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

### Exchange Rates

In parts of this annual report, yen amounts have been translated into U.S. dollars for the convenience of investors. Unless otherwise noted, the rate used for the translation was \$1.00 = ¥118.05. This was the approximate exchange rate in Japan on March 30, 2007.

The following table sets forth, for the periods and dates indicated, information concerning the noon buying rate for Japanese yen announced by the Federal Reserve Bank of New York, expressed in Japanese yen per \$1.00. The noon buying rate as of June 21, 2007 was \$1.00 = 123.68. Advantest does not intend to imply that the Japanese yen or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Japanese yen, as the case may be, at any particular rate, or at all.

<u>Fiscal year ended/ending March 31,</u>	<u>At end of period</u>	<u>Average (of month-end rates)</u>	<u>High</u>	<u>Low</u>
		(¥ per \$1.00)		
2003	¥118.07	¥ 121.10	¥133.40	¥115.71
2004	104.18	112.75	120.55	104.18
2005	107.22	107.28	114.30	102.26
2006	117.48	113.67	120.93	104.41
2007	117.56	116.55	121.81	110.07
2008 (through June 21, 2007)	123.68	121.63	123.68	117.69

  

<u>Month ended</u>	<u>High</u>	<u>Low</u>
		(¥ per \$1.00)
December 31, 2006	¥119.02	¥ 114.98
January 31, 2007	121.81	118.49
February 28, 2007	121.77	118.33
March 31, 2007	118.15	116.01
April 30, 2007	119.84	117.69
May 31, 2007	121.79	119.77

### 3.B CAPITALIZATION AND INDEBTEDNESS

Not applicable.

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

Not applicable.

### 3.D RISK FACTORS

#### Risks Related to Advantest's Business

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

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

greater than the percentage reduction in worldwide sales of semiconductors. The semiconductor industry has been highly cyclical with recurring periods of excess inventory, which often have had a severe effect on the semiconductor industry's demand for test systems, including those of Advantest. In particular, the market for memory semiconductors shows higher demand volatility as compared to non memory semiconductors. In fiscal 2006, 65.3% of Advantest's net sales from semiconductor and component test systems was derived from the sale of semiconductor test systems for memory semiconductors, a 12.9% increase from 52.4% in fiscal 2005. Accordingly, it still remains over 50%. Any downturns in the memory semiconductor market will therefore be likely to adversely affect Advantest's business more than that of its competitors which sell a lower proportion of memory semiconductors.

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

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

- the overall state of the global economy;
- the consumer demand for digital consumer products such as flat-panel TVs, DVD recorders and portable devices, including portable audio players and game devices;
- the sales levels in the personal computer industry;
- the levels of investment in communications infrastructure and the effect on the mobile telecommunications industry; and
- currency exchange rate fluctuations.

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

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

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

Advantest sells its products to several industries that are characterized by rapid technological changes, the frequent introduction of new products and services, varying and unpredictable product lifecycles and evolving industry standards. Advantest anticipates that future demand for its products will be driven, in large part, by advances in semiconductor technology, which create new testing requirements that are not adequately addressed by currently installed semiconductor test systems. These advances and customers' needs include:

- the introduction of "system-on-a-chip," or SoC, semiconductors that incorporate more advanced memory, logic and analog circuits;
- investment by memory semiconductor manufacturers in facilities that are used to produce memory semiconductors, such as flash memory, DDR2-SDRAM and the next generation DDR3-SDRAM;
- investment by semiconductor manufacturers in mechatronics related products which transport devices faster, more accurately and more stably;
- the use of self-test technologies that employ circuit designs incorporated into the circuits of semiconductor chips;
- introduction of mechatronics products that respond to reduced testing time resulting from advances in customers' back-end testing; and
- prompt response and quick repair in the event of failure.

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

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

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

Enhancements to existing products and the development of new generations of products are, in most cases, costly processes. Furthermore, because the decision to purchase semiconductor and component test systems products and mechatronics systems generally involves a significant commitment of capital, the sale of this equipment typically involves a lengthy sales period and requires Advantest to expend substantial funds and sales efforts to secure the sale. Advantest's enhancements or new generations of products may not generate net sales in excess of development and sales costs if, for example, these new enhancements or products are quickly rendered obsolete by changing customer preferences, the introduction by Advantest's competitors of products embodying new technologies or features, the introduction by Advantest's customers of new products that require different testing functions or the failure of the market for Advantest's customer's products to grow at the rate, or to the

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levels, anticipated by Advantest. This risk is believed to be particularly acute with respect to test systems for SoC semiconductors because, in general, new SoC semiconductors product lines are introduced to market more frequently than new memory semiconductor product lines. In some cases, Advantest must anticipate industry trends and develop products in advance of the commercialization of its customers' products. This requires Advantest to make significant investments in product development well before it determines the commercial viability of these innovations. If Advantest's customers fail to introduce their devices in a timely manner or the market rejects their devices, Advantest may not recover its investments in product development through sales in significant volume.

### ***Advantest faces substantial competition in its businesses and, if Advantest does not compete effectively, its business may be harmed***

Advantest faces substantial competition throughout the world. Advantest's primary competitors in the semiconductor and component test system market include, among others, Teradyne, Inc., Verigy Pte. Ltd., Credence Systems Corporation, Yokogawa Electronic Corporation, LTX Corporation, Eagle Test Systems, Inc. and Nextest Systems Corporation. In the mechatronics system market, Advantest has also been competing with Delta Design, Inc., Seiko Epson Corporation, Mirae Corporation and TechWing Inc. In addition, in the services, support and others segment, Advantest has been competing with competitors providing similar services. Some of Advantest's competitors have greater financial and other resources than Advantest.

Advantest faces many challenges in its businesses, including increased pressure from customers to produce semiconductor and component test systems and mechatronics systems that reduce testing costs. To compete effectively, Advantest must continue to enhance its business processes to lower the cost of its products, as well as introduce enhancements that lower overall testing costs. Advantest also expects its competitors to continue to introduce new products with improvements in price and performance, as well as increase their customer service and support offerings. Significant increases in competition may erode Advantest's profit margin and weaken its earnings.

### ***Advantest's product lines are facing significant price pressure***

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

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

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

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

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

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

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

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

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

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

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

Advantest relies on subcontractors to perform the low-end assembly requirements for its products. For example, Advantest has been outsourcing the assembly of numerous circuit boards. In addition, many of the components used in Advantest's semiconductor and component test systems and mechatronics systems are produced by suppliers based on Advantest's specifications. Advantest's reliance on these subcontractors and suppliers gives it less control over the manufacturing process and exposes it to significant risks, especially inadequate manufacturing capacity, late delivery, substandard quality, lack of labor availability and high costs. In addition, Advantest depends on sole source or a limited number of suppliers for a portion of its components and parts. Advantest does not maintain long-term supply agreements with most of its suppliers, and it purchases most of its components and parts through individual purchase orders. If suppliers become unable to provide

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

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

Advantest's main facilities for research and development for its semiconductor and component test systems and mechatronics systems segments production, as well as many of Advantest's services bases, are located in Japan and particularly concentrated in Saitama Prefecture and Gunma Prefecture. In addition, the main system server and parts of the network hub are maintained in system centers approved by the Information System Management System, or ISMS, and local network servers are located in certain operations offices in Japan. Japan suffers from relatively frequent earthquake activity.

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

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

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

Advantest's business is subject to risks associated with doing business internationally because it sells its products, and purchases parts and components from, around the world. In fiscal 2006, 59.9% of Advantest's total net sales came from Asia (excluding Japan), a majority of which consisted of sales in Taiwan, the People's Republic of China and Korea, 4.3% from the Americas and 4.8% from Europe. Advantest anticipates that net sales from international operations will continue to represent a substantial portion of its total net sales. In addition, some of Advantest's distribution and support subsidiaries are located in the Americas, Europe, and Asian countries including Singapore, Taiwan, the People's Republic of China and Korea and some of Advantest's suppliers are also located overseas. Accordingly, Advantest's future results could be harmed by a variety of factors, including:

- political and economic instability, natural calamities or other risks related to countries where Advantest procures its components and parts or sells its products;
- trade protection measures and import or export licensing requirements;

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- potentially negative consequences from changes in tax laws;
- risks with respect to international taxation, including transfer pricing regulations;
- difficulty in staffing and managing widespread operations;
- differing protection of intellectual property;
- difficulties in collecting accounts receivable because of distance and different legal rules; and
- risks with respect to social and political crises resulting from terrorism and war, among others.

### ***Fluctuations in exchange rates could reduce Advantest's profitability***

Advantest derives a majority of its net sales from products sold to customers located outside of Japan. Approximately 69% of Advantest's fiscal 2006 net sales were from products sold to overseas customers. Most of Advantest's products are manufactured in Japan, but approximately 18% of Advantest's net sales in fiscal 2006 were made in currencies other than the yen, predominantly the U.S. dollar. A strengthening in the yen relative to the U.S. dollar and, to a much lesser extent, currencies of those other countries where Advantest sells its products would increase the prices of Advantest products as stated in U.S. dollars and in those other currencies and could hurt sales in those countries. In addition, significant fluctuations in the exchange rate between the yen and foreign currencies, especially the U.S. dollar, could require Advantest to lower its prices with respect to foreign sales of its products that are priced in yen, and reduce the yen equivalent amounts of its foreign sales for products that are based in U.S. dollars or other foreign currencies, and thus reduce its profitability. These fluctuations could also cause prospective customers to push out or delay orders because of the increased relative cost of Advantest's products. In the past, there have been significant fluctuations in the exchange rate between the yen and the currencies of countries in which Advantest does business.

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

Advantest's financial condition and results of operations are negatively affected by factors relating to its marketing and sales capabilities and its branding, including:

- the long selling process involved in the sale of semiconductor and component test systems;
- the relatively small number of total units sold in the semiconductor and component test system market;
- order cancellations or delays by customers;
- delays in collection of, or increases in provisions for, accounts receivable due to the financial condition of customers;
- increases in required provisions for product warranty costs and write-downs of inventory;
- any real or perceived decrease in performance and reliability of Advantest products, which leads to a decline in Advantest's reputation; and
- uncertain market acceptance of products developed by its customers.

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

Advantest uses chemicals in the manufacturing of its products, the manufacture, processing and distribution of which are subject to environmental related laws, regulations and rules of Japanese governmental agencies, as well as by various industry organizations and other regulatory bodies in other countries. These regulatory bodies may strengthen existing regulations governing chemicals used by Advantest and may also begin to regulate other chemicals used by Advantest. While Advantest is taking measures to eliminate toxic substances included in parts

used to manufacture its products, Advantest uses lead solder for mounting electronic parts and components for its products in order to ensure the reliability of its products as a matter of priority. Further, as a method to cool some of its semiconductor and component test systems, Advantest uses a type of perfluorocarbon, or PFC, that is not currently regulated by laws related to the ozone layer protection and global warming. Advantest believes that it is in compliance with regulations with respect to the use of chemicals, by promoting environmental policies for its products with the focus on ensuring the safety and the reliability of its products; however, Advantest must be prepared to adapt to regulatory requirements in all relevant countries as requirements change. Advantest may be required to incur significant cost in adapting to new requirements. Any failure by Advantest to comply with applicable government or industry regulations could result in the imposition of fines or restrictions on its ability to carry on or expand its operations.

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

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

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

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

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

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

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

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



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

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

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

***Product defects and any damages caused by Advantest in respect of product liability could harm Advantest's reputation among existing and potential customers and could have a material adverse effect upon Advantest's business results and financial conditions***

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

***Risks Related to Ownership of ADSs or Common Stock***

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

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

***As a holder of ADSs, you will have fewer rights than a shareholder has, and you must act through the depositary to exercise those rights***

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

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.

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

Under Advantest's ADS program, each ADS represents the right to receive one share (Advantest changed the ratio of ADSs to underlying shares on October 1, 2006. The above ratio is the ratio after the change. Details are referred to in Advantest's press release dated July 26, 2006). To withdraw any shares, a holder of ADSs has to surrender for cancellation American Depositary Receipts, or ADRs, evidencing 100 ADSs or any integral multiple thereof. Each ADR bears a legend to that effect. As a result, holders of ADSs are unable to withdraw fractions of shares or units or receive any cash settlement from the depositary in lieu of withdrawal of fractions of shares or units. Holders of shares representing less than one unit, or 100 shares, may require Advantest to repurchase those shares, whereas holders of ADSs representing less than one unit of shares are unable to exercise this right because the holders of these ADSs are unable to withdraw the underlying shares. Under Advantest's ADS program, an ADS holder cannot cause the depositary to require Advantest to repurchase fractions of shares or units on its behalf. For a further discussion of the ADSs and the ADS program, see "Description of American Depositary Receipts" set forth in Advantest's registration statement on Form F-1 filed with the Securities and Exchange Commission on July 22, 2002. For a further discussion of the Japanese unit share system, see "Additional Information—Memorandum and Articles of Association—The Unit Share System."

***Enforcement of Civil Liabilities***

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

**ITEM 4. INFORMATION ON THE COMPANY**

**4.A HISTORY AND DEVELOPMENT OF THE COMPANY**

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

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

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