

Financial Section

Management's Discussion and Analysis of Operations	18
Selected Financial Data	22
Japanese GAAP Selected Consolidated Financial Data	
U.S. GAAP Selected Consolidated Financial Data	
Consolidated Financial Statements	26
Consolidated Balance Sheets	
Consolidated Statements of Income	
Consolidated Statements of Stockholders' Equity	
Consolidated Statements of Cash Flows	
Notes to Consolidated Financial Statements.....	32
Report of Independent Certified Public Accountants	44

Management's Discussion and Analysis of Operations

1. Overall Results

In fiscal 2000, for Advantest and other companies in the electronics industry, the advancing digital society has required aggressive infrastructure investment in the areas of cellular telephones, next generation high-speed data communication, and information technology, and has made some semiconductors and electronic components obsolete. But conditions have reversed since the start of the year for the semiconductor and electronic component markets due to falling demand.

In order to adapt to these increasingly severe market conditions and respond to 2nd generation IT (broadband) product needs, Advantest has worked to quickly introduce new products and further increase customer satisfaction. As a result, we have achieved our best record for consolidated net sales of ¥276,512 million in fiscal year 2000, a 74.4% increase over the previous fiscal year. Net income was ¥53,121 million (a 154.1% increase).

2. Results of Operations Overview

(1) Sales

Advantest's net sales increased by ¥117,934 million, or 74.4%, compared with fiscal 1999 to ¥276,512 million in fiscal 2000.

(2) Operating Expenses

Advantest's operating expenses increased by ¥67,831 million, or 54.8% compared to fiscal 1999 to total ¥191,607 million in fiscal 2000. This increase principally reflects increases in cost of sales in an amount proportional to the increase in net sales and increased research and development expenses.

(Costs of sales)

Cost of sales increased ¥51,381 million, or 69.8%, compared to fiscal 1999 to ¥125,028 million in fiscal 2000. This increase consists of an increase of ¥46,904 million, or 78.7%, for the automated test equipment segment and an increase of ¥4,477 million, or 32.0%, for the measuring instruments segment.

Cost of sales as a percentage of net sales of automated test equipment was 44.1% in fiscal 2000 and remained relatively flat compared to fiscal 1999. The largest portion of Advantest's cost of sales for its automated test equipment consists of costs of parts and components. Advantest's fixed costs, consisting primarily of depreciation and amortization and compensation to full-time employees, as a percentage of net sales decreased as capacity utilization of Advantest's manufacturing facilities and personnel increased. Advantest has made efforts over time to reduce fixed costs by increasing outsourcing of production, the use of temporary workers and the use of automation and information technology in its manufacturing processes. This decrease in the cost of sales as a percentage of net sales was offset by an increase in outsourcing costs, costs related to temporary employees and inventory write downs. Advantest's inventory write downs increased by ¥5,718 million, or 314.7% compared to fiscal 1999 to ¥7,535 million in fiscal 2000. This increase is primarily attributable to higher amounts of slow moving raw materials due to current adverse trends in demand for Advantest's products, particularly semiconductor test systems, the discontinuation of semiconductor test system product lines, consisting mainly of product lines replaced by new product lines, and valuation reserves taken for used equipment.

Cost of sales as a percentage of net sales of measuring instruments decreased from 61.3% in fiscal 1999 to 52.8% in fiscal 2000. This decrease was primarily due to increased efficiency in

Advantest's use of manufacturing facilities and personnel.

(Research & Development Expenses)

Research and development expenses increased by ¥5,060 million, or 21.5% compared to fiscal 1999 to ¥28,541 million in fiscal 2000. This reflects increased investments in the development of new products, in particular SoC semiconductor test systems, and enhancements to existing product lines.

(Selling, General and Administrative Expenses)

Selling, general and administrative expenses increased by ¥11,390 million, or 42.7%, compared to fiscal 1999 to ¥38,038 million in fiscal 2000. This increase includes a ¥3,650 million, or 90.0% increase in product warranty expenses compared to fiscal 1999 to ¥7,753 million in fiscal 2000. The increase in product warranty costs is primarily a result of increased sales of semiconductor test system units. The increase in other selling, general and administrative expenses is primarily attributable to increased costs related to overseas sales and selling expenses of overseas subsidiaries for sales of automated test equipment, increased amortization expense relating to Advantest's new information management system installed in May 2000 and smaller increases in rent expense.

(3) Operating Income

Operating income increased by ¥50,103 million, or 144.0%, compared to fiscal 1999 to total ¥84,905 million in fiscal 2000. Operating income of the automated test equipment segment increased by ¥45,690 million, or 112.2%, compared to fiscal 1999 to ¥86,413 million in fiscal 2000. Operating margins increased from 30.0% in fiscal 1999 to 35.8% in fiscal 2000 primarily as a result of improvements in the ratio of selling, general and administrative expenses to net sales. Operating income of measuring instruments segment increased by ¥6,740 million compared to fiscal 1999 to a profit of ¥6,672 million in fiscal 2000. This increase in operating income is primarily the result of increased efficiency in the use of Advantest's manufacturing capacity.

(4) Other Income and Expenses

Interest income increased by ¥294 million, or 52.1%, compared to fiscal 1999 to ¥858 million in fiscal 2000. This increase was primarily due to an increase in the proportion of funds held in foreign currency accounts where interest rates are higher than rates in Japan. Interest expense decreased by ¥129 million, or 16.9%, compared to fiscal 1999 to ¥635 million in fiscal 2000. This decrease was primarily due to lower average balance of long-term debt outstanding during fiscal 2000 compared to fiscal 1999. Other income increased by ¥2,296 million from a loss of ¥1,079 million in fiscal 1999 to income of ¥1,217 million in fiscal 2000. This increase in other income resulted primarily from foreign exchange gains in the amount of ¥1,127 million in fiscal 2000 compared to foreign exchange losses of ¥1,582 million in fiscal 1999. In fiscal 2000, foreign exchange gain was favorably impacted compared to the previous year primarily as a result of the trend of the weakening of the yen, particularly against the U.S. dollar, during the second half of the fiscal year.

(5) Net Income

Advantest's effective tax rate was 37.6% in fiscal 1999 compared to 38.5% in fiscal 2000. Advantest's normal tax rate was 41.6% for both fiscal 1999 and fiscal 2000. The difference between the normal tax rate and the effective tax rate was

primarily due to lower tax rates imposed at foreign subsidiaries and tax credits received and utilized, offset by non-deductible expenses for income tax purposes.

Advantest's net income increased by ¥32,216 million, or 154.1%, compared to fiscal 1999 to total ¥53,121 million in fiscal 2000.

3. Segment Information

Segment Information by Business

Net sales for both automated test equipment and measuring instruments increased considerably in fiscal 2000.

(Automated Test Equipment)

In fiscal 2000, net sales from Advantest's automated test equipment segment accounted for 87.3% of total net sales. Net sales from the automated test equipment segment increased by ¥105,771 million or 77.9%, compared to fiscal 1999 to total ¥241,499 million in fiscal 2000.

Net sales of memory semiconductor test system increased ¥84,350 million, or 150.3%, compared to fiscal 1999 to ¥140,486 million in fiscal 2000. This increase was generally attributable to volume increases in product sold, and in particular the sales volume of new semiconductor test systems introduced in the second half of fiscal 1999 and during fiscal 2000. The success of Advantest's new memory semiconductor test systems resulted in Advantest significantly increasing its market share in memory semiconductor test systems during a period when total market sales increased by over 60%.

Net sales of test handlers increased by ¥19,927 million or 62.7% compared to fiscal 1999 to ¥51,710 million in fiscal 2000, reflecting the increase in number of semiconductor test system units sold.

Net sales for non-memory semiconductor test systems increased by ¥2,132 million, or 5.5% compared to fiscal 1999 to ¥41,191 million in fiscal 2000. This increase was generally attributable to a full year of sales of the T6672 as compared to a half year in fiscal 1999, and the release of the T6500 series during the second half of fiscal 2000, partially offset by lower sales of other non-memory semiconductor test systems.

These increases were offset by a ¥638 million, or 7.3%, decrease in net sales of Advantest's other products in the automated test equipment segment compared to fiscal 1999 to ¥8,112 million in fiscal 2000.

(Measuring Instruments Segment)

Advantest's measuring instruments segment had a record level of net sales in fiscal 2000. Net sales from this segment increased by ¥12,163 million, or 53.2% compared to fiscal 1999 to ¥35,013 million in fiscal 2000.

Net sales of fiber optic communications measuring instruments increased by ¥7,562 million, or 106.6%, compared to fiscal 1999 to ¥14,655 million in fiscal 2000. This increase was primarily attributable to continued growth in investment levels in fiber optic communications networks in Japan and, to a lesser extent, the United States.

Net sales for measuring instruments for the wireless communications industry (including RF component measuring

instruments) increased by ¥2,489 million, or 26.6%, compared to fiscal 1999 to total ¥11,853 million in fiscal 2000. This increase was primarily attributable to increased sales to Japanese communications equipment and component manufacturers for networks based on current, as well as third-generation, technologies.

Net sales from the sale of Rohde & Schwarz measuring instruments also increased by ¥2,166 million, or 74.6% compared to fiscal 1999 to total ¥5,069 million. This increase was primarily attributable to a general increase in the number of units sold.

These increases were partially offset by a ¥54 million, or 1.5%, decline in net sales of Advantest's general measuring instruments compared to fiscal 1999 to ¥3,436 million in fiscal 2000. This decrease was primarily attributable to the effect of a general decrease in global consumer spending levels during the year on electronic consumer products.

Segment Information by Region

Advantest achieved increases in net sales in every geographic region, with sales in Asia (excluding Japan) experiencing the largest increase.

(Asian Region Excluding Japan)

Net sales in Asia increased by ¥78,676 million, or 128.4% compared to fiscal 1999 to ¥139,936 million in fiscal 2000. This increase was primarily attributable to increased sales of Advantest's automated test equipment in Singapore, South Korea, and Taiwan. Net sales in Singapore and South Korea are highly concentrated.

(Japan)

Net sales in Japan increased by ¥12,521 million, or 18.9% compared to fiscal 1999 to ¥78,649 million in fiscal 2000. This increase was primarily attributable to increased sales of measuring instruments to the fiber optic and wireless communication industry in Japan, and to a lesser extent, increased sales of automated test equipment. Net sales in Japan fell as a percentage of total net sales from 41.7% in fiscal 1999 to 28.4% in fiscal 2000. The slower growth rate in net sales in Japan compared to the rest of Asia and other regions resulted from a fall in Japanese semiconductor production as a percentage of worldwide semiconductor production in fiscal 2000. Recently, Japanese semiconductor manufacturers have started to shift their manufacturing to production facilities and foundries in other parts of Asia.

(North America)

Net sales in North America increased by ¥17,883 million, or 78.4% compared to fiscal 1999 to total ¥40,700 million in fiscal 2000. This increase was primarily attributable to increased sales of automated test equipment to semiconductor manufacturers in the United States and, to a significantly lesser extent, increased sales of measuring instruments to the fiber optic communications industry.

(Europe)

Net sales in Europe increased by ¥8,854 million, or 105.7% compared to fiscal 1999 to total ¥17,227 million in fiscal 2000. This increase was primarily attributable to increased sales of automated test equipment to Advantest's largest European customer.

4. Financial Condition

The total assets of the company at the end of fiscal 2000 were greater by ¥86.5 billion yen over the previous year, to ¥ 407.4 billion.

This increase was primarily attributable to the increase in current assets such as accounts receivable and inventory. Inventory increased by ¥25.7 billion, to ¥82.2 billion, due to a decrease in new orders for semiconductor test equipment that started in January 2001, and the cancellation of orders and delivery postponements.

Total liabilities at the end of fiscal 2000 were greater by ¥33.2 billion over the previous year, to ¥139.4 billion. This increase was primarily attributable to the increase in current liabilities along with the increase in tax liabilities and the allowance for product warranties. Stockholders' equity at the end of fiscal 2000 were increased by ¥53.3 billion compared to the previous year, to ¥267.9 billion.

ROE improved to 10.17% compared to the previous year's ROE of 22.02%.

5. Capital Expenditure

Total capital expenditures increased by ¥5,811 million, or 89.8% compared to fiscal 1999, to total ¥12,280 million in fiscal 2000. Advantest expects capital expenditures to increase to approximately ¥19.6 billion in fiscal 2001. Advantest's largest capital expenditures during fiscal 2000 consisted of investments in facilities and equipment for its research and development and manufacturing activities.

Expected capital expenditures in fiscal 2001 include:

- ¥5.1 billion on equipment for research and development and manufacturing;
- ¥5.1 billion allocated to equipment used in the test equipment leasing program;
- ¥2.9 billion on research and development facilities; and
- ¥2.1 billion for expansion of the Gunma measuring instruments plant.

In light of the significant decrease in demand for products during 2001, Advantest may elect to postpone a portion of its planned capital expenditures until a later date.

6. Cash Flows

Advantest's cash and cash equivalents balance increased by ¥5,089 million in fiscal 2000, to total ¥123,542 million as of March 31, 2001.

Net cash provided by operating activities was ¥29,597 million in fiscal 2000, compared to ¥21,707 million in fiscal 1999. The increase was primarily attributable to the increase in net income, income taxes payable and accrued expenses, offset to some extent by an increase in outstanding amounts of accounts receivable and inventories.

Net cash used for investing activities was ¥16,130 million in fiscal 2000, compared to ¥9,080 million in fiscal 1999. This increase was mainly due to increased expenditures for property, plant and equipment such as construction of the Gunma R & D Center II (¥2.1 billion).

Net cash used in financing activities was ¥10,266 million in fiscal 2000, compared to ¥1,775 million in fiscal 1999. The

increase was primarily attributable to the outlay of funds from the redemption of our 1st unsecured corporate bond (¥10 billion) and dividend payments (¥4.4 billion), but partially offset by proceeds from the issuance of our 3rd unsecured warrant bond (¥4.5 billion).

7. Corporate Governance

We are advocating continuous management innovation and are making aggressive efforts to achieve positive results. In fiscal 2000, we established a system to objectively analyze company management, by setting a specific management AVA (Advantest Value Added) target and by establishing a new cost control method, ABCM, as well as enhancing development, productivity and sales systems together with the restructured basic information system. We are also implementing an incentive system based on the company's results as well as the individual's contribution. The merit based bonus system is designed to encourage employees to pay attention to the company's financial status while motivating them to improve productivity.

With these reforms, we are continuing our efforts to enhance our corporate value as well as realize a greater degree of management transparency.

AVA (Advantest Value Added)

AVA stands for Advantest Value Added, the Advantest version of the widely used economic value added (EVA) model. Introduced in April 2000, it is used to establish management targets, and to determine the business efficiency of our investments. This index gives us the ability to determine the contribution to corporate value of an investment. It is only after we realize a positive AVA that we can say that an investment is truly profitable.

AVA is calculated as follows:

$$AVA = \text{operating profit after tax} - \text{capital cost}$$

We are improving our fiscal structure by introducing an independent division system with distinct profit centers and by promoting a results-oriented cash flow with the goal that all business activities of the Advantest Group increase corporate value. We will work to offer the most appropriate values for all stakeholders — shareholders, customers, and employees — by promoting the use of AVA as a management tool.

8. Outlook

Advantest has built a flexible organization able to quickly respond to changes in the market. Possessing strong financial fundamentals, the company has made an all-out effort to maintain stable personnel and research and development activities, increase investment, and maintain competitiveness even during down periods in the semiconductor market. We will accomplish this by outsourcing to reduce fixed expenses while investing in R & D and our core competencies.

Advantest's core business objectives are:

- Strengthen our position at the top of the memory and semiconductor automated test equipment market.
- Expand our share of the SoC automated test equipment market.
- Focus on developing measuring instruments that respond to the needs of high growth industries.
- Raise profitability by improving business efficiency and

performance.

To achieve these objectives, Advantest has 6 specific plans:

(1) Take the lead in responding to industry trends, ascertaining customer needs, and bringing products to market.

Advantest cooperates closely with major semiconductor manufacturers starting from the design stage for next-generation products, and understands customer needs concerning future technologies. Based on our knowledge and strong technical expertise, we work to develop high-performance automated test equipment ahead of the competition. The following strategies are examples of our efforts in the area of automated test equipment:

- Coordinate innovations in semiconductor technology achieved in memory, SoC, and other areas, and develop automated test equipment with greater testing speed and throughput performance.
- Design semiconductor test equipment for next-generation 300 mm wafers and achieve higher throughput by increasing the number of dies that can be simultaneously measured.
- Take the lead in developing products for the shift of the semiconductor industry toward a focus on die preprocessing testing.
- Use strengths in developing products and software to develop semiconductor equipment optimized to measure and evaluate flash memory, while maintaining high throughput.

(2) Strengthen the SoC automated test equipment business

Advantest believes that the SoC market has greater long-term growth prospects than other areas in the semiconductor market. Based on this belief, we have developed a full line-up of logic and semiconductor test systems that meet a wide array of SoC test needs for a large number of manufacturers. We have developed the following strategies for our SoC and other logic automated test systems business:

- Increase technical personnel by up to 1000 by 2004 for SoC automated test equipment support and work with customers to improve existing products and develop new products.
- Use a single platform for SoC test equipment to reduce research and development costs and shorten the time needed for bringing new products to market.
- Develop automated test equipment that works seamlessly with circuitry using built-in self-test technology, and work to reduce overall test costs.

(3) Always maintain our commitment to continuously developing new products.

Advantest believes that this factor is essential for the success of research and product development. We plan to continuously invest in research and development that focuses on developing fundamental technology and improving products. Our target is to reinvest at least 10% of net sales toward R&D for new products and new technologies. Over the last 5 years, we have appropriated a total of approximately ¥110 million toward research and development and we plan to continue this level of research and product development investment. It is also a possibility that Advantest will acquire other companies for the purpose of enhancing the company's research and development capability and basic technology.

(4) Focus our sales activities on our most important automated test equipment customers around the world.

The semiconductor industry is extremely concentrated. The great majority of sales for the entire semiconductor test equipment industry come from just a few major semiconductor manufacturers and businesses retained for testing. Advantest has major customers all over the world. We intend to further expand our sales to these major customers and work to develop new potential customers. To achieve this goal, we are carrying out the following specific measures:

- Open new sales offices and support centers overseas.
- Hire additional engineers in important regions outside of Japan.
- Carry out joint development activities with major semiconductor manufacturers to design and bring to market new automated test equipment.

(5) Focus our measurement instruments business on high-growth opportunities.

Advantest's Measurement Instruments Division is focusing on the performance needs of industries in the areas of optical and wireless communications and electronic components. In 1999 we released an optical spectrum analyzer, which measures wavelength dispersion and amplitude of signals transmitted through long distance subsea fiber optic lines. In June 2000 we released irregularity analyzing options to be used for the spectrum analyzer aimed at capturing market share for third-generation wireless communications protocols such as W-CDMA. NTT DoCoMo launched its third generation wireless network service using W-CDMA in Japan in the fall of 2001 and wireless service providers in other countries in Europe and Korea are expected to follow in the next several years.

(6) Strengthen cost management

To raise Advantest's corporate value, we introduced a new cost management system, ABCM (Activity Based Costing Management) that maintains a yield of at least 8% on our business investments. Under this system, employees are required to fill out daily detailed activity reports, and management uses this information to calculate the cost of each business activity and channel resources to corporate activities that achieve the requisite level of return. Activities that fail to achieve the requisite levels within a defined period of time will be reevaluated.

This system also motivates employees to contribute to the company's success by basing bonuses on business performance. Advantest links employee salaries to business performance and individual achievement to raise both employee awareness of Advantest's financial state of affairs and employee productivity. In all respects, we believe that our employees are our greatest asset and rewarding their efforts is intimately linked to raising corporate value.

Selected Financial Data

Japanese GAAP Selected Consolidated Financial Data

The following selected financial data have been derived from Advantest's consolidated financial statements that were prepared under Japanese GAAP and were included in its Japanese Securities Reports filed with Director of the Kanto Local Finance Bureau.

The differences between Japanese GAAP and U.S.GAAP applicable to Advantest primarily relate to the accounting for investment securities, income taxes, translation of foreign currency, accrued compensated

absences, bonuses to directors and corporate auditors, employee retirement and severance benefits, leases, derivative financial instruments and revenue recognition and the presentation of statement of cash flows and comprehensive income. In addition, under Japanese GAAP, a restatement of prior year financial statements reflecting the effect of a change in accounting principles is not permitted.

Consolidated Statement of Income Data:

	Year ended March 31					2001 <i>(in thousands, except per share data)</i>
	1997	1998 ⁽⁵⁾	1999	2000 ⁽³⁾	2001 ⁽¹⁾⁽²⁾⁽⁵⁾⁽⁶⁾	
	(in million, except per share data)					
Automated Test Equipment:						
Net Sales	¥139,684	¥233,313	¥119,976	¥144,273	¥227,201	<i>\$1,833,745</i>
Operating income.....	53,180	99,004	36,138	47,969	76,589	<i>618,152</i>
Measuring Instruments:						
Net sales.....	21,534	24,105	21,738	22,849	35,012	<i>282,583</i>
Operating income.....	2,617	3,236	213	720	6,592	<i>53,204</i>
Total Company:						
Net sales.....	161,219	257,418	141,714	167,123	262,214	<i>2,116,336</i>
Operating income.....	44,860	86,616	30,170	41,672	72,613	<i>586,061</i>
Income before income taxes and extraordinary items.....	45,082	85,859	32,636	41,272	74,373	<i>600,266</i>
Net income	24,716	43,521	18,851	22,359	47,073	<i>379,927</i>
Net income per share:						
Basic.....	301.65	482.87	190.43	225.28	473.60	<i>3.82</i>
Diluted	301.65	482.00	190.27	224.60	472.54	<i>3.81</i>

Consolidated Balance Sheet Data:

	As of March 31					2001 <i>(in thousands)</i>
	1997	1998	1999	2000 ⁽³⁾	2001 ⁽²⁾⁽⁴⁾	
	(in millions)					
Total assets:						
Automated test equipment	¥109,654	¥196,418	¥151,244	¥174,212	¥227,371	<i>\$1,835,117</i>
Measuring instruments	16,923	24,180	21,828	21,843	33,958	<i>274,076</i>
Corporate.....	84,961	78,248	112,094	135,863	142,420	<i>1,149,475</i>
Current installments of long-term debt	59	69	3,069	10,000	4,342	<i>35,044</i>
Long-term debt, less current installments.....	10,448	14,690	34,621	26,821	26,911	<i>217,199</i>
Stockholders' equity	144,907	185,523	199,242	229,364	269,588	<i>2,175,851</i>

Other Data:

	Year ended March 31					2001 <i>(in thousands)</i>
	1997	1998 ⁽⁵⁾	1999	2000 ⁽³⁾	2001 ⁽¹⁾⁽²⁾⁽⁵⁾⁽⁶⁾	
	<i>(in millions, except percentages)</i>					
Capital expenditures	¥10,467	¥11,892	¥8,366	¥9,232	¥16,181	<i>\$130,597</i>
Research ad development expenses	16,170	21,207	22,111	23,153	28,585	<i>230,710</i>
EBITDA ⁽⁷⁾	—	—	—	46,104	85,386	<i>689,153</i>
Cash flows from operating activities	—	—	—	21,089	29,177	<i>235,488</i>
Cash flows investing activities.....	—	—	—	(9,080)	(16,301)	<i>(131,566)</i>
Cash flows form financing activities.....	—	—	—	(1,157)	(9,675)	<i>(78,087)</i>
EBITDA margin ⁽⁸⁾	—	—	—	27.59 %	32.56%	
Operating margin ⁽⁹⁾	27.83 %	33.65 %	21.29 %	24.93	27.69	
Net income margin ⁽¹⁰⁾	15.33	16.91	13.30	13.38	17.95	
Return on equity ⁽¹¹⁾	18.52	26.34	9.80	10.43	18.87	
Return on assets ⁽¹²⁾	12.25	17.05	6.46	7.25	12.80	

- (1) Effective April 1, 2000, Advantest changed its accounting policy for revenue recognition. Prior to the change, sales to overseas customers were recognized upon shipment. Under the new policy, the sale of equipment which requires installation work is recognized when the related installation work is completed and the equipment is accepted by the customer. Because Japanese GAAP does not allow a restatement of financial statements to reflect a change in accounting policy, net sales for the year ended March 31, 2001 includes the cumulative effect of the change in the amount of ¥14,298 million. If this new policy had been applied from April 1, 1999, net sales for the years ended March 31, 2000 and 2001 would have been ¥158,578 million and ¥276,512 million, respectively.
- (2) Effective April 1, 2000, the accounting for investment securities under Japanese GAAP was changed. Under the new accounting standard, which is similar to U.S. GAAP accounting for investment securities, all of Advantest's securities were classified as available-for-sale securities. These securities are reported at fair value and related unrealized gains or losses, net of taxes, are included in stockholders' equity. The change resulted in a decrease in stockholders' equity of ¥415 million as of March 31, 2001.
- (3) Effective April 1, 1999, the accounting for income taxes under Japanese GAAP was changed to the liability method where income taxes are recognized for temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities. The change resulted in an increase of net deferred tax assets and net income in the amount ¥8,459 million and ¥359 million, respectively, for the year ended March 31, 2000.
- (4) Effective April 1, 2000, the presentation of unrealized gains or losses on foreign currency translations in the balance sheet changed under Japanese GAAP. Prior to the change, net gains or losses were included in assets or liabilities. Under the new presentation method, net gains or losses are included as a component of stockholders' equity. The change resulted in a decrease in stockholders' equity of ¥2,782 million as of March 31, 2001.
- (5) On April 1, 1997, Advantest changed its accounting policy for retirement benefit costs. Under this policy, Advantest recognized benefit costs based on the present value of expected future payments. The change resulted in a decrease in income before income taxes of ¥2,013 million for the year ended March 31, 1998. Effective April 1, 2000, a new accounting standard was established under Japanese GAAP. Under the new standard, Advantest recognizes retirement benefit costs based upon an actuarially determined present value of benefit obligations. The effect of the accounting change, net of a one-time transition gain of ¥1,565 million, was an increase in income before income taxes in the amount of ¥950 million in the year ended March 31, 2001.
- (6) Effective April 1, 2000, a new accounting standard for derivative financial instruments was adopted under Japanese GAAP. The adoption of the new accounting standard had no material effect on Advantest's financial statements in the year ended March 31, 2001.
- (7) EBITDA represents net income plus minority interests, interest expense (net), income taxes, depreciation and amortization. EBITDA is provided because it is a measure commonly used by investors to analyze and compare companies on the basis of operating performance. EBITDA is not a measurement of financial performance under Japanese GAAP and should not be construed as a substitute for operating income, net income or cash flows from operating activities for purposes of analyzing Advantest's operating performance, financial position and cash flows. Advantest's EBITDA is not necessarily comparable with similarly titled measures for other companies.
- (8) EBITDA as a percentage of net sales.
- (9) Operating income as a percentage of net sales.
- (10) Net income as a percentage of net sales.
- (11) Net income as a percentage of average stockholders' equity.
- (12) Net income as a percentage of average total assets.

U.S. GAAP Selected Consolidated Financial Data

The following selected financial data have been derived from Advantest's audited consolidated financial statements included in this registration statement. These financial statements were prepared under U.S. GAAP.

Consolidated Statement of Income Data:

	Year ended March 31		
	2000	2001	2001
	(in millions, except per share and share data)		(in thousands, except per share and share data)
Automated Test Equipment:			
Net sales	¥135,728	¥241,499	<i>\$1,949,144</i>
Operating income	40,723	86,413	<i>697,441</i>
Measuring Instruments:			
Net sales	22,850	35,013	<i>282,591</i>
Operating income (loss)	(68)	6,672	<i>53,850</i>
Total Company:			
Net sales	158,578	276,512	<i>2,231,735</i>
Operating income	34,802	84,905	<i>685,270</i>
Income before income taxes	33,494	86,333	<i>696,796</i>
Net income	20,905	53,121	<i>428,741</i>
Net income per share:			
Basic	210.63	534.44	<i>4.31</i>
Diluted	209.99	533.24	<i>4.30</i>
Basic weighted average shares.....	99,249,719	99,394,909	<i>99,394,909</i>
Diluted weighted average shares.....	99,553,269	99,618,561	<i>99,618,561</i>

Consolidated Balance Sheet Data:

	As of March 31		
	2000	2001	2001
	(in millions)		(in thousands)
Total assets:			
Automated test equipment	¥163,215	¥230,389	<i>\$1,859,476</i>
Measuring instruments.....	21,730	34,528	<i>278,676</i>
Corporate	135,947	142,514	<i>1,150,234</i>
Current installments of long-term debt.....	10,000	4,343	<i>35,052</i>
Long-term debt, less current instruments.....	26,822	26,911	<i>217,199</i>
Stockholders' equity	214,594	267,929	<i>2,162,462</i>

Other data:

	Year ended March 31		
	2000	2001	2001
	(in millions, except percentages)		(in thousands)
Capital expenditures.....	¥6,469	¥12,280	<i>\$99,112</i>
Research and development expenses.....	23,481	28,541	<i>230,355</i>
EBITDA ⁽¹⁾	42,628	96,336	<i>777,530</i>
Cash flow from operating activities.....	21,707	29,597	<i>238,878</i>
Cash flow from investing activities.....	(9,080)	(16,130)	<i>(130,186)</i>
Cash flow from financing activities	(1,775)	(10,266)	<i>(82,856)</i>
EBITDA margin ⁽²⁾	26.88%	34.84%	
Operating margin ⁽³⁾	21.95	30.71	
Net income margin ⁽⁴⁾	13.18	19.21	
Return on equity ⁽⁵⁾	10.17	22.02	
Return on assets ⁽⁶⁾	—	14.59	

(1) EBITDA represents net income plus minority interests, interest expense (net), income taxes, depreciation and amortization. EBITDA is provided

because it is a measure commonly used by investors to analyze and compare companies on the basis of operating performance. EBITDA is

not a measurement of financial performance under U.S. GAAP and should not be construed as a substitute for operating income, net income or cash flows from operating activities for purposes of analyzing Advantest's operating performance, financial position and cash flows. Advantest's EBITDA is not necessarily comparable with similarly titled measures for other companies.

- (2) EBITDA as a percentage of net sales.
- (3) Operating income as a percentage of net sales.
- (4) Net income as a percentage of net sales.
- (5) Net income as a percentage of average stockholders' equity.
- (6) Net income as a percentage of average total assets.

《Dividends》

Advantest normally pays cash dividends twice per year. Advantest's board of directors recommends dividends to be paid following the end of each fiscal year. This recommended dividend must then be approved by shareholders at the ordinary general meeting of shareholders usually held in June of each year. Immediately following approval of the dividend at the shareholders' meeting, Advantest pays the dividend to holders of record at the preceding March 31. In addition to these year-end dividends, Advantest may pay interim dividends in the form of cash distributions from its retained earnings to its shareholders of record as of

September 30 in each year by resolution of its board of directors and without shareholder approval. Advantest normally pays interim dividends in December.

The following table sets forth the dividends paid by Advantest for each of the periods shown. The periods shown are the six months ended on that date. The U.S. dollar equivalents for the dividends shown are based on the exchange rate in Japan on the date of the dividend payment.

Six months ended/Record date

September 30, 1996.....	
March 31, 1997.....	
September 30, 1997.....	
March 31, 1998.....	
September 30, 1998.....	
March 31, 1999.....	
September 30, 1999.....	
March 31, 2000.....	
September 30, 2000.....	
March 31, 2001.....	

Dividend per Share	
Yen	Dollars
¥10	\$0.09
14	0.12
17	0.14
17	0.14
17	0.13
17	0.13
17	0.15
20	0.15
25	0.18
25	0.23

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 registration statement, 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 = ¥123.90. This was the approximate exchange rate in Japan on March 31, 2001.

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 on August 31, 2001 was \$1.00 = ¥118.75. Advantest does not intend to imply that the Japanese yen or U.S. dollar amounts referred to in this registration statement could have been or could be converted into U.S. dollars or Japanese yen, as the case may be, at any particular rate, or at all.

Fiscal year ended/ending March 31,

1997.....	
1998.....	
1999.....	
2000.....	
2001.....	
2001 (through August 31, 2001).....	

At end of period	Average (of month-end rates)	High	Low
	(¥ per \$1.00)		
¥123.72	¥113.21	¥124.54	¥104.49
133.29	123.57	133.99	111.42
118.43	128.10	147.14	108.83
102.73	110.02	124.45	101.53
125.54	111.65	125.54	104.19
118.75	122.19	126.75	118.75

Month ended

March 31, 2001.....	
April 30, 2001.....	
May 31, 2001.....	
June 30, 2001.....	
July 31, 2001.....	
August 31, 2001.....	

High	Low
(¥ per \$1.00)	
¥125.54	¥117.33
126.75	121.68
123.67	118.88
124.73	119.13
125.85	122.85
124.87	118.75

Consolidated Financial Statements

Consolidated Balance Sheets

	As of March 31		
	2000	2001	2001
	Yen (Millions)		U.S. Dollars (Thousands)
Assets			
Current assets:			
Cash and cash equivalents	¥ 118,453	¥ 123,542	\$ 997,111
Trade accounts receivable, less allowance for doubtful accounts of ¥159 million in 2000 and ¥261 million (\$2,107 thousand) in 2001	59,959	105,167	848,805
Inventories	56,507	82,219	663,592
Deferred tax assets	10,765	12,662	102,195
Other current assets	4,575	5,304	42,809
Total current assets	250,259	328,894	2,654,512
Investment securities	7,226	6,448	52,042
Property, plant and equipment, net	51,000	55,334	446,602
Deferred tax assets	5,208	7,059	56,973
Intangible assets, at cost, less accumulated amortization	4,624	6,903	55,714
Other assets	2,575	2,793	22,543
Total assets	¥ 320,892	¥ 407,431	\$ 3,288,386

See accompanying notes to consolidated financial statements.

	As of March 31		
	2000	2001	2001
	Yen (Millions)		U.S. Dollars (Thousands)
Liabilities and Stockholders' Equity			
Current liabilities:			
Current installments of long-term debt	¥ 10,000	¥ 4,343	\$ 35,052
Current installments of obligations under capital leases	547	439	3,543
Trade accounts payable	27,656	38,716	312,478
Income taxes payable	10,745	26,361	212,760
Deferred tax liabilities.....	—	47	379
Accrued expenses.....	12,778	20,568	166,005
Accrued warranty expenses.....	3,286	5,964	48,136
Total current liabilities	65,012	96,438	778,353
Long-term debt, excluding current installments	26,822	26,911	217,199
Obligations under capital leases, excluding current installments	736	404	3,261
Deferred tax liabilities.....	—	312	2,518
Accrued pension and severance costs	11,779	13,307	107,401
Other liabilities	1,856	2,036	16,433
Total liabilities	106,205	139,408	1,125,165
Minority interests.....	93	94	759
Stockholders' equity:			
Common stock, ¥50 (\$0.40) par value. Authorized 220,000,000 shares; issued and outstanding 99,716,966 shares in 2000 and 99,735,569 shares in 2001.....	32,146	32,207	259,944
Additional paid-in capital	32,735	32,802	264,746
Retained earnings.....	159,228	207,876	1,677,772
Accumulated other comprehensive income (loss)	(6,934)	(2,534)	(20,452)
Treasury stock, 345,185 and 324,095 shares in 2000 and 2001, respectively, at cost.....	(2,581)	(2,422)	(19,548)
Total stockholders' equity	214,594	267,929	2,162,462
Commitments and contingencies			
Total liabilities and stockholders' equity	¥ 320,892	¥ 407,431	\$ 3,288,386

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

	Year ended March 31		
	2000	2001	2001
	Yen (Millions)		U.S. Dollars (Thousands)
Net sales	¥ 158,578	¥ 276,512	\$ 2,231,735
Cost of sales	73,647	125,028	1,009,104
Gross profit	84,931	151,484	1,222,631
Research and development expenses	23,481	28,541	230,355
Selling, general and administrative expenses	26,648	38,038	307,006
Operating income	34,802	84,905	685,270
Other income (expense):			
Interest income	564	858	6,925
Interest expense	(764)	(635)	(5,125)
Minority interests	(29)	(12)	(97)
Other	(1,079)	1,217	9,823
	(1,308)	1,428	11,526
Income before income taxes	33,494	86,333	696,796
Income taxes	12,589	33,212	268,055
Net income	¥ 20,905	¥ 53,121	\$ 428,741

	March 31, 2000 and 2001		
	2000	2001	2001
	Yen		U.S. Dollars
Net income per share:			
Basic	¥ 210.63	¥ 534.44	\$ 4.31
Diluted	209.99	533.24	4.30

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements

Consolidated Statements of Stockholders' Equity

	Year ended March 31		
	2000	2001	2001
	Yen (Millions)		U.S. Dollars (Thousands)
Common stock:			
Balance at beginning of year	¥ 30,948	¥ 32,146	\$ 259,451
Warrants exercised.....	1,198	61	493
Balance at end of year	32,146	32,207	259,944
Additional paid-in capital:			
Balance at beginning of year	31,417	32,735	264,205
Warrants exercised.....	1,318	67	541
Balance at end of year	32,735	32,802	264,746
Retained earnings:			
Balance at beginning of year	141,693	159,228	1,285,133
Net income	20,905	53,121	428,741
Cash dividends, ¥37 and ¥50 (\$0.40) in 2000 and 2001, respectively, per share	(3,370)	(4,473)	(36,102)
Balance at end of year	159,228	207,876	1,677,772
Accumulated other comprehensive income (loss):			
Balance at beginning of year	(4,562)	(6,934)	(55,964)
Other comprehensive income (loss), net of tax.....	(2,372)	4,400	35,512
Balance at end of year	(6,934)	(2,534)	(20,452)
Treasury stock:			
Balance at beginning of year	(3,107)	(2,581)	(20,831)
Treasury stock purchased.....	(607)	(226)	(1,824)
Treasury stock sold	1,133	385	3,107
Balance at end of year	(2,581)	(2,422)	(19,548)
Total stockholders' equity	¥ 214,594	¥ 267,929	\$ 2,162,462
Disclosure of comprehensive income:			
Net income	¥ 20,905	¥ 53,121	\$ 428,741
Other comprehensive income (loss), net of tax.....	(2,372)	4,400	35,512
Total comprehensive income.....	¥ 18,533	¥ 57,521	\$ 464,253

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year ended March 31		
	2000	2001	2001
	Yen (Millions)		U.S. Dollars (Thousands)
Cash flows from operating activities:			
Net income	¥ 20,905	¥ 53,121	\$ 428,741
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,905	10,214	82,437
Provision for doubtful accounts	—	243	1,961
Gain on sale of marketable securities, net	(74)	(102)	(823)
Gain on sale of non-marketable securities, net	(128)	8	65
Foreign exchange loss (gain), net	266	(706)	(5,698)
Loss on sale of property, plant and equipment	181	134	1,082
Deferred income taxes	(1,907)	(3,218)	(25,973)
Changes in assets and liabilities:			
Trade accounts receivable	(2,082)	(42,469)	(342,768)
Inventories	(19,458)	(24,103)	(194,536)
Trade accounts payable	16,155	8,877	71,646
Income taxes payable	4,781	15,616	126,037
Accrued expenses	(3,666)	7,833	63,220
Accrued warranty expenses	326	2,259	18,233
Other	(2,497)	1,890	15,254
Net cash provided by operating activities	21,707	29,597	238,878
Cash flows from investing activities:			
Proceeds from sale of marketable securities	222	—	—
Proceeds from sale of non-marketable securities	63	17	137
Acquisition	—	(1,465)	(11,824)
Purchases of marketable securities	(375)	—	—
Purchases of non-marketable securities	(404)	(426)	(3,438)
Proceeds from sale of property, plant and equipment	207	907	7,320
Purchases of software	(2,324)	(2,901)	(23,414)
Capital expenditures	(6,469)	(12,280)	(99,112)
Other	—	18	145
Net cash used in investing activities	(9,080)	(16,130)	(130,186)

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements

	Year ended March 31		
	2000	2001	2001
	Yen (Millions)		U.S. Dollars (Thousands)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	¥ 2,200	¥ 4,500	\$ 36,320
Principal payments on long-term debt.....	(3,066)	(10,197)	(82,300)
Principal payments on obligations under capital leases	(618)	(591)	(4,770)
Proceeds from sale of treasury stock	1,133	377	3,043
Payments to acquire treasury stock	(607)	(226)	(1,824)
Proceeds from issuance of shares	2,556	346	2,793
Dividends paid	(3,373)	(4,471)	(36,086)
Other.....	—	(4)	(32)
Net cash used in financing activities	(1,775)	(10,266)	(82,856)
Net effect of exchange rate changes on cash and cash equivalents.....	(1,437)	1,888	15,238
Net change in cash and cash equivalents	9,415	5,089	41,074
Cash and cash equivalents at beginning of year	109,038	118,453	956,037
Cash and cash equivalents at end of year	¥ 118,453	¥123,542	\$ 997,111
Supplemental data:			
Cash paid during the year for:			
Income taxes	¥ 8,212	¥ 20,151	\$ 162,639
Interest	710	719	5,803

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies and Practices

(a) Description of Business

Advantest Corporation (the "Company") and its subsidiaries (hereafter collectively referred to as "Advantest") are engaged in the design, manufacture, and sale of automated test equipment for semiconductors. Advantest has a diverse product line that meets the needs of semiconductor manufacturers, as well as assembly and test services companies worldwide, for sophisticated systems that test the operation and performance of different types of semiconductors. Advantest equips its automated test equipment with sophisticated, yet easy-to-use, operating systems and testing software. Advantest supports its products and customers through a worldwide customer service network staffed by trained technical and maintenance personnel.

Advantest also designs, manufactures, and sells standard and customized measuring instruments that are used by the communications, electric equipment and systems industries. These instruments are used by Advantest's customers to improve time-to-market, lower costs of manufacturing and improve the quality of their products.

The Company was incorporated on July 1, 1954 under the name of Takeda Riken Industry Co., Ltd. as a limited liability, joint-stock company in Japan under the Commercial Code of Japan. Takeda Riken changed its legal name to Advantest Corporation in 1985.

(b) Principles of Consolidation

The Company and its domestic subsidiaries maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries in conformity with those of the country of their domicile. Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to conform with accounting principles generally accepted in the United States of America ("U.S. GAAP"). These adjustments were not recorded in the statutory books of account.

The consolidated financial statements include the financial statements of the Company and its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Cash Equivalents

Cash equivalents consist of overnight deposits and certificates of deposit with an initial term of less than three months. For purposes of the statements of cash flows, Advantest considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(d) Inventories

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

(e) Investment Securities

Investment securities at March 31, 2000 and 2001 consist of equity securities. Advantest classifies its equity securities in one of two categories: trading or available-for-sale. Trading securities are bought and held principally for the purpose of selling them in the near term. All equity securities not included in trading are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income (loss) until realized. Realized gains and losses from sale of available-for-sale securities are determined on a specific-identification basis.

A decline in the market value of any available-for-sale security below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Dividend income is recognized when earned.

As of March 31, 2000 and 2001, all equity securities held by Advantest are classified as available-for-sale.

(f) Derivative Financial Instruments

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", was issued by the Financial Accounting Standards Board in June 1998. SFAS No. 133, as amended, standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts. Under SFAS No. 133, entities are required to carry all derivative instruments in the consolidated balance sheets at fair value. The accounting for changes in the fair value (that is, gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair values, cash flows, or foreign currencies. If the hedged exposure is a fair value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (loss) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of the gain or loss are reported in earnings immediately. If the derivative instrument is not designated as a hedge, the gain or loss is recognized in earnings in the period of change. Advantest adopted SFAS No. 133 on April 1, 1999, and the effect of adoption was not material.

Foreign exchange forward contracts are used to manage currency exposure, resulting from changes in foreign currency exchange rates, on accounts receivable and payable. Advantest regularly enters into these contracts in U.S. and European currencies to hedge its non-Japanese currency net monetary exposures. However, these contracts do not qualify for hedge accounting since they do not meet the hedging criteria contained in SFAS No. 133. Advantest does not engage in currency speculation.

Foreign exchange forward contracts generally have maturities of less than two months. These contracts are used to reduce Advantest's risk associated with exchange rate movements, as gains and losses on these contracts are intended to offset exchange losses and gains on underlying exposures. Changes in fair value of foreign exchange forward contracts are recognized in earnings under the caption of other income (expense).

(g) Property, Plant and Equipment

Property, plant and equipment is stated at cost. Equipment under capital leases is stated at the present value of minimum lease payments.

Depreciation is computed using the declining-balance method except for buildings and machinery and equipment under capital leases for the Company and its domestic subsidiaries and the straight-line method over estimated useful lives of the assets for foreign subsidiaries. Buildings are principally depreciated using the straight-line method over their estimated useful lives. Depreciation for machinery and equipment under capital leases is computed using the straight-line method over the lease term. The depreciation period ranges from 3 years to 50 years for buildings, 2 years to 10 years for machinery and equipment, and 2 years to 20 years for furniture and fixtures.

Depreciation expense was ¥7,537 million and ¥8,293 million (\$66,933 thousand) in the years ended March 31, 2000 and 2001, respectively.

(h) Intangible Assets and Other Assets

Intangible assets principally consist of licenses, goodwill and computer software for internal-use, including computer software under capital leases. Other assets consist of investments, security deposits and prepaid expenses, of which no one individual item was material to the consolidated financial statements of Advantest.

Certain costs incurred to purchase or develop software for internal-use during the application development stage are capitalized. With respect to internal-use software costs, Advantest expenses costs incurred during the preliminary project stage which includes costs for making strategic decisions about the project, determining performance and system requirements, and vendor demonstration costs. Advantest also expenses costs incurred for internal-use software in the post-implementation stage such as training and maintenance costs. Costs incurred to establish the technological feasibility of software products to be sold as part of the automated test equipment are recorded as

research and development costs in the consolidated statements of income. Costs incurred subsequent to establishing technological feasibility with respect to such software have also been expensed by Advantest as such costs have been insignificant.

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, generally 5 years. Advantest assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting Advantest's average cost of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved. Goodwill of ¥800 million (\$6,457 thousand), net of accumulated amortization of ¥200 million (\$1,614 thousand), as of March 31, 2001 is included in intangible assets.

The cost of software is amortized straight-line over the estimated useful life, which is generally 5 years. The cost of computer software under capital leases is amortized straight-line over the lease term. The remaining weighted average life of intangible assets at March 31, 2001 is 3.6 years. The amortization expenses for the years ended March 31, 2000 and 2001 were ¥1,038 million and ¥1,884 million (\$15,206 thousand) for intangible assets, and ¥351 million and ¥50 million (\$404 thousand) for other assets, respectively.

(i) Revenue Recognition

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements". SAB No. 101 summarizes the SEC's view in applying accounting principles generally accepted in the United States of America to selected revenue recognition issues. The application of the guidance in SAB No. 101 is required in Advantest' fiscal year ended March 31, 2001. In accordance with Accounting Principles Board ("APB") Opinion No. 20, "Accounting Changes", SAB No. 101 has been retroactively applied for all periods presented.

Automated test equipment

Revenue from sales of automated test equipment which require installation work is recognized when the related installation work is completed and the equipment is accepted by the customer. Revenue from sales of parts for automated test equipment such as backup boards, which do not require installation work by Advantest, is recognized upon shipment if the terms of the sale are free on board ("FOB") shipping point or upon delivery if the terms are FOB destination.

Measuring instruments

Revenue from sales of measuring instruments which do not require installation work by Advantest is recognized upon

shipment if the terms of the sale are FOB shipping point and upon delivery if the terms are FOB destination. Revenue from sales of measuring instruments which require installation work is recognized when the related installation work is completed and the instrument is accepted by the customer. Advantest utilizes distributors to market certain of its measuring instruments which do not require installation work. Advantest recognizes revenues from sales of measuring instruments to distributors upon shipment or delivery of instruments to the distributors.

Service fee

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

Operating lease

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

(j) Shipping and Handling Costs

Shipping and handling costs totaled ¥1,468 million and ¥1,917 million (\$15,472 thousand) for the years ended March 31, 2000 and 2001, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income.

(k) Accrued Warranty Expenses

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

(l) Research and Development

Research and development costs are expensed as incurred.

(m) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(n) Stock-Based Compensation

Advantest applies the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations, in accounting for its stock-based compensation plans. As such,

compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation", established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, Advantest has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123.

(o) Accrued Pension and Severance Costs

The Company and its domestic subsidiaries have retirement and severance defined benefit plans covering substantially all of their employees. The benefits are based on years of service and the employee's compensation and vest after one year of service. Advantest adopted SFAS No. 87, "Employer's Accounting for Pensions", on April 1, 1999, since it was not feasible to obtain actuarial information necessary to implement the standard as of the effective date as specified in the standard. The unrecognized transition obligation of ¥3,204 million determined at the effective date is amortized over a period of 15 years. The portion of the transition obligation allocated to the period from April 1, 1989 to March 31, 1999 of ¥2,136 million representing the ratio of the years elapsed between the effective date of the standard and the adoption date to the 15-year period has been recorded as an adjustment to beginning shareholders' equity. Prior service costs that result from amendments to the plan are amortized over the average remaining service period of the employees expected to receive benefits. Unrecognized net gains and losses are amortized over the average remaining service life of employees expected to receive benefits. See note 15 to the consolidated financial statements for further discussion.

(p) Use of Estimates

Management of Advantest has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(q) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Advantest accounts for long-lived assets in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". SFAS No. 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the

amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(r) Net Income per Share

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

(s) Segment Information

Advantest discloses information regarding segments in accordance with SFAS No.131, "Disclosure about Segments of an Enterprise and Related Information". SFAS No. 131 establishes standards for reporting of financial information about operating segments in annual financial statements.

(t) Translation of Foreign Financial Statements

Foreign currency financial statements have been translated in accordance with SFAS No. 52, "Foreign Currency Translation". Under SFAS No. 52, the balance sheet accounts of non-Japanese subsidiaries, which are denominated in currencies other than the Japanese yen, are translated at rates of exchange prevailing at end of year. Revenue and expense accounts are translated at average rates of exchange in effect during the year. Resulting translation adjustments are included as a separate component of other comprehensive income (loss).

(u) Foreign Currency Transactions

Assets and liabilities denominated in foreign currencies are translated at the applicable current rates on the balance sheet date. All revenue and expenses associated with foreign currencies are converted at the rates of exchange prevailing when such transactions occur. The resulting exchange gains or losses are reflected in other income (expense) in the accompanying consolidated statements of income.

2. U.S. Dollar Amounts

U.S. dollar amounts presented in the consolidated financial statements and related notes are included solely for the convenience of the reader. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into, U.S. dollars. For this purpose, the rate of ¥123.90 per U.S.\$1, the approximate current exchange rate at March 31, 2001, was used for the translation of the accompanying financial results of Advantest as of and for the year ended March 31, 2001.

3. Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts are as follows:

	2000	2001	2001
	Yen(Millions)		U.S. Dollars(Thousands)
Balance at beginning of year...	¥159	¥159	<i>\$1,284</i>
Amount utilized	-	(141)	<i>(1,138)</i>
Provision for doubtful accounts ...	-	243	<i>1,961</i>
Balance at end of year	¥159	¥261	<i>\$2,107</i>

4. Inventories

Inventories are composed of the following:

	2000	2001	2001
	Yen(Millions)		U.S. Dollars(Thousands)
Finished goods	¥16,868	¥18,981	<i>\$153,196</i>
Work in process	29,519	39,748	<i>320,807</i>
Raw materials	10,120	23,490	<i>189,589</i>
	¥56,507	¥82,219	<i>\$663,592</i>

Advantest recognized inventory write-downs in cost of sales of ¥1,817 million, net of a recovery of ¥726 million related to previously written down inventory subsequently sold, and ¥7,535 million (\$60,815 thousand) for the years ended March 31, 2000 and 2001, respectively. The write-down of ¥7,535 million (\$60,815 thousand) for the year ended March 31, 2001 consists of ¥4,565 million (\$36,844 thousand) derived from discontinuation of products lines, including those lines that are being replaced by new product lines, ¥2,078 million (\$16,772 thousand) due to declines in net realizable value of Advantest's inventory located at customer sites, and ¥892 million (\$7,199 thousand) caused by higher amounts of slow moving raw materials due to current adverse trends in demand for Advantest's products.

5. Property, Plant and Equipment

Property, plant and equipment is composed of the following:

	2000	2001	2001
	Yen(Millions)		U.S. Dollars(Thousands)
Land.....	¥17,940	¥17,977	<i>\$145,093</i>
Buildings	43,056	44,161	<i>356,424</i>
Machinery and equipment ...	19,650	23,550	<i>190,073</i>
Furniture and fixtures	21,172	25,164	<i>203,099</i>
Construction in progress ...	411	3,792	<i>30,605</i>
	102,229	114,644	<i>925,294</i>
Less accumulated depreciation...	(51,229)	(59,310)	<i>(478,692)</i>
	¥51,000	¥55,334	<i>\$446,602</i>

6. Investment Securities

Marketable securities consist of equity securities with an aggregate fair value of ¥4,654 million and ¥3,365 million (\$27,159 thousand), gross unrealized gains, which are determined based on the specific-identification method, of ¥1,990 million and ¥897 million (\$7,240 thousand), gross unrealized losses of ¥424 million and ¥723 million (\$5,836 thousand), and acquisition cost of ¥3,088 million and ¥3,191 million (\$25,755 thousand) as of March 31, 2000 and 2001, respectively.

Proceeds from sale of available-for-sale securities were ¥222 million and nil for the years ended March 31, 2000 and 2001, respectively. From these sales, gross realized gains were ¥74 million and ¥102 million (\$823 thousand), and gross realized losses were nil for the years ended March 31, 2000 and 2001, respectively.

Advantest maintains long-term investment securities, included in marketable securities and other investments, issued by nonpublic companies, which are recorded at cost. In addition, the fair values of such securities were not readily determinable.

7. Derivative Financial Instruments

Derivative financial instruments are utilized by Advantest primarily to reduce foreign currency exchange risk. Advantest does not hold or issue financial instruments for trading purposes. Advantest generally does not require or place collateral for these financial instruments.

Derivative financial instruments contain an element of risk in the event the counterparties are unable to meet the terms of the agreements. However, Advantest minimizes risk exposure by limiting the counterparties to major international banks and financial institutions meeting established credit guidelines. Management of Advantest does not expect any counterparty to default on its obligations and, therefore, does not expect to incur any losses due to counterparty default on its obligations.

At March 31, 2000 and 2001, Advantest had foreign exchange forward contracts to receive Japanese yen for non-Japanese currencies such as U.S. dollars and German marks. The notional amounts of these contracts were ¥4,838 million and ¥5,105 million (\$41,203 thousand) at March 31, 2000 and 2001, respectively. The fair values of these contracts at March 31, 2000 and 2001 are shown in note 8 to the consolidated financial statements. These contracts do not qualify for hedge accounting since they do not meet the hedging criteria contained in SFAS No. 133. Changes in the fair values are recognized in earnings under the caption of other income (expense).

8. Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of Advantest's financial instruments at March 31, 2000 and 2001. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

	2000		2001	
	Carrying amount	Fair value	Carrying amount	Fair value
Yen(Millions)				
Financial assets:				
Investment securities for which it is:				
Practicable to estimate fair value				
.....	¥ 4,654	¥ 4,654	¥ 3,365	¥ 3,365
Not practicable to estimate fair value				
.....	2,572	2,572	3,083	3,083
Financial liabilities:				
Foreign exchange forward contracts				
.....	9	9	66	66
Long-term debt including current installments				
.....	¥36,822	¥37,746	¥31,254	¥32,258

	2001	
	Carrying amount	Fair value
U.S. Dollars (Thousands)		
Financial assets:		
Investment securities for which it is:		
Practicable to estimate fair value ...	\$ 27,159	\$ 27,159
Not practicable to estimate fair value	24,883	24,883
Financial liabilities:		
Foreign exchange forward contracts ...		
.....	533	533
Long-term debt including current installments		
.....	\$252,251	\$260,355

The carrying amounts shown in the table are included in the consolidated balance sheets under the indicated captions.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, trade accounts receivable, other current assets, notes payable to financial institution, trade accounts payable, and accrued expenses (nonderivatives):

The carrying amounts approximate fair value because of the short maturity of these instruments.

Investment securities:

The fair values of equity investments are based on quoted market prices at the reporting date for those investments. It was not practicable to estimate the fair value of nonpublic companies; those investments are carried at their original cost.

Long-term debt:

The fair value of Advantest's long-term debt is estimated by discounting the future cash flows of each instrument at rates currently offered to Advantest for similar debt instruments of comparable maturities by Advantest's bankers.

9. Leases - Lessor

Advantest provides leases that enable its customers to acquire automated test equipment. All leases are classified as operating leases. Lease terms range from 1 year to 5 years, and certain of the lease agreements are cancelable. The gross amount of machinery and equipment and the related accumulated depreciation on operating leases as of March 31, 2001 were as follows:

	2001	
	Yen(Millions)	U.S. Dollars(Thousands)
Machinery and equipment ...	¥2,905	\$23,446
Less accumulated depreciation ...	(739)	(5,964)
	¥2,166	\$17,482

Future minimum rental income from equipment on noncancelable operating leases as of March 31, 2001 is as follows:

	Year ending March 31	
	Yen(Millions)	U.S. Dollars(Thousands)
2002	¥ 618	\$ 4,988
2003	436	3,519
2004	231	1,864
2005	24	194
Total minimum lease income	¥1,309	\$10,565

10. Leases - Lessee

Advantest is obligated under various capital leases for certain machinery and equipment and software that expire at various dates during the next 5 years. At March 31, 2000 and 2001, the gross amount of machinery and equipment and software, and the related accumulated depreciation and amortization recorded under capital leases were as follows:

	2000	2001	2001
	Yen(Millions)	U.S. Dollars(Thousands)	U.S. Dollars(Thousands)
Machinery and equipment ...	¥2,290	¥1,689	\$13,632
Software	490	500	4,036
	2,780	2,189	17,668
Less accumulated depreciation and amortization	(1,530)	(1,373)	(11,082)
	¥1,250	¥ 816	\$ 6,586

Amortization of assets held under capital leases is included with depreciation and amortization expense.

Future minimum capital lease payments as of March 31, 2001 are:

	Year ending March 31	
	Yen(Millions)	U.S. Dollars(Thousands)
2002	¥456	\$3,680
2003	280	2,260
2004	121	977
2005	17	137
2006	2	16
Total minimum lease payments ...	876	7,070
Less amount representing interest (at rates ranging from 1.32% to 4.67%)	(33)	(266)
Present value of net minimum capital lease payments ...	843	6,804
Less current installments	(439)	(3,543)
Obligations under capital leases, excluding current installments ...	¥404	\$3,261

Advantest also has several noncancelable operating leases, primarily for computer and office equipment that expire over the next 5 years. Rent expense, including rental payments for cancelable leases, for the years ended March 31, 2000 and 2001 was ¥2,067 million and ¥2,339 million (\$18,878 thousand), respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of March 31, 2001 are as follows:

	Year ending March 31	
	Yen(Millions)	U.S. Dollars(Thousands)
2002	¥22	\$178
2003	17	137
2004	6	48
2005	1	8
Total minimum lease income	¥46	\$371

11. Long-Term Debt

Long-term debt at March 31, 2000 and 2001 consists of the following:

	2000	2001	2001
	Yen(Millions)		U.S. Dollars(Thousands)
Secured notes payable, due 2001 to 2008 with interest rates ranging from 1.05% to 5.025% per annum in 2000 and 1.05% to 4.125% per annum in 2001	¥ 322	¥ 254	\$ 2,050
Unsecured 2.25% bonds, repaid in 2001	10,000	-	-
Unsecured 0.95% bonds, due May 30, 2001	4,300	4,300	34,705
Unsecured 1.05% bonds, due January 27, 2004	2,200	2,200	17,756
Unsecured 0.88% bonds, due February 5, 2005	-	4,500	36,320
Unsecured 1.88% bonds, due December 14, 2005	20,000	20,000	161,420
Total long-term debt...	36,822	31,254	252,251
Less current installments	(10,000)	(4,343)	(35,052)
Long-term debt, excluding current installments ...	¥26,822	¥26,911	\$217,199

The Company's unsecured 0.95% bonds, 1.05% bonds and 0.88% bonds related to detachable warrants which were issued in connection with one of Advantest's stock-based compensation plans. As described in note 14 to the consolidated financial statements, upon issuance of each bond, the Company purchased all detachable warrants from the underwriter and distributed such warrants to the directors and selected employees of the Company and its subsidiaries. No gain or loss was recognized on the sale and purchase of the warrants. For financial reporting purpose, these transactions were accounted for as the issuance of debt to third parties and separately as the issuance of warrants to directors and employees.

At March 31, 2001, property, plant and equipment with a carrying amount of ¥442 million (\$3,567 thousand) was pledged as collateral for certain debt obligations in the amount of ¥82 million (\$662 thousand).

The aggregate maturities of long-term debt for each of the five years subsequent to March 31, 2001 are as follows:

	Year ending March 31	
	Yen(Millions)	U.S. Dollars(Thousands)
2002	¥ 4,343	\$ 35,052
2003	43	347
2004	2,243	18,103
2005	4,543	36,667
2006	20,042	161,759
Later years, through 2008 ...	40	323
Total long-term debt.....	¥31,254	\$252,251

12. Income Taxes

The components of income before income taxes and provision for income taxes as shown in the consolidated statements of income are as follows:

	2000	2001	2001
	Yen(Millions)		U.S. Dollars(Thousands)
Income before income taxes:			
The Company and domestic subsidiaries			
.....	¥22,495	¥63,910	\$515,819
Foreign subsidiaries	10,999	22,423	180,977
	¥33,494	¥86,333	\$696,796
Provision for income taxes:			
Current:			
The Company and domestic subsidiaries			
.....	¥10,473	¥29,715	\$239,831
Foreign subsidiaries	4,023	6,715	54,197
Deferred:			
The Company and domestic subsidiaries			
.....	(1,456)	(3,312)	(26,731)
Foreign subsidiaries	(451)	94	758
	¥12,589	¥33,212	\$268,055

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on income, which in the aggregate, resulted in a normal tax rate of approximately 41.6% for the years ended March 31, 2000 and 2001.

	2000	2001
Normal tax rate	41.6%	41.6%
Increase (reduction) in income taxes resulting from:		
Earnings of foreign subsidiaries taxed at different rate from the normal rate in Japan	(2.2)	(2.4)
Tax credits utilized	(1.1)	(0.7)
Expenses not deductible for tax purposes	0.5	0.2
Other, net	(1.2)	(0.2)
	37.6%	38.5%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2000 and 2001 are presented below.

Notes to Consolidated Financial Statements

	2000	2001	2001
	Yen(Millions)		U.S. Dollars(Thousands)
Deferred tax assets:			
Inventory adjustments principally due to:			
Valuation	¥ 1,858	¥ 3,073	\$ 24,802
Intercompany profit	2,293	1,613	13,019
Accrued warranty expenses ...	1,174	1,765	14,245
Accrued business taxes	608	2,190	17,676
Revenues recognized for tax purposes ...	1,444	-	-
Accrued pension and severance costs ...	4,014	4,864	39,257
Other accrued expenses	1,106	1,638	13,220
Property, plant and equipment - intercompany profit	691	1,125	9,080
Research and development expenses capitalized for tax purposes	2,447	2,914	23,519
Other	1,718	1,362	10,993
Total gross and net deferred tax assets	17,353	20,544	165,811
Deferred tax liabilities:			
Unrealized gains on marketable securities ...	783	435	3,511
Depreciation	341	310	2,502
Other	256	437	3,527
Total gross deferred liabilities ...	1,380	1,182	9,540
Net deferred tax assets	¥15,973	¥19,362	\$156,271

Management of Advantest intends to reinvest certain undistributed earnings of the Company's foreign subsidiaries for an indefinite period of time. As a result, no provision for income taxes has been made on undistributed earnings of these subsidiaries not expected to be remitted in the foreseeable future, aggregating ¥3,225 million and ¥5,135 million (\$41,445 thousand) as of March 31, 2000 and 2001, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that Advantest will realize the benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

13. Other Comprehensive Income (Loss)

The accumulated balances for each classification of other comprehensive income (loss) are as follows:

	Foreign currency translation adjustments	Net unrealized gains on securities	Accumulated other comprehensive income (loss)
	Yen (Millions)		
Balance at April 1, 1999	¥(4,811)	¥249	¥(4,562)
Change during the year	(3,037)	689	(2,348)
Reclassification adjustments for realized portion	-	(24)	(24)
	(3,037)	665	(2,372)
Balance at March 31, 2000 ...	(7,848)	914	(6,934)
Change during the year	5,212	(713)	4,499
Reclassification adjustments for realized portion	-	(99)	(99)
	5,212	(812)	4,400
Balance at March 31, 2001 ...	¥(2,636)	¥102	¥(2,534)

	Foreign currency translation adjustments	Net unrealized gains on securities	Accumulated other comprehensive income (loss)
	U.S. Dollars (Thousands)		
Balance at March 31, 2000 ...	\$ (63,341)	\$ 7,377	\$ (55,964)
Change during the year	42,066	(5,755)	36,311
Reclassification adjustments for realized portion	-	(799)	(799)
	42,066	(6,554)	35,512
Balance at March 31, 2001 ...	\$ (21,275)	\$ 823	\$ (20,452)

The related tax effects allocated to each component of other comprehensive income (loss) are as follows:

	Before-tax amount	Tax(expense) or benefit	Net-of-tax amount
	Yen (Millions)		
Year ended March 31, 2000:			
Foreign currency translation adjustments ...	¥(3,037)	-	¥(3,037)
Net unrealized gains on securities:			
Net unrealized gains arising during the year	1,180	¥(491)	689
Less reclassification adjustments for net gains realized in earnings	(41)	17	(24)
Net unrealized gains	1,139	(474)	665
Other comprehensive income (loss) ...	¥(1,898)	¥(474)	¥(2,372)
Year ended March 31, 2001:			
Foreign currency translation adjustments ...	¥5,212	-	¥5,212
Net unrealized losses on securities:			
Net unrealized losses arising during the year	(1,221)	¥508	(713)
Less reclassification adjustments for net losses realized in earnings	(170)	71	(99)
Net unrealized losses ...	(1,391)	579	(812)
Other comprehensive income (loss) ...	¥3,821	¥579	¥4,400

	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
U.S. Dollars (Thousands)			
Year ended March 31, 2001:			
Foreign currency translation adjustments ...	\$42,066	-	\$42,066
Net unrealized losses on securities:			
Net unrealized losses arising during the year			
.....	(9,855)	\$4,100	(5,755)
Less reclassification adjustments for net losses realized in earnings			
.....	(1,372)	573	(799)
Net unrealized losses ...	(11,227)	4,673	(6,554)
Other comprehensive income (loss) ...	\$30,839	\$4,673	\$35,512

14. Stock-Based Compensation

Advantest has two types of stock-based compensation plans as incentive plans for directors and selected employees. One plan uses stock options and the other plan uses bonds with detachable warrants.

In June 1998, the Company's shareholders approved a stock option plan for directors and certain employees. Under the stock option plan, the total number of shares authorized for grant totaled 415,000. Options are granted with an exercise price equal to the higher of (1) 1.05 times the average price of the preceding month on the date of each grant, (2) 1.05 times the closing price of the Company's shares traded on the Tokyo Stock Exchange on the date of each grant, and (3) the average price of the treasury stock acquired in the markets, and have an exercise period of 4 years. The options vest immediately.

In May 1997, January 2000 and January 2001, the Company issued unsecured bonds with detachable warrants. Simultaneously with the issuance of the unsecured bonds, the Company purchased all of the detachable warrants from the underwriter and distributed such warrants to the directors and selected employees of the Company and its subsidiaries. By exercising a warrant, directors and selected employees can purchase the shares of the Company, the number of which is 654,014 shares, 99,000 shares and 319,500 shares at the strike price of ¥6,533, ¥21,840 and ¥14,018 for warrants issued in May 1997, January 2000 and January 2001, respectively. Warrants are granted with an exercise price equal to 1.05 times the closing price of the Company's shares traded on the Tokyo Stock Exchange on the date of each grant. Under each plan, 5,934 warrants, 990 warrants and 3,195 warrants in May 1997, January 2000, and January 2001, respectively, were issued. The warrants vest immediately, and are exercisable up to 4 years from the date of grant. For financial reporting purposes, these transactions were accounted for as the issuance of debt to third parties and separately as the issuance of warrants to directors and employees. The issuance of the warrants to directors and employees was accounted for under APB Opinion No. 25.

The per share weighted average fair value of stock options and warrants granted during the years ended March 31, 2000 and 2001 was ¥8,216 and ¥5,624 on the date of grant using the Black Scholes option-pricing model with the following weighted-

average assumptions:

The year ended March 31, 2000 - expected dividend yield of 0.18%, risk-free interest rate of 0.6%, volatility of 53.5%, and an expected life of 4 years;

The year ended March 31, 2001 - expected dividend yield of 0.37%, risk-free interest rate of 0.6%, volatility of 58.1%, and an expected life of 4 years.

Advantest applies APB Opinion No. 25 in accounting for its stock option plan and warrants plan and, accordingly, no compensation cost has been recognized for its stock options and warrants in the consolidated financial statements. Had Advantest determined compensation cost based on the fair value at the grant date for its stock options and warrants under SFAS No. 123, Advantest's net income and net income per share would have been reduced to the pro forma amounts indicated below:

	2000	2001	2001
	Yen (Millions) except for per share data		U.S. Dollars (Thousands) except for per share data
Net income:			
As reported	¥20,905	¥53,121	\$428,741
Pro forma	20,092	51,324	414,237
Basic net income per share:			
As reported	210.63	534.44	4.31
Pro forma	202.44	516.36	4.17
Diluted net income per share:			
As reported	209.99	533.24	4.30
Pro forma	201.82	515.21	4.16

Stock option and warrant activity during the years ended March 31, 2000 and 2001 is as follows:

	Number of shares	Weighted average exercise price	
		Yen	U.S. Dollars
Balance at April 1, 1999 ...	845,277	¥ 6,993	
Granted	99,000	21,840	
Exercised	(436,586)	(6,683)	
Expired	(110)	(6,533)	
Balance at March 31, 2000 ...	507,581	10,156	\$ 82
Granted	319,500	14,018	113
Exercised	(39,603)	(7,030)	(57)
Expired	(441)	(6,533)	(53)
Balance at March 31, 2001 ...	787,037	11,883	96

At March 31, 2001, the range of exercise prices and weighted-average remaining contractual life of outstanding options and warrants, all of which are exercisable, was as follows:

Yen Range of exercise price	Number outstanding	Weighted average remaining contractual life
¥6,533-7,471	368,537	1.8 years
¥14,018	319,500	3.8 years
¥21,840	99,000	2.8 years
	787,037	

15. Accrued Pension and Severance Costs

The Company and its domestic subsidiaries have unfunded retirement and severance plans. On terminating employment, substantially all employees of the Company and its domestic subsidiaries are entitled to lump-sum payments based on the employees' compensation and years of service. The Company and its domestic subsidiaries also have contributory funded defined benefit pension plans which, pursuant to the Japanese Welfare Pension Insurance Law, are administered on behalf of the Japanese government and cover substantially all employees. The Company and its domestic subsidiaries and their employees contribute to the governmental welfare pension program. Additional contributions are made to the program by the participating employers into the program. Benefits under these plans are based on the employees' years of service and compensation. The Company and its domestic subsidiaries' funding policy is to make contributions to the plans in accordance with local laws and to the extent that such contributions are tax deductible. The assets of these plans consist primarily of equity securities and fixed income securities.

	2000	2001	2001
	Yen(Millions)		U.S. Dollars(Thousands)
Components of net periodic benefit cost:			
Service cost	¥2,175	¥2,183	\$17,619
Interest cost	885	896	7,232
Expected return on plan assets	(964)	(660)	(5,327)
Amortization of unrecognized:			
Net transition obligation	214	214	1,727
Net actuarial gain	-	(279)	(2,252)
Net periodic benefit cost	¥2,310	¥2,354	\$18,999

	Weighted average assumptions as of March 31:	
	2000	2001
Discount rate	3.0%	3.0%
Expected return on plan assets ...	5.5%	3.0%
Rate of compensation increase ...	3.3% - 3.5%	3.0%

Information about the retirement and severance plans of the Company and its domestic subsidiaries are as follows:

The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status at March 31, 2000 and 2001.

	2000		2001	
	Yen (Millions)		(Thousands)	
			2001	
			U.S. Dollars	
Projected benefit obligation:				
Balance at beginning of year ...	¥29,511	¥29,879	\$241,154	
Service cost	2,175	2,183	17,619	
Interest cost	885	896	7,232	
Employee contributions ...	304	341	2,752	
Actuarial (gain) loss	(2,661)	287	2,316	
Benefits paid	(335)	(265)	(2,139)	
Acquisition	-	567	4,576	
Plan amendment	-	(460)	(3,712)	
Balance at end of year ...	29,879	33,428	269,798	
Fair value of plan assets:				
Balance at beginning of year ...	17,512	22,016	177,692	
Employer contributions ...	1,333	1,290	10,411	
Employee contributions ...	304	341	2,752	
Actual return on plan assets ...	3,028	(2,894)	(23,358)	
Benefits paid	(161)	(133)	(1,073)	
Balance at end of year ...	22,016	20,620	166,424	
Funded status	7,863	12,808	103,374	
Unrecognized prior year service cost	-	460	3,713	
Unrecognized net transition obligation ...	(855)	(641)	(5,174)	
Unrecognized net actuarial gain ...	4,726	606	4,891	
Accrued pension and severance costs recognized in the consolidated balance sheets ...	¥11,734	¥13,233	\$106,804	

The accumulated benefit obligation of ¥25,879 million and ¥29,077 million (\$234,681 thousand) at March 31, 2000 and 2001, respectively, did not exceed the sum of the fair value of plan assets and accrued pension and severance costs recognized in the consolidated balance sheets.

16. Stockholders' Equity

	Total shares of common stock	Shares of treasury stock
Number of shares as of April 1, 1999 ...	99,350,380	415,718
Exercise of warrants	366,586	-
Exercise of stock options	-	(70,000)
Purchase of shares	-	39,267
Sale of shares	-	(39,800)
Number of shares as of March 31, 2000...	99,716,966	345,185
Exercise of warrants	18,603	-
Exercise of stock options	-	(21,000)
Purchase of shares	-	11,410
Sale of shares	-	(11,500)
Number of shares as of March 31, 2001 ...	99,735,569	324,095

Changes in the number of shares issued and treasury stock during the years ended March 31, 2000 and 2001 are as follows:

The Commercial Code of Japan provides that an amount not exceeding one-half of the issue price of new shares may be accounted for as additional paid-in capital with the approval of the Board of Directors. Under the Commercial Code of Japan, the Company shall set aside as legal reserve at least 10% of appropriations paid in cash until such reserve equals 25% of stated capital. The legal reserve is not available for dividends but may be used to reduce a deficit or may be transferred to stated capital.

Cash dividends for the years ended March 31, 2000 and 2001 represent dividends paid out during those years. The accompanying consolidated financial statements do not include any provision for the semi-annual dividend of ¥25 (\$0.20) per share, aggregating ¥2,485 million (\$20,056 thousand), subsequently proposed in June 2001 in respect of the year ended March 31, 2001.

Cash dividends per share are computed based on dividends declared with respect to earnings for the periods.

The amount of retained earnings available for dividends under the Commercial Code of Japan is based on the amount recorded in the Company's books of account and amounted to ¥162,831 million (\$1,314,213 thousand) at March 31, 2001. There are certain restrictions on the payment of dividends relating to the treasury stock repurchased for the stock option plan. As a result of restrictions on the treasury stock repurchased for the stock option plan, retained earnings of ¥2,420 million (\$19,532 thousand) at March 21, 2001 are restricted as to the payment of cash dividends.

17. Noncash Financing and Investing Activities

Obligations under capital leases of ¥393 million and ¥151 million (\$1,219 thousand) were incurred in the years ended March 31, 2000 and 2001, respectively, when Advantest entered into leases for new machinery and equipment and software.

18. Operating Segment and Geographic Information

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", Advantest has two operating and reportable segments, which are the design, manufacturing, and marketing of automated test equipment and measuring instruments. These operating segments are determined based on the nature of the products and the markets. Automated test equipment is used to confirm that a semiconductor functions properly during the semiconductor manufacturing process at sites of manufactures of semiconductor or test houses. Automated test equipment consists of semiconductor test systems, test handlers or probers, semiconductor device interfaces and software. Test handlers or probers, semiconductor device interfaces and software are always with or incorporated in automated test equipment. Measuring instruments are used primarily by manufacturers of equipment

and components and service providers of the fiber optic communications industry, the wireless communications industry and the electronics industry. Fundamental research and

	Automated test equipment	Measuring instruments	Corporate	Total
Yen (Millions)				
As of and the year ended March 31, 2000:				
Net sales to unaffiliated customers				
.....	¥135,728	¥22,850	-	¥158,578
Depreciation and amortization ...	6,322	889	¥1,694	8,905
Operating income (loss) ...	40,723	(68)	(5,853)	34,802
Expenditures for additions to long-lived assets				
.....	4,486	739	4,401	9,626
Total assets	163,215	21,730	135,947	320,892
As of and the year ended March 31, 2001:				
Net sales to unaffiliated customers				
.....	241,499	35,013	-	276,512
Depreciation and amortization ...	7,438	785	1,991	10,214
Operating income (loss)	86,413	6,672	(8,180)	84,905
Expenditures for additions to long-lived assets				
.....	9,562	1,657	5,114	16,333
Total assets	230,389	34,528	142,514	407,431

	As of and the year ended March 31, 2001:			
	Automated test equipment	Measuring instruments	Corporate	Total
U.S. Dollars (Thousands)				
Net sales to unaffiliated customers ...	\$1,949,144	\$282,591	-	\$2,231,735
Depreciation and amortization ...	60,032	6,336	\$ 16,069	82,437
Operating income (loss) ...	697,441	53,850	(66,021)	685,270
Expenditures for additions to long-lived assets				
.....	77,175	13,374	41,275	131,824
Total assets	1,859,476	278,676	1,150,234	3,288,386

development activities and headquarters functions are represented by Corporate.

Adjustments to operating income in Corporate principally represent corporate general and administrative expenses and research and development expenses related to fundamental research activities that are not allocated to operating segments.

Additions to long-lived assets included in Corporate consist of purchases of software and fixed assets for general corporate use of ¥2,005 million and ¥4,703 million (\$37,958 thousand) for the years ended March 31, 2000 and 2001, respectively.

Total assets included in Corporate consist of cash and cash equivalents, assets for general corporate use and assets used for fundamental research activities, which are not allocated to reportable segments. Total assets in Corporate include cash and cash equivalents of ¥101,411 million and of ¥98,689 million (\$796,521 thousand) as of March 31, 2000 and 2001, respectively. Assets for general corporate use of ¥28,244 million and ¥19,590 million (\$158,111 thousand) as of March 31, 2000

and 2001, respectively.

One customer and its related entities in the automated test equipment segment accounted for approximately 17% of total consolidated net sales for the year ended March 31, 2000.

One customer and its related entities and another customer and its related entities in the automated test equipment segment accounted for approximately 18% and 11% of total consolidated net sales for the year ended March 31, 2001, respectively.

Information as to Advantest's net sales in various geographical areas is as follows:

	2000	2001	2001
	Yen(Millions)		U.S. Dollars(Thousands)
Japan	¥ 66,128	¥ 78,649	\$ 634,778
North America	22,817	40,700	328,491
Europe	8,373	17,227	139,040
Asia	61,260	139,936	1,129,426
Total	¥158,578	¥ 276,512	\$2,231,735

Net sales to unaffiliated customers for the years ended March 31, 2000 and 2001 are as follows:

Net sales from unaffiliated customers are based on the customer's location. Long-lived assets are those assets located in each geographic area. Revenues included in Asia were generated in Korea, Singapore and Taiwan in the amount of ¥7,687 million, ¥32,792 million and ¥20,781 million, and ¥34,579 (\$279,088 thousand), ¥56,466 million (\$455,738 thousand) and ¥48,891 million (\$394,600 thousand) for the years ended March 31, 2000 and 2001, respectively. Substantially all revenues indicated as North America are generated in the United States of

	2000	2001	2001
	Yen(Millions)		U.S. Dollars(Thousands)
Japan	¥52,362	¥ 57,943	\$467,659
North America	1,136	1,506	12,155
Europe	817	788	6,360
Asia	1,309	2,000	16,142
Total	¥55,624	¥ 62,237	\$502,316

America.

Long-lived assets as of March 31, 2001 and 2000 are as follows:

There is no individually material country with respect to long-lived assets outside Japan.

Substantially all long-lived assets indicated as North America are located in the United States of America

19. Related Party Transactions

Advantest sells products and purchases raw materials from its 21% owner and its group companies. The terms of sales are the same as those with third parties. Advantest purchases raw materials after receiving competitive bids from several suppliers. Advantest also purchases various pieces of software and information system related services from related parties.

	2000	2001	2001
	Yen(Millions)		U.S. Dollars(Thousands)
Sales of products	¥11,334	¥ 9,816	\$79,225
Purchases of raw materials ...	9,282	16,366	132,090
Accounts receivable	9,404	6,714	54,189
Accounts payable	4,184	5,806	46,860
Purchases of software and hardware ...	2,062	1,961	15,827
Computer rentals, maintenance and other ...	278	399	3,220

Advantest had the following transactions with these related parties as of and for the years ended March 31:

Advantest also has various capital lease contracts with a related company. Obligations under capital leases with this related company as of March 31, 2001 were ¥400 million (\$3,228 thousand).

20. Basic and Diluted Net Income per Share

	2000	2001	2001
	(Millions) except for per share data		except for per share data
	Yen	U.S. Dollars(Thousands)	
Numerator:			
Net income	¥ 20,905	¥ 53,121	\$428,741
Denominator:			
Basic weighted average shares ...	99,249,719	99,394,909	
Dilutive effect of exercise of stock options and warrants	303,550	223,652	
Diluted weighted average shares ...	99,553,269	99,618,561	
Basic net income per share ...	¥ 210.63	¥ 534.44	\$ 4.31
Diluted net income per share...	209.99	533.24	4.30

The following table sets forth the computation of basic and diluted net income per share as of March 31:

21. Concentration

At March 31, 2000 and 2001, 5 customers accounted for approximately 22% and 31%, respectively, of accounts receivable and approximately 37% and 41%, respectively, of revenues.

Report of Independent Certified Public Accountants



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Independent Auditors' Report

The Board of Directors
Advantest Corporation:

We have audited the accompanying consolidated balance sheets of Advantest Corporation and subsidiaries as of March 31, 2000 and 2001, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, all expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Advantest Corporation and subsidiaries as of March 31, 2000 and 2001, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements as of and for the year ended March 31, 2001 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in note 2 of the notes to consolidated financial statements.

KPMG

Tokyo, Japan
July 2, 2001



Member firm of
the PwC network