

**10.E TAXATION**

***The discussion below is not intended to constitute a complete analysis of all tax consequences relating to ownership of the Shares or ADSs. Prospective purchasers of the Shares or ADSs should consult their own tax advisors concerning the tax consequences of their particular situations.***

The following is a general summary of the principal U.S. federal and Japanese national tax consequences of the acquisition, ownership and disposition of shares of common stock or ADSs by an investor that holds those shares or ADSs as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"). This summary does not purport to address all the material tax consequences that may be relevant to holders of shares of common stock 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 Advantest's voting stock, investors that hold shares of common stock or ADSs as part of a straddle, 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 tax laws of the United States and Japan, judicial decisions, published rulings, administrative pronouncements, and United States Treasury regulations, as in effect on the date hereof, as well as on the current income tax convention between the United States and Japan (the "Treaty"), all of which are subject to change (possibly with retroactive effect), and to differing interpretations. U.S. Holders should note that the United States and Japan have reached an agreement in principle on the text of a new income tax treaty which, after a formal signature process, will be subject to ratification according to the procedures of each of the two countries. In addition, this summary is based 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 Advantest'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.

For purposes of this discussion, a "U.S. Holder" is any beneficial owner of shares of common stock or ADSs that is:

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

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

- (1) is a resident of the United States for purposes of the Treaty,
- (2) does not maintain a permanent establishment or fixed base in Japan to which shares of common stock or ADSs are attributable and through which the U.S. Holder carries on or has carried on business (or, in the case of an individual, performs or has performed independent personal services), and
- (3) is otherwise eligible for benefits under the Treaty with respect to income and gain derived in connection with the shares of common stock or ADSs.

A "Non-U.S. Holder" is any beneficial owner of shares of common stock or ADSs that is not a U.S. Holder.

## Table of Contents

If a partnership holds shares of common stock or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If the U.S. Holder is a partner or a partnership holding shares of common stock or ADSs, such holder is urged to consult its tax advisors.

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, inheritance and gift taxation and securities transfer taxation. Investors are urged to consult their tax advisors regarding the U.S. federal, state and local and Japanese and other tax consequences of acquiring, owning and disposing of shares of common stock 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.

In general, taking into account the earlier assumptions, for purposes of the Treaty and for U.S. federal income and Japanese tax purposes, owners of ADRs evidencing ADSs will be treated as the owners of the shares of common stock represented by those ADSs, and exchanges of shares of common stock for ADSs, and exchanges of ADSs for shares of common stock, will not be subject to U.S. federal income or Japanese tax.

### **Japanese Taxation**

The following is a summary of the principal Japanese tax consequences (limited to national taxes) to holders of shares of capital stock of Advantest and of ADRs evidencing ADSs representing shares of common stock of Advantest who are non-resident individuals 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 not subject to Japanese income tax.

In the absence of an applicable tax treaty, convention or agreement reducing the maximum rate of 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 20 percent. With respect to dividends paid on listed shares issued by a Japanese corporation (such as the shares of capital stock of Advantest) to any corporate or individual shareholders (including those shareholders who are non-Japanese corporations or Japanese non-resident individuals, such as non-resident Holders), except for any individual shareholder who holds 5 percent or more of the outstanding total of the shares issued by the relevant Japanese corporation, the aforementioned 20 percent withholding tax rate is reduced to (i) 10 percent for dividends due and payable on or after 1st April, 2003 but on or before December 31, 2003, (ii) 7 percent for dividends due and payable on or after January 1, 2004 but on or before March 31, 2008, and (iii) 15 percent for dividends due and payable on or after April 1, 2008. At the date of this annual report, Japan has income tax treaties, conventions or agreements whereby the above-mentioned withholding tax rate is reduced, in most cases to 15 percent for portfolio investors with, among other countries, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland, the U.K., and the U.S.

Under the Tax Convention, as currently in force, the maximum rate of Japanese withholding tax which may be imposed on dividends paid by a Japanese corporation to an eligible U.S. holder generally is limited to 15 percent of the gross amount actually distributed. If the maximum tax rate provided for in the income tax treaty applicable to any particular non-resident Holder is lower than the withholding tax rate otherwise applicable under Japanese tax law, such non-resident Holder who is entitled to a reduced rate of Japanese withholding tax on payment of dividends on Advantest's shares of capital stock by Advantest is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends in advance through Advantest to the relevant tax authority before payment of dividends. A standing proxy for non-resident Holders of a Japanese corporation may provide this application service. With respect to ADRs, this reduced rate is applicable if the Depositary or its agent submits two Application Forms (one before payment of dividends, the

other within eight months after Advantest's fiscal year-end). To claim this reduced rate, any relevant non-resident Holder of ADRs 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, 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 from the relevant Japanese tax authority.

Gains derived from the sale of shares of capital stock of Advantest or ADRs outside Japan by a non-resident Holder holding such shares or ADRs as portfolio investors are, in general, not subject to Japanese income or corporation tax. U.S. holders are not subject to Japanese income or corporation tax with respect to such gains under the Tax Convention.

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

Holders of shares of capital stock of Advantest or ADRs should consult their tax advisors regarding the effect of these taxes and, in the case of U.S. holders, the possible application of the Estate and Gift Tax Treaty between the U.S. and Japan.

## **U.S. Federal Income Taxation**

### ***U.S. Holders***

#### ***Taxation of Dividends***

Subject to the passive foreign investment company rules discussed below, under U.S. federal income tax law, the gross amount of any distribution made by Advantest in respect of shares of common stock 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 Advantest, as determined for U.S. federal income tax purposes. That 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 of common stock, or by the depositary, in the case of ADSs. The dividend 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. However, pursuant to recently enacted legislation, dividends paid to certain U.S. Holders (including individuals) may be eligible for preferential tax rates.

A dividend paid in Japanese yen will be included in gross income in a U.S. dollar amount based on the Japanese yen/U.S. dollar exchange rate in effect on the date that dividend is included in the income of the U.S. Holder, regardless of whether the payment is converted into U.S. dollars. 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 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 otherwise disposed of) will be treated as U.S. source ordinary income or loss.

To the extent, if any, that the amount of any distribution received by a U.S. Holder in respect of shares of common stock or ADSs exceeds Advantest's current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, 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 any balance in excess of that adjusted tax basis generally will be treated as U.S. capital source gain.

## Table of Contents

Distributions of additional shares of common stock that are made to U.S. Holders with respect to their shares of common stock or ADSs and that are part of a pro rata distribution to all of Advantest'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 of common stock or ADSs will constitute income from sources outside the United States, and generally will be treated separately, together with other items of "passive income" (or, in the case of some holders, "financial services income") in computing foreign tax credit limitations. Subject to generally applicable limitations under U.S. federal income tax law and the Treaty, any Japanese withholding tax imposed in respect of a Advantest dividend may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, if the U.S. Holder so elects (or as a deduction from that U.S. Holder's taxable income). Special rules generally will apply to the calculation of foreign tax credits in respect of dividend income that qualifies for preferential tax rates under recently enacted legislation. Additionally, special rules 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 of common stock or ADSs for less than a specified minimum period,
- (ii) is obligated to make payments related to Advantest dividends, or
- (iii) holds the shares of common stock or ADSs in an arrangement in which the holder's expected economic return, after non-U.S. taxes, is insubstantial,

will not be allowed a foreign tax credit for Japanese taxes imposed on Advantest dividends.

Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances. The 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*

A U.S. Holder's tax basis in shares of common stock or ADSs generally will equal the U.S. dollar cost of such shares of common stock or ADSs. In general, upon a sale or other disposition of shares of common stock 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 and the U.S. Holder's tax basis in those shares or ADSs. Subject to the passive investment company rules discussed below, such gain or loss 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. Some U.S. Holders, including individuals, are 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 of common stock or ADSs generally will be treated as U.S. source income or loss for foreign tax credit purposes.

### *Passive Foreign Investment Companies*

Advantest does not believe that it is, for U.S. federal income tax purposes, a passive foreign investment company (a "PFIC"), and intends to continue its operations in such a manner that it will not become a PFIC in the future. The PFIC determination is made annually and is based on the value of Advantest's assets (including goodwill) and composition of income. Advantest's calculation of goodwill is based, in part, on the market value of its shares of common stock, which is subject to change and over which Advantest has limited control.

## Table of Contents

Accordingly, Advantest 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 or a decrease in the price of its common stock. If Advantest becomes a PFIC, U.S. Holders could be subject to additional U.S. federal income taxes on gain recognized with respect to the shares of common stock or ADSs and on certain distributions. In addition, an interest rate charge may apply to certain taxes treated as having been deferred by the U.S. Holder under the PFIC rules. If a U.S. Holder holds shares of common stock or ADSs in any year in which Advantest is a PFIC, such U.S. Holder will be required to make additional annual filings with the IRS. U.S. Holders are urged to consult their tax advisors concerning the U.S. federal income tax consequences of holding shares of common stock or ADSs if Advantest were considered a PFIC in any year.

### ***Non-U.S. Holders***

A Non-U.S. Holder generally will not be subject to any U.S. federal income or withholding tax in respect of distributions on shares of common stock or ADSs unless the Non-U.S. Holder conducts a trade or business within the United States and the distributions are effectively connected with that trade or business.

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 disposition of shares of common stock or ADSs, unless (i) the gain is effectively connected with a trade or business conducted by the Non-U.S. Holder within the United States, 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.

### ***Backup Withholding and Information Reporting***

In general, except in the case of certain exempt recipients (such as corporations), information reporting requirements will apply to dividends paid to a U.S. Holder in respect of shares of common stock or ADSs, and to the proceeds received by a U.S. holder upon the sale, exchange or redemption of shares of common stock or ADSs within the United States or through certain U.S.-related financial intermediaries. Furthermore, a backup withholding tax may apply to those amounts if a U.S. Holder fails to provide an accurate tax identification number or certain other information in the required manner. The amount of backup withholding imposed on a payment to a U.S. Holder will 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 furnished to the IRS.

Dividends paid to a Non-U.S. Holder in respect of shares of common stock or ADSs, and proceeds received upon the sale, exchange or redemption of shares of common stock 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 to ensure that exemption.

### **10.F DIVIDENDS AND PAYING AGENTS**

Not applicable.

### **10.G STATEMENT BY EXPERTS**

Not applicable.

### **10.H DOCUMENTS ON DISPLAY**

Advantest files annual reports on Form 20-F and furnishes semi-annual and other periodic reports on Form 6-K with the Commission. You may read and copy (at prescribed rates) any reports, statements or other information on file at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 or by accessing the Commission's home page (<http://www.sec.gov>). The ADSs are