales in Asia by approximately ¥2,769 million.

Advantest s overseas sales as a percentage of total sales was 88.6% and 77.5% for fiscal 2011 and 2010, respectively.

Operating Expenses

In fiscal 2011, Advantest s operating expenses increased by ¥46,688 million, or 49.9%, compared with fiscal 2010 to ¥140,211 million.

In fiscal 2011, cost of sales increased by ¥21,136 million, or 41.3%, compared to fiscal 2010 to ¥72,300 million. This increase was mainly due to a ¥41,414 million increase in net sales and the accounting for ¥3,532 million in one time costs associated with acquisition accounting for Verigy.

In fiscal 2011, research and development expenses increased by ¥9,106 million, or 43.0%, compared to fiscal 2010 to ¥30,303 million. This increase in research and development expenses was mainly due to increased costs for materials for future product development, increased payments for outsourced research, as well as increased personnel expenses and the accounting for ¥986 million in costs associated with the integration with Verigy.

In fiscal 2011, selling, general and administrative expenses increased by ¥16,446 million, or 77.7%, compared to fiscal 2010 to ¥37,608 million. This increase was mainly due to an increase in sales expenses resulting from increased net sales, an increase in personnel expenses and costs of ¥3,819 million applicable to the acquisition of Verigy.

Operating Income

In fiscal 2011, operating income decreased by ¥5,274 million, compared to fiscal 2010, to a profit of ¥837 million.

Other Income and Expenses

In fiscal 2011, interest and dividend income decreased by ¥3 million, or 0.9%, compared with fiscal 2010 to ¥323 million.

In fiscal 2011, interest expenses increased by ¥150 million compared with fiscal 2010 to ¥153 million. This increase was mainly due to financing from banks for the Verigy acquisition.

In fiscal 2011, impairment loss on investment securities increased by ¥1,742 million, compared with fiscal 2010 to ¥2,254 million.

In fiscal 2011, total other expense increased by ¥3,719 million, compared with fiscal 2010, to ¥4,279 million. This increase was mainly due to an increase in foreign currency exchange loss of ¥1,811 million compared with fiscal 2010 resulting in a loss of ¥2,319 million in fiscal 2011 which was caused by the continued appreciation of the Japanese yen against the U.S. dollar other than impairment losses on investment securities. Currency exchange profits/losses represent the difference between the value of foreign currency-denominated sales, translated at prevailing exchange rates, and either (i) the value of sales settled during the same fiscal year, including those settled using foreign exchange forward contracts, or (ii) the value of cash and cash equivalents, accounts receivable and payables outstanding remeasured at the exchange rate in effect as of March 31, 2012.

Income Taxes

In fiscal 2011, Advantest s effective tax rate was 36.0%, while the tax rate for fiscal 2010 was 42.4%. The statutory tax rate of the Company and its domestic consolidated subsidiaries was 40.4% for fiscal 2011. For a more detailed discussion on income taxes of Advantest in fiscal 2011 and fiscal 2010, see Note 14 to Advantest s consolidated financial statements.

Net Income

In fiscal 2011, Advantest s net income decreased by ¥5,358 million, compared to fiscal 2010, to a loss of ¥2,195 million.

Other Comprehensive Income (Loss)

In fiscal 2011, Advantest s other comprehensive income (loss), net of tax, declined by ¥893 million compared to fiscal 2010, to a loss of ¥4,304 million. This decline was mainly due to an increase of ¥6,207 million in pension liability adjustments from a loss of ¥121 million in fiscal 2010 to a loss of ¥6,328 million in fiscal 2011.

Results of Operations Fiscal 2010 Compared with Fiscal 2009

Net Sales

Advantest s net sales increased by ¥46,409 million, or 87.2%, compared with fiscal 2009, to ¥99,634 million in fiscal 2010. This was primarily due to increases in capital expenditures by semiconductor manufacturers. The estimated effect of changes in exchange rates during fiscal 2010 was to decrease Advantest s net sales by ¥2,808 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 2010, net sales of Advantest s Semiconductor and Component Test System Segment accounted for 69.6% of total net sales. Net sales of Advantest s Semiconductor and Component Test System Segment increased by ¥36,761 million, or 112.9%, compared with fiscal 2009, to ¥69,333 million in fiscal 2010. The estimated effect of changes in exchange rates during fiscal 2010 was to decrease Advantest s net sales in its Semiconductor and Component Test System Segment by ¥2,004 million.

Net sales of test systems for memory semiconductors in fiscal 2010 increased by ¥17,572 million, or 141.2%, compared with fiscal 2009 to ¥30,016 million. This increase was mainly due to stronger than expected demand for Advantest s DRAM semiconductor test systems especially for the T5300 series front-end test systems and the T5500 series back-end test systems, reflecting increased capital expenditures by semiconductor manufacturers for PC DRAM and mobile DRAM.

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Net sales of test systems for non memory semiconductors in fiscal 2010 increased by ¥19,189 million, or 95.3%, compared with fiscal 2009 to ¥39,317 million. This increase was mainly due to a steady growth in the sales of T2000 series test systems for SoC semiconductors.

Mechatronics System Segment

Net sales of the Mechatronics System Segment including test handlers and device interfaces increased by ¥7,278 million, or 64.8%, compared to fiscal 2009 to ¥18,515 million in fiscal 2010.

This steady growth of test systems for memory and non memory semiconductors, led to an increase in demand for test handlers device interface products, which are used together with semiconductor and component test systems.

Services, Support and Other Segment

Net sales of the Services, Support and Other Segment increased by ¥2,328 million, or 19.7%, compared with fiscal 2009 to ¥14,166 million in fiscal 2010, mainly due to an increase in demand for maintenance services reflecting the strong performance of the semiconductor market. The main businesses in the Services, Support and Others Segment for fiscal 2010 were maintenance services and leasing and rentals.

Geographic Markets

Advantest experienced an increase of 87.2% in its net sales in fiscal 2010, which was primarily due to the growth in sales in Japan, Korea, Taiwan and China.

Net sales in Japan significant increased by ¥10,422 million, or 87.0%, compared with fiscal 2009 to ¥22,398 million in fiscal 2010. This increase was mainly due to a growth in demand for the T5300 series front-end test systems for mobile DRAM test systems.

Net sales in the Americas increased by ¥4,348 million, or 88.2%, compared with fiscal 2009 to ¥9,278 million in fiscal 2010. This increase was primarily due to steady sales of the T2000 for MPU testers for major semiconductor manufacturers. The estimated effect of changes in exchange rates during fiscal 2010 was to decrease Advantest s net sales in the Americas by approximately ¥754 million, primarily due to a continued Japanese yen appreciation against the U.S. dollar.

Net sales in Europe increased by ¥115 million, or 5.4%, compared to fiscal 2009 to ¥2,252 million in fiscal 2010. The estimated effect of changes in exchange rates during fiscal 2010 was to decrease Advantest s net sales in Europe by approximately ¥194 million.

Net sales in Asia (excluding Japan) increased by ¥31,524 million, or 92.2%, compared with fiscal 2009 to ¥65,706 million in fiscal 2010. Net sales in Korea and Taiwan increased by ¥10,418 million and ¥9,030 million, or 100.8% and 70.5%, respectively, compared with fiscal 2009. This increase was primarily due to increased capital expenditures for PC DRAM. Net sales in China and the rest of Asia (excluding Japan, Taiwan and Korea) increased by ¥12,076 million, or 109.4%, compared with fiscal 2009. This increase resulted from increased sales of the T2000 for MPU testers in China. The estimated effect of changes in exchange rates during fiscal 2010 was to decrease Advantest s net sales in Asia by approximately ¥1,844 million.

Advantest s overseas sales as a percentage of total sales was 77.5% for both fiscal 2010 and 2009.

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Operating Expenses

In fiscal 2010, Advantest s operating expenses increased by ¥28,659 million, or 44.2%, compared with fiscal 2009 to ¥93,523 million.

In fiscal 2010, cost of sales increased by ¥23,867 million, or 87.4%, compared to fiscal 2009 to ¥51,164 million. This increase was attributed to a ¥46,409 million increase in net sales.

In fiscal 2010, research and development expenses increased by ¥3,301 million, or 18.4%, compared to fiscal 2009 to ¥21,197 million. This increase in research and development expenses was mainly due to increased costs for materials for future product development, increased payments for outsourced research as well as increased bonuses and personnel expenses for fiscal 2010.

In fiscal 2010, selling, general and administrative expenses increased by ¥1,491 million, or 7.6%, compared to fiscal 2009 to ¥21,162 million. This increase was mainly due to an increase in sales expenses resulting from increased net sales and an increase in bonuses and personnel expenses.

Operating Income

In fiscal 2010, operating income improved by ¥17,750 million, compared to fiscal 2009, to a profit of ¥6,111 million.

Other Income and Expenses

In fiscal 2010, interest and dividend income decreased by ¥253 million, or 43.7%, compared with fiscal 2009 to ¥326 million. This decrease reflects the decrease in interest income caused primarily by a decrease of cash and cash equivalents and a decline of interest rates.

In fiscal 2010, interest expenses decreased by ¥1 million, or 25.0%, compared with fiscal 2009 to ¥3 million.

In fiscal 2010, impairment loss on investment securities increased by ¥196 million compared with fiscal 2009 to ¥512 million.

In fiscal 2010, other non-operating income decreased by ¥1,825 million, compared with fiscal 2009, to a loss of ¥371 million. This decrease was primarily due to an increase in foreign currency exchange loss of ¥1,580 million compared with fiscal 2009 resulting in a loss of ¥508 million in fiscal 2010, which was caused by the continued appreciation of the Japanese yen against the U.S. dollar. Currency exchange profits/losses represent the difference between the value of foreign currency-denominated sales, translated at prevailing exchange rates, and either (i) the value of sales amounts settled during the fiscal year, including those settled using foreign exchange forward contracts, or (ii) the value of cash and cash equivalents, accounts receivable and payables outstanding remeasured at the exchange rate in effect at March 31, 2011.

Income Taxes

In fiscal 2010, Advantest s effective tax rate was 42.4%, as the Company did not record tax benefits on pretax losses; the tax rate for fiscal 2009 was 14.7%. The statutory tax rate of the Company and its domestic consolidated subsidiaries was 40.4% for fiscal 2010. For a more detailed discussion on income taxes of Advantest in fiscal 2010 and fiscal 2009, see note 12 to Advantest s consolidated financial statements.

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Net Income

In fiscal 2010, Advantest s net income improved by ¥14,617 million, compared to fiscal 2009, to an income of ¥3,163 million.

Other Comprehensive Income (Loss)

In fiscal 2010, Advantest s other comprehensive income (loss), net of tax, declined by ¥3,139 million compared to fiscal 2009, to a loss of ¥3,411 million. This decline was primarily due to a decrease of ¥1,687 million in pension liability adjustments from an income of ¥1,566 million in fiscal 2009 to a loss of ¥121 million in fiscal 2010. No tax effect was recognized on the pension liability adjustments recorded in the other comprehensive income (loss).

5.B. LIQUIDITY AND CAPITAL RESOURCES

Advantest s cash and cash equivalents balance decreased by ¥17,105 million in fiscal 2011 to ¥58,218 million as of March 31, 2012. As of March 31, 2012, approximately 45% of Advantest s cash and cash equivalents were held in Japanese yen.

Net loss in operating activities was ¥2,195 million. However, as a result of a decrease of ¥4,613 million in inventories and an adjustment of noncash items such as depreciation and amortization, net cash provided in operating activities was ¥12,302 million in fiscal 2011. Net cash provided in operating activities improved by ¥12,995 million in fiscal 2011 compared to ¥693 million in net cash used in operating activities in fiscal 2010. The main reason for the improvement in fiscal 2011 was an increase of ¥7,285 million in inventories in fiscal 2010 and a decrease of ¥4,613 million in inventories in fiscal 2011.

Net cash used in investing activities was ¥37,670 million in fiscal 2011. This amount was primarily attributable to payments in connection with the acquisition of Verigy in the amount of ¥57,145 million, payment for short-term investments in the amount of ¥14,387 million and proceeds from the sale of available-for-sale securities in the amount of ¥10,717 million. Compared to net cash used in investing activities in the amount of ¥5,828 million in fiscal 2010, the increase was ¥31,842 million, which was primarily due to the payments in connection with the Verigy acquisition in the amount of ¥57,145.

Net cash provided by financing activities was ¥9,887 million in fiscal 2011. Compared to net cash used in financing activities in the amount of ¥12,028 million in fiscal 2010, the increase was ¥21,915 million. This amount was primarily attributable to a net increase of ¥25,466 million in short term debt, which was offset by payments for redemption of senior convertible notes of the acquired subsidiary in the amount of ¥13,835 million.

Net effect of exchange rate changes on cash and cash equivalents was unfavorable by ¥1,624 million in fiscal 2011, an improvement of ¥943 million compared to fiscal 2010.

Advantest has various retirement and severance plans for employees, including non-contributory defined benefit retirement and severance plans consisting primarily of the Employees Provident Fund (EPF) plan. As mentioned in Note 17 to the consolidated financial statements, in the balance sheet as of March 31, 2012, the amount of ¥23,444 million has been recognized as accrued severance and pension costs. Advantest has contributed to the EPF plan in accordance with local statutory requirements. Advantest s cash funding requirements would be affected by any changes in interest rates, rate of returns on plan assets and government regulations. The contributions paid by Advantest under the EPF were ¥1,606 million in fiscal 2010 and ¥1,917 million in fiscal 2011. Advantest expects to contribute ¥1,825 million under the EPF in fiscal 2012.

In accordance with Advantest s funding and treasury policy (including funding for capital expenditures), which is overseen and controlled by its Accounting Department, Advantest funds its cash needs through cash

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from operating activities and cash and cash equivalents on hand, and is able to procure funds as necessary by issuance of debt and equity securities in domestic and foreign capital markets and bank loans.

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

Advantest obtained several short-term bank loans in connection with the Verigy acquisition in fiscal 2011. Furthermore, it issued ¥25.0 billion in Japan in unsecured bonds on May 25, 2012 and repaid short-term loans from banks.

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

5.C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Research and Development and Product Enhancement

In order to support technology on the leading-edge, Advantest undertakes research and development initiatives to develop products which play a central role in the area of measuring technologies to support electronics, information and communications, and semiconductor manufacturing. Advantest s research and development focuses on the development of new products and the improvement of existing products. In particular, in the Semiconductor and Component Test System Segment, a large and ongoing investment in research and development is necessary in order to maintain market competitiveness and to provide many types of products that meet the various needs of the customers. Advantest also conducts research of basic technologies. Advantest s expenditures for research and development were approximately ¥17.9 billion in fiscal 2009 and ¥21.2 billion in fiscal 2010. Due to integration with Verigy, Advantest s expenditures for research and development were approximately ¥30.3 billion in fiscal 2011. Advantest employs over 1,000 engineers and other personnel in its research and development division.

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

Basic Technology

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

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

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

Semiconductor and Component Test System Segment

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

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

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

- development of semiconductor and component test systems with specialized applications;

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

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

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

Mechatronics System Segment

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

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

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

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

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

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

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

5.D. TREND INFORMATION

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

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5.E. OFF-BALANCE SHEET ARRANGEMENTS

As of March 31, 2012, Advantest had no material off-balance sheet arrangements.

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

5.F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table reflects Advantest s current obligations and commitments to make future payments under contracts, contractual obligations and commercial commitments as of March 31, 2012.

		Payments due by Period			
Contractual Cash Obligation	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
			(in millions)		
Short-Term Debt	¥ 25,000	¥ 25,000	¥	¥	¥
Long-Term Debt, including current portion					
Operating Leases	2,322	775	1,010	518	19
Contractual Obligations	3,770	3,770			
Total Contractual Cash Obligations	¥ 31,092	¥ 29,545	¥ 1,010	¥ 518	¥ 19

The contractual cash obligation table excludes our long-term deferred tax liabilities because we cannot make a reliable estimate of the timing of cash payments. For details see Note 14, Income Taxes.

5.G. SAFE HARBOR

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

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. DIRECTORS AND SENIOR MANAGEMENT

Directors, Corporate Auditors and Executive Officers

Directors, corporate auditors and executive officers of the Company as of June 26, 2012 and their respective business experience are listed below.

Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Toshio Maruyama	Chairman of the Board and Representative Director	4/1973	Joined Advantest Corporation
		6/1989	Director
(April 17, 1948)			
		6/1995	Managing Director
		6/1999	Senior Managing Director
			Senior Vice President, ATE Sales Group
		6/2001	Representative Director and President
		5/2003	Director, Environmental Management Center
		6/2003	Representative Director, President and COO
		6/2005	Representative Director, President and CEO
		5/2006	Director of the Association of Super-Advanced Electronics Technologies
		7/2008	SEMI Director (present position)
		3/2009	Senior Vice President, New Concept Product Initiative
		4/2009	Director, CSR & Environmental Affairs Promotion Center
		6/2009	Chairman of the Board and Representative Director (present position)
		7/2009	Director of Nippon Keidanren
		4/2011	Director of Japan Electronics and Information Technology Industries Association (present position)
		5/2011	Executive Director of Semiconductor Equipment Association of Japan
		3/2012	Executive Member of Nippon Keidanren (present position)
		5/2012	Vice Chairman of Semiconductor Equipment Association of Japan (present position)
Haruo Matsuno	Representative Director, President and CEO	4/1984	Joined Advantest Corporation
		6/2006	Senior Vice President, Procurement Group
(February 14, 1960)			
		6/2007	Senior Vice President, Procurement & Logistics Group
		1/2008	Senior Vice President, Production Group
		6/2008	Executive Officer
		6/2009	Representative Director, President and CEO (present position)
			Director, CSR & Environmental Affairs Promotion Center (present position)
		6/2010	Executive Vice President, New Concept Product Initiative (present position)

Naoyuki Akikusa	Director	4/1961	Joined Fuji Communication Apparatus Mfg. Co., Ltd. (currently Fujitsu Limited)
(December 12, 1938)		6/1988	Director, Fujitsu Limited

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
		6/1991	Managing Director of Fujitsu Limited
		6/1992	Senior Managing Director, Fujitsu Limited
		6/1998	Representative Director and President, Fujitsu Limited
		6/2003	Representative Director and Chairman of the Board, Fujitsu Limited
			Corporate Auditor of FANUC LTD
		6/2005	Corporate Auditor of Advantest Corporation
		6/2006	Director, Advantest Corporation (present position)
		6/2008	Senior Executive Advisor and Director of Fujitsu Limited
		6/2010	Senior Executive Advisor of Fujitsu Limited (present position)
Yasushige Hagio (November 24, 1947)	Director	4/1972	Assistant Judge, Tokyo District Court
		4/1982	Judge, Tokyo District Court
		4/1998	Instructor, Legal Training and Research Institute
		12/2003	Chief of the Shizuoka District Court
		6/2004	Registered as an attorney-at-Law
			Joined Seiwa Patent office & Law (present position)
		6/2006	Director, Advantest Corporation (present position)
Osamu Karatsu (April 25, 1947)	Director	4/1975	Joined Nippon Telegraph and Telephone Public Corporation
		6/1991	Executive Manager, LSI Laboratories, Nippon Telegraph and Telephone Corporation
		6/1997	Vice President and Director, Advanced Telecommunications Research Institute International
		4/1999	Principal Consultant, SRI Consulting K.K.
		4/2000	Chief Executive Director, SRI International, Japan
		6/2012	Director, Advantest Corporation (present position)
Shinichiro Kuroe (March 30, 1959)	Director, Managing Executive Officer	4/1981	Joined Advantest Corporation
		3/1998	Manager, 1st Product Development Department
	Strategic Business	6/2000	Manager, Memory Tester Development Department
		6/2001	General Manager, Memory Tester Business Division
		4/2002	In Charge of Memory Tester Product, ATE Business Group
			General Manager, 1st Memory Tester Business Division
		2/2003	General Manager, Memory Tester Business Division

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
		6/2005	Executive Officer
			Vice President, Sales and Marketing Group
			General Manager, Solution Business Division
		4/2007	General Manager, Soc Strategic Sales Team
		12/2007	General Manager, 1st SoC Tester Business Division
		6/2008	Senior Vice President, SoC Tester Business Group
		4/2009	Senior Vice President, Test System Business Group
			General Manager, Memory Tester Business Division
		6/2009	Director, Managing Executive Officer (present position)
			Technology Development Group and Test System Business Group
		6/2010	Test System Business
			General Manager, System Planning Division
		6/2011	Strategic Business (present position)
			Executive Vice President, Strategic Business Unit (present position)
Sae Bum Myung	Director, Managing Executive Officer Sales and Marketing	4/1989	Joined Advantest Corporation
(September 16, 1954)		4/2004	Manager, International Sales Department 3
		6/2006	Representative Director and President, Advantest Korea Co., Ltd.
		6/2008	Executive Officer
			Asia Sales, Sales and Marketing Group
		4/2009	Leader, Korea Account Sales Initiatives
		6/2011	Director, Managing Executive Officer (present position)
			Sales and Marketing (present position)
			Executive Vice President, Sales and Marketing Group (present position)
Hiroshi Nakamura	Director, Managing Executive Officer	4/1981	Joined Advantest Corporation
(December 4, 1957)		6/1998	Manager, Business Accounting Department, Corporate Affairs Group
	Corporate Administration	6/2002	Manager, Accounting Department, Corporate Affairs Group
		6/2006	Executive Officer
			Vice President, Corporate Affairs Group
		6/2007	Senior Vice President, Financial Group
			Senior Director, Accounting Department
		6/2008	Vice President, Corporate Administration Group
			General Manager, Accounting and Finance Division
		6/2009	Managing Executive Officer
		6/2010	Executive Vice President, Corporate Administration Group (present position)
			Director, Managing Executive Officer (present position)
		6/2012	
			Corporate Administration (present position)

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Yuichi Kurita	Standing Corporate Auditor	4/1973	Joined Fujitsu Limited
		3/2001	Joined Advantest Corporation
(July 28, 1949)			
		10/2001	General Manager, Investor Relations Office
		4/2002	Manager, Finance Department
		6/2003	Executive Officer
			Vice President, Corporate Affairs Group
		6/2004	Vice President, Corporate Affairs Group (overseeing Finance)
			Senior Vice President, Corporate Relations Group
		6/2005	Senior Vice President, Corporate Planning Group
		11/2006	Director, e-Shuttle, Inc. (present position)
		6/2007	Director, Managing Executive Officer
			Corporate Affairs
		6/2008	Corporate Administration
			Senior Vice President, Corporate Administration Group
			Assistant Director (Administration), Environmental Management Center
			In Charge of Corporate Ethics Office
		4/2009	Assistant Director (Administration), CSR & Environmental Affairs Promotion Center
		6/2009	Corporate Planning and Administration
		6/2010	Director, Senior Executive Officer
			Corporate Auditor, Tera Probe, Inc.
		6/2012	Standing Corporate Auditor (present position)
Akira Hatakeyama	Standing Corporate Auditor	4/1973	Joined Advantest Corporation
		5/1995	General Manager, ATE Engineering and Manufacturing Division
(December 20, 1950)			
		4/2001	Representative Director, President and CEO, Japan Engineering Co., Ltd.
		6/2005	Executive Officer
		6/2008	Advisor
		6/2011	Standing Corporate Auditor (present position)
Megumi Yamamuro	Corporate Auditor	4/1974	Assistant Judge, Tokyo District Court
		4/1984	Judge, Tokyo District Court
(March 8, 1948)			
		4/1988	Instructor, Legal Training and Research Institute
		4/1997	Judge, Tokyo High Court
		7/2004	Registered as an attorney-at-Law
			Joined CAST Law P.C. (currently URYU & ITOGA) (present position)
		10/2004	Professor, The University of Tokyo Graduate School of Law and Politics
		6/2005	Corporate Auditor, Fujitsu Limited (present position)
		6/2006	Corporate Auditor, Advantest Corporation (present position)

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
		6/2009	Corporate Auditor, NIFTY Corporation (present position)
		10/2010	Professor, The University of Nihon Graduate School of Law (present position)
Masamichi Ogura	Corporate Auditor	4/1969	Joined Fujitsu Limited
		6/2000	Director, Fujitsu Limited
(June 30, 1946)			
		6/2002	Managing Executive Officer, Fujitsu Limited
		4/2003	Senior Executive Officer, Fujitsu Limited
		6/2003	Director, Senior Executive Officer, Fujitsu Limited
		6/2004	Corporate Auditor, Fujitsu General Limited (present position)
		6/2006	Vice President and Representative Director, Fujitsu Limited
		6/2008	Standing Corporate Auditor, Fujitsu Limited (present position)
		6/2011	Corporate Auditor, Advantest Corporation (present position)
Yoshiaki Yoshida	Managing Executive Officer	4/1999	Joined Advantest Corporation Director, Advantest Finance Inc.
(February 8, 1958)			
		6/2000	Representative Director, Advantest Finance Inc.
		6/2006	Executive Officer
		6/2007	Vice President, Corporate Planning Group
		6/2008	Executive Vice President, Corporate Planning Group (present position)
		3/2009	Senior Vice President (Officer), New Concept Product Initiative (present position)
		6/2009	Managing Executive Officer (present position)
		6/2010	Senior Vice President, Launch Planning Group for Certification Association
		4/2012	Leader, Power Device Enabling Group (present position)
		6/2012	Assistant Director (Administration), CSR & Environmental Affairs Promotion Center (present position)
Masao Shimizu	Managing Executive Officer	4/1973	Joined Advantest Corporation
		4/2000	General Manager, SoC Tester Business Division
(February 24, 1953)	System Solution Business		
		6/2001	Director
		4/2002	General Manager, 1st SoC Tester Business Division
		6/2003	Executive Officer
		6/2004	Vice President, ATE Business Group (overseeing SoC Tester product)
		4/2005	Senior Vice President, 1st Test System Business Group
		6/2006	Senior Vice President, DI Business Group General Manager, DI Business Division
		6/2007	Director, Fujitsu Interconnect Technologies Limited (present position)

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
		4/2009	Vice President (DI), System Solution Business Group
			General Manager, DI Business Division
		6/2009	General Manager, DI Solution Business Division
			Senior Vice President, System Solution Business Group
			General Manager, CE Support Division
		6/2010	Managing Executive Officer (present position)
			System Solution Business (present position)
		6/2011	Executive Vice President, System Solution Group
Hideaki Imada	Managing	4/1978	Joined Advantest Corporation
(April 19, 1955)	Executive Officer	4/2002	General Manager, 2nd SoC Tester Business Division
		2/2003	Leader, OAI Business Initiatives
		6/2003	Executive Officer
			Vice President, ATE Sales Group
		4/2004	Vice President, Sales and Marketing Group
		6/2004	Vice President, Sales and Marketing Group (overseeing OAI)
		4/2005	Senior Vice President, 2nd Test System Business Group
			General Manager, Product Design Initiatives 2
			General Manager, Memory Tester Business Division
		6/2008	Senior Vice President, Memory Tester Business Group
		4/2009	Vice President (SE), System Solution Business Group
		6/2009	Executive Vice President, Production Group (present position)
		6/2011	Managing Executive Officer (present position)
Yasuhiro Kawata	Executive Officer	4/1974	Joined Advantest Corporation
(October 5, 1953)		6/2001	General Manager, ATE Product Engineering Division
		4/2002	General Manager, 2nd Memory Tester Business Division
		2/2003	General Manager, 2nd SoC Tester Business Division, ATE Business Group
		6/2005	Executive Officer (present position)
			General Manager, 2nd SoC Tester Business Division, 1st Test System Business Group
		5/2007	Senior Vice President, Cost Planning Group
			General Manager, Cost Planning Division
		6/2008	Executive Vice President, Quality Assurance Group (present position)
			General Manager, Quality Assurance Division

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
			Assistant Director (Technology), Environmental Management Center
		4/2009	Assistant Director (Technology), CSR & Environmental Affairs Promotion Center (present position)
Takashi Sugiura	Executive Officer	4/1979	Joined Advantest Corporation
(March 8, 1957)		9/1998	Manager, ATE Global Marketing Department
		6/2001	Manager, ATE SoC Solution Business Department
		10/2001	General Manager, Product Design Initiatives
		6/2002	General Manager, ATE Product Design Initiatives
		2/2003	General Manager, Product Design Initiatives
		6/2005	General Manager, Product Design Initiatives 1
			Executive Officer (present position)
		6/2006	Senior Vice President, FA Business Group
			General Manager, Handler Division
		6/2009	Vice President, Corporate Administration Group
			General Manager, Legal and Intellectual Property Division
		4/2010	General Manager, Launch Planning Group for Certification Association
		7/2010	Executive Vice President, Field Service Group (present position)
Takashi Sekino	Executive Officer	4/1982	Joined Advantest Corporation
(May 30, 1957)		4/1998	Manager, 1st R&D Department, ATE Technology Division
		6/1998	Manager, 2nd R&D Department, ATE 1st Technology Division
		6/2001	Manager, 3rd R&D Department, ATE 1st Technology Division
		11/2001	General Manager, ATE 1st Technology Division
		4/2005	General Manager, 1st Technology Division
		6/2006	Executive Officer (present position)
			Vice President, Technology Development Group
		5/2007	Senior Vice President, Technology Development Group
		6/2009	General Manager, 3rd Technology Division
		6/2011	Executive Vice President, ATE Unit Development Group (present position)
Soichi Tsukakoshi	Executive Officer	4/1983	Joined Advantest Corporation
(February 1, 1960)		4/2008	General Manager, Strategic Sales Division
		6/2008	Executive Officer (present position)
			Senior Vice President (Officer), Sales and Marketing Group
		1/2010	Leader, Domestic Account Sales Initiatives

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
			Senior Vice President, Sales Division 1
		6/2012	Senior Vice President (Officer), Production Group (present position)
Josef Schraetzenstaller	Executive Officer	11/1996	Joined Advantest (Europe) GmbH (currently Advantest Europe GmbH)
(June 16, 1957)		10/1997	Prokurist, Advantest (Europe) GmbH (currently Advantest Europe GmbH)
		4/2000	Managing Director, Advantest (Europe) GmbH (currently Advantest Europe GmbH)
		6/2008	Executive Officer, Advantest Corporation (present position) Europe Sales, Sales and Marketing Group
		4/2009	Leader, EU Account Sales Initiatives
		4/2012	Managing Director (CEO), Advantest Europe GmbH (present position)
R. Keith Lee	Executive Officer	8/1984	Joined Takeda Riken America, Inc. (currently Advantest America, Inc.)
(December 15, 1955)		7/1996	General Manager, Custom Design Engineering, Advantest America, Inc.
		1/2004	Chairman of the Board, President and CEO, Advantest America, Inc.
			Director, President and CEO, Advantest America Corporation (Holding Co.)
		6/2008	Executive Officer, Advantest Corporation (present position) America Sales, Sales and Marketing Group
		4/2009	Leader, US Account Sales Initiatives
		4/2012	Director, President and CEO, Advantest America, Inc. (Present position)
Makoto Nakahara (July 23, 1959)	Executive Officer	4/1983	Joined Advantest Corporation
		5/2002	Director, Chief Executive Officer and President, Advantest America Measuring Solutions, Inc.
		11/2006	Manager, Development Purchasing & Innovative Procurement Planning Department, Procurement Group
		1/2008	Manager, 1st Purchasing department, Production Group
		1/2010	General Manager, Global Marketing Division
		6/2011	Executive Officer (present position)
			Senior Vice President (Officer), Strategic Business Unit
		1/2012	Senior Vice President (Officer), Sales and Marketing Group (present position)
		4/2012	Division Manager, Sales Division 2 (present position)
Toshiyuki Okayasu (June 2, 1962)	Executive Officer	4/1987	Joined Advantest Corporation
		6/2007	Manager, 5th R&D Department, 1st Technology Division
		6/2009	Vice President, Technology Development Group
			General Manager, 2nd Technology Division

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
		6/2011	Executive Officer (present position)
			Executive Vice President, ATE System Development Group (present position)
Hans-Juergen Wagner	Executive Officer	1/1985	Joined Hewlett-Packard Company
(January 19, 1960)		6/2006	Vice President, Verigy Germany GmbH
		7/2011	Executive Officer (present position)
			EVP, SOC Products, Verigy Ltd.
		10/2011	Chairman of the Board, President and CEO, Verigy Ltd.
		4/2012	Managing Director (R&D, CTO), Advantest Europe GmbH (present position)
Yih-Neng Lee	Executive Officer	11/1983	Joined Hewlett-Packard Company
(June 23, 1958)		8/2005	VP and GM, Asia Sales Operation, Verigy (Shanghai) Co., Ltd.
		4/2012	Managing Director (CEO), Advantest (Singapore) Pte. Ltd. (present position)
		6/2012	Executive Officer (present position)
CH Wu	Executive Officer	7/1984	Joined Philips Electronic Taiwan Inc.
(February 26, 1961)		12/1990	Joined Advantest Taiwan Inc.
		6/2006	CEO, Advantest Taiwan Inc. (present position)
		6/2012	Executive Officer (present position)
Kazuhiro Yamashita	Executive Officer	4/1984	Joined Advantest Corporation
(December 18, 1961)		10/2011	Principal, Global Marketing, Strategic Business Unit
		6/2012	Executive Officer (present position)
			Executive Vice President, System Solution Group (present position)
Kenji Sato	Executive Officer	4/1985	Joined Yokogawa-Hewlett-Packard Company
(May 2, 1962)		6/2006	Representative Director and President, Verigy (Japan) K.K.
		4/2012	Joined Advantest Corporation
			Senior Vice President, Sales Division 1, Sales and Marketing Group (present position)
		6/2012	Executive Officer (present position)
			Senior Vice President (Officer), Sales and Marketing Group (present position)

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

6.B. COMPENSATION

Executive Compensation

The aggregate amount of compensation of all of the Company s directors and corporate auditors was approximately ¥590 million during fiscal 2011. Of the foregoing, the aggregate amount of compensation for the Company s directors (outside corporate directors excluded) was ¥494 million (¥278 million in fixed compensation, ¥101 million in bonus and ¥115 million in qualifying stock options), ¥57 million for the Company s corporate auditors (outside corporate auditors excluded) (¥38 million in fixed compensation,

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¥14 million in bonus and ¥5 million in qualifying stock options) and ¥39 million for outside directors and outside corporate auditors (¥29 million in fixed compensation and ¥10 million in qualifying stock options). The amount of compensation for Director Toshio Maruyama was ¥124 million (¥68 million in fixed compensation, ¥26 million in bonus and ¥30 million in qualifying stock options). The amount of compensation for Director Haruo Matsuno was ¥110 million (¥56 million in fixed compensation, ¥24 million in bonus and ¥30 million in qualifying stock options).

Compensation for directors and corporate auditors was authorized by resolutions of the general meeting of shareholders on June 27, 2007 and to the extent compensation is within the authorized range, further authorization is not required. For a description of the Company s equity-based compensation plans, see Share Ownership.

The amounts of compensation for directors and corporate auditors set forth above includes fixed compensation paid to two directors and two auditors who retired from their positions as of the closing of the 69th ordinary general meeting of shareholders, which was held on June 24, 2011.

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 of Japan (hereinafter in Item 6.C., Company Law) and the Company s articles of incorporation, and to the extent permitted by the laws and regulations, the Company may, by resolution of the Board of Directors, exempt liabilities of its directors (including persons who have previously 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 Standing Corporate Auditors and two outside corporate auditors. 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 at the general meetings of shareholders held in June 2003 in order to strengthen the auditing function of the board of corporate auditors. Corporate auditors are under a statutory duty to oversee the administration of 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.

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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.

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, 2010, March 31, 2011 and March 31, 2012. The increase of the number of employees as of March 31, 2012 is primarily due to the acquisition of Verigy as a wholly-owned subsidiary of Advantest.

	As of March 31,		
	2010	**2011**	**2012**
Full-Time Employees	3,151	3,163	4,464
By Category of Activity:			
Administrative	358	321	444
Sales	246	256	475
Customer Support	731	700	1,123
Manufacturing	579	674	829
Research and Development	1,139	1,121	1,510
Other	98	91	83
By Geographic Location:			
Japan	2,413	2,404	2,504
Asia (excluding Japan)	400	409	816
Americas	173	183	585
Europe	165	167	559

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

During the fiscal years ended March 31, 2010, 2011 and 2012, Advantest had an annual average of 217, 223 and 279 temporary employees, respectively.

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6.E. SHARE OWNERSHIP

The following table sets forth the beneficial ownership of shares of common stock of the Company as of March 31, 2012 of each of the Company s directors, corporate auditors and executive officers as of March 31, 2012 and of directors, corporate auditors and executive officers newly elected in June, 2012.

Name of Record/Beneficial Owner	Number of Shares
Toshio Maruyama	160,162
Haruo Matsuno	143,472
Naoyuki Akikusa	20,766
Yasushige Hagio	21,807
Yuichi Kurita	101,114
Shinichiro Kuroe	86,635
Sae Bum Myung	72,000
Yuri Morita	27,858
Akira Hatakeyama	20,652
Megumi Yamamuro	20,724
Masamichi Ogura	5,000
Hiroshi Nakamura	81,004
Yoshiaki Yoshida	76,928
Masao Shimizu	72,000
Hideaki Imada	73,146
Yasuhiro Kawata	61,151
Takashi Sugiura	75,748
Takashi Sekino	64,775
Soichi Tsukakoshi	61,508
Josef Schraetzenstaller	60,000
R. Keith Lee	60,000
Makoto Nakahara	26,480
Toshiyuki Okayasu	26,230
Hans-Juergen Wagner	30,000
Osamu Karatsu	0
Yih-Neng Lee	12,000
CH Wu	20,000
Kazuhiro Yamashita	4,000
Kenji Sato	6,000

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

The number of shares owned by the Company s directors, corporate auditors and executive officers include options that are currently exercisable for 1,401,000 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 executive officers reflects the number of shares that are owned through the director and corporate auditor stock ownership association and allocated to an individual director, corporate auditor or executive officer. For a description of this association, see Stock Ownership Associations. For a description of the unit share system, see Additional Information The Unit Share System.

Stock Option Plan

At the general ordinary meetings of shareholders or meeting of Board of Directors held in June 2008, June 2009, June 2010, June 2011, July 2011 and June 2012, the shareholders or the Board Directors of the Company approved stock option plans for selected directors, corporate auditors, executive officers and employees of

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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 of the Company. The following table shows selected information related to these stock options.

	Twentieth series	**Twenty-first series**	**Twenty-second series**
Date of grant	July 10, 2008	July 10, 2008	April 1, 2009
Number of shares to be issued/ delivered	182,000	522,000	12,000
Issuance price per unit (100 shares)	¥36,900	¥0	¥0
Exercise price per share	¥2,653	¥2,653	¥2,653
Beginning of exercise period	April 1, 2009	April 1, 2009	May 1, 2009
End of exercise period	March 31, 2013	March 31, 2013	March 31, 2013
Number of directors, corporate auditors and executive officers of the Company	13	15	0
Number of other employees	0	174	8

	Twenty-third series	**Twenty-fourth series**	**Twenty-fifth series**
Date of grant	July 10, 2009	July 12, 2010	July 12, 2011
Number of shares to be issued/ delivered	338,000	308,000	988,000
Issuance price per unit (100 shares)	¥41,700	¥53,500	¥49,600
Exercise price per share	¥1,844	¥2,089	¥1,529
Beginning of exercise period	April 1, 2010	April 1, 2011	April 1, 2012
End of exercise period	March 31, 2014	March 31, 2015	March 31, 2016
Number of directors, corporate auditors and executive officers of the Company	25	23	23
Number of other employees	0	0	228

	Twenty-sixth series	**Twenty-seventh series**
Date of grant	August 16, 2011	July 12, 2012
Number of shares to be issued/ delivered	658,000	2,542,000
Issuance price per unit (100 shares)	¥26,100	to be determined
Exercise price per share	¥1,529	to be determined
Beginning of exercise period	April 1, 2012	April 1, 2013
End of exercise period	March 31, 2016	March 31, 2017
Number of directors, corporate auditors and executive officers of the Company	5	28
Number of other employees	55	325

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

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

Employee Stock Purchase Program

Since August 1, 2002, eligible employees of Advantest America Corporation and its U.S. subsidiaries are able to participate in an employee stock purchase program. Under the program, each eligible employee may authorize payroll deductions of up to 15% of their base salary toward the purchase of ADRs representing shares of common stock of the Company. In addition, the Company will make an additional contribution equal to 15% of each eligible employee s payroll deductions toward the purchase of the ADRs.

Stock Ownership Associations

The Company s director and corporate auditor stock ownership association is a partnership formed by the current and former directors, executive officers and corporate auditors of the Company for the purpose of acquiring the Company s shares of common stock. Only current directors, executive officers and corporate auditors and company advisors that formerly were directors, corporate auditors and executive officers of the Company may join the director and corporate auditor stock ownership association. The Company established its director and corporate auditor stock ownership association in 1983. Any member of the association may request that record ownership of the stock held by that member be transferred, in lots of a single unit, to that member. As of March 31, 2012, 23 current and former directors, executive officers, corporate auditors and company advisors were members of the director, executive officer and corporate auditor stock ownership association, and the association held 34,416 shares of the Company s common stock. The Company also has an employee stock ownership association for other employees in Japan. As of March 31, 2012, the association had 557 members and held 457,816 shares of the Company s common stock.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. MAJOR SHAREHOLDERS

As of March 31, 2012, 173,271,380 shares of the Company s common stock were outstanding. Beneficial ownership of the Company s common stock in the table below was prepared from publicly available records of the filings made by the Company s shareholders regarding their ownership of the Company s common stock under the Financial Instruments and Exchange Law of Japan.

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

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

Name of Beneficial Owner	Number of Shares	Percentage of Outstanding Shares
Fujitsu Limited	20,142,792	10.09%
The Bank of Tokyo-Mitsubishi UFJ, Ltd., and its related entities	16,240,791	8.14%
Sumitomo Mitsui Trust Bank, Limited and its related entities	14,536,300	7.28%
Nomura Securities Co., Ltd. and its related entities	10,074,023	5.05%

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

The number of shares owned by The Bank of Tokyo-Mitsubishi UFJ, Ltd. and its related entities is based on reports filed under the Financial Instruments and Exchange Law of Japan stating that The Bank of Tokyo-Mitsubishi UFJ, Ltd. and its related entities held or were deemed to hold beneficially, as of December 12, 2011, 16,240,791 shares of the Company s common stock.

The number of shares owned by Sumitomo Mitsui Trust Bank, Limited and its related entities is based on reports filed under the Financial Instruments and Exchange Law of Japan stating that Sumitomo Mitsui Trust Bank, Limited and its related entities held or were deemed to hold beneficially, as of April 13, 2012, 14,536,300 shares of the Company s common stock.

The number of shares owned by Nomura Securities Co., Ltd. and its related entities is based on reports filed under the Financial Instruments and Exchange Law of Japan which state that Nomura Securities Co., Ltd. and its related entities held or were deemed to hold beneficially, as of April 13, 2012, 10,074,023 shares of the Company s common stock.

Based on information made publicly available on or after April 1, 2009, the following table describes transactions resulting in a 1% or more change in the percentage ownership held by major beneficial owners of the Company s common stock.

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Name of Shareholder	Date of Transaction	Shares Owned Prior to Transaction	Percentage	Number of Shares Changed	Shares Owned After the Transaction	Percentage
The Bank of Tokyo-Mitsubishi UFJ, Ltd. and its related entities	July 27, 2009	10,034,102	5.03%	4,535,136	14,569,238	7.30%
J.P.Morgan Securities Ltd. and its related entities	December 15, 2009				10,712,896	5.37%
Nomura Securities Co., Ltd. and its related entities	January 29, 2010	10,171,766	5.10%	(3,061,933)	7,109,773	3.56%
J.P.Morgan Securities Ltd. and its related entities	May 31, 2010	10,712,896	5.37%	(1,490,751)	9,222,145	4.62%
J.P.Morgan Whitefriars Inc. and its related entities	July 30, 2010				10,007,937	5.01%
Manning & Napier Advisors, Inc.	August 3, 2010				10,019,910	5.02%
J.P.Morgan Whitefriars Inc. and its related entities	September 15, 2010	10,007,937	5.01%	(1,153,468)	8,854,469	4.44%
Manning & Napier Advisors, Inc.	November 9, 2010	10,019,910	5.02%	2,168,660	12,188,570	6.11%
Manning & Napier Advisors, Inc.	March 10, 2011	12,188,570	6.11%	2,085,577	14,274,147	7.15%
The Sumitomo Trust and Banking Co., Ltd. and its related entities	April 15, 2011				13,703,400	6.87%
Manning & Napier Advisors, Inc.	May 27, 2011	14,274,147	7.15%	2,436,500	16,710,647	8.37%
Manning & Napier Advisors, Inc.	August 15, 2011	16,710,647	8.37%	(2,569,120)	14,141,527	7.09%
Manning & Napier Advisors, Inc.	August 18, 2011	14,141,527	7.09%	(2,044,900)	12,096,627	6.06%
Manning & Napier Advisors, Inc.	August 23, 2011	12,096,627	6.06%	(2,440,100)	9,656,527	4.84%
Nomura Securities Co., Ltd. and its related entities	April 13, 2012				10,074,023	5.05%

As of March 31, 2012, the Company had 173,271,380 outstanding shares of common stock. According to JPMorgan Chase Bank, depositary for the Company s ADSs, as of March 31, 2012, 720,843 shares of the Company common stock were held in the form of ADRs and there were three ADR holders of record in the U.S. According to the Company s register of shareholders, as of March 31, 2012, there were 51,373 holders of common stock of record worldwide. As of March 31, 2012, there were 82 record holders of the Company s common stock with addresses in the U.S., whose shareholdings represented 7.6% of the outstanding common stock on that date. Because some of these shares were held by brokers or other nominees, the number of record holders with addresses in the U.S. might not fully show the number of beneficial owners in the U.S.

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

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

7.B. RELATED PARTY TRANSACTIONS

Business Relationships

Advantest sells products to and purchases parts from Fujitsu Limited, which owns approximately 12% of the voting rights of Advantest, and its subsidiaries. Advantest sells products to Fujitsu and its subsidiaries in arm s-length transactions. Advantest purchases parts from Fujitsu and its subsidiaries after receiving competitive bids from several suppliers. Advantest derived net sales of ¥1,847 million in fiscal 2011 from the sale of products to Fujitsu and its subsidiaries. Advantest purchased parts from Fujitsu and its subsidiaries in the amount of ¥6,155 million in fiscal 2011. Advantest had receivables from Fujitsu and its subsidiaries in the amount of ¥459 million as of March 31, 2012. Advantest had payables to Fujitsu and its subsidiaries in the aggregate amount of ¥2,653 million as of March 31, 2012 Advantest expects to continue to engage in arm s-length transactions with Fujitsu and its subsidiaries in the future.

Mr. Akikusa, a Director of the Company since 2006, currently serves as a Senior Executive Advisor of Fujitsu Limited. Mr. Yamamuro, a Corporate Auditor of the Company since 2006, currently serves as a corporate auditor of Fujitsu Limited. Mr. Ogura, a Corporate Auditor of the Company since 2011, currently serves as a full-time standing corporate auditor of Fujitsu Limited.

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Loans

As of March 31, 2012, the Company has no outstanding loans to its directors and executive officers.

7.C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8.A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

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

5. Not applicable.

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

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

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

8.B. SIGNIFICANT CHANGES

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

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ITEM 9. THE OFFER AND LISTING

9.A. OFFER AND LISTING DETAILS

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

	Tokyo Stock Exchange Price Per Share		New York Stock Exchange Price Per ADS	
	High	Low	High	Low
Fiscal year ended March 31,				
2008	5,770	2,070	48.47	19.45
2009	3,100	996	29.71	10.82
2010	2,615	1,423	28.07	15.14
2011	2,516	1,179	26.89	15.86
2012	1,663	671	19.95	8.89
Financial quarter ended/ending				
June 30, 2010	2,516	1,860	26.89	20.58
September 30, 2010	2,020	1,571	22.72	18.87
December 31, 2010	1,916	1,456	22.68	18.32
March 31, 2011	1,924	1,179	22.90	15.86
June 30, 2011	1,663	1,387	19.95	17.17
September 30, 2011	1,591	802	19.36	10.38
December 31, 2011	970	718	12.23	9.25
March 31, 2012	1,323	671	15.99	8.89
Month ended				
December 31, 2011	899	718	11.30	9.25
January 31, 2012	882	671	11.43	8.89
February 29, 2012	1,186	837	14.20	11.34
March 31, 2012	1,323	1,047	15.99	13.08
April 30, 2012	1,349	1,104	16.69	13.78
May 31, 2012	1,386	1,040	17.22	13.44

9.B. PLAN OF DISTRIBUTION

Not applicable.

9.C. MARKETS

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

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

9.D. SELLING SHAREHOLDERS

Not applicable.

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9.E. DILUTION

Not applicable.

9.F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A. SHARE CAPITAL

Not applicable.

10.B. MEMORANDUM AND ARTICLES OF ASSOCIATION

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

General

The Company s authorized number of shares to be issued is 440,000,000 shares. The number of the Company s issued share capital as of March 31, 2012, including treasury shares, was 199,566,770. All of the issued shares are fully paid and non-assessable.

The Company s share registration agent is Tokyo Securities Transfer Agent Co., Ltd., located at 6-2, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-0004, Japan. The shares have no par value.

On June 27, 2012, the Company changed its share registration agent to Mitsubishi UFJ Trust and Banking Corporation, located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan.

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

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

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

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

Objects and Purposes

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

- the manufacture and sale of electric, electronic and physicochemical appliances and their applied equipment;
- the manufacture and sale of appliances, equipment and software related to any of the foregoing items;
- the lease and rental of equipment, appliances and other products incidental to each of the foregoing items;
- the temporary personnel service business; and
- any and all businesses incidental to any of the foregoing items.

Dividends

Dividends General

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

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

Dividends Interim cash dividends

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

Dividends Legal reserve

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

Dividends Distributable amount

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

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

(1) its liabilities;

(2) its stated capital;

(3) its additional paid-in capital and legal reserve;

(4) other amounts as provided for by an ordinance of the Ministry of Justice;

(5) (if the Company transferred its treasury stock after the end of the last fiscal year) the amount of the transfer price of its treasury stock after subtracting the book value thereof;

(6) (if the Company decreased its stated capital after the end of the last fiscal year) the amount of decrease in its stated capital (excluding the amount transferred to the additional paid-in capital or legal reserve);

(7) (if the Company decreased its additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of decrease in its additional paid-in capital or legal reserve (excluding the amount transferred to the stated capital);

(8) (if the Company cancelled its treasury stock after the end of the last fiscal year) the book value of its treasury stock so cancelled;

(9) (if the Company distributed surplus to shareholders after the end of the last fiscal year) the amount of the assets distributed to shareholders by way of such distribution of surplus; and

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

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

(1) the book value of its treasury stock;

(2) (if the Company transferred its treasury stock after the end of the last fiscal year) the amount of the transfer price of its treasury stock; and

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

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

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

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

Dividends Ex-dividend date and prescription

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

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

For information as to Japanese taxes on dividends, see Taxation Japanese Taxation.

Capital Accounts

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

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

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

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

Stock Split

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

Consolidation of Shares

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

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The Unit Share System

General

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

Voting Rights under the Unit Share System

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

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

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

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

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

Effect of the Unit Share System on Holders of ADRs

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

General Meeting of Shareholders

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

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

Voting Rights

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

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

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

(1) amendment of the articles of incorporation (except in cases in which a shareholders resolution is not required);

(2) acquisition of its own shares from a specific party;

(3) consolidation of shares;

(4) any issue or transfer of new or treasury shares at a specially favorable price (or any issue of stock acquisition rights, or bonds with stock acquisition rights at specially favorable conditions) to any persons other than shareholders;

(5) the removal of a corporate auditor;

(6) the exemption of liability of a director or corporate auditor with certain exceptions;

(7) a reduction of stated capital meeting certain conditions;

(8) a distribution of in-kind dividends which meets certain requirements;

(9) dissolution, merger, or consolidation with certain exceptions in which a shareholders resolution is not required;

(10) the transfer of the whole or a material part of the business;

(11) the taking over of the whole of the business of any other corporation with certain exceptions in which a shareholders resolution is not required;

(12) share exchange or share transfer for the purpose of establishing 100% parent-subsidiary relationships with certain exceptions in which a shareholders resolution is not required; or

(13) separating of the corporation with certain exceptions in which a shareholders resolution is not required.

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

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

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Rights to be Allotted Shares

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

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

Stock Acquisition Rights

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

Liquidation Rights

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

Liability to Further Calls or Assessments

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

Record Date

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

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

Repurchase by the Company of Shares

The Company may acquire its own shares (i) through a stock exchange on which such shares are listed or by way of tender offer (pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the Board of Directors), (ii) by purchase from a specific party (pursuant to a special resolution of a general meeting of shareholders), or (iii) from a subsidiary of the Company (pursuant to a resolution of the Board of Directors). When such acquisition is made by the Company from a specific party other than a subsidiary of the Company,

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any other shareholder may make a demand to a representative director, more than five calendar days prior to the relevant shareholders meeting, that the Company also purchase the shares held by such shareholder. However, under the Company Law, the acquisition of its own shares at a price not exceeding the then market price to be provided under an ordinance of the Ministry of Justice will not trigger the right of any shareholder to include him/her as the seller of his/her shares in such proposed purchase. Any such acquisition of shares must satisfy certain requirements and shall be integrated into regulations governing financial resources relating to the distribution of distributable surplus to shareholders. See Additional Information Memorandum and Articles of Association Dividends Distributable amount.

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

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

Disposal of the Shares by the Company

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

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

Acquisition or Disposition of Shares

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

Dividends and Proceeds of Sales

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

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Reporting of Substantial Shareholdings

Pursuant to the Financial Instruments and Exchange Law of Japan and regulations thereunder, a person or group of persons beneficially holding more than 5% of the total shares with voting rights (for this purpose shares issuable upon exercise of stock acquisition rights held by the person or persons are counted in the calculation of the holding and the total shares in issue) of a company listed on any Japanese stock exchange is required to file with the director of a competent local finance bureau, within five business days a report containing the identity of such person or persons, the purpose of such holding and certain other information prescribed by regulations. A similar report must also be made (with certain exceptions) if the percentage of such holding subsequently increases or decreases by 1% or more or if any change occurs in material matters set out in reports previously filed.

10.C. MATERIAL CONTRACTS

The material contracts entered into by the Company during the two years preceding this filing, which were not entered into in the ordinary course of business are as follows:

On March 28, 2011, Advantest and Verigy agreed to a business combination of the two companies. For more details of the contract, see Item 19 EXHIBITS -4.1 IMPLEMENTATION AGREEMENT BY AND BETWEEN ADVANTEST CORPORATION AND VERIGY LTD. On July 4, 2011, the Company acquired all outstanding ordinary shares of Verigy for US$15.00 per share in cash.

10.D. EXCHANGE CONTROLS

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

Exchange non-residents are:

- individuals who do not reside in Japan; and
- corporations whose principal offices are located outside Japan.

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

Foreign investors are:

individuals who are exchange non-residents;

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

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

In general, the acquisition of shares of a Japanese company (such as the shares of capital stock of the Company) by an exchange non-resident from a resident of Japan is not subject to any prior filing requirements. In certain limited circumstances, however, the Minister of Finance may require prior approval of an acquisition of this type. While prior approval, as described above, is not required, in the case where a resident of Japan

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transfers shares of a Japanese company (such as the shares of capital stock of the Company) for consideration exceeding ¥100 million to an exchange non-resident, the resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer, unless the transfer was made through a bank, securities company or financial futures trader licensed under Japanese law.

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

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

10.E. TAXATION

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

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

(1) an individual who is a citizen or resident of the United States;

(2) a corporation or other entity organized in or under the laws of the United States or any State thereof or the District of Columbia;

(3) an estate the income of which is subject to U.S. federal income tax without regard to its source; or

(4) a trust that is subject to the primary supervision of a U.S. court and the control of one or more U.S. persons, or that has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

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

(1) is a resident of the United States for purposes of the Treaty;

(2) does not maintain a permanent establishment in Japan (a) with which the Shares or ADSs are effectively connected and through which the U.S. Holder carries on or has carried on a business or (b) of which the Shares or ADSs form part of the business property; and

(3) is eligible for benefits under the Treaty with respect to income and gain derived in connection with the Shares or ADSs.

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

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

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

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

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

Japanese Taxation

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

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

In the absence of an applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to non-residents of Japan or non-Japanese corporations is generally 20%. With respect to dividends paid on listed shares issued by a Japanese corporation (such as the

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Shares) to any corporate or individual shareholders (including those shareholders who are non-Japanese corporations or non-residents of Japan, such as non-resident Holders), other than any individual shareholder who holds 5% or more of the total issued shares of the relevant Japanese corporation, the aforementioned 20% withholding tax rate is reduced to (i) 7% for dividends due and payable on or before December 31, 2013, and (ii) as a general rule, 15% for dividends due and payable on or after January 1, 2014. At the date of this annual report, Japan has income tax treaties, conventions or agreements whereby the above-mentioned 20% withholding tax rate is reduced, in most cases to 15% for portfolio investors with, among other countries, Australia, Belgium, Canada, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, New Zealand, Norway, Singapore, Spain, Sweden and Russia, and 10% for portfolio investors under the income tax treaty with, among others, France, the U.K., India, Australia, China, Pakistan, Vietnam, Poland, Romania, the Netherlands, Switzerland and the United States.

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

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

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

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

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

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U.S. Federal Income Taxation

U.S. Holders

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

Taxation of Dividends

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

Under current law, dividends received on shares or ADSs of certain foreign corporations in taxable years beginning before January 1, 2013 by non-corporate U.S. investors may be subject to U.S. federal income tax at lower rates than other types of ordinary income if certain conditions are met. Dividends received by non-corporate U.S. Holders with respect to Shares or ADSs are expected to be eligible for these reduced rates of tax. U.S. Holders should consult their own tax advisors regarding the eligibility of such dividends for a reduced rate of tax.

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

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

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

For U.S. foreign tax credit purposes, dividends included in gross income by a U.S. Holder in respect of Shares or ADSs will constitute income from sources outside the United States, and will generally be passive category income or, for certain U.S. Holders, general category income . Subject to generally applicable limitations under U.S. federal income tax law and the Treaty, any Japanese withholding tax imposed in respect of the Company dividend may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, or if the U.S. Holder does not elect to claim a foreign tax credit for any foreign taxes paid during the taxable year, as a deduction from such U.S. Holder s taxable income. Special rules generally will apply to the calculation

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of foreign tax credits in respect of dividend income that qualifies for preferential tax rates of U.S. federal income tax. Additionally, special rules may apply to individuals whose foreign source income during the taxable year consists entirely of qualified passive income and whose creditable foreign taxes paid or accrued during the taxable year do not exceed $300 ($600 in the case of a joint return). Further, under some circumstances, a U.S. Holder that:

(i) has held Shares or ADSs for less than a specified minimum period, or

(ii) is obligated to make payments related to the Company dividends,

will not be allowed a foreign tax credit for Japanese taxes imposed on the Company dividends. Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances. The U.S. Internal Revenue Service (the IRS) has expressed concern that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of ADSs. Accordingly, investors should be aware that the discussion above regarding the creditability of Japanese withholding tax on dividends could be affected by future actions that may be taken by the IRS.

Taxation of Capital Gains

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

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

PFIC

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

Based on current estimates of its income and assets, the Company does not believe that it will be a PFIC for its current taxable year, and intends to continue its operations in such a manner that it will not become a PFIC in the future. However, because the PFIC determination is made annually at the close of the taxable year, the

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

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

Non-U.S. Holders

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

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

A Non-U.S. Holder generally will not be subject to U.S. federal income tax in respect of gain recognized on a sale or other taxable disposition of Shares unless (i) the gain is effectively connected with a trade or business conducted by the Non-U.S. Holder within the United States (and, if an applicable tax treaty requires, is attributable to a U.S. permanent establishment or fixed base of such Non-U.S. Holder), or (ii) the Non-U.S. Holder is an individual who was present in the United States for 183 or more days in the taxable year of the disposition and other conditions are met.

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

Backup Withholding and Information Reporting

In general, except in the case of certain exempt recipients, information reporting requirements will apply to dividends paid to a U.S. Holder in respect of Shares or ADSs, and to the proceeds received by a U.S. Holder upon the sale, exchange or redemption of Shares or ADSs within the

United States or through certain U.S.-related financial intermediaries. Furthermore, backup withholding (currently at a rate of 28%) may apply to such payments or proceeds if a U.S. Holder fails to provide an accurate tax identification number and make appropriate certifications in the required manner.

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

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

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

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

10.F. DIVIDENDS AND PAYING AGENTS

Not applicable.

10.G. STATEMENT BY EXPERTS

Not applicable.

10.H. DOCUMENTS ON DISPLAY

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

10.I. SUBSIDIARY INFORMATION

Not applicable.

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ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Exchange Rate Risk

The tables below summarize information as of March 31, 2012 and March 31, 2011 on instruments and transactions that are sensitive to foreign currency exchange rates, including assets and liabilities denominated in U.S. dollars, Euros, New Taiwan dollars and Korean won, and forward contracts. The information in each table is presented in Japanese yen equivalents, which is the Company s reporting currency.

Foreign Currency Denominated Assets and Liabilities

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

	As of March 31, 2012 Assets and Liabilities Denominated in			
	U.S.$	Euro	NT$	KRW
	(in millions)			
Cash, cash equivalents and short-term investments	¥ 23,913	¥ 3,920	¥ 927	¥ 1,220
Accounts receivable	8,822	169	486	974
Accounts payables and accruals	(7,105)	(290)	(162)	(444)

	As of March 31, 2011 Assets and Liabilities Denominated in			
	U.S.$	Euro	NT$	KRW
	(in millions)			
Cash, cash equivalents and short-term investments	¥ 26,680	¥ 5,646	¥ 1,512	¥ 1,281
Accounts receivable	12,711	171	1,256	439
Accounts payables and accruals	(1,628)	(387)	(306)	(223)

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

	As of March 31, 2012 Yen Value of Cross Currency Assets and Liabilities (in millions)
Cash and cash equivalents and short-term investments	¥ 1,852
Accounts receivable	1,003
Accounts payables and accruals	(885)

	As of March 31, 2011 Yen Value of Cross Currency Assets and Liabilities (in millions)	
Cash and cash equivalents and short-term investments	¥	189
Accounts receivable		162
Accounts payables and accruals		(12)

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Foreign Exchange Contracts

Advantest uses foreign exchange forward contracts and currency options to manage currency exposure, resulting from changes in foreign currency exchange rates, on planned foreign currency transactions and trade receivables. Foreign exchange contracts have terms of a year. Foreign exchange forward contracts are presented by the notional balances with weighted average exchange rates. All of the foreign exchange forward contracts outstanding as of March 31, 2012 and March 31, 2011 are listed below.

	As of March 31, 2012		
	Contract Amounts	Fair Value	Average Contractual Exchange Rate
		(in millions)	
To sell Euro/receive Japanese yen	¥ 1	¥ (0)	¥ 108.66
To sell Japanese yen/receive Euro	234	1	¥ 109.18
To sell U.S. dollars/receive Euro	206	6	$ 1.3001
To sell Euro/receive U.S. dollars	10	(0)	$ 1.3072
To sell U.S. dollars/receive Singapore dollars	482	14	$ 0.7719
Total	¥ 933	¥ 21	

	As of March 31, 2011		
	Contract Amounts	Fair Value	Average Contractual Exchange Rate
		(in millions)	
To sell Euro/receive Japanese yen	¥ 123	¥ (6)	¥ 112.28
To sell Japanese yen/receive Euro	399	22	111.41
To sell U.S. dollars/receive Euro	67	3	1.3641
To sell Euro/receive U.S. dollars	19	(1)	1.3747
Total	¥ 608	¥ 18	

Interest Rate Risk

Advantest has no long-term debt obligations as of March 31, 2011 and March 31, 2012.

Securities Value Risk

The table below shows the acquisition price and fair value of securities that Advantest holds as of March 31, 2012 and March 31, 2011. Advantest does not hold or issue financial commodities with the purpose to trade. Advantest holds equity or debt securities as available-for-sale securities.

	As of March 31, 2011		As of March 31, 2012	
	Acquisition Price	Fair Value	Acquisition Price	Fair Value
		(in millions)		
Marketable Securities	¥ 4,309	¥ 5,608	¥ 3,422	¥ 5,479

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

12.A. DEBT SECURITIES

Not applicable.

12.B. WARRANTS AND RIGHTS

Not applicable.

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12.C. OTHER SECURITIES

Not applicable.

12.D. AMERICAN DEPOSITARY SHARES

Fees and Charges for Holders of American Depositary Receipts

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

(a) Depositing or substituting the underlying shares

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

(b) Receiving or distributing dividends

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

(c) Selling or exercising rights

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

(d) Withdrawing an underlying security

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

(e) Transferring, splitting or grouping receipts

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

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

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

(g) Expenses of the Depositary

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

(i) stock transfer or other taxes and other governmental charges (which are payable by holders or persons depositing stock);

(ii) cable, telex and facsimile transmission and delivery charges incurred at the request of persons depositing, or Holders delivering stock, ADRs or deposited securities (which are payable by such persons or holders);

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(iii) transfer or registration fees for the registration or transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;

(iv) expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars; and

(v) any other charge payable by any of the Depositary, any of the Depositary s agents, including, without limitation, the custodian, or the agents of the Depositary s agents in connection with the servicing of the stock or other deposited securities.

Fees and Other Payments Made by the Depositary to the Company

The Depositary has agreed to reimburse certain reasonable expenses of the Company related to the Company s ADR program and incurred by the Company in connection with the ADR program. In fiscal 2011, the Company received the following payments from JPMorgan Chase Bank, N.A., as depositary of the Company s ADS.

Category of Expenses (Direct Payments)	**Amount Reimbursed for FY2011**	
Listing fees	US$	38,000.00
Investor relations	US$	50,000.00
Total	US$	88,000.00

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

Advantest performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as of March 31, 2012. Disclosure controls and procedures are designed to ensure that the material financial and non-financial information required to be disclosed in the reports that Advantest files, or submits, under the Exchange Act is accumulated and communicated to its management including the chief executive officer and principal accounting and financial officer to allow timely decisions regarding required disclosure. The disclosure controls and procedures also ensure that the reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Commission s rules and forms. The evaluation was performed under the supervision of Advantest s Representative Director, President and CEO and Director and Senior Executive Officer. Advantest s disclosure and controls and procedures provide reasonable assurance that its objectives will be met. Managerial judgment was necessary to evaluate the cost-benefit relationship of possible controls and procedures. Advantest s Representative Director, President and CEO and Director and Senior Executive Officer have concluded that Advantest s disclosure controls and procedures are effective at the reasonable assurance level.

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

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

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

Advantest s management assessed the effectiveness of the company s internal control over financial reporting as of March 31, 2012. In making this assessment, it used the criteria set forth in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that, as of March 31, 2012, Advantest s internal control over financial reporting was effective based on those criteria.

Ernst & Young ShinNihon LLC, Advantest s independent registered public accounting firm, has issued an attestation report on the effectiveness of our internal control over financial reporting as of March 31, 2012. This report appears in Item 18.

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

This report appears in Item 18.

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(d) Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the year ended March 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Ernst & Young ShinNihon LLC served as the Company s independent registered public accounting firm for fiscal 2009, 2010 and 2011. The audited financial statements for these fiscal years are included in the respective year s annual report filed on Form 20-F.

The chart below sets forth the aggregate fees for professional services and other services rendered to Advantest by Ernst & Young ShinNihon LLC and its member firms in fiscal 2010 and 2011.

	Fiscal 2010	**Fiscal 2011**
	(in millions)	
Audit Fees(1)	¥ 279	¥ 372
Audit-Related Fees(2)	39	2
Tax Fees(3)	15	42
All Other Fees(4)		0
Total	¥ 333	¥ 416

(1) Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor reasonably can provide, and include the group audit; statutory audits; the issuance of consents; and assistance with and review of documents filed with the SEC.

(2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company s financial statements or that are traditionally performed by the external auditor, and include consultations concerning financial accounting and reporting standards; and review of security controls and operational effectiveness of systems.

(3) Tax Fees include fees billed for tax compliance services, including the preparation of original and amended tax returns and claims for refund; tax consultations, such as assistance in connection with tax audits and advice related to transfer pricing, and requests for rulings or technical advice from taxing authorities; and expatriate tax services.

(4) All Other Fees include fees billed for training; and process improvement and advice.

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Policies and Procedures of the Board of Corporate Auditors

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

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

Applications to provide services that require specific pre-approval by the board of corporate auditors will be submitted to the board of corporate auditors.

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

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

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

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

The following table sets forth Advantest s purchases of its common stock during fiscal 2011:

Period	(a) Total Number of Shares Purchased[1]	(b) Average Price Paid per Share (Yen)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
2011				
April 1 April 30	98	¥1,501	N/A	N/A
May 1 May 31	35	1,513	N/A	N/A
June 1 June 30	108	1,432	N/A	N/A
July 1 July 31	24	1,454	N/A	N/A

August 1 August 31	20	1,206	N/A	N/A
September 1 September 30	48	878	N/A	N/A
October 1 October 31	48	878	N/A	N/A
November 1 November 30	94	833	N/A	N/A
December 1 December 31	352	770	N/A	N/A
2012				
January 1 January 31	72	704	N/A	N/A
February 1 February 29	N/A	N/A	N/A	N/A
March 1 March 31	N/A	N/A	N/A	N/A
Total	899	¥ 998	N/A	N/A

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1 All purchases are made through repurchase of shares constituting less than one unit, which is 100 shares of common stock, or through repurchase of shares pursuant to a resolution of Board of Directors. The purchase of shares that are a fraction of a unit are made in accordance with the provisions of the Company s share handling regulations. The Company is required to comply with such requests pursuant to the Company Law. See Additional Information Memorandum and Articles of Association The Unit Share System.

2 The Company can repurchase its shares through stock exchanges where the Company s shares are listed or pursuant to a takeover bid when there is a resolution of Board of Directors in accordance to Article 41 of the Articles of Incorporation.

ITEM 16F. CHANGE IN REGISTRAINT S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

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

Pursuant to home country practices exemptions granted by the New York Stock Exchange, or the NYSE, the Company is permitted to follow certain corporate governance practices complying with Japanese laws, regulations and stock exchange rules in lieu of NYSE s listing standards. The SEC approved changes to the NYSE s listing standards related to corporate governance practices of listed companies in November 2003, as further amended in November 2004. The Company is exempted from the approved changes, except for requirements that (a) the Company s board of corporate auditors satisfy the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934 as amended, or the Exchange Act, (b) the Company must disclose significant differences in the corporate governance practices followed by the Company as compared to those followed by domestic companies under the NYSE listing standards, (c) the Company s CEO must notify the NYSE of any non-compliance with (a) and (b), and (d) the Company must submit annual and interim written affirmations to the NYSE. The Company s corporate governance practices and those followed by domestic companies under the NYSE listing standards, or NYSE Corporate Governance, have the following significant differences:

1. Directors. The Company currently has three outside directors on its Board of Directors. Unlike NYSE Corporate Governance, the Company Law of Japan and related legislation (hereinafter in Item 16G., the Company Law), do not require Japanese companies with 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

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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 two 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.

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

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

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,

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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), 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.

ITEM 16H. MINE SAFETY DISCLOSURE

None.

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PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

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

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ADVANTEST CORPORATION

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Advantest Corporation

We have audited the accompanying consolidated balance sheets of Advantest Corporation and subsidiaries as of March 31, 2011 and 2012, and the related consolidated statements of operations, comprehensive income (loss), stockholders equity, and cash flows for each of the three years in the period ended March 31, 2012. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advantest Corporation and subsidiaries at March 31, 2011 and 2012, and the consolidated results of its their operations and their cash flows for each of the three years in the period ended March 31, 2012, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, Advantest Corporation and its domestic subsidiaries elected to change the method of depreciating fixed assets from the fixed-percentage-on-declining base application to the straight line method, effective April 1, 2011.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Advantest Corporation s internal control over financial reporting as of March 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 27, 2012 expressed an unqualified opinion.

/s/ Ernst & Young ShinNihon LLC

Tokyo, Japan
June 27, 2012

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Advantest Corporation

We have audited Advantest Corporation and subsidiaries internal control over financial reporting as of March 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Advantest Corporation and subsidiaries management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Advantest Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2012, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Advantest Corporation and subsidiaries as of March 31, 2011 and 2012, and the related consolidated statements of operations, comprehensive income (loss), stockholders equity, and cash flows for each of the three years in the period ended March 31, 2012 and our report dated June 27, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young ShinNihon LLC

Tokyo, Japan
June 27, 2012

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ADVANTEST CORPORATION

AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2011 and 2012

	Yen (Millions)	
	2011	**2012**
Assets		
Current assets:		
Cash and cash equivalents	¥ 75,323	58,218
Short-term investments	12,651	
Trade receivables, net	22,707	24,119
Inventories	23,493	29,836
Other current assets	2,995	6,522
Total current assets	137,169	118,695
Investment securities	7,432	5,929
Property, plant and equipment, net	31,878	34,206
Intangible assets, net	874	15,794
Goodwill	645	36,496
Other assets	2,314	8,106
Total assets	¥ 180,312	219,226

See accompanying notes to consolidated financial statements.

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ADVANTEST CORPORATION

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Consolidated Balance Sheets

March 31, 2011 and 2012

	Yen (Millions)	
	2011	**2012**
Liabilities and Stockholders Equity		
Current liabilities:		
Trade accounts payable	¥ 11,729	15,659
Short term debt		25,000
Accrued expenses	7,329	12,068
Accrued warranty expenses	1,754	2,129
Customer prepayments	1,740	2,228
Other current liabilities	1,955	3,288
Total current liabilities	24,507	60,372
Accrued pension and severance costs	14,069	23,444
Other liabilities	3,604	3,858
Total liabilities	42,180	87,674
Commitments and contingent liabilities		
Stockholders equity:		
Common stock,		
Authorized 440,000,000 shares; issued 199,566,770 shares	32,363	32,363
Capital surplus	40,628	42,280
Retained earnings	183,009	179,081
Accumulated other comprehensive income (loss)	(18,270)	(22,574)
Treasury stock, 26,294,819 shares in 2011 and 26,295,390 shares in 2012, at cost	(99,598)	(99,598)
Total stockholders equity	138,132	131,552
Total liabilities and stockholders equity	¥ 180,312	219,226

See accompanying notes to consolidated financial statements.

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ADVANTEST CORPORATION

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Consolidated Statements of Operations

Years ended March 31, 2010, 2011 and 2012

	Yen (Millions)		
	2010	2011	2012
Net sales	¥ 53,225	99,634	141,048
Cost of sales	27,297	51,164	72,300
Gross profit	25,928	48,470	68,748
Research and development expenses	17,896	21,197	30,303
Selling, general and administrative expenses	19,671	21,162	37,608
Operating income (loss)	(11,639)	6,111	837
Other income (expense):			
Interest and dividend income	579	326	323
Interest expense	(4)	(3)	(153)
Impairment losses on investment securities	(316)	(512)	(2,254)
Other, net	1,454	(371)	(2,195)
Total other income (expense)	1,713	(560)	(4,279)
Income (loss) before income taxes and equity in earnings (loss) of affiliated company	(9,926)	5,551	(3,442)
Income taxes (benefit)	1,457	2,352	(1,240)
Equity in earnings (loss) of affiliated company	(71)	(36)	7
Net income (loss)	¥ (11,454)	3,163	(2,195)

	Yen		
	2010	2011	2012
Net income (loss) per share:			
Basic	¥ (64.09)	18.03	(12.67)
Diluted	(64.09)	18.03	(12.67)

See accompanying notes to consolidated financial statements.

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ADVANTEST CORPORATION

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Consolidated Statements of Comprehensive Income (Loss)

Years ended March 31, 2010, 2011 and 2012

	Yen (Millions)		
	2010	2011	2012
Comprehensive income (loss)			
Net income (loss)	¥ (11,454)	3,163	(2,195)
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	(2,614)	(3,231)	1,422
Net unrealized gains (losses) on investment securities:			
Net unrealized gains (losses) arising during the year	742	(311)	(216)
Less reclassification adjustments for net gains (losses) realized in earnings	34	252	818
Net unrealized gains (losses)	776	(59)	602
Pension related adjustment	1,566	(121)	(6,328)
Total other comprehensive income (loss)	(272)	(3,411)	(4,304)
Total comprehensive income (loss)	¥ (11,726)	(248)	(6,499)

See accompanying notes to consolidated financial statements.

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ADVANTEST CORPORATION

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Consolidated Statements of Stockholders Equity

Years ended March 31, 2010, 2011 and 2012

	Yen (Millions)		
	2010	**2011**	**2012**
Common stock			
Balance at beginning of year	¥ 32,363	32,363	32,363
Changes in the year			
Balance at end of year	32,363	32,363	32,363
Capital surplus			
Balance at beginning of year	40,320	40,463	40,628
Changes in the year Stock options	143	165	1,652
Balance at end of year	40,463	40,628	42,280
Retained earnings			
Balance at beginning of year	194,848	181,606	183,009
Changes in the year			
Net income (loss)	(11,454)	3,163	(2,195)
Cash dividends	(1,787)	(1,760)	(1,733)
Sale of treasury stock	(1)	(0)	(0)
Total changes in the year	(13,242)	1,403	(3,928)
Balance at end of year	181,606	183,009	179,081
Accumulated other comprehensive income (loss)			
Balance at beginning of year	(14,587)	(14,859)	(18,270)
Changes in the year Other comprehensive income (loss), net of tax	(272)	(3,411)	(4,304)
Balance at end of year	(14,859)	(18,270)	(22,574)
Treasury stock			
Balance at beginning of year	(89,328)	(89,331)	(99,598)
Changes in the year			
Purchases of treasury stock	(4)	(10,267)	(1)
Sale of treasury stock	1	0	1
Total changes in the year	(3)	(10,267)	0
Balance at end of year	(89,331)	(99,598)	(99,598)

Total stockholders equity			
Balance at beginning of year	163,616	150,242	138,132
Changes in the year			
Net income (loss)	(11,454)	3,163	(2,195)
Other comprehensive income (loss), net of tax	(272)	(3,411)	(4,304)
Cash dividends	(1,787)	(1,760)	(1,733)
Stock options	143	165	1,652
Purchases of treasury stock	(4)	(10,267)	(1)
Sale of treasury stock	0	0	1
Total changes in the year	(13,374)	(12,110)	(6,580)
Balance at end of year	¥ 150,242	138,132	131,552

See accompanying notes to consolidated financial statements.

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ADVANTEST CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended March 31, 2010, 2011 and 2012

	Yen (Millions)		
	2010	**2011**	**2012**
Cash flows from operating activities:			
Net income (loss)	¥ (11,454)	3,163	(2,195)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,314	4,209	6,838
Deferred income taxes	(148)	425	(3,663)
Stock option compensation expense	143	165	583
Impairment losses on investment securities	316	512	2,254
Changes in assets and liabilities, net of effect of acquisition:			
Trade receivables	(5,457)	(7,645)	616
Inventories	(6,942)	(7,285)	4,613
Trade accounts payable	6,525	1,146	902
Accrued expenses	(1,126)	2,540	39
Accrued warranty expenses	(8)	(1,040)	164
Customer prepayments	24	1,276	(1,815)
Accrued pension and severance costs	1,386	225	975
Other	(5,319)	1,616	2,991
Net cash provided by (used in) operating activities	(17,746)	(693)	12,302
Cash flows from investing activities:			
(Increase) decrease in short-term investments	13,881	(2,446)	14,387
Proceeds from sale of available-for-sales securities	2	6	10,717
Acquisition of subsidiary, net of cash acquired			(57,145)
Decrease of other investment in equity method investee			620
Proceeds from sale of property, plant and equipment	287	12	89
Purchases of property, plant and equipment	(2,798)	(3,138)	(5,931)
Purchases of intangible assets	(215)	(323)	(329)
Other	(333)	61	(78)
Net cash provided by (used in) investing activities	10,824	(5,828)	(37,670)
Cash flows from financing activities:			
Increase (decrease) in short term debt			25,466
Redemption of senior convertible notes of acquired subsidiary			(13,835)
Purchases of treasury stock	(4)	(10,268)	(1)
Dividends paid	(1,796)	(1,760)	(1,729)
Other	(3)	0	(14)
Net cash provided by (used in) financing activities	(1,803)	(12,028)	9,887

Net effect of exchange rate changes on cash and cash equivalents	(291)	(2,567)	(1,624)
Net change in cash and cash equivalents	(9,016)	(21,116)	(17,105)
Cash and cash equivalents at beginning of year	105,455	96,439	75,323
Cash and cash equivalents at end of year	¥ 96,439	75,323	58,218
Supplemental data:			
Cash paid during the year for:			
Income taxes	¥ 1,083	1,412	3,267
Interest	10	4	153

See accompanying notes to consolidated financial statements.

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ADVANTEST CORPORATION

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Notes to Consolidated Financial Statements

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

(a) Description of Business

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

Description of the business by segment is as follows:

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

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

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

(b) Principles of Consolidation

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

(c) Cash Equivalents

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

(d) Short-term investments

Short-term investments consist of time deposit with fixed maturities greater than three months and Japanese money trusts with fixed maturities of three months, which are carried at cost, based on the characteristics of its fixed maturities, fixed interest rates, restriction of early redemption and non negotiability. The Japanese money trusts amounted to ¥12,000 million at March 31, 2011. There is no balance for the Japanese money trusts at March 31, 2012.

(e) Allowance for Doubtful Accounts

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

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Notes to Consolidated Financial Statements (Continued)

(f) Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the average cost method.

(g) Investment Securities

Investment securities consist of debt securities, marketable and non-marketable equity securities. Fair value is determined based on quoted market prices, projected discounted cash flow or other valuation techniques as appropriate.

Debt and Marketable Equity Securities

Advantest classifies its debt and marketable equity securities as available-for-sale.

Available-for-sale securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a component of accumulated other comprehensive income (loss) until realized. A decline in the fair value of any available-for-sale security below cost that is deemed to be other than temporary results in an impairment loss. The impairment loss is charged to earnings and a new cost basis for the security is established. Dividend and interest income are recognized when earned.

On a periodic basis, Advantest evaluates the available-for-sale securities for possible impairment. Factors considered in assessing whether an indication of other than temporary impairment exists include: the degree of change in ratio of market prices per share to book value per share at the date of evaluation compared to the acquisition date, the financial condition and prospects of each investee company, industry conditions in which the investee company operates, the period of time the fair value of an available-for-sale security has been below the cost basis of the investment and other relevant factors. Advantest generally has the intention and ability to retain available-for-sale securities which it determines that their impairment is not other than temporary for a period of time sufficient to allow for any anticipated recovery in market value. The impairment to be recognized is measured based on the amount by which the carrying amount of the investment exceeds the fair value of the investment.

The cost of a security sold or the amount reclassified out of accumulated other comprehensive income (loss) into earnings is determined by the average cost method.

Non-marketable Equity Securities

Non-marketable equity securities are carried at cost. On a periodic basis, Advantest evaluates these investments for possible impairment. Non-marketable equity securities that have impairment indicators were evaluated to determine whether the investments were impaired and the impairment, if any, is other than temporary. If the impairment is other than temporary, Advantest recognizes an impairment loss to reduce the carrying amount to the fair value and a new cost basis for the security is established.

(h) Derivative Financial Instruments

All derivative instruments in the consolidated balance sheets are stated at fair value. The accounting for changes in the fair value (that are, gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, the purpose for holding the instrument. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair values, cash flows, or foreign currencies.

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ADVANTEST CORPORATION

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Notes to Consolidated Financial Statements (Continued)

If the hedged exposure is a fair value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (loss) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of the gain or loss are reported in earnings immediately. If the derivative instrument is not designated as a hedge, the gain or loss is recognized in earnings in the period of change.

(i) Property, Plant and Equipment

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

On April 1, 2011, the Company and its domestic subsidiaries elected to change the method of depreciating fixed assets from the fixed-percentage-on-declining base application to the straight line method.

The Company analyzed the sales mixture of memory and non-memory business to evaluate the future production requirements and pattern of benefit from utilizing its fixed assets. Based on this analysis, Advantest management believes that the straight line method of depreciation is preferable as it better reflects the pattern of consumption of the future benefits to be derived from those assets being depreciated and provides a better matching of costs and revenues over the assets estimated useful lives, in light of product life cycles and current change in product mix to expand non-memory business. In accordance with Accounting Standards Codification (ASC) 250, Accounting Changes and Error corrections , this change in depreciation method represents a change in accounting estimate effected by a change in accounting principle.

Accordingly, the effects of the change are accounted for prospectively beginning with the period of change and prior period results have not been restated. The change in depreciation method reduced depreciation expense and resulted in decreases in loss before income taxes and equity in earnings of affiliated company and net loss by ¥560 million, respectively, for year ended March 31, 2012. Also basic net income per share and diluted net income per share decreased by ¥3.23, respectively, for year ended March 31, 2012.

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

(j) Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually. Intangible assets with definite useful lives are amortized over their respective estimated useful lives and reviewed for impairment.

Business combinations are accounted for using the acquisition method. Advantest allocates the purchase price to the assets acquired and liabilities assumed based on the estimated fair values at the date of acquisition, including intangible assets that can be identified and named. The purchase price in excess of the fair value of the net assets is recorded as goodwill. Acquisition costs are expensed as incurred.

Intangible assets consist of customer relationships, patented technologies, developed technologies and other intangible assets. Advantest has estimated the weighted average amortization period for the customer relationship, patented technologies and developed technologies to be 8 years, 9 years and 8 years, respectively. The weighted average amortization period for all intangible assets is approximately 8 years.

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ADVANTEST CORPORATION

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Notes to Consolidated Financial Statements (Continued)

(k) Impairment of Long-Lived Assets

Advantest reviews impairment of long-lived assets including certain identifiable intangibles with definite useful lives whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In such circumstances, if the carrying value of the asset is less than the estimated undiscounted cash flows expected to be generated by the asset or asset group, Advantest recognizes an impairment loss. The impairment loss recognized is the amount by which the carrying amount of the asset or asset group exceeds the fair value.

(l) Accrued Warranty Expenses

Advantest s products are generally subject to warranty, and Advantest provides an allowance for such estimated costs when product revenue is recognized. To provide for future repairs during warranty periods, estimated repair expenses over the warranty period are accrued based on the historical ratio of actual repair expenses to corresponding sales, and any facts and circumstances that occurred.

(m) Accrued Pension and Severance Costs

The Company and certain of its subsidiaries have retirement and severance defined benefit plans covering substantially all of their employees. Prior service benefit and cost, and actuarial gains and losses are recognized in accumulated other comprehensive income (loss) and are amortized using the straight-line method over the average remaining service period of active employees. The funded status, which is the difference between the fair value of plan assets and the projected benefit obligations, of its pension plans is recognized in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax. The adjustment to accumulated other comprehensive income (loss) represents the unrecognized actuarial loss, and unrecognized prior service cost. These amounts will be subsequently recognized as net periodic benefit cost pursuant to Advantest s accounting policy for amortizing such amounts.

(n) Revenue Recognition

In October 2009, the Financial Accounting Standards Board (FASB) amended the accounting guidance for revenue recognition under multiple-deliverable arrangements. The guidance modifies the criteria for separating deliverables and allocating consideration in multiple-deliverable arrangements. The allocation of revenue is based on estimated selling price if neither vendor-specific objective evidence nor third-party evidence of selling price is available. The guidance was adopted by the Company and its subsidiaries (collectively, Advantest) in the first quarter 2011. The adoption of the guidance did not have a significant impact on its consolidated results of operations and financial condition.

In October 2009, the FASB amended accounting guidance for software revenue recognition. This guidance changes the accounting model for revenue arrangements that include both tangible products and software elements. It provides guidance on how to determine which software, if any, relating to the tangible product would be excluded from the scope of the software revenue guidance. The guidance was adopted by Advantest in the first quarter 2011. The adoption of the guidance did not have a significant impact on its consolidated results of operations and financial condition.

General

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

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ADVANTEST CORPORATION

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Notes to Consolidated Financial Statements (Continued)

Sales of Products

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

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

Long-term Service Contracts

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

Leasing Income

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

Multiple Deliverables

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

(o) Shipping and Handling Costs

Shipping and handling costs totaled ¥741 million, ¥929 million and ¥1,409 million for the years ended March 31, 2010, 2011 and 2012, respectively, and are included in selling, general and administrative expenses in the consolidated statements of operations.

(p) Research and Development Expenses

Research and development costs are expensed as incurred.

(q) Advertising Costs

Advertising costs totaled ¥80 million, ¥104 million and ¥178 million for the years ended March 31, 2010, 2011 and 2012, respectively, and are expensed as incurred.

(r) Stock-Based Compensation

Advantest applies the fair-valued-based method of accounting for stock-based compensation and recognizes stock-based compensation expense in the consolidated statements of operations. The cost of employee services

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ADVANTEST CORPORATION

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Notes to Consolidated Financial Statements (Continued)

received in exchange for an award of equity instruments is measured based on the grant-date fair value of the stock options granted to employees. The cost is recognized on the straight line basis over the period during which an employee is required to provide service in exchange for the award. The Black Scholes pricing model is used to estimate the value of stock options.

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

(s) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss carryforwards and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Advantest records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

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

(t) Net Income (Loss) per Share

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares outstanding during the year. Diluted net income per share is calculated by dividing net income by the sum of the weighted average number of shares plus additional shares that would have been outstanding if potential dilutive shares had been issued for granted stock options.

(u) Foreign Financial Statements

The financial statements of foreign operations whose functional currency is a local currency are translated into Japanese Yen. Assets and liabilities are translated at the period-end exchange rates and revenues and expenses are translated at the average exchange rate for the period. Resulting translation adjustments are shown as a component of other comprehensive income (loss).

The financial statements of foreign operations whose functional currency is Japanese Yen are remeasured into Japanese Yen. All exchange gains and losses from remeasurement of monetary assets and liabilities denominated in the local currency are included in other income (expense) for the period in which the remeasurement is made.

ADVANTEST CORPORATION

AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(v) Foreign Currency Transactions

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated by using the applicable current rate prevailing at that date. All revenue and expenses associated with foreign currencies are translated by using the rate of exchange prevailing when such transactions occur. Those gains (losses) are included in other income (expense) in the accompanying consolidated statements of operations.

Foreign exchange gains (losses) were ¥1,072 million, (¥508) million and (¥2,319) million for the years ended March 31, 2010, 2011 and 2012, respectively.

(w) Use of Estimates

Management of Advantest has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the periods to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP). Significant items subject to such estimates and assumptions include valuation of trade receivables, inventories, goodwill, long-lived assets and deferred tax assets, various accruals such as accrued warranty expenses, and assets and obligations related to employees retirement and severance plans. Actual results could differ from those estimates.

(x) New Accounting Standards

In June 2011, the FASB amended the accounting guidance for the presentation of comprehensive income. This new guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity and provides the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued its standard to defer the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income in the new standard on the presentation of comprehensive income. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The guidance is required to be adopted by Advantest in the first quarter beginning April 1, 2012. Other than enhanced disclosures, the adoption of the guidance is not expected to have a material impact on its consolidated results of operations and financial condition.

In September 2011, the FASB amended the accounting guidance for testing goodwill for impairment. This new guidance gives entities the option to perform the two-step process only if they first perform a qualitative assessment to determine whether it is more likely than not (a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount and conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. The guidance is required to be adopted by Advantest in the first quarter beginning April 1, 2012. Advantest is currently evaluating the effect that this adoption will have on its consolidated results of operations and financial condition but does not expect to have a material impact.

(y) Reclassifications

Certain reclassifications have been made to the prior years consolidated financial statements to conform to the current year presentation.

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(2) Business Combinations

On July 4, 2011, Advantest acquired all outstanding ordinary shares of Verigy Ltd. (collectively Verigy), for US$15.00 per share in cash. Verigy became a wholly-owned subsidiary of Advantest. In addition, as part of the consideration in the acquisition, Advantest assumed the obligation for stock options which had been granted by Verigy to certain directors and employees.

Summary of the total purchase price is as follows.

	Yen (Millions)
Cash paid	77,661
Assumed stock options	1,068
Total purchase price	78,729

Acquisition-related costs for the year ended March 31, 2012 were ¥1,285 million. These costs are included in Selling, general and administrative expenses in the consolidated statements of operations. Acquisition related costs incurred in periods prior to March 31, 2011 were ¥656 million.

Verigy has historically been strong in the non-memory tester and research and development markets in North America and Europe. The complementary strengths in products, customer base, research and development, sales and service are expected to enhance combined company s competitiveness in the global market. The acquisition will allow Advantest to provide more and better diversified solutions to its customers in the semiconductor test equipment sector.

This acquisition was accounted for using the acquisition method.

The table below summarizes the allocation of the purchase price based on the fair value of assets acquired and liabilities assumed as follows.

	Yen (Millions)
Assets acquired and liabilities assumed	
Cash and cash equivalents	20,516

Trade receivable, net	2,104
Inventories	11,013
Property, plant and equipment	3,316
Intangible assets	16,899
Goodwill	35,140
Other assets	20,145
Trade accounts payable	(3,136)
Other liabilities	(27,268)
Net assets acquired	78,729
Purchase Price	78,729

Goodwill recognized is attributable primarily to expected synergies from combining operations of Verigy and Advantest. None of the goodwill is expected to be deductible for income tax purposes.

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Net Sales and loss before income taxes of Verigy that are included in the consolidated statements of operations for the year ended March 31, 2012 are ¥27,449 million and ¥5,181 million, respectively.

The following represents the unaudited pro forma results of operations of Verigy for the years ended March, 2011 and 2012, as if the acquisition of Verigy had occurred on April 1, 2010. The pro forma information does not necessarily reflect the actual results of operations had the acquisition been consummated at April 1, 2010, nor is it necessarily indicative of future operating results. The pro forma information does not give effect to any potential revenue enhancements, cost synergies or other operating efficiencies that could result from the acquisition (other than those realized subsequent to the July 4, 2011 acquisition date).

	Yen (Millions)	
	Year ended March 31, 2011	Year ended March 31, 2012
Pro forma net sales	146,704	149,916
Pro forma income (loss) before income taxes	(2,599)	(1,862)

The pro forma result for the year ended March 31, 2011 includes an increase in cost of sales by ¥3,804 million due to the acquired inventory fair value adjustment and amortization expense related to intangible assets of ¥2,792 million.

(3) Trade Receivables

Trade receivables at March 31, 2011 and 2012 were as follows:

	Yen (Millions)	
	2011	2012
Notes	¥ 2,021	157
Accounts	20,838	24,445
	22,859	24,602
Less allowance for doubtful accounts	152	483
	¥ 22,707	24,119

(4) Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts for the years ended March 31, 2010, 2011 and 2012 were as follows:

	Yen (Millions)		
	2010	**2011**	**2012**
Balance at beginning of year	¥ 585	246	152
Provision for (reversal of) allowance	(255)	(90)	331
Amounts written off	(84)	(4)	
Balance at end of year	¥ 246	152	483

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(5) Inventories

Inventories at March 31, 2011 and 2012 were composed of the following:

	Yen (Millions)	
	2011	**2012**
Finished goods	¥ 5,681	8,318
Work in process	12,243	11,303
Raw materials and supplies	5,569	10,215
	¥ 23,493	29,836

(6) Property, Plant and Equipment

Property, plant and equipment at March 31, 2011 and 2012 were composed of the following:

	Yen (Millions)	
	2011	**2012**
Land	¥ 16,138	14,035
Buildings	28,156	24,383
Machinery and equipment	14,638	20,595
Tools, furniture and fixtures	14,130	14,216
Construction in progress	42	363
	73,104	73,592
Less accumulated depreciation	41,226	39,386
	¥ 31,878	34,206

Depreciation expense was ¥4,101 million, ¥3,977 million and ¥4,326 million for the years ended March 31, 2010, 2011 and 2012, respectively.

(7) Goodwill and Intangible Assets

The components of intangible assets excluding goodwill at March 31, 2011 and 2012 were as follows:

	Yen (Millions)			
	2011		2012	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Intangible assets subject to amortization:				
Software	¥ 2,338	1,698	¥ 2,704	1,998
Customer relationships			2,227	215
Patented technologies			4,365	389
Developed technologies			6,238	603
In-process technologies			1,726	
Other	54	44	1,690	175
Total	¥ 2,392	1,742	¥ 18,950	3,380

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Intangible assets not subject to amortization at March 31, 2011 and 2012 were insignificant.

Aggregate amortization expense for the years ended March 31, 2010, 2011 and 2012 was ¥213 million, ¥232 million and ¥2,512 million, respectively. Estimated amortization expense for the next five years ending March 31 is ¥2,392 million in 2013, ¥2,227 million in 2014, ¥2,157 million in 2015, ¥1,927 million in 2016, and ¥1,817 million in 2017, respectively.

Goodwill at March 31, 2010 and 2011 was ¥645 million. Goodwill was related to the semiconductor and component test system segment. Changes in the carrying amount of goodwill for the year ended March 31, 2012 were as follows:

	Yen (Millions) 2012			
	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Total
Balance at beginning of year	¥ 645			645
Acquisition of Verigy	20,844		14,296	35,140
Translation adjustments	422		289	711
Balance at end of year	21,911		14,585	36,496

Advantest performed its annual impairment test for goodwill at the reporting unit level and identified no impairments at March 31, 2010, 2011 and 2012.

(8) Investment Securities

Marketable equity securities are classified as available-for-sale securities. The acquisition cost, gross unrealized gains, gross unrealized losses and fair value at March 31, 2011 and 2012 were as follows:

Yen (Millions)
2011

	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Fair value
Noncurrent:				
Available-for-sale:				
Equity securities	¥ 4,309	1,455	156	5,608

	Yen (Millions) 2012			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Fair value
Noncurrent:				
Available-for-sale:				
Equity securities	¥ 3,422	2,248	191	5,479

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Equity securities consist primarily of stocks issued by Japanese listed companies.

No proceeds from the sale of available-for-sale securities and no gross gains and losses were realized on the sale of available-for-sale securities for the year ended March 31, 2010. Proceeds from the sale of available-for-sale securities and gross realized gains on the sale of available-for-sale securities for the year ended March 31, 2011 were insignificant. No losses were realized on the sale of available-for-sale securities for the year ended March 31, 2011. Proceeds from the sale of available-for-sale securities and gross realized gains on available-for-sales securities for the year ended March 31, 2012 were ¥10,717 million and ¥19 million. Gross realized losses on the sale of available-for-sale securities for the year ended March 31, 2012 were insignificant.

Net realized gains and losses of the sale of available-for-sale securities are based on the averaged cost method and are included in other income (expense) in the consolidated statements of operations.

For the years ended March 31, 2010, 2011 and 2012, Advantest recognized impairment losses of ¥57 million, ¥426 million and ¥1,259 million, respectively, on available-for-sale securities, which were considered other-than-temporarily impaired and wrote them down to the fair value.

Gross unrealized losses on available-for-sale securities and the fair value of the related securities, aggregated by length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2011 and 2012, were as follows:

	Yen (Millions) 2011			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Noncurrent:				
Available-for-sale:				
Equity securities	¥ 2,019	130	237	26

	Yen (Millions) 2012			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses

Noncurrent:				
Available-for-sale:				
Equity securities	¥ 825	178	179	13

Advantest maintains non-marketable equity securities, which are recorded at cost. The carrying amounts of non-marketable equity securities were ¥1,824 million and ¥450 million at March 31, 2011 and 2012, respectively. Advantest had not estimated the fair value of other non-marketable equity securities aggregating ¥1,812 million and ¥50 million at March 31, 2011 and 2012, respectively, since it was not practicable to estimate the fair value of the investments due to the lack of readily determinable fair values and difficulty in estimating fair value without incurring excessive cost. Non-marketable equity securities that had impairment indicators were

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evaluated to determine whether the investments were impaired and the impairment, if any, was other than temporary. For the years ended March 31, 2010, 2011 and 2012, non-marketable equity securities with a purchase cost of ¥376 million, ¥98 million and ¥1,395 million were written down to their estimated fair values of ¥117 million, ¥12 million and ¥400 million, resulting in other-than-temporary impairment charges of ¥259 million, ¥86 million and ¥995 million, respectively, which were included in impairment losses on investment securities in the accompanying consolidated statements of operations.

(9) Derivative Financial Instruments

Advantest uses derivative instruments primarily to manage exposures to foreign currency. The primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency. The program is not designated for trading or speculative purposes. Derivative financial instruments contain an element of risk in the event the counterparties are unable to meet the terms of the agreements. However, Advantest minimizes risk exposure by limiting the counterparties to major international banks and financial institutions meeting established credit guidelines. Management of Advantest does not expect any counterparty to default on its obligations and, therefore, does not expect to incur any losses due to counterparty default on its obligations. Advantest generally does not require or place collateral for these derivative financial instruments.

In accordance with U.S. GAAP, Advantest recognizes derivative instruments as either assets or liabilities on the balance sheet at fair value. Changes in fair value of the derivatives are recorded as cost of sales, operating expenses, other income (expense), or as accumulated other comprehensive income (loss).

Cash Flow Hedges

Advantest uses forward contracts designated as cash flow hedges to hedge a portion of future forecasted purchases in Singapore dollar and Euro. Changes in the fair value of derivatives that do not qualify for hedge accounting treatment, as well as the ineffective portion of hedges, if any, are recognized in the consolidated statement of operations. The effective portion of the foreign exchange gain (loss) is reported as a component of accumulated other comprehensive income (loss) in stockholders equity and is reclassified into the consolidated statement of operations when the hedged transaction affects earnings. Changes in fair value of foreign exchange contracts due to changes in time value are excluded from the assessment of effectiveness and are recognized in earnings. If the transaction being hedged fails to occur, or if a portion of any derivative is deemed to be ineffective, Advantest will recognize the gain (loss) on the associated financial instrument in other income (expense) in the consolidated statement of operations. Advantest did not have any ineffective hedges during the periods presented. There were no outstanding forward contracts in place that hedged future purchases at March 31, 2011 and 2012.

Derivatives not designated as hedging instruments

Other derivatives not designated as hedging instruments consist primarily of forward contracts to reduce Advantest s risk associated with exchange rate fluctuations, as gains and losses on these contracts are intended to offset exchange losses and gains on underlying exposures. Changes in fair value of foreign exchange contracts are recognized in earnings under the caption of other income (expense).

Advantest had foreign exchange contracts to exchange currencies among Japanese yen, US dollar and Euro at March 31, 2011 and 2012. The notional amounts of outstanding forward contracts for foreign currency purchases were approximately ¥142 million and ¥653 million, and the outstanding forward contracts for foreign currency sales were ¥466 million and ¥280 million at March 31, 2011 and 2012, respectively.

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Fair Value of Derivative Contracts

There were no derivatives designated as hedging instruments at March 31, 2011 and 2012. Fair values of derivatives not designated as hedging instruments at March 31, 2011 and 2012 were as follows:

Derivatives not designated as hedging instruments

	Yen (Millions)			
	March 31, 2011		March 31, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Assets				
Foreign exchange contracts	Other current assets	¥ 24	Other current assets	21
Liabilities				
Foreign exchange contracts	Other current liabilities	¥ 6	Other current liabilities	0

Effect of derivative instruments on the consolidated statements of operations

Derivatives designated as hedging instruments

There was no gain (loss) recognized in other comprehensive income (loss) and reclassified from accumulated other comprehensive income into cost of sales and operating expenses for the years ended March 31, 2010 and 2011. Amounts of gain (loss) recognized in other comprehensive income (loss) (for the effective portions) and reclassified from accumulated other comprehensive income into cost of sales and operating expenses for the year ended March 31, 2012 were as follows:

	Yen (Millions)		
	2012		
	Amount of gain (loss) recognized in OCI on derivatives (effective portion)	Location	Gain (loss) reclassified from accumulated OCI into earnings (effective portion)

Foreign exchange contracts	¥ (55)	Cost of Sales	¥	30
		Operating Expenses		25

Derivatives not designated as hedging instruments

The effects of derivatives not designated as hedging instruments on the consolidated statements of operations for the years ended March 31, 2010, 2011 and 2012 were as follows:

	Location of gain (loss) recognized in income on derivatives	Yen (Millions) Amount of gain (loss) recognized in income on derivatives		
		2010	**2011**	**2012**
Foreign exchange contracts	Other income (expense)	¥ 361	223	630

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(10) Fair Value Measurement

Disclosure about the fair value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of Advantest s financial instruments at March 31, 2011 and 2012. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

	Yen (Millions)			
	2011		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Investment securities				
Available-for-sale securities	¥ 5,608	5,608	¥ 5,479	5,479
Foreign exchange contracts	24	24	21	21
Financial liabilities:				
Foreign exchange contracts	6	6	0	0

The carrying amounts of available-for-sale securities are included in the consolidated balance sheets under investment securities. The carrying amounts of foreign exchange contracts are included in other current assets and other current liabilities.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, short-term investments, trade receivables, trade accounts payable, short term debt, accrued expenses and customer prepayments: The carrying amounts approximate fair value because of the short maturity of these instruments.

Available-for-sale securities: The fair values of available-for-sale equity securities are based on quoted market prices at the reporting date for those investments.

Foreign exchange contracts: The fair value of foreign exchange contracts are estimated by obtaining quotes from financial institutions.

Fair Value Hierarchy

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally the inputs to valuation techniques used to measure fair value are prioritized into the following three levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3 Unobservable inputs for the asset or liability.

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Assets / Liabilities Measured at Fair Value on a Recurring Basis

As of March 31, 2011 and 2012, carrying amount of assets and liabilities that were measured at fair value on a recurring basis by level was as follows:

	Yen (Millions) Fair Value Measurements at March 31, 2011			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale equity securities	¥ 5,608	5,608		
Foreign exchange contracts	24		24	
Total assets measured at fair value	5,632	5,608	24	
Liabilities				
Foreign exchange contracts	6		6	
Total liabilities measured at fair value	¥ 6		6	

	Yen (Millions) Fair Value Measurements at March 31, 2012			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale equity securities	¥ 5,479	5,479		
Foreign exchange contracts	21		21	
Total assets measured at fair value	5,500	5,479	21	
Liabilities				

Foreign exchange contracts	0	0
Total liabilities measured at fair value	¥ 0	0

Adjustments to fair value of available-for-sale equity securities are recorded as an increase or decrease, net of tax, in accumulated other comprehensive income (loss) except where losses are considered to be other than temporary, in which case the losses are recorded in impairment losses on investment securities. Changes in fair value of foreign exchange contracts are recorded as cost of sales, operating expenses, other income (expense), or as other comprehensive income (loss).

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Changes in the Level 3 assets and liabilities measured on a recurring basis for the years ended March 31, 2011 and 2012 were as follows:

	Yen (Millions) 2011	
	Debt Securities	Total
Balance at beginning of year	¥ 411	411
Translation adjustments	(43)	(43)
Transfers out of Level 3	(368)	(368)
Balance at end of year	¥	

	Yen (Millions) 2012	
	Debt Securities	Total
Balance at beginning of year	¥	
Acquisition of Verigy	1,685	1,685
Sales	(1,649)	(1,649)
Translation adjustments	(36)	(36)
Balance at end of year	¥	

During the year ended March 31, 2011, debt securities that were redeemable at the option of Advantest were transferred out of Level 3 due to a conversion into non-marketable common stocks.

Assets / Liabilities Measured at Fair Value on a Nonrecurring Basis

As of March 31, 2011 and 2012, carrying amount of assets and liabilities, which were measured at fair value on a nonrecurring basis by level during the years ended March 31, 2011 and 2012, was as follows:

Yen (Millions) Fair Value Measurements at March 31, 2011	Total gains (losses) for the year

	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	ended March 31, 2011
Assets					
Non-marketable equity securities	¥ 12			12	(86)
Total gains (losses) for assets held as of March 31, 2011					(86)

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	Yen (Millions)				
		Fair Value Measurements at March 31, 2012			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total gains (losses) for the year ended March 31, 2012
Assets					
Non-marketable equity securities	400		400	0	(995)
Assets held for sale	1,471			1,471	(920)
Total assets measured at fair value	1,871		400	1,471	
Total gains (losses) for assets held as of March 31, 2012					(1,915)

Advantest recognized impairment losses of non-marketable equity securities when their fair values were below the carrying amounts and the decline in fair values was considered to be other than temporary. The non-marketable equity securities are valued using the market and income approaches. The fair value of non-marketable equity securities is based on quoted prices in markets that are not active at the reporting date, or present value of expected future cash flows for those investments. For the year ended March 31, 2012, Advantest recognized an impairment loss of ¥920 million on certain building and land included as a corporate asset that was reclassified as assets held for sale. The fair value was determined based on a third-party appraisal using similar assets and sales. The impairment loss was included in selling, general and administrative expenses in the accompanying consolidated statements of operations. The fair value of the assets held for sale was reclassified to other current assets on the consolidated balance sheets. The fair value is classified as Level 3 because significant unobservable inputs were involved in the fair value measurements.

(11) Leases Lessor

Advantest provides leases that enable its customers to use semiconductor test systems. All leases are classified as operating leases. Lease terms range from 1 year to 5 years, and certain of the lease agreements are cancelable. The gross amount of machinery and equipment and the related accumulated depreciation under operating leases as of March 31, 2011 and 2012 were as follows:

	Yen (Millions)	
	2011	2012
Machinery and equipment	¥ 6,577	8,406
Less accumulated depreciation	4,640	4,841

	¥ 1,937	3,565

Depreciation of machinery and equipment held under operating leases is included with depreciation expense. These assets are included in property, plant and equipment.

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Future minimum lease income under noncancelable operating leases as of March 31, 2012 is as follows:

Year ending March 31	Yen (Millions)
2013	¥ 1,880
2014	1,049
2015	482
2016	312
2017	79
Thereafter	19
Total minimum lease income	¥ 3,821

(12) Leases Lessee

Advantest has several noncancelable operating leases, primarily for office space and office equipment. Rent expense, including rental payments for cancelable leases, for the years ended March 31, 2010, 2011 and 2012 was ¥1,227 million, ¥1,122 million and ¥1,565 million, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of March 31, 2012 are as follows:

Year ending March 31	Yen (Millions)
2013	¥ 775
2014	550
2015	460
2016	430
2017	88
Thereafter	19
	2,322
Less sublease income to be received in the future under noncancelable subleases	749
Net minimum lease payments	¥ 1,573

(13) Short term debt

Short term debt at March 31, 2011 and 2012 are as follows:

	Yen (Millions)		
	2011	2012	
Unsecured borrowing, with weighted average annual interest 0.38%		¥	25,000
		¥	25,000

On May 25, 2012, the Company issued under its existing domestic bond shelf registration ¥25,000 million of unsecured corporate bonds. The funds procured from this issuance were applied to repay short term debt outstanding at March 31, 2012. The bonds have interest rates and maturity dates as follows:

Amount	Interest rate	Maturity date
¥10,000 million	0.416% per annum	May 25, 2015
¥15,000 million	0.606% per annum	May 25, 2017

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(14) Income Taxes

The components of income before income taxes and equity in earnings (loss) of affiliated company and provision (benefit) for income taxes as shown in the consolidated statements of operations were as follows:

	Yen (Millions)		
	2010	2011	2012
Income before income taxes and equity in earnings (loss) of affiliated company:			
The Company and domestic subsidiaries	¥ (13,376)	(1,130)	(2,775)
Foreign subsidiaries	3,450	6,681	(667)
	¥ (9,926)	5,551	(3,442)

	Yen (Millions)		
	2010	2011	2012
Provision (benefit) for income taxes:			
Current:			
The Company and domestic subsidiaries	¥ 856	813	555
Foreign subsidiaries	818	1,160	1,841
Deferred:			
The Company and domestic subsidiaries	(272)	330	(1,513)
Foreign subsidiaries	55	49	(2,123)
	¥ 1,457	2,352	(1,240)

The Company and its domestic subsidiaries are subject to a number of income taxes, which in the aggregate resulted in statutory income tax rates of 40.5%, 40.4% and 40.4% for the years ended March 31, 2010, 2011 and 2012, respectively.

Amendments to the Japanese tax regulations were enacted into law on December 2, 2011. As a result of these amendments, the statutory income tax rate will be reduced to approximately 37.8% effective from the year beginning April 1, 2012, and to approximately 35.4% effective from the year beginning April 1, 2015. The adjustments of deferred tax assets and liabilities for these changes in the tax rate resulted in a net decrease of ¥5,160 million to deferred tax assets. However, there was a corresponding decrease to the valuation allowance.

The acquired company, Verigy, was a Singapore corporation and had negotiated tax incentives with the Singapore Economic Development Board (EDB), an agency of the Government of Singapore, which had been approved by Singapore s Ministry of Finance and Ministry of Trade and Industry. Subsequent to the acquisition, our reorganization of subsidiaries in Singapore was developed, and such tax incentives were terminated on March 31, 2012. New tax incentives were granted by the EDB effective April 1, 2012. Under the new incentive, a portion of the income we earn in Singapore during the incentive periods is subject to reduced rates of Singapore income tax. The incentive will expire on March 31, 2014. The Singapore corporate income tax rates that would apply, absent the incentive, is 17% for fiscal year ended March 31, 2012. Due to the low level of taxable income attributable to Singapore, the impact on our income taxes was immaterial for the fiscal year ended March 31, 2012.

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A reconciliation of the Japanese statutory income tax rate and the effective income tax rate as a percentage of income before income taxes was as follows:

	2010	2011	2012
Statutory rates for expense (benefit)	(40.5)%	40.4%	(40.4)%
Effects on income taxes resulting from:			
Earnings of foreign subsidiaries taxed at different rate from the statutory rate in Japan	(2.1)	(16.2)	12.3
Tax credits	5.5	(13.7)	(60.9)
Expenses not deductible for tax purposes	0.8	2.6	4.3
Expiration of stock options		11.0	9.5
Undistributed earnings of foreign subsidiaries	(1.1)	3.8	(20.0)
Change in valuation allowance	52.3	13.0	(92.1)
Effect of enacted changes in tax laws and rates on Japanese tax			149.9
Other, net	(0.2)	1.5	1.4
	14.7%	42.4%	(36.0)%

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2011 and 2012 were presented below.

	Yen (Millions)	
	2011	2012
Deferred tax assets:		
Inventories	¥ 4,356	3,820
Accrued warranty expenses	681	722
Accrued pension and severance costs	5,732	8,426
Accrued expenses	1,557	2,088
Research and development expenses capitalized for tax purposes	2,245	1,807
Operating loss carryforwards	30,352	31,800
Property, plant and equipment	3,054	3,449
Tax credits	3,616	5,873
Other	1,887	1,709
Total gross deferred tax assets	53,480	59,694
Less valuation allowance	(52,082)	(50,188)
Net deferred tax assets	1,398	9,506
Deferred tax liabilities:		
Intangible assets		(1,615)

Net unrealized gains on marketable securities	(528)	(676)
Undistributed earnings of foreign subsidiaries	(2,567)	(932)
Other	(22)	(57)
Total gross deferred tax liabilities	(3,117)	(3,280)
Net deferred tax assets (liabilities)	¥ (1,719)	6,226

At March 31, 2011, deferred tax liabilities were provided for all foreign subsidiaries with undistributed earnings. Management of Advantest intends to reinvest certain undistributed earnings of the Company s foreign

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subsidiaries for an indefinite period of time. As a result, no deferred tax liabilities has been recognized on undistributed earnings of these subsidiaries not expected to be remitted in the foreseeable future, aggregating ¥6,712 million at March 31, 2012. Deferred tax liabilities will be recognized when Advantest expects that it will realize those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. The related deferred tax liability would have been ¥1,134 million at March 31, 2012.

Included in other current assets and other assets were deferred tax assets of ¥354 million and ¥7,337 million at March 31, 2011 and 2012, respectively.

Included in other current liabilities and other liabilities were deferred tax liabilities of ¥2,073 million and ¥1,111 million at March 31, 2011 and 2012, respectively.

At March 31, 2012, Advantest had total net operating loss carry forwards for income tax purposes of ¥106,566 million which are available to reduce future income taxes. Operating losses of ¥78,354 million attributable to the Company and domestic subsidiaries in Japan will expire during the years ending March 31, 2015 through 2021. Other net operating losses of ¥24,300 million have no expiration dates and remaining other net operating losses of ¥3,912 million will expire predominately during the years ending March 31, 2032. Net operating loss carryforwards utilized during the years ended March 31, 2010, 2011 and 2012 were ¥2,421 million, ¥554 million and ¥25 million, respectively.

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

The changes in valuation allowance for the years ended March 31 were as follows:

	Yen (Millions)		
	2010	**2011**	**2012**
Balance at beginning of year	¥ 48,015	51,289	52,082
Additions	3,274	793	
Reductions			1,894

Balance at end of year	¥ 51,289	52,082	50,188

For the year ended March 31, 2010, valuation allowance increased primarily due to an increase in net operating loss carryforwards, which was partially offset by decreases in deferred tax assets associated with inventory and property, plant and equipment. For the year ended March 31, 2011, valuation allowance increased primarily due to an increase in net operating loss carryforwards, which was partially offset by decreases in deferred tax assets associated with inventory and research and development expenses capitalized for tax purposes. For the year ended March 31, 2012, the valuation allowance decreased due to reductions in deferred tax assets associated with change of tax rate in Japan.

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The amount of the deferred tax assets considered realizable, however, could be changed in the near term if estimates of future taxable income are revised and the effect on the company s consolidated financial position and results of operations could be significant.

There were no unrecognized tax benefits for the years ended March 31, 2010 and 2011. Unrecognized tax benefits for the year ended March 31, 2012 were as follows:

	Yen (Millions) 2012
Balance, April 1, 2011	¥
Acquisition of Verigy	1,671
Increase for tax positions of previous years	148
Increase for current year tax positions	57
Settlements	(47)
Lapse of the applicable statute of limitations	(341)
Translation adjustments	(4)
Balance, March 31, 2012	1,484

Although Advantest believes its estimates and assumptions of unrecognized tax benefits are reasonable, uncertainty regarding the final determination of tax audits, settlements and any related litigation could affect the effective tax rate in the future periods. The total amount of unrecognized tax benefits that would reduce the effective tax rate, if recognized, are ¥1,484 million at March 31, 2012. As of March 31, 2012, Advantest does not expect changes in its tax positions that would significantly increase or decrease unrecognized tax benefits within next 12 months. Both interest and penalties accrued are included in other liabilities in the accompanying consolidated balance sheets, and both interest and penalties are included in the income tax provision in the accompanying consolidated statements of operations.

Advantest files income tax returns in Japan and various foreign tax jurisdictions. As of March 31, 2012, Advantest had open tax years beginning April 1, 2007 for Japan, 2010 for Taiwan, and 2006 for the United States.

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(15) Other Comprehensive Income (Loss)

The accumulated balances for each classification of other comprehensive income (loss), net of tax, for the years ended March 31, 2010, 2011 and 2012 were as follows:

	Yen (Millions)				
	Foreign currency translation adjustments	Net unrealized gains (losses) on investment securities	Pension related adjustment	Net unrealized gains (losses) on derivative instruments	Accumulated other comprehensive income (loss)
Balance at March 31, 2009	¥ (8,893)	56	(5,750)		(14,587)
Change during the year	(2,614)	742	1,241		(631)
Reclassification adjustments		34	325		359
	(2,614)	776	1,566		(272)
Balance at March 31, 2010	¥ (11,507)	832	(4,184)		(14,859)
Change during the year	(3,231)	(311)	(401)		(3,943)
Reclassification adjustments		252	280		532
	(3,231)	(59)	(121)		(3,411)
Balance at March 31, 2011	¥ (14,738)	773	(4,305)		(18,270)
Change during the year	864	(216)	(6,565)	(55)	(5,972)
Reclassification adjustments	558	818	237	55	1,668
	1,422	602	(6,328)		(4,304)
Balance at March 31, 2012	¥ (13,316)	1,375	(10,633)		(22,574)

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The related tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2010, 2011 and 2012 were as follows:

	Yen (Millions)		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
Year ended March 31, 2010:			
Foreign currency translation adjustments	¥ (2,614)		(2,614)
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) arising during the year	1,224	(482)	742
Less reclassification adjustments for net gains (losses) realized in earnings	57	(23)	34
Net unrealized gains (losses)	1,281	(505)	776
Pension related adjustment	1,566		1,566
Other comprehensive income (loss)	¥ 233	(505)	(272)
Year ended March 31, 2011:			
Foreign currency translation adjustments	¥ (3,231)		(3,231)
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) arising during the year	(540)	229	(311)
Less reclassification adjustments for net gains (losses) realized in earnings	423	(171)	252
Net unrealized gains (losses)	(117)	58	(59)
Pension related adjustment	(121)		(121)
Other comprehensive income (loss)	¥ (3,469)	58	(3,411)
Year ended March 31, 2012:			
Foreign currency translation adjustments	¥ 1,422		1,422
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) arising during the year	(509)	293	(216)
Less reclassification adjustments for net gains (losses) realized in earnings	1,267	(449)	818
Net unrealized gains (losses)	758	(156)	602
Pension related adjustment	(7,191)	863	(6,328)
Other comprehensive income (loss)	¥ (5,011)	707	(4,304)

(16) Stock-Based Compensation

Advantest has stock-based compensation plans using stock options as incentive plans for directors, executive officers, corporate auditors and selected employees. Stock options have been issued to directors, executive officers, corporate auditors and certain employees of the Company and its subsidiaries under stock option plans approved by the Board of Directors. Options were generally granted with an exercise prices of per share that were equal to the higher of (1) 1.05 times the average price of the Company s common shares of the preceding month on the date of grant and (2) the closing price of the Company s common shares traded on the Tokyo Stock Exchange on the date of grant. The options have an exercise period of 4 years.

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In connection with the acquisition of Verigy, the Company assumed the stock options previously granted to Verigy directors and employees. Therefore, replacement options were granted for all 89 types of stock options arrangements previously granted to the directors and employees of Verigy and its subsidiaries under a stock option plan approved by the Board of Directors of Advantest. The terms and conditions of the granted options are substantially the same as those for the Verigy stock options. The number of granted shares totaled 2,387,046. Options were granted with exercise prices from ¥620 to ¥2,748 per share. All options are exercisable from July 20, 2011. The options have expiration dates from July 29, 2011 to January 31, 2018.

The exercise price of the stock options is subject to adjustment, if there is a stock split or consolidation of shares, or if new shares are issued or treasury stocks are sold at a price that is less than the market price.

Stock option activity during the years ended March 31, 2010, 2011 and 2012 was as follows:

	2010		2011		2012	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at beginning of year	3,938,980	¥ 4,804	3,060,000	¥ 4,647	1,948,000	¥ 3,392
Granted	350,000	1,872	308,000	2,089	4,033,046	1,399
Expired	(1,117,980)	4,309	(1,262,000)	5,881	(595,840)	5,302
Forfeited	(111,000)	4,854	(158,000)	5,287	(497,000)	2,396
Outstanding at end of year	3,060,000	4,647	1,948,000	3,392	4,888,206	1,616
Exercisable at end of year	2,722,000	¥ 4,995	1,640,000	¥ 3,636	3,585,206	¥ 1,648

Stock based compensation expense recognized was ¥143 million, ¥165 million and ¥583 million, which was included in selling, general and administrative expenses for the years ended March 31, 2010, 2011 and 2012, respectively. The recognized tax benefits were ¥53 million, ¥61 million and ¥153 million for the years ended March 31, 2010, 2011 and 2012, respectively. In addition, the stock options, granted during the fiscal years ended March 31, 2007 and 2008 subsequent to a change in Japanese tax law effective April 1, 2006, expired unused during the fiscal year ended March 31, 2011 and 2012, and the related deferred tax assets of ¥610 and ¥328 million were reversed, respectively. As of March 31, 2010, 2011 and 2012, a valuation allowance was recorded against substantially all related deferred tax assets.

The weighted average fair value per share for stock options that were granted during the years ended March 31, 2010, 2011 and 2012 were ¥409, ¥535 and ¥448, respectively. These figures were calculated based on the Black Scholes option pricing model by using the following weighted average estimates:

	2010	2011	2012
Expected dividend yield	2.6%	1.6%	0.4%
Risk free interest rate	0.5%	0.2%	0.5%
Volatility	45.3%	45.4%	49.3%
Expected life	3.8 years	3.9 years	3.1 years

No stock options were exercised during the years ended March 31, 2010, 2011 and 2012. The total fair value of shares vested during the years ended March 31, 2010, 2011 and 2012 was ¥ 251 million, ¥ 141 million and ¥ 1,244 million, respectively. No intrinsic value of options exercised was recognized for the years ended March 31, 2010, 2011 and 2012.

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At March 31, 2012, all of the outstanding stock options were as follows:

	Outstanding			Exercisable		
Exercise price	**Number of options**	**Weighted average exercise price**	**Weighted average remaining contractual life**	**Number of options**	**Weighted average exercise price**	**Weighted average remaining contractual life**
¥620 - ¥1,529	3,255,144	1,298	4.0 years	1,952,144	1,144	3.9 years
¥1,531 - ¥2,748	1,633,062	2,250	1.9 years	1,633,062	2,250	1.9 years
	4,888,206	1,616	3.3 years	3,585,206	1,648	3.0 years

The aggregate intrinsic value for the options outstanding and exercisable at March 31, 2012 was ¥ 455 million.

(17) Accrued Pension and Severance Costs

The Company and certain of its Japanese subsidiaries have unfunded retirement and severance plans (point-based benefits system). Under a point-based benefits system, the benefits are calculated based on accumulated points allocated to employees each year according to their job classification and their performance.

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

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

Information about the retirement and severance plans of Advantest for the years ended March 31 was as follows:

	Yen (Millions)			
	2010	2011	2012	
	Japanese plans	Japanese plans	Japanese plans	Non-Japanese plans
Components of net periodic benefit cost:				
Service cost	¥ 1,320	1,362	1,355	227
Interest cost	745	724	748	242
Expected return on plan assets	(280)	(486)	(405)	(237)
Amortization of unrecognized:				
Net actuarial (gain) or loss	560	487	511	
Prior service (benefit) cost	(176)	(176)	(172)	
Other			(18)	
Net periodic benefit cost	¥ 2,169	1,911	2,019	232

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The following table sets forth the plans benefit obligation, fair value of plan assets, funded status at March 31, 2011 and 2012.

	Yen (Millions)		
	2011	2012	
	Japanese plans	Japanese plans	Non-Japanese plans
Change in benefit obligation:			
Balance at beginning of year	¥ 33,100	34,285	230
Service cost	1,362	1,355	227
Interest cost	724	748	242
Actuarial (gain) or loss	(417)	2,464	2,349
Plan amendment		123	
Plan participants contributions			66
Benefits paid	(484)	(542)	(80)
Acquisition of Verigy			7,518
Translation adjustments			(338)
Balance at end of year	34,285	38,433	10,214
Change in plan assets:			
Balance at beginning of year	19,427	20,282	
Employer contributions	1,606	1,786	131
Plan participants contributions			66
Actual return or (loss) on plan assets	(331)	(1,594)	(278)
Benefits paid	(420)	(479)	(35)
Acquisition of Verigy			5,051
Translation adjustments			(299)
Balance at end of year	20,282	19,995	4,636
Funded status	¥ (14,003)	(18,438)	(5,578)

Amounts recognized in the consolidated balance sheets at March 31, 2011 and 2012 were as follows:

	Yen (Millions)		
	2011	2012	
	Japanese plans	Japanese plans	Non-Japanese plans
Accrued expenses	¥ (164)	(183)	(389)
Accrued pension and severance costs	(13,839)	(18,255)	(5,189)

	(14,003)	(18,438)	(5,578)

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Pension related adjustments (net of tax) recognized in accumulated other comprehensive income (loss) at March 31, 2011 and 2012 were as follows:

	Yen (Millions)		
	2011	2012	
	Japanese plans	Japanese plans	Non-Japanese plans
Actuarial loss	¥ (5,185)	(9,405)	(1,979)
Prior service benefit	880	751	
	(4,305)	(8,654)	(1,979)

Changes in pension related adjustments (net of tax) recognized in other comprehensive income (loss) for the year ended March 31, 2011 and 2012 were summarized as follows:

	Yen (Millions)		
	2011	2012	
	Japanese plans	Japanese plans	Non-Japanese plans
Current year actuarial gain (loss)	¥ (401)	(4,463)	(1,979)
Amortization of actuarial gain	369	243	
Current year prior service benefit		(123)	
Amortization of prior service benefit and other	(89)	(6)	
	(121)	(4,349)	(1,979)

The estimated prior service cost and actuarial loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next year are summarized as follow:

	Yen (Millions)	
	Japanese plans	Non-Japanese plans
Actuarial loss	¥ 791	¥ 241
Prior service benefit	(168)	

	623	241

Pension plans with accumulated benefit obligations in excess of plan assets at March 31, 2011 and 2012 were summarized as follows:

	Yen (Millions)		
	2011	2012	
	Japanese plans	Japanese plans	Non-Japanese plans
Projected benefit obligation	¥ 34,285	38,433	10,214
Accumulated benefit obligation	33,454	37,531	8,638
Fair value of plan assets	20,282	19,995	4,636

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Other information about the retirement and severance plans of Advantest was as follows:

Measurement date:

The measurement date for the pension plans is March 31.

Assumptions:

Weighted-average assumptions used to determine benefit obligations as of March 31:

	2011	2012	
	Japanese plans	Japanese plans	Non-Japanese plans
Discount rate	2.2%	1.8%	3.7%
Rate of compensation increase	3.0%	3.0%	2.8%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended March 31:

	2010	2011	2012	
	Japanese plans	Japanese plans	Japanese plans	Non-Japanese plans
Discount rate	2.3%	2.2%	2.2%	4.8%
Expected return on plan assets	1.5%	2.5%	2.0%	6.6%
Rate of compensation increase	3.0%	3.0%	3.0%	2.8%

Advantest determines the expected return based on the asset portfolio, historical returns and estimated future returns.

Plan assets:

Advantest s investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants by attaining necessary long-term total returns on plan assets. Taking into consideration the expected returns, associated risks and correlations of returns between asset categories in plan assets, Advantest determines an optimal combination of equity, debt securities and other investments as Policy Asset Allocation (PAA). Plan assets are invested in accordance with PAA with mid-term to long-term viewpoint, which is revised periodically to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

Japanese benefit plans weighted-average asset allocation at March 31, 2011 and 2012 by asset category were as follows:

	2011	**2012**	**Target**
Equity securities	45.3%	39.1%	45.0%
Debt securities	24.9	26.9	30.0
Cash	9.5	5.6	2.0
Life insurance company general accounts	11.7	16.3	10.0
Other	8.6	12.1	13.0
	100.0%	100.0%	100.0%

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Non-Japanese benefit plans weighted-average asset allocation at March 31, 2012 by asset category were as follows:

	2012	Target
Equity securities	38.4%	34.8%
Debt securities	12.3	14.0
Cash	42.4	47.3
Other	6.9	3.9
	100.0%	100.0%

The three levels of inputs that may be used to measure fair value of plan assets are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets.

Level 2: Observable inputs other than quoted prices included within Level 1 for the assets, either directly or indirectly.

Level 3: Unobservable inputs for the assets.

Japanese benefit plans asset allocation at March 31, 2011 and 2012 by asset level were as follows:

	Yen (Millions) Fair Value Measurements at March 31, 2011			
	Total	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	1,929	1,929		
Equity securities:				
Japanese companies	1,436	1,436		
Pooled funds (a)	7,756		7,756	
Debt securities:				
Pooled funds (b)	5,044		5,044	
Hedge funds (c)	1,736		303	1,433
Life insurance company general accounts	2,381		2,381	
Total	20,282	3,365	15,484	1,433

(a) These funds invested in listed equity securities consisting of approximately 60% Japanese listed companies and 40% foreign listed companies. This category included both long and short positions aggregating ¥2,249 million, invested in Japanese listed companies equity.

(b) These funds invested in approximately 45% foreign government bonds, 40% Japanese government bonds, 10% Japanese municipal bonds, and 5% Japanese corporate bonds.

(c) These hedge funds invested in stock price index futures / options, bond futures / options, bonds and private equity and others.

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	Yen (Millions) Fair Value Measurements at March 31, 2012			
	Total	**(Level 1)**	**(Level 2)**	**(Level 3)**
Cash and cash equivalents	1,110	1,110		
Equity securities:				
Japanese companies	1,509	1,509		
Pooled funds (d)	6,319		6,319	
Debt securities:				
Pooled funds (e)	5,375		5,375	
Hedge funds (f)	2,415		1,278	1,137
Life insurance company general accounts	3,267		3,267	
Total	19,995	2,619	16,239	1,137

(d) These funds invested in listed equity securities consisting of approximately 50% Japanese listed companies and 50% foreign listed companies. This category included both long and short positions aggregating ¥1,070 million, invested in Japanese listed companies equity.

(e) These funds invested in approximately 45% foreign government bonds, 40% Japanese government bonds, 10% Japanese corporate bonds, and 5% Japanese municipal bonds.

(f) These hedge funds invested in stock price index futures / options, bond futures / options, bonds and private equity and others.

Level 1 assets are comprised principally of listed equity securities, which are valued based on quoted market prices at the reporting date for those investments.

Level 2 assets are comprised principally of pooled funds and investments in life insurance company general accounts. Pooled funds are valued at their net asset values that are calculated by the sponsors of the funds. Investments in life insurance company general accounts are valued at conversion value. Level 2 also includes certain hedge funds that are redeemable in the near term at their net asset values.

Level 3 assets are comprised of hedge funds, which are valued at their net asset values that are calculated by the sponsors of the funds.

Changes in the Level 3 plan assets for the year ended March 31, 2011 and 2012 were as follows:

	Yen (Millions) 2011

	Hedge funds	Total
Balance at beginning of year	¥ 2,132	2,132
Net realized / unrealized gain (loss)	97	97
Purchases, issuances and settlements	(796)	(796)
Transfer in and / or out of Level 3		
Balance at end of year	¥ 1,433	1,433

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	Yen (Millions) 2012	
	Hedge funds	Total
Balance at beginning of year	¥ 1,433	1,433
Net realized / unrealized gain (loss)	(1,572)	(1,572)
Purchases, issuances and settlements	1,276	1,276
Transfer in and / or out of Level 3		
Balance at end of year	¥ 1,137	1,137

Non-Japanese benefit plan asset allocation at March 31, 2012 by asset level were as follows:

	Yen (Millions) Fair Value Measurements at March 31, 2012			
	Total	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents (a)	1,967	1,967		
Equity securities:				
Pooled funds (b)	1,779		1,779	
Debt securities:				
Pooled funds (c)	571		571	
Commodities	319		319	
Total	4,636	1,967	2,669	

(a) Cash equivalents were primarily in short-term investment funds, which consisted of short-term money market instruments that were valued using quoted prices for similar assets and liabilities in active markets.
(b) These funds invested in listed equity securities consisting of Foreign equities.
(c) These funds invested in International bonds.

Cash flows:

Advantest expects to contribute ¥1,812 million and ¥13 million to its Japan defined benefit plans and Non-Japan benefit plans during the year ending March 31, 2013.

Estimated future benefit payments:

The following benefit payments, which reflect expected future service, as appropriate, are estimated as follows:

Year ending March 31	**Yen (Millions)**	
	Japanese plans	**Non-Japanese plans**
2013	¥ 803	59
2014	915	66
2015	934	85
2016	1,019	100
2017	1,136	119
2018 through 2022	8,281	1,251

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(18) Stockholders Equity

Changes in the number of shares issued and treasury stock during the years ended March 31, 2010, 2011 and 2012 were as follows:

	Total shares of common stock	Shares of treasury stock
Number of shares as of April 1, 2009	199,566,770	20,843,298
Purchase of shares		2,112
Sale of shares		(232)
Number of shares as of March 31, 2010	199,566,770	20,845,178
Purchase of shares		5,449,721
Sale of shares		(80)
Number of shares as of March 31, 2011	199,566,770	26,294,819
Purchase of shares		899
Sale of shares		(328)
Number of shares as of March 31, 2012	199,566,770	26,295,390

The Companies Act of Japan provides that an amount equal to 10% of distributions paid by the Company shall be appropriated as additional paid-in capital or a legal reserve until the total amount of the additional paid-in capital and the legal reserve equals to 25% of common stock. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of the respective countries.

Cash dividends for the years ended March 31, 2010, 2011 and 2012 represent dividends paid out during those years. The accompanying consolidated financial statements do not include any provision for a dividend of ¥10 per share, aggregating ¥1,733 million for the second-half of the year ended March 31, 2012, subsequently proposed by the Board of Directors.

The amount available for future payment of dividends was determined under the Companies Act of Japan and amounted to ¥55,734 million at March 31, 2012.

(19) Accrued Warranty Expenses

Advantest issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period. Changes in accrued warranty expenses for the years ended March 31, 2010, 2011 and 2012 were summarized as follows:

	Yen (Millions)		
	2010	**2011**	**2012**
Balance at beginning of year	¥ 2,811	2,802	1,754
Acquisition of Verigy			209
Addition	3,364	2,653	3,432
Reduction	(3,372)	(3,693)	(3,269)
Translation adjustments	(1)	(8)	3
Balance at end of year	¥ 2,802	1,754	2,129

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(20) Operating Segment and Geographic Information

Advantest manufactures and sells semiconductor and component test system products and mechatronics-related products such as test handlers and device interfaces. Advantest also engages in research and development activities and provides maintenance and support services associated with these products. Advantest s organizational structure consists of three reportable operating segments, which are the design, manufacturing, and sale of semiconductor and component test systems, mechatronics systems and services, support and others. These reportable operating segments are determined based on the nature of the products and the markets. Segment information is prepared on the same basis that Advantest s management reviews financial information for operational decision making purposes.

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

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

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

Fundamental research and development activities and headquarters functions are represented by Corporate.

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Notes to Consolidated Financial Statements (Continued)

Reportable operating segment information during the years ended March 31, 2010, 2011 and 2012 was as follows:

	Yen (Millions)				
	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Total
As of and for the year ended March 31, 2010:					
Net sales to unaffiliated customers	¥ 30,168	11,219	11,838		53,225
Inter-segment sales	2,404	18		(2,422)	
Net sales	32,572	11,237	11,838	(2,422)	53,225
Depreciation and amortization	1,364	470	1,977	503	4,314
Operating income (loss) before stock option compensation expenses	(7,042)	(1,897)	2,175	(4,732)	(11,496)
Adjustment:					
Stock based compensation expense					143
Operating income (loss)					(11,639)
Expenditures for additions to long- lived assets	942	396	1,856	231	3,425
Total assets	38,782	10,478	11,474	127,929	188,663
As of and for the year ended March 31, 2011:					
Net sales to unaffiliated customers	¥ 67,070	18,398	14,166		99,634
Inter-segment sales	2,263	117		(2,380)	
Net sales	69,333	18,515	14,166	(2,380)	99,634
Depreciation and amortization	1,417	533	1,755	504	4,209
Operating income (loss) before stock option compensation expenses	9,857	(251)	2,133	(5,463)	6,276
Adjustment:					
Stock based compensation expense					165
Operating income (loss)					6,111
Expenditures for additions to long- lived assets	1,350	374	1,733	336	3,793
Total assets	53,570	11,780	9,226	105,736	180,312
As of and for the year ended March 31, 2012:					
Net sales to unaffiliated customers	¥ 101,831	20,410	18,807		141,048
Inter-segment sales	3,777	206		(3,983)	

Net sales	105,608	20,616	18,807	(3,983)	141,048
Depreciation and amortization	2,658	627	3,070	483	6,838
Operating income (loss) before stock option compensation expenses	9,845	(1,324)	1,614	(8,715)	1,420
Adjustment:					
Stock based compensation expense					583
Operating income (loss)					837
Expenditures for additions to long- lived assets	2,398	750	3,492	344	6,984
Total assets	93,603	12,789	30,713	82,121	219,226

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Notes to Consolidated Financial Statements (Continued)

Adjustments to operating income (loss) in Corporate principally represent corporate general and administrative expenses and research and development expenses related to fundamental research activities that are not allocated to operating segments.

Advantest uses the operating income (loss) before stock option compensation expenses for management s analysis of business segment results.

Additions to long-lived assets included in Corporate consist of purchases of software and fixed assets for general corporate use.

Total assets included in Corporate consist of cash and cash equivalents, assets for general corporate use and assets used for fundamental research activities, which are not allocated to reportable segments.

One customer and its related entities mainly in the semiconductor and component test system segment and the mechatronics system segment accounted for approximately 20%, 20% and 29% of total consolidated net sales for the years ended March 31, 2010, 2011 and 2012, respectively. Other customer accounted for approximately 6%, 7% and 12% for the years ended March 31, 2010, 2011 and 2012, respectively. Another customer accounted for approximately 2%, 13% and 2% for the years ended March 31, 2010, 2011 and 2012, respectively.

Information as to Advantest s net sales and property, plant and equipment in various geographical areas was as follows:

Net sales to unaffiliated customers for the years ended March 31, 2010, 2011 and 2012 were as follows:

	Yen (Millions)		
	2010	**2011**	**2012**
Japan	11,976	22,398	16,095
Americas	4,930	9,278	29,742
Europe	2,137	2,252	7,015
Asia	34,182	65,706	88,196
Total	53,225	99,634	141,048

Net sales to unaffiliated customers are based on the customer s location. Net sales indicated as Asia were generated in Korea, Taiwan and China and others in the amount of ¥10,334 million, ¥12,805 million and ¥11,043 million for the year ended March 31, 2010, ¥20,752 million, ¥21,835 million and ¥23,119 million for the year ended March 31, 2011, and ¥29,687 million, ¥27,591 million and ¥30,918 million for the year ended March 31, 2012, respectively. Substantially all net sales indicated as Americas were generated in the United States of America.

Property, plant and equipment as of March 31, 2010, 2011 and 2012 were as follows:

	Yen (Millions)		
	2010	2011	2012
Japan	¥ 29,750	29,280	28,234
Americas	214	281	1,073
Europe	539	563	1,582
Asia	2,378	1,754	3,317
Total	¥ 32,881	31,878	34,206

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Notes to Consolidated Financial Statements (Continued)

Property, plant and equipment are those assets located in each geographic area.

There was no individually material country with respect to property, plant and equipment outside Japan. Substantially all property, plant and equipment indicated as Americas were located in the United States of America. Substantially all property, plant and equipment indicated as Europe were located in Germany. Property, plant and equipment in Asia were primarily located in Taiwan, Singapore and China.

(21) Related Party Transactions

Advantest sells products to and purchases raw materials from Fujitsu Limited, its 11.6% stockholder as of March 31, 2012 and its group companies (collectively, Fujitsu). The terms of sales are the same as those with third parties. Advantest purchases raw materials after receiving competitive bids from several suppliers. Advantest also purchases various software products for internal use, information system related services, research and development materials and services from Fujitsu. Advantest had the following transactions with Fujitsu as of and for the years ended March 31:

	Yen (Millions)		
	2010	**2011**	**2012**
Sales of products	¥ 2,085	2,461	1,847
Purchases of raw materials	4,065	4,622	6,155
Receivables	826	696	459
Payables	2,372	2,717	2,653
Purchases of software, hardware and others	199	442	95
Research and development expenses, computer rentals, maintenance and other expenses	1,056	1,779	1,976

Advantest is holding approximately 35% of common stock of e-Shuttle, Inc., a subsidiary of Fujitsu, since the initial investment, which is accounted for by equity method of accounting.

(22) Per Share Data

The following table sets forth the computation of basic and diluted net income (loss) per share as of March 31:

	Yen (Millions) except per share data		
	2010	2011	2012
Numerator:			
Net income (loss)	¥ (11,454)	3,163	(2,195)
Denominator:			
Basic weighted average shares of common stock outstanding	178,722,505	175,481,854	173,271,717
Dilutive effect of exercise of stock options		13,604	
Diluted weighted average shares of common stock outstanding	178,722,505	175,495,458	173,271,717
Basic net income (loss) per share	¥ (64.09)	18.03	(12.67)
Diluted net income (loss) per share	(64.09)	18.03	(12.67)

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Notes to Consolidated Financial Statements (Continued)

At March 31, 2010, 2011 and 2012, Advantest had outstanding stock options into 3,060,000, 1,610,000 and 4,888,206 shares of common stock, respectively, which were anti-dilutive and excluded from the calculation of diluted net income per share but could potentially dilute net income per share in future periods.

(23) Concentrations of credit risk

Advantest is exposed to credit risk in the event of default by financial institutions to cash and cash equivalents, but such risk is considered mitigated by the high credit rating of the financial institutions.

At March 31, 2011 and 2012, Advantest had two foreign semiconductor customers with significant receivables. Receivables from these customers accounted for 36% and 32% of consolidated trade receivables at March 31, 2011 and 2012, respectively. Although Advantest does not expect that these customers will fail to meet their obligations, Advantest is potentially exposed to concentrations of credit risk if these customers failed to perform according to the terms of the contracts.

(24) Commitments and Contingent Liabilities

Advantest is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Advantest s consolidated financial position, results of operations, or cash flows.

Advantest entered into a contract to purchase land in Cheonan City, Korea for a new plant in the amount of ¥1,362 million on March 30, 2012 and paid the full amount on April 23, 2012. In addition, outstanding commitments for the purchase of property, plant and equipment totaled ¥78 million and for the purchase of parts and raw materials totaled ¥2,330 million at March 31, 2012.

Advantest maintains a commitment line agreement with a number of banks and pays commitment fees as consideration in order to secure a financing source for business operations. The commitment agreement term ends in March 2015, and the unused availability under this agreement as of March 31, 2012 amounted to ¥10,000 million.

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ITEM 19. EXHIBITS

Index to Exhibits

1.1	Amended and Restated Articles of Incorporation of the Registrant (English translation)**
1.2	Regulations of the Board of Directors of the Registrant (English translation)
1.3	Regulations of the Board of Corporate Auditors of the Registrant (English translation)***
2.1	Share Handling Regulations of the Registrant (English translation)
2.2	Form of Deposit Agreement among the Registrant, JPMorgan Chase Bank (as successor to Morgan Guaranty Trust Company of New York), as depositary, and the owners and beneficial owners from time to time of American Depositary Receipts****
2.3	Form of Amendment No. 1 to Deposit Agreement among the Registrant, JPMorgan Chase Bank, N.A. as depositary, and all holders from time to time of American Depositary Receipts, including the form of American Depositary Receipt*****
2.4	Form of ADR (included in Exhibit 2.3)
4.1	Implementation Agreement by and between Advantest Corporation and Verigy Ltd.*
8.1	List of Principal Subsidiaries (See Organizational Structure in Information on the Company)
11.1	Code of Ethics of the Registrant applicable to its directors and executive officers, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions******
12.1	Certifications of the Registrant s Representative Director, President and Chief Executive Officer and Director and Senior Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
13.1	Certifications of the Registrant s Representative Director, President and Chief Executive Officer and Director and Senior Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act
15.1	Consents of Independent Registered Public Accounting Firm

* Incorporated by reference to the Company s report on Form 20-F filed with the SEC on June 24, 2011 (file no. 1-15236).
** Incorporated by reference to the Company s report on Form 20-F filed with the SEC on June 26, 2009 (file no. 1-15236).
*** Incorporated by reference to the Company s report on Form 20-F filed with the SEC on June 26, 2008 (file no. 1-15236).
**** Incorporated by reference to the Company s registration statement on Form 20-F filed with the SEC on September 4, 2001 (file no. 1-15236).
***** Incorporated by reference to the Post Effective Amendment to the Company s registration statement on Form F-6 Filed with the SEC on September 12, 2006 (file no. 333-13886).
****** Incorporated by reference to the Company s annual report on Form 20-F filed with the SEC on June 29, 2004 (file no. 1-15236).

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: June 27, 2012

ADVANTEST CORPORATION

By:	/s/ Hiroshi Nakamura
Name:	Hiroshi Nakamura
Title:	Director, Managing Executive Officer