

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 cyclicity in the semiconductor industry and the communications industry

Advantest's automated test equipment business depends largely upon the capital expenditures of semiconductor manufacturers, test houses and foundries. These manufacturers and 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 automated test equipment, 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 and other automated test equipment components, including those of Advantest. The market for memory semiconductors, or semiconductors that contain only memory circuits, is especially cyclical as compared to non-memory semiconductors, or semiconductors that contain circuits other than memory circuits. In fiscal 2003, approximately 56% of Advantest's net sales from semiconductor test systems were derived from the sale of semiconductor test systems for memory semiconductors. Therefore, any cyclical downturns in the memory market will likely adversely affect Advantest's automated test equipment business more than its competitors selling a lower proportion of memory semiconductors.

The worldwide semiconductor market contracted significantly in the second half of 2000 and during 2001 and grew by only 1.3% in 2002 compared to 2001. However, the semiconductor market showed a significant recovery in 2003, growing by 18.3%. Worldwide sales of memory semiconductors, which declined by 49.5% in 2001 as compared with 2000, increased by 8.7% in 2002 as compared with 2001 and further increased by 20.2% in 2003 as compared to 2002, primarily due to the increase in demand for flash memory semiconductors used in digital consumer products and for DRAM used in personal computers. Worldwide sales of non-memory semiconductors, which declined by 26.5% in 2001 compared to 2000, declined by 0.4% in 2002 as compared with 2001, but increased by 17.8% in 2003 as compared with 2002, primarily due to the increase in demand for personal computers and other digital consumer products such as digital cameras, digital versatile disc, or DVD recorders and digital televisions.

The cyclicity of the market for semiconductors is affected by various factors such as:

- the overall state of the global economy;
- the markets in the People's Republic of China and Southeast Asia;
- the consumer demand for digital consumer products such as digital cameras and DVD recorders;
- the sales levels in the personal computer industry;
- the levels of investment in communications infrastructure and effect on the mobile telephone industry; and
- currency exchange rate fluctuations.

Advantest's measuring instruments business depends, in large part, on demand from wireless communications and fiber optic network equipment and components manufacturers and service providers. Capital expenditures by such manufacturers and service providers in the communications industry grew significantly between 1995 and 2000. However, capital spending in the communications industry significantly decreased beginning in 2001 and continued to decrease throughout 2002. In 2003, investment in wireless communication networks increased in certain regions of the world, such as Europe and Asia (excluding Japan). In Japan, investment in third-generation wireless networks peaked in 2003.

After recording record sales and profits in fiscal 2000, Advantest experienced a 65.6% decrease in net sales in fiscal 2001 and an increase of 2.6% in fiscal 2002. In fiscal 2003, due to the recovery of investments in semiconductors, Advantest recorded net sales of ¥174.2 billion, an increase of 78.2% compared to fiscal 2002, which contributed to Advantest recording a net profit of ¥17.3 billion. Advantest's net sales from automated test equipment increased by 89.4% in fiscal 2003 compared to fiscal 2002, following an increase of 14.4% in fiscal 2002 compared to fiscal 2001. Of the net sales of ¥160,855 million in fiscal 2003, ¥56,200 million was recorded in the first half of fiscal 2003 and ¥104,655 million was recorded in the second half of fiscal 2003. Advantest's net sales from measuring instruments increased in fiscal 2003 by 4.2% compared to fiscal 2002 to ¥13,363 million, consisting of net sales of ¥6,086 million in the first half of fiscal 2003 and ¥7,277 million in the second half of fiscal 2003.

Advantest believes that despite recent recovery, the automated test equipment business will continue to be subject to the highly cyclical nature of the semiconductor industry, including the volatile nature of the personal computer industry and the communications industry. Moreover, Advantest believes that its measuring instruments business will continue to be subject to the substantial lack of visibility regarding worldwide wireless communications investments and fiber optic networks investments. Accordingly, Advantest's financial condition and results of operations may be adversely affected in the event of significant downturn in, among others, the semiconductor industry and the communications industry.

Advantest's market position in non-memory semiconductor test systems creates challenges for Advantest to grow its business

Advantest's market share in "system-on-a-chip" or SoC semiconductor test systems, the largest segment of the non-memory semiconductor test system market, was 11% in 2003. Advantest's smaller market share in non-memory semiconductor test systems creates challenges for Advantest to grow its non-memory semiconductor test system business. Customers typically purchase new automated test equipment from current equipment suppliers because they want to ensure that new equipment is compatible with their existing systems. In addition, the development of new semiconductor test systems is, in general, a cumulative process, which means established manufacturers enjoy competitive advantages based on technology and know-how already acquired. Advantest believes that increasing sales of non-memory semiconductor test systems, particularly SoC semiconductor test systems, is vital to growing its overall business. In recent years, the non-memory semiconductor test system market has been approximately two to three times as large as the memory semiconductor test system market. Advantest may need to reduce sales prices for its non-memory semiconductor test systems, particularly SoC semiconductor test systems and, therefore, reduce its margins from current levels in order to grow its non-memory semiconductor test system business.

Advantest may not recoup its investment in, or otherwise benefit from the successful adoption of, OPENSTAR™

Advantest has expended time and resources to design and create and is currently promoting the adoption of, OPENSTAR™, an industry-wide, open architecture that seeks to address the rapidly changing testing requirements of SoC semiconductors. Advantest is leading the efforts in the adoption of OPENSTAR™ because it believes that OPENSTAR™ will provide an opportunity for late entrants to the SoC automated test equipment market, such as Advantest, to increase their market share. However, the development and adoption of OPENSTAR™ by automated testing equipment vendors other than Advantest is not complete and there can be no

assurance that OPENSTAR™ will ever develop into a viable architecture. The adoption of OPENSTAR™ depends on a number of factors, such as the active participation of other systems and module equipment manufacturers and the support of a substantial number of semiconductor manufacturers. Advantest believes that other automated test equipment companies are also in the process of developing new testing platforms of their own. There can be no assurance that the OPENSTAR™ standard will be adopted by the semiconductor industry or, if adopted, that this standard will be successful. If OPENSTAR™ is not adopted by the semiconductor industry, Advantest will not recoup its investment in this new open architecture.

Furthermore, even if OPENSTAR™ is broadly accepted by the semiconductor industry, the consequences of the adoption of OPENSTAR™ on Advantest's automated test equipment business are uncertain. OPENSTAR™ is an open architecture that allows all semiconductor industry participants to participate, therefore the adoption of the new standard could result in the increase of 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 automated test equipment 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 SoC automated test equipment business.

Advantest is facing significant price pressure in both its automated test equipment business and its measuring instruments business segments

Price pressure in Advantest's businesses is adversely affecting Advantest's operating margins. Advantest believes that price pressure with respect to automated test equipment is strongest during periods when demand, in terms of volume, for semiconductors is increasing, but there exists pressure on the market price for semiconductors. During these periods, Advantest's customers such as semiconductor manufacturers and testing companies seek to increase their production capacities, while minimizing their capital expenditures at the same time. Advantest believes that there exists increased demand for short-term product delivery and implementation, despite the beginning of a recovery in the semiconductor market. 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. Advantest continued to face significant price pressure on its measuring instrument products in fiscal 2003 primarily due to the slow recovery in demand in its customers' industries and excess inventory on the part of its competitors. A further increase in price pressure will adversely affect Advantest's future financial conditions and results of operations.

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

The market for automated test equipment, particularly for memory semiconductor test systems, 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 automated test equipment industry. Advantest believes that this state of the market 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 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. Advantest's largest customer accounted for approximately 16% of total net sales in fiscal 2001 and approximately 12% in both fiscal 2002 and in fiscal 2003. Sales to Advantest's five largest customers, all of which were automated test

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equipment customers, accounted for approximately 37% of total net sales in fiscal 2001, approximately 38% in fiscal 2002 and approximately 37% in fiscal 2003. The loss of one or more of these major customers could materially harm Advantest's business.

The failure by Advantest to meet demand for its products upon a significant recovery in the automated test equipment market would likely adversely affect its future market share and financial results

If the market for automated test equipment were to experience an increase in demand similar to that experienced in 2000 when the automated test equipment market grew by approximately 63%, Advantest would require a significant increase in production capabilities, including personnel, in order to fully capitalize on such a recovery. The failure of Advantest to adjust to such unanticipated increases or decreases 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.

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

Advantest sells its products to several industries that are characterized by rapid technological changes, frequent new product and service introductions, varying and unpredictable product lifecycles and evolving industry standards. Advantest anticipates that future demand for its automated test equipment 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 include:

- the introduction of SoC semiconductors that incorporate more advanced memory, logic and analog circuits;
- investment by memory semiconductor manufacturers in facilities that are used to produce next generation memory semiconductors such as DDR2-SDRAM;
- investment by semiconductor manufacturers in facilities that use 300 millimeter wafers in the production of semiconductors; and
- the use of self-test technologies that employ circuit designs incorporated into the circuits of semiconductor chips to simplify the front-end testing functions performed by automated test equipment.

Advantest also believes demand for its automated test equipment, as well as its measuring instruments, will be strongly affected by the level of demand for high-speed wireless and wireline data services and digital consumer products. Advances in technologies used in those products and services frequently require new testing equipment and measuring instruments. Without the timely introduction of semiconductor test systems and measuring instruments 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 customer 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 automated test equipment generally involves a

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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 or measuring 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 particularly acute with respect to SoC semiconductor test systems because, in general, new SoC 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'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 semiconductor test systems. For example, Advantest has been outsourcing the insertion and interconnection of the numerous circuit boards in each semiconductor test system beginning in fiscal 2001. In addition, many of the components used in Advantest's semiconductor test 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.

Advantest faces aggressive competition in all areas of its business, and if Advantest does not compete effectively, its business may be harmed

Advantest faces substantial competition throughout the world in both of its business segments. Advantest's primary competitors in the semiconductor test system market include, among others, Teradyne, Inc., Agilent Technologies, Inc. and Yokogawa Electronic Corporation. In addition, Advantest also competes in the SoC semiconductor test system market with several other smaller companies. In measuring instruments, Advantest competes with a number of significant competitors in all of its major product categories and across its targeted industries. Agilent Technologies, Inc. is the leading provider of measuring instruments in many of Advantest's product categories. 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 automated test equipment that reduces testing costs. Advantest must continue to enhance its business processes to lower the cost of its products, as well as introduce enhancements that otherwise lower overall testing costs, to compete successfully. 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 financial conditions and results of operations are subject to factors relating to its marketing and sales capabilities and its reputation

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

- the long selling process involved in the sale of automated test equipment;
- the relatively small number of total units sold in the semiconductor 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.

Advantest's third-party distributors for its measuring instruments may fail to increase sales

Advantest is dependent on its third-party distribution channels in its measuring instruments business. Sales through third-party distributors accounted for 48.7% of sales of measuring instruments in fiscal 2001, 47.4% in fiscal 2002 and 49.5% in fiscal 2003. Substantially all of Advantest's distribution agreements have one-year terms and are automatically renewed unless cancelled before the end of the term. Advantest may not be able to grow its measuring instruments business if its distribution channels fail to increase sales of Advantest products. Most of Advantest's agreements with its third-party distributors in Japan and other parts of Asia are nonexclusive, and many of these distributors have similar agreements with Advantest's competitors. There can be no assurance that these third-party distributors will not prioritize sales efforts relating to their own products or products of other competitors over Advantest's products.

Advantest's annual sales of measuring instruments in North America were approximately ¥2.9 billion in fiscal 2001, ¥0.7 billion in fiscal 2002 and ¥0.7 billion in fiscal 2003. Advantest's sales of measuring instruments in North America in fiscal 2002 decreased as it started to establish its own distribution network. Since July 2002, Advantest's wholly-owned subsidiary, Advantest America Measuring Solutions, Inc. has been the sole distributor of measuring instruments in North America. In April 2004, Advantest commenced an arrangement with MetricTest, a company with a large sales and distribution network, under which MetricTest became a distributor of Advantest's measuring instruments. There can be no assurance that Advantest will be able to establish a successful distribution network in North America or that it will, in any future period, match or exceed the revenue or profit levels for its measuring instruments achieved under previous distribution arrangements.

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 2003, 51.4% of Advantest's total net sales came from Asia (excluding Japan), a majority of which consists of sales in Taiwan, the People's Republic of China and Korea, 9.3% from North America and 6.0% 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 U.S., Europe, Singapore,

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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 manufactures its products, 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;
- difficulty in staffing and managing widespread operations;
- differing protection of intellectual property; and
- difficulties in collecting accounts receivable because of distance and different legal rules.

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 67% of Advantest's fiscal 2003 net sales were from products sold to overseas customers. Most of Advantest's products are manufactured in Japan, but approximately 40% of Advantest's net sales in fiscal 2003 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 does business 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 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 actions based on its patent and utility model rights against manufacturers that sell replicas of Advantest's products and, in some instances, have obtained injunctions against sales of replicas. However, in general, it is difficult for Advantest to gain access to, and investigate, the products believed to infringe Advantest's 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 police its rights.

Third parties may claim Advantest is infringing their intellectual property, and Advantest could suffer significant liabilities, litigation costs or licensing expenses or be prevented from selling its products

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.

The current 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.

Chemicals used by Advantest may become subject to more stringent regulations, and Advantest may incur significant expenses to comply with these regulations

Advantest uses chemicals, 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 commence regulation of other chemicals used by Advantest. For example, Advantest uses lead solder for mounting electronic parts and components for its products. Beginning August 2005, the European Union will implement regulations on the collection, treatment, recycling and recovery of waste electrical and electronic equipment and beginning July 2006, will implement regulations on the usage of lead, mercury, cadmium and other hazardous substances in electrical and electronic equipment. Further, to cool its semiconductor test systems, Advantest uses a particular type of perfluorocarbon, or PFC, that is regulated under the laws of Japan and certain other jurisdictions. Advantest believes that it is in compliance with current regulations; however, Advantest must be prepared to adapt to regulatory requirements in all relevant countries as requirements change. Advantest may be required to incur significant expenditures 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.

If Advantest's main facilities for research and development, semiconductor test systems production or information technology systems, or if 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 and semiconductor test systems production, as well as many of Advantest's smaller facilities that manufacture test handlers, device interfaces and measuring instruments, are located in Japan. 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 operations offices throughout Japan. Japan suffers from relatively frequent earthquake activity.

If Advantest's facilities, particularly its semiconductor test system manufacturing plant, 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 facility. 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.

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