OFFERING CIRCULAR

ADVANTEST CORPORATION

(incorporated in Japan with limited liability under the laws of Japan)

¥30,000,000,000 Zero Coupon Convertible Bonds due 2019

OFFER PRICE: 103.0 PER CENT.

The ¥30,000,000,000 Zero Coupon Convertible Bonds due 2019 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (the "Bonds") of Advantest Corporation (the "Company") will be issued in registered form in denominations of ¥10,000,000, each with a stock acquisition right (*shinkabu yoyakuken*) (the "Stock Acquisition Rights") exercisable on or after 1 April 2014 up to, and including, 28 February 2019, unless previously redeemed or purchased and cancelled, to convert the Bonds into fully-paid and non-assessable shares of common stock of the Company (the "Shares") at an initial Conversion Price (as defined in the terms and conditions of the Bonds, the "Conditions"), subject to adjustment in certain events as set out herein, of ¥1,655 per Share (the "Offering"). The Closing Price (as defined in the Conditions) of the Shares as reported on the Tokyo Stock Exchange, Inc. (the "Tokyo Stock Exchange") on 26 February 2014, was ¥1,123 per Share.

Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at 100 per cent. of their principal amount on 14 March 2019. The Company may redeem all the Bonds, in whole but not in part, at 100 per cent. of their principal amount if Japanese withholding taxes are imposed on payments in respect of the Bonds, as set out in the Conditions. Further, if, at any time prior to the date of the giving of the notice of redemption, the outstanding principal amount of the Bonds is less than 10 per cent. of the aggregate principal amount of the Bonds as of the date of issue thereof, the Bonds may be redeemed in whole but not in part at 100 per cent. of their principal amount, at the option of the Company as set out in the Conditions. The Bonds may also be redeemed by the Company in whole but not in part at 100 per cent. of their principal amount, and holders of Bonds may require the Company to redeem their Bonds at 100 per cent. of their principal amount together with the Redemption Premium (as defined in the Conditions), in certain other limited events (including upon the occurrence of Corporate Events (as defined in the Conditions)), as set out in the Conditions.

Payments of principal, premium (if any) and any other amount due in respect of the Bonds will be made without withholding or deduction for or on account of Japanese taxes to the extent set out herein (see "Taxation—Japan").

Approval in-principle has been received for the listing of the Bonds on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission of the Bonds to the official list of the SGX-ST is not to be taken as an indication of the merits of the Company or the Bonds.

The Bonds will be represented by a global certificate (the "Global Certificate") evidencing the Bonds in registered form, which is expected to be deposited with and registered in the name of, or a nominee for, a common depositary for each of Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg") on or about 14 March 2014 (the "Closing Date") for the accounts of their respective accountholders. The Joint Lead Managers (as defined in "Subscription and Sale") expect to deliver the Bonds through the facilities of Euroclear and Clearstream, Luxembourg on or about the Closing Date.

This Offering Circular does not constitute an offer of, or solicitation of an offer to buy or subscribe for the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights in any jurisdiction in which such offer or solicitation is unlawful. In particular, the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")). In addition, the Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "FIEA") and may not be sold within Japan. For a summary of certain restrictions on offers and sales of Bonds and Shares issuable upon exercise of the Stock Acquisition Rights, see "Subscription and Sale".

See "Investment Considerations" for a discussion of certain factors that should be considered in connection with an investment in the Bonds.

Joint Lead Managers and Joint Bookrunners

Nomura **Mizuho International plc**

The date of this Offering Circular is 26 February 2014.

The Company accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Company (the Company having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Company, having made all reasonable enquiries, confirms that this Offering Circular contains all information with respect to the Company, the Group (as defined below), the Bonds and the Shares which is material in the context of the issue and offering of the Bonds, the statements contained herein relating to the Company and the Group are in every material particular true and accurate and not misleading, the opinions and intentions expressed in this Offering Circular with regard to the Company and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, there are no other facts in relation to the Company, the Group, the Bonds or the Shares issuable upon conversion of the Bonds the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect and all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements.

In this Offering Circular, unless otherwise specified or the context otherwise required, references to the "Group" are to the Company and its consolidated subsidiaries and its investees accounted for by the equity method taken as a whole.

No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not contained in this Offering Circular must not be relied upon as having been authorised by the Company or the Joint Lead Managers. Neither the delivery of this Offering Circular nor any sale made in connection herewith at any time implies that the information contained herein is correct as of any time subsequent to the date hereof, nor does it imply that there has been no change in the affairs or the financial position of the Group since the date hereof.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company or the Joint Lead Managers to subscribe for, or purchase, any of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights. The distribution of this Offering Circular and the offering of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights and distribution of this Offering Circular, see "Subscription and Sale".

To the fullest extent permitted by law, the Joint Lead Managers accept no responsibility whatsoever for the contents of this Offering Circular or for any other statement, made or purported to be made by a Joint Lead Manager or on its behalf in connection with the Company, the Group or the issue and offering of the Bonds. Each Joint Lead Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

No action is being taken to permit a public offering of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or the distribution of this Offering Circular (in preliminary or final form) in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights and the circulation of documents relating thereto, in jurisdictions including the United States, Japan, Singapore, the European Economic Area (including the United Kingdom) and Hong Kong and to persons connected therewith. See "Subscription and Sale".

The Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights have not been and will not be registered under the FIEA. Each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold, and shall not offer or sell, any Bonds in Japan or to, or for the account or benefit of, any resident of Japan, except pursuant to an exemption available from the registration requirements of, and otherwise in compliance with, the FIEA and other applicable Japanese laws, regulations and governmental guidelines in Japan. As used in this paragraph, "resident of Japan" means any person residing in Japan, including any corporation or other entity organised under the laws of Japan.

The Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights may not be offered or sold within the United States or to U.S. persons. See "Subscription and Sale".

There are restrictions on the offer and sale of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights in the United Kingdom. All applicable provisions of the Financial Services and Markets Act 2000 ("FSMA") with respect to anything done by any person in relation to the Bonds in, from or otherwise involving the United Kingdom must be complied with. See "Subscription and Sale".

IN CONNECTION WITH THE ISSUE OF THE BONDS, NOMURA INTERNATIONAL PLC (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise stated, references in this Offering Circular to "euro" and "€" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended, references to "U.S. dollars", "U.S.$" and "$" are to the lawful currency of the United States of America, and references to "yen" and "¥" are to Japanese yen.

In this Offering Circular, "billion" means thousand million, and where financial information is presented in millions of yen, amounts of less than one million have been rounded to the nearest one million with half a million being rounded upwards. Accordingly, the total of each column of figures may not be equal to the total of the individual items. All other figures and percentages, including operating data, have been rounded up or down (in the case of percentages, to the nearest 0.1 per cent. or to the nearest 0.01 per cent.), unless otherwise specified; however, certain percentages in tables may have been rounded otherwise than to the nearest 0.1 per cent. or 0.01 per cent., as the case may be, to make the total of the relevant column equal to 100 per cent.

The Company's financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"), which differ in certain material respects from generally accepted accounting principles in certain other countries. Potential investors should consult their own professional advisers for an understanding of the difference between U.S. GAAP and International Financial Reporting Standards ("IFRS"), or generally accepted accounting principles in other jurisdictions and an understanding of how those differences might affect the financial information contained herein. See "Investment Considerations—Considerations Relating to the Group and its Business—The Group's financial statements are prepared in accordance with generally accepted accounting principles in the United States, which differs in certain material respects from IFRS and financial reporting standards in other jurisdictions".

This Offering Circular contains the audited consolidated financial statements of the Company, prepared and presented in accordance with U.S. GAAP, as of and for the fiscal years ended 31 March 2011, 2012 and 2013, as indicated in the audit reports with respect thereto included herein at pages F-3 and F-41. This Offering Circular also contains the unaudited quarterly consolidated financial statements of the Company as of 31 December 2013 and for the nine-month periods ended 31 December 2012 and 2013, which have not been audited but reviewed by the Company's independent auditors, as stated in its review report included herein at page Q-1. Such unaudited quarterly consolidated financial statements have been prepared and presented in accordance with U.S. GAAP, and have been reviewed by the Company's independent auditors in accordance with review standards for quarterly financial statements generally accepted in Japan.

Construction of Certain References

Under the Companies Act of Japan (Act No. 86 of 2005, as amended) (the "Companies Act"), the Company may issue new Shares to a Bondholder (as defined in the Conditions) and/or transfer Shares that it holds as treasury stock to a Bondholder, in each case upon exercise of a Stock Acquisition Right. Accordingly, unless otherwise specified or the context requires, references in this Offering Circular to the issuance of Shares shall be read as including both the issuance of new Shares and the transfer of Shares held by the Company as treasury stock and the words "issue", "issued", "issuance" and "issuable" shall be construed accordingly. In addition, references to the word "acquired" used in conjunction with the Shares shall be read as including both the words "issued" and "transferred", and the word "acquisition" shall be construed accordingly.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains "forward-looking statements" that are based on the Company's current expectations, estimates and projections. These statements include, among other things, the discussion of the Group's business strategy, outlook and expectations as to market and business developments, production and capacity plans. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipate", "believe", "estimate", "expect", "intend", "project", "should" and similar expressions. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the Group's actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements, including:

- changes in demand for the products and services produced and offered by the Group's customers, including semiconductors, communications services and electronic goods;
- the environment in which the Group purchases materials, components and supplies for the production of its products, including the availability of necessary materials, components and supplies during a significant expansion in the market in which the Group operates;
- circumstances relating to the Group's investment in technology, including its ability to timely develop products that meet the changing needs of semiconductor manufacturers and communications network equipment and components makers and service providers; and
- changes in economic conditions, competitive environment, currency exchange rates or political stability in the major markets where the Group produces, distributes or sells its products.

These risks, uncertainties and other factors also include those identified in "Investment Considerations" and the factors discussed in "Recent Business" and "Business" set forth elsewhere in this Offering Circular.

The Company does not undertake to review or revise this document or any forward-looking statements contained in this document to reflect future events or circumstances. The Company cautions prospective investors in the Offering not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to the Company or persons acting on the Company's behalf are qualified in their entirety by these cautionary statements.

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SUMMARY INFORMATION

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the more detailed information and financial statements and the notes thereto contained elsewhere in this Offering Circular. For a discussion of certain factors that should be considered by prospective investors in connection with an investment in the Bonds, see "Investment Considerations".

ADVANTEST CORPORATION

The Group is a global leader in the test and measurement industry, providing solutions to customers in a wide range of fields, from semiconductor manufacturing and research and development ("R&D") to electronics, medical devices, and pharmaceuticals. As of 31 December 2013, the Group was comprised of the Company and its 34 consolidated subsidiaries and one investee which is accounted for by the equity method. The Group conducts its business in the following segments:

- *Semiconductor and Component Test System Segment*: the Semiconductor and Component Test System Segment provides customers with test system products for the semiconductor industry and the electronic component industry. The products in this segment include test systems for memory semiconductors and test systems for non-memory semiconductors. The test systems for non-memory semiconductors are divided into test systems for SoC (as defined in "Glossary") semiconductors, LCD driver integrated circuits (as defined in "Glossary") and semiconductors used in car electronics;
- *Mechatronics System Segment*: the Mechatronics System Segment focuses on peripheral devices to the semiconductor and component test systems. This business includes test handlers applying mechatronics technologies, which handle semiconductor devices and automate testing, device interfaces with measured devices, and operations related to nano-technology; and
- *Services, Support and Others Segment*: the Services, Support and Others Segment consists of comprehensive customer solutions provided in connection with the Semiconductor and Component Test System and Mechatronics System Segments, support services and an equipment lease business.

For the fiscal year ended 31 March 2013, on a consolidated basis, the Group recorded net sales of ¥132,903 million, operating expenses of ¥132,823 million, operating income of ¥80 million and net loss of ¥3,821 million. For the nine-month period ended 31 December 2013, on a consolidated basis, the Group recorded net sales of ¥79,251 million, operating expenses of ¥113,655 million, operating loss of ¥34,404 million and net loss of ¥34,148 million.

The Company's registered office is located at 32-1, Asahi-cho 1-chome, Nerima-ku, Tokyo 179-0071, Japan. The Company's head office is located at Shin-Marunouchi Building, 6-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan.

The Shares are listed on the First Section of the Tokyo Stock Exchange in the form of common stock and on the New York Stock Exchange in the form of American Depositary Shares evidenced by American Depositary Receipts ("ADRs"). The market capitalisation of the Company based on the closing price of the Shares on the Tokyo Stock Exchange on 26 February 2014 was approximately ¥224,113 million.

THE OFFERING

Issuer	Advantest Corporation.
Securities Offered	¥30,000,000,000 in aggregate principal amount of Zero Coupon Convertible Bonds due 2019 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*).
Issue Price	100.5 per cent.
Offer Price	103.0 per cent.
Closing Date	On or about 14 March 2014.
Delivery	It is expected that the Global Certificate will be deposited with, and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg on or about the Closing Date.
Form	In registered form, evidenced by a Global Certificate. Definitive Certificates will only be available in certain limited circumstances. See "Summary of Provisions Relating to the Bonds While in Global Form".
Listing	Approval in-principle has been received for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of ¥200,000 with a minimum of 100 lots to be traded in a single transaction for so long as such Bonds are listed on the SGX-ST.
Lock-up	In connection with the issue and offering of the Bonds, the Company has agreed that it will not, and will procure that none of its directors or officers or any person acting on the direction of the Company will, for a period beginning on the date of the Subscription Agreement (as defined in "Subscription and Sale") and ending on the date 180 calendar days after the Closing Date: (i) issue, offer, pledge, lend, sell, contract to sell, sell or grant any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (including stock acquisition rights) to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, any Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for, or that constitutes the right to receive, Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for Shares (including any depositary receipts representing Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for Shares); or (ii) enter into a transaction (including a derivative transaction) that transfers, in whole or in part, directly or indirectly, ownership (or any economic consequences thereof) of Shares or any other capital stock of the Company, or that has an effect on the market in the Shares similar to that of a sale; or (iii) deposit any Shares (or any securities convertible into or exercisable or exchangeable for Shares or any other capital stock of the Company or which carry rights to subscribe or purchase Shares or any other capital stock of the Company) in any depositary receipt facility; or (iv) publicly announce any intention to do any of the above,

without the prior written consent of the Joint Lead Managers, other than:

(a) the issue and sale by the Company of the Bonds or the issue or transfer of Shares upon exercise of the Stock Acquisition Rights;

(b) the issue or transfer of any Shares by the Company upon conversion of convertible bonds (including the exercise of stock acquisition rights in relation to any bonds with stock acquisition rights) or upon exercise of any warrants to subscribe for shares or stock acquisition rights outstanding as of the date of the Subscription Agreement and referred to in this Offering Circular;

(c) the grant of stock options, stock acquisition rights or warrants to directors, audit & supervisory board members, executive officers and employees of the Company and any of its subsidiaries and investees pursuant to its stock option plans and the issue or transfer of Shares upon exercise of such stock options, stock acquisition rights or warrants;

(d) the sale of Shares by the Company to any holder of Shares constituting less than one unit for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute one full unit of Shares;

(e) the issue of Shares by the Company as a result of any stock split or the *pro rata* allocation of Shares or the stock acquisition rights to holders of Shares without any consideration and the issue or transfer of Shares upon exercise of such stock acquisition rights; and

(f) any other issue or sale of Shares required by the Japanese laws and regulations.

See "Subscription and Sale".

Use of Proceeds .... The net proceeds from the issue of the Bonds are estimated to amount to approximately ¥30.0 billion, and are expected to be used primarily as follows:

(i) approximately ¥10.0 billion by the end of March 2015 as part of research and development expenses for the purposes of enhancing additional value and strengthening competitiveness in respect of the Group's core business, the Semiconductor and Component Test System Segment. The Company intends to conduct research and development with regard to its management of the evolution of semiconductor technology such as miniaturisation and implementation of TSV (as defined in "Glossary"), and speeding-up and improving the batched processing ability of its testing systems;

(ii) approximately ¥5.0 billion by the end of March 2015 as part of research and development expenses for start-up businesses with promising future growth other than the Group's core business described above. The Company intends to conduct research and development with regard to semiconductor front-end equipment such as CD-SEM (as defined in "Glossary") and E-Beam Lithography systems which utilises EB control technologies and with regard to the terahertz product business intended for the medical field and life science field;

(iii) approximately ¥5.0 billion by the end of March 2015 as operating funds for start-up businesses such as the terahertz product business; and

(iv) ¥10.0 billion for repayment of domestic unsecured bonds with expected maturity on 25 May 2015.

THE BONDS

Form and Denomination	The Bonds are issued in registered form in the denomination of ¥10,000,000 each.
Initial Conversion Price	¥1,655 per Share, subject to adjustment in certain events. See Condition 5.
Coupon	Zero.
Exercise of Stock Acquisition Rights	Subject to and upon compliance with the provisions of Condition 5, any holder of a Bond may exercise the Stock Acquisition Right, at any time on and after 1 April 2014 up to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on 28 February 2019 (but in no event thereafter), to acquire fully-paid and non-assessable Shares. See Condition 5. The Conditions provide, among other things, that the Stock Acquisition Right may not be exercised if the relevant Stock Acquisition Date (as defined in Condition 5.9.4) (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period (as defined in Condition 5.1.4).
Reduction of Conversion Price upon Corporate Event, Delisting Event or Squeezeout Event	In the case that the Company becomes entitled to redeem the Bonds upon the occurrence of a Corporate Event (as defined in Condition 6.1), Delisting Event (as defined in Condition 7.5.1) or Squeezeout Event (as defined in Condition 7.6) pursuant to Condition 7.4, 7.5 or 7.6, during the Conversion Price Reduction Period (as defined in Condition 5.2.15, 5.2.16 or 5.2.17), the Conversion Price in effect on the first day of such period shall be adjusted to a price determined by reference to the table set out in Condition 5.2.15 and subject to the provisions of Condition 5.2.15, 5.2.16 or 5.2.17, as the case may be. With effect from the day immediately following the last day of such period, the Conversion Price shall revert to the Conversion Price in effect on the day immediately prior to the first day of such period, subject to certain adjustments. See Condition 5.2.15, 5.2.16 and 5.2.17.
Status	The obligations of the Company in respect of the Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 2) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.
Negative Pledge	So long as any of the Bonds remain outstanding, the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined in Condition 2) unless the same security or such other security or guarantee as provided in Condition 2 is accorded to the relevant Bonds. See Condition 2.
Redemption at Maturity	Unless the Bonds have previously been redeemed or purchased and cancelled, and unless the Stock Acquisition Rights incorporated therein have previously been exercised, the Company will redeem the Bonds at 100 per cent. of their principal amount on 14 March 2019.

Early Redemption—Redemption at the Option of the Company upon Reduced Outstanding Amounts .... The Company may, having given not less than 30 nor more than 60 days' prior irrevocable notice of redemption to the Bondholders in accordance with Condition 19, redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount if, at any time prior to the date of giving that notice, the outstanding principal amount of the Bonds is less than 10 per cent. of the aggregate principal amount of the Bonds as of the date of issue thereof. See Condition 7.2.

Early Redemption—Redemption for Taxation Reasons................................ If the Company satisfies the Trustee, immediately prior to giving the notice to the Bondholders, that (i) the Company has or will become obliged to pay any Additional Amounts (as defined in Condition 9) in accordance with Condition 9 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 26 February 2014, and (ii) such obligation cannot be avoided by the Company by taking reasonable measures available to it, the Company may, at any time, having given not less than 30 nor more than 60 days' prior irrevocable notice to the Bondholders in accordance with Condition 19, redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount. If, however, the outstanding principal amount of the Bonds at the time of such notice of redemption is 10 per cent. or more of the aggregate principal amount of the Bonds as of the date of issue thereof, each Bondholder will have the right to elect that its Bonds should not be redeemed and that, in respect of payments on the Bonds to be made after the date of redemption of the Bonds other than those in respect of which such election was made, payments will be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges. See Condition 7.3.

Early Redemption—Corporate Events .... In any of the following conditions are satisfied upon or following a Corporate Event (as defined in Condition 6.1), the Company may, having given irrevocable notice to the Bondholders, redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount:

(i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation of such laws) to effect a scheme provided for by Condition 6.4.1; or

(ii) it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company cannot effect such a scheme in compliance with Condition 6.4.1; or

(iii) despite the Company using its best endeavours pursuant to Condition 6.4.2, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing (as defined in Condition 6.4.2) has been obtained for the shares of common stock of the New Obligor (as defined in Condition 6.1) and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or

(iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a representative director stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate.

See Condition 7.4.

Early Redemption—Delisting of the Shares	In certain circumstances where a tender offer is made to holders of Shares of the Company by an Offeror (as defined in Condition 7.5.1) where, *inter alia*, the Company expresses its opinion to support such offer, the Company or the Offeror publicly announces or admits that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange (as defined in Condition 3.1), and the Offeror acquires any Shares pursuant to the offer, then the Company may, having given irrevocable notice to the Bondholders, redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount, subject to the provisions of Condition 7.5. See Condition 7.5.
Early Redemption—Squeezeout Event	Upon the occurrence of a Squeezeout Event, the Company may, having given irrevocable notice to the Bondholders, redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount, subject to the provisions of Condition 7.6. See Condition 7.6.
Early Redemption—Option of the Bondholders upon Occurrence of a Corporate Event, Delisting Event or Squeezeout Event	Each Bondholder is entitled, at its option on or after a Conversion Price Reduction Start Date set out in any of Condition 5.2.15, 5.2.16 or 5.2.17, to require the Company to redeem its Bonds at 100 per cent. of its principal amount, together with the Redemption Premium (as defined in Condition 7.7), by depositing a notice of redemption at the specified office of any Agent no later than the fifth Tokyo Business Day prior to the last day of the relevant Conversion Price Reduction Period (as set out in any of Condition 5.2.15, 5.2.16 or 5.2.17). See Condition 7.7.
Cross Default	The Bonds are subject to a cross default in respect of indebtedness for borrowed money or any guarantee and/or indemnity thereof of the Company or of any Principal Subsidiary in respect of amounts of at least ¥500,000,000 (or its equivalent in any other currency or currencies). See Condition 10.3.
Taxation	All payments by the Company in respect of the Bonds will be made without any deduction for withholding taxes of Japan, except to the extent described in Condition 9.
Governing Law	English law.
Jurisdiction	English courts.
International Securities Identification Number ("ISIN")	XS1034964111.
Common Code	103496411.
Trustee, Custodian and Registrar	Union Bank, N.A.
Principal Agent	The Bank of Tokyo-Mitsubishi UFJ, Ltd., London Branch.
Custodian's Agent in Japan	The Bank of Tokyo-Mitsubishi UFJ, Ltd.

GLOSSARY

Set out below are definitions of some of the terms used in this Offering Circular.

3D	Three-dimensional.
Analogue circuits	Circuits on a semiconductor that monitor, condition, amplify or transform analogue signals, which are signals that vary continuously over a wide range of values. Analogue circuits process analogue signals translated from real world phenomena such as sound, light, heat and motion.
CD-SEM	Critical-dimension measuring scanning electron microscope.
CMOS image sensor	A device in a complementary metal-oxide semiconductor (CMOS) that converts an optical image into an electronic signal and commonly used in digital cameras, smartphones and other imaging devices.
DDR-SDRAM	Double Data Rate Synchronous Dynamic Random Access Memory. Memory semiconductor that can be read from, or written to, at double the rate of traditional SDRAM semiconductors.
DDR2-SDRAM	Advanced DDR-SDRAM semiconductors that can be read from, or written to, at a significantly higher rate than DDR-SDRAM semiconductors.
DDR3-SDRAM	DDR-SDRAM semiconductors that be read from, or written to, at a significantly higher rate than DDR2-SDRAM semiconductors.
DDR4-SDRAM	The “next-generation” advanced DDR-SDRAM semiconductors that can be read from, or written to, at a significantly higher rate than DDR3-SDRAM semiconductors.
Digital circuits	Circuits that perform binary arithmetic functions on data represented by a series of on/off states.
DRAM	Dynamic Random Access Memory. Devices that store a large volume of data and can read and write data freely. Because of their volatile characteristics, periodic re-writing of data is required to maintain memory information.
DVD	Digital versatile disk.
EB	Electron beam.
Fabless	Manufacturers that outsource their entire production to external entities, instead of having their own manufacturing facilities.
Flash memory	Memory devices that electrically erase or write data freely. Devices with non-volatile memory which is maintained even when the power is turned off.
Flat-panel TV	A television set that uses one of several different technologies for display in a flat, thin format.
Foundries	Semiconductor manufacturing service providers that manufacture semiconductors based on their customers’ semiconductor designs.
GDDR	Graphics DDR. DDR memory standard specifically designed for use in RAM video cards.
Gbps	Gigabits per second.
IC	Integrated circuit.
Integrated circuit	An electronic part made of a combination of many transistors on a silicon wafer.
IT	Information technology.
LCD	Liquid crystal display.
LCD driver integrated circuits	Integrated circuits that operate LCD.

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

INVESTMENT CONSIDERATIONS

Prior to making an investment decision, prospective investors should carefully consider, along with the other information set forth in this Offering Circular, the following considerations:

Considerations Relating to the Company and its Business

The Group's business and results of operations are subject to significant demand volatility in the semiconductor industry

The Group's business depends largely upon the capital expenditures of semiconductor manufacturers, foundries and test houses. These companies, in turn, determine their capital expenditure and investment levels largely based on current and anticipated market demand for semiconductors and products incorporating semiconductors. Such demand is influenced significantly by the overall condition of the global economy. Historically, the percentage reduction in capital expenditure by semiconductor manufacturers during downturns in the semiconductor industry, including investment in semiconductor test systems, has typically been much greater than the percentage reduction in worldwide sales of semiconductors. The semiconductor industry has been highly cyclical with recurring periods of excess inventory, which often have had a severe effect on the semiconductor industry's demand for semiconductor test systems, including those of the Group. In particular, the market for memory semiconductors shows higher demand volatility as compared to the market for non-memory semiconductors. In the fiscal year ended 31 March 2013, net sales of test systems for memory semiconductors decreased by 6.9 percentage points from 24.5 per cent. in the Semiconductor and Component Test System Segment in the fiscal year ended 31 March 2012; however, the Group continues to derive significant sales from test systems for memory semiconductors of 17.6 per cent. in the Semiconductor and Component Test System Segment. Therefore, any downturn in the memory semiconductor market may continue to adversely affect the Group's business and results of operations.

The worldwide semiconductor market contracted by 2.8 per cent. and 9.0 per cent. in terms of sales in 2008 and 2009, respectively, compared to the previous year, reflecting the global economic downturn that stemmed from the financial crisis. After the negative growth in 2008 and 2009, the market significantly recovered in 2010, growing by 31.8 per cent. compared to 2009, primarily due to a surge in demand for electronic equipment in developing nations. In 2011, due to the global economic recession and natural disasters such as the Great East Japan Earthquake and the floods in Thailand reducing production activities of electronic products, the semiconductor market only increased by 0.4 per cent. compared to 2010. In 2012, the semiconductor market decreased by 2.7 per cent. compared to 2011, due to factors such as the prolonged stagnation in the European economy caused by the debt crisis in the Southern European countries and the slowdown in the Chinese economy, which had been supporting the global economy. Worldwide sales of memory semiconductors declined by 19.9 per cent. in 2008, mainly due to a substantial reduction in capital expenditure by semiconductor manufacturers in response to a substantial decline in the price of DRAM semiconductors and NAND-type flash memory semiconductors. Although the markets for personal computers and cellular phones including smart phones remained steady in 2009, worldwide sales of memory semiconductors in 2009 declined by 3.3 per cent. compared to 2008, reflecting the global economic downturn, resulting in negative growth as in 2008. In 2010, primarily due to a steady demand for mobile DRAM test systems for mobile devices, worldwide sales of memory semiconductors increased by 55.4 per cent. compared to 2009. In 2011, worldwide sales decreased by 12.7 per cent. compared to 2010 due to a drop in the price of DRAM triggered by a downturn in demand for PCs and similar devices. In 2012, sales continued to decrease by 6.2 per cent. compared to 2011 due to the ongoing weakness in demand for PCs and similar devices. Worldwide sales of non-memory semiconductors in 2008 increased by 2.3 per cent. from 2007, primarily due to steady demand for mobile PCs despite the deterioration in the overall condition of the global economy. In 2009, worldwide sales of non-memory semiconductors decreased by 10.3 per cent. compared to 2008, primarily as a result of the impact of the global economic downturn stemming from the financial crisis that started in 2008. In 2010, worldwide sales of non-memory semiconductors increased by 26.0 per cent. compared to 2009, primarily due to robust demand for smartphones, tablet-type devices, and other consumer electronics. In 2011, worldwide sales of non-memory semiconductors further increased by 4.4 per cent. compared to 2010, due to continuing robust demand for smartphones, tablet-type devices, and similar devices. In 2012, although sales of test systems for communications semiconductors and LCD drivers remained strong due to continued robust demand in the mobile devices market, worldwide sales of non-memory semiconductors decreased by 1.8 per cent. compared to 2011 due to the downturn in sales of other electronic devices.

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

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

In the fiscal year ended 31 March 2009, the global economic downturn that stemmed from the financial crisis led semiconductor manufacturers to maintain their prudent position, with many implementing inventory adjustments and freezing or postponing their capital expenditures. Primarily reflecting the foregoing, the Group's net sales in the fiscal year ended 31 March 2009 decreased by 58.1 per cent. as compared with that in the fiscal year ended 31 March 2008 to ¥76,652 million. In the fiscal year ended 31 March 2010, the semiconductor manufacturers gradually resumed capital expenditures as semiconductor prices rose and equipment utilisation rates climbed. Despite the gradual recovery in the fiscal year ended 31 March 2010, the Group's net sales in the fiscal year ended 31 March 2010 decreased by 30.6 per cent., as compared to the fiscal year ended 31 March 2009, to ¥53,225 million, primarily due to the drop in orders seen in the second half of the fiscal year ended 31 March 2009. In the fiscal year ended 31 March 2011, despite a difficult business environment with factors such as continuing appreciation of the Japanese yen and intensified price competition, the Group seized the positive growth opportunity in the semiconductor market and strived to expand orders and revenues. As a result of the above, the Group's net sales in the fiscal year ended 31 March 2011 increased by 87.2 per cent. as compared to the fiscal year ended 31 March 2010, to ¥99,634 million, and the Group recorded a net income of ¥3,163 million in the fiscal year ended 31 March 2011. In the fiscal year ended 31 March 2012, the Group expanded sales to meet areas of increasing demand growth such as test equipment for application processors, CMOS image sensors, and other non-memory semiconductor sectors. In addition, after the completion of the acquisition of Verigy Ltd. ("Verigy") in July 2011, the Group has enhanced sales promotion to customers in the U.S. and Europe and has provided products tailored to better meet increasing customer demand in the communications semiconductor market. As a result of the above, the Group's net sales in the fiscal year ended 31 March 2012 increased by 41.6 per cent., as compared to the fiscal year ended 31 March 2011, to ¥141,048 million. However, cumulative costs associated with the Verigy acquisition and impairment losses on investment securities led to a year-on-year decline in earnings, and the Group recorded a net loss in the fiscal year ended 31 March 2012 of ¥2,195 million. In this environment, the Group actively marketed semiconductor testing equipment for mobile communications-related semiconductor applications—the largest segment for testing equipment—and as a result, the Group successfully gained market share. However, the gain in market share could not fully offset the decrease in demand for semiconductor testing equipment resulting from capital expenditure constraints of semiconductor manufacturers experiencing a slowdown in the semiconductor market. As a result of the above, the Group's net sales in the fiscal year ended 31 March 2013 decreased by 5.8 per cent., as compared to the fiscal year ended 31 March 2012, to ¥132,903 million. The product mix in sales also worsened, leading to a net loss in the fiscal year ended 31 March 2013 of ¥3,821 million.

The Group believes that its results are significantly affected by the significant volatility in demand in the semiconductor industry. While the Group is unable to predict future trends in the semiconductor industry, if there is a significant downturn in the semiconductor industry, the Group's financial condition and results of operations will be adversely affected. With respect to semiconductor prices in recent years, even though prices for certain products such as DRAM appear to have bottomed out, they may not return to their original levels if, for example, the over-supply of semiconductors persists. Should semiconductor prices remain at low levels, semiconductor manufacturers' earnings could deteriorate, resulting in their further restraint towards capital expenditure, and the Group's results of operations could be adversely affected.

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

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

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

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

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

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

A failure by the Group to meet its customers' technical requirements at competitive prices or to deliver conforming equipment in a timely manner may result in its products being replaced by those of a competitor or an alternative technology solution. Furthermore, the Group's inability to provide a product that meets requested performance criteria at an acceptable price when required by its customers would severely damage its reputation with such customers and may adversely affect future sales efforts with respect to such customers.

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

The Group relies on subcontractors to perform some of the assembly requirements for its products. In addition, many of the components used in the Group's semiconductor and component test systems and mechatronics systems are produced by suppliers based on the Group's specifications. The Group's reliance on these subcontractors and suppliers gives it less control over the manufacturing process and exposes it to significant risks, especially inadequate manufacturing capacity, late delivery, substandard quality, lack of labour availability and high costs. In addition, the Group depends on a sole source or a limited number of suppliers for a portion of its components and parts. The Group does not maintain long-term supply agreements with most of its suppliers, and it purchases most of its components and parts through individual purchase orders. If a supplier becomes unable to provide components or parts in the volumes needed and at acceptable prices, or if a supplier withdraws from business thereby stopping production or sales of custom or general components and parts that the Group uses or will use in the future, the Group would have to identify and procure acceptable replacements. The Group may lose its capacity to supply test systems if it becomes unable to procure acceptable replacements. Furthermore, the markets for semiconductors and other specialised components have, in the past, experienced periods of inadequate supply to meet demand. Moreover, there may be a shortage of components if a large scale natural disaster or electricity shortage occurs. The process of selecting subcontractors or suppliers and of identifying suitable replacement components and parts is lengthy and may result in the Group being unable to deliver products meeting customer requirements in a timely manner. The Group has, in the past, been unable to deliver its products according to production schedules primarily due to the inability of suppliers to supply components and parts based on the Group's specifications and by other shortages in components and parts. Moreover, a deterioration in the financial position of the Group's subcontractors or suppliers reflecting the decline in the economic environment may result in certain subcontractors and suppliers being unable to meet the Group's requirements.

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

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

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

The Group may not realise the full anticipated benefits of the integration with Verigy

The Group acquired Verigy in July 2011 and fully integrated with Verigy in April 2012. The Group believes that the integration with Verigy enables it to better satisfy customer needs through the development and sale of a wider variety of high quality products, and to better address customer needs through technological innovation that is supported by a stable financial base, leading to continued growth amidst a rapidly changing semiconductor market.

However, integrating the business of two different companies is complex, and unifying certain operating processes will require more time. Furthermore, the integration may not realise the anticipated benefits even if operating processes are successfully unified. The difficulties in integrating the two businesses may arise during various stages of the integration, including the following:

- consolidation of the two companies' differing research and development, manufacturing, sales, maintenance processes and their systems;
- the elimination of inefficiencies that may arise out of overlapping departments and processes between the two companies; and
- the integration of two companies with differing corporate cultures and languages.

If difficulties arise in connection with the integration, including those mentioned above, the Group's future financial results may be adversely affected.

The Group has also granted stock options to employees that the Group took over from Verigy in July 2011. If the employees exercise their stock options on a large scale, voting rights of the Group's shareholders, total assets per share and share price may be diluted as a result.

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

The Group's success depends on its continued ability to develop and manage relationships with its major customers. A small number of such major customers currently account for a significant portion of its net sales. Sales to the Group's largest customer as a percentage of its total sales were approximately 20 per cent. in the fiscal year ended 31 March 2011, approximately 29 per cent. in the fiscal year ended 31 March 2012 and approximately 14 per cent. in the fiscal year ended 31 March 2013. Sales to the Group's five largest customers accounted for approximately 49 per cent. of its total sales in the fiscal year ended 31 March 2011, approximately 56 per cent. in the fiscal year ended 31 March 2012 and approximately 37 per cent. in the fiscal year ended 31 March 2013. The loss of one or more of these major customers or changes in their capital expenditures could materially harm the Group's business. Furthermore, if the Group's major customers experience deterioration in their financial position and are unable to fulfil their payment obligations to the Group in accordance with the applicable terms, the Group's business, results of operations and financial position may be adversely affected.

The Group's product lines are facing significant price pressure

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

The Group may not recoup costs incurred in the development of new products

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

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

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

Fluctuations in exchange rates could reduce the Group's profitability

The majority of the Group's net sales derive from products sold to customers located outside of Japan. Of the Group's net sales for the fiscal year ended 31 March 2013, 89.4 per cent. were from products sold to overseas customers. Most of the Group's products are manufactured in Japan, but approximately 59 per cent. of the Group's net sales for the fiscal year ended 31 March 2013 were derived from currencies other than the Japanese yen, predominantly the U.S. dollar. If the Japanese yen becomes strong relative to foreign currencies (mostly U.S. dollar and, to a much lesser extent, other currencies), it would increase the prices of the Group's products as stated in U.S. dollars and in those other currencies, which could hurt sales in those countries.

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

Furthermore, the Group's consolidated financial statements for a particular period or for a particular date will be affected by changes in the prevailing exchange rates of the currencies in which subsidiaries of the Company prepare their financial statements against the Japanese yen. Foreign exchange rate fluctuations may have an effect on those amounts not denominated in yen which are translated into yen in the Group's consolidated financial statements, and depending on the direction of the foreign exchange fluctuation, may have a negative effect on the Group's reported financial position, results of operations and net assets.

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

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

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

The Group has prepared itself for crises such as large-scale natural disasters, and each department of the Group has documented its own disaster-response procedures and manuals. Furthermore, in order to prevent any disruption of its core businesses, or in case of suspension, to re-start the suspended businesses, including the recovery of important facilities, in the shortest possible time, the Group has formulated and is in the process of implementing a "Business Continuity Plan". However, if the Group cannot implement such Business Continuity

Plan, or if upon implementation such Business Continuity Plan is not effective, the Group's core businesses could be disrupted at a time of crisis, such as large-scale natural disasters, and could take a substantial amount of time to recover.

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

The Group's business is subject to risks associated with conducting business internationally because it sells its products, and purchases parts and components from around the world. In the fiscal year ended 31 March 2013, 67.1 per cent. of the Group's total net sales came from Asia (excluding Japan), a majority of which consisted of sales in Taiwan, the People's Republic of China ("China") and Korea, 15.5 per cent. from the Americas and 6.8 per cent. from Europe. The Group anticipates that net sales from international operations will continue to represent a substantial portion of its total net sales. In addition, some of the Group's distribution and support subsidiaries are located in the Americas, Europe, and Asian countries, including Singapore, Taiwan, China and Korea, and some of the Group's suppliers are also located overseas. Accordingly, the Group's future results could be harmed by a variety of factors, including:

- political and economic instability, including further turmoil in connection with the European debt crisis, natural calamities, epidemics or other risks related to countries where the Group procures its components and parts or sells its products;
- trade protection measures and import or export licensing requirements;
- potentially negative consequences from changes in tax laws;
- risks with respect to international taxation, including transfer pricing regulations;
- difficulty in staffing and managing widespread operations;
- differing protection of intellectual property;
- difficulties in collecting accounts receivable because of distance and different legal rules; and
- risks with respect to social and political crises and issues resulting from terrorism, war and deterioration in the political and/or economic relationships between Japan and other countries, among others.

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

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

The Group may not be able to recover its capital expenditures

The Group continues to make capital expenditures. From the fiscal year ended 31 March 2013 through the fiscal year ending 31 March 2014, the Group built a new factory in South Korea in order to increase its share of sales to major Korean customers. The factory began operating in May 2013. The Group may not be able to recover the capital expenditures for such projects within the assumed timeframe, or at all, if it cannot achieve the assumed volume of sales due to customers cutting back on capital expenditures or if intense competition with competitors results in a reduction in unit prices. In such event, the asset would be subject to impairment, which may have an adverse impact on the Group's profitability.

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

If a natural disaster comparable to the Great East Japan Earthquake, which struck on 11 March 2011, were to occur, resulting in suppliers' facilities being destroyed, the supply of public utilities such as electricity, gas, and water to suppliers' facilities being cut, or there is a shortage of necessary energy supply for domestic industry, the Group may not be able to procure necessary components or parts, and may be unable to meet market demand for the supply of its products. Furthermore, market trends for the semiconductor industry, and finished products that are closely related to semiconductors, such as household electrical appliances, various computer equipment and automobiles, may become uncertain. The Group's business may be adversely affected as a result of these factors.

If a large quantity of radioactive material is released as a result of substantial damage to a nuclear power plant caused by an aftershock or a tsunami similar to the accident that occurred at the Fukushima Daiichi Nuclear Power Station, and the Group's products are contaminated with radioactive substances, the radiation levels where the Group's major production facilities are located exceed national radiation standards, or electricity supply becomes unstable for long periods of time due to a shut-down of nuclear plants, the Group may be unable to meet market demand for the supply of its products, or the competitiveness of its products may be impaired and the Group's business may be adversely affected.

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

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

- the long selling process involved in the sale of semiconductor and component test systems and mechatronics system;
- the relatively small number of total units sold in the semiconductor and component test system and mechatronics system market;
- order cancellations or postponement of capital expenditures by customers;
- delays in collection of accounts receivable, increases in losses resulting from bad debt or increases in provisions for doubtful receivables, reflecting the financial condition of customers;
- increases in required provisions for product warranty costs and write-downs of inventory; and
- any real or perceived decrease in performance and reliability of the Group's products, which could lead to a decline in the Group's reputation.

The Group may not be able to meet the targets set in its strategies and medium-term business plan

The Group has embarked on "ACT2014", a medium-term business plan setting certain goals for the fiscal year ending 31 March 2015. As a result of the impact of the global economic recession, the volatility of the semiconductor industry and other factors that arose after the plan's formulation, the Group's results will diverge significantly from the plan's initial targets. The success of implementation of the Group's strategies and plans, and the attainment of medium-term goals, is subject to various internal and external factors, including the general economic and market conditions in which the Group and its customers operate, the level of competition, the level of corporate capital expenditure, the level of demand for the Group's products and fluctuations in exchange rates. Further, any announced goals and targets (as amended from time to time) should not be treated as forecasts of future results. There can be no assurance that the Group's strategies and medium-term business plan will be implemented successfully, that the implementation of its strategies and medium-term plan will have the intended effects, that the goals and targets (whether quantitative or qualitative, and as amended from time to time) set in the Group's medium-term business plan or elsewhere will be met on time or at all, or that such goals, targets and aims will not be changed in the future by the Company's management.

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

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

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

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

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

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

The technology labour market is very competitive, and the Group's business may suffer if the Group is unable to hire and retain engineers and other key personnel

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

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

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

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

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

The Group's financial statements are prepared in accordance with U.S. GAAP, which differs in certain material respects from IFRS and financial reporting standards in other jurisdictions

The Group's consolidated financial statements are prepared and presented in accordance with U.S. GAAP, which differs in certain respects from IFRS and generally accepted accounting principles and financial reporting standards in other jurisdictions. The Group's consolidated financial statements may therefore differ from those prepared for other companies. This Offering Circular does not include a reconciliation of the Group's financial statements to IFRS or to any other generally accepted accounting principles or reporting standards. It is likely that such reconciliation would identify material quantitative differences between U.S. GAAP and IFRS or between U.S. GAAP and such other generally accepted accounting principles or financial reporting standards.

The Group's quarterly consolidated financial information has not been audited and may not be directly comparable with the audited annual financial information included in this Offering Circular

This Offering Circular contains the quarterly consolidated financial statements of the Company as of 31 December 2013 and for the nine-month periods ended 31 December 2012 and 2013, which have been prepared and presented in accordance with U.S. GAAP. Such quarterly consolidated financial statements have not been audited (as an audit of such quarterly consolidated financial statements is not required under relevant regulations) but have been reviewed by the Company's independent auditors in accordance with review standards for quarterly financial statements generally accepted in Japan, as indicated in its review report included herein at page Q-3.

In addition, the quarterly financial information may reflect seasonal factors and/or may reflect temporary economic or market trends that are not sustainable. Further, the Company uses a simplified accounting method and special accounting policies for its quarterly consolidated financial statements. Certain adjustments, accruals and deferrals which are made in the annual audited financial statements have been estimated or are not made in respect of the quarterly consolidated financial information and statements, and the tax expense is measured using an estimated annual effective rate. As such, the quarterly consolidated financial statements contained in this Offering Circular are not wholly comparable with the annual consolidated financial statements contained in this Offering Circular; as such, they should not be so compared.

Considerations Relating to the Bonds and the Shares

There are limitations on the timing of exercise of Stock Acquisition Rights

Since the coming into effect of the Act on Book-Entry Transfer of Company Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended) (including regulations promulgated thereunder, the "Book-Entry Act") in January 2009, under the current rules and practices of the Japan Securities Depository Center, Inc. ("JASDEC") it will take at least three business days for the delivery of the Shares to the Bondholders after the Stock Acquisition Date (as defined in Condition 5.9.4). In order to avoid any JASDEC system processing errors with regard to the shareholders' rights around the record dates, the Stock Acquisition Rights have been designed under Condition 5.1.4 so that they may not be exercised if the relevant Stock Acquisition Date (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period (as defined in Condition 5.1.4). Bondholders should therefore note in particular that exercises of Stock Acquisition Rights are restricted in the period around any record date in respect of Shares set by the Company (under the Articles of Incorporation of the Company as of the date of this Offering Circular, 31 March and 30 September in each year).

No cash amounts will be paid in respect of non-unit Shares

Since the coming into effect of the Book-Entry Act, making it possible for listed shares of Japanese companies comprising less than one whole unit to be delivered through the JASDEC book-entry transfer system, JASDEC has given guidance to the effect that stock acquisition rights of Japanese companies issued since then should be structured so that exercising holders should have shares not constituting one whole unit delivered to their accounts, instead of automatically selling back such shares to the issuer of such stock acquisition rights and receiving cash amounts in respect of them. Bondholders exercising their Stock Acquisition Rights will therefore not be receiving cash amounts in respect of the Shares of less than one whole unit which would have been issuable upon such exercise, which had been paid, in the practice before the Book-Entry Act came into effect, but will be receiving those Shares themselves. Currently, the Company's Articles of Incorporation provide that one unit comprises 100 Shares. Accordingly, the holders of Shares constituting less than one unit will need to request the Company to purchase them in accordance with the rules of the JASDEC book-entry transfer system and the Company's Share Handling Regulations if they would like the Company to do so; alternatively, such holders may require the Company to sell to it a sufficient number of Shares in order to make its holding a whole unit. The rights of holders of Shares not constituting one whole unit are limited under the Companies Act and the Articles of Incorporation of the Company, and may not be tradable on the stock exchanges on which they are listed. See "Description of the Shares and Certain Regulations—Unit Share System".

An active trading market for the Bonds may not develop

Prior to the issue of the Bonds, there has been no trading market for the Bonds. Although approval in-principle has been received for the listing of the Bonds on the SGX-ST, there can be no assurance that an active trading market for the Bonds will develop. Furthermore, even if such market does develop, it may not be liquid.

Trading prices of the Bonds will be affected by various factors, including fluctuations in the price of the Shares

The market price of the Bonds is expected to be affected by fluctuations in the market price of the Shares and it is impossible to predict whether the price of the Shares will rise or fall. Any decline in the price of the Shares will have an adverse effect on the market price of the Bonds. Trading prices of the Bonds and Shares will be influenced by, among other things, the financial position and results of operations of the Group, including the reporting of its financial results.

In addition, the market price of the Bonds is expected to be affected by any downgrade or other events negatively affecting the Company's credit rating. The Company and its long-term senior debt (but not the Bonds) are rated by Rating and Investment Information, Inc. ("R&I"). R&I's long-term senior debt rating of the Company as of the date of this document is A–, but R&I announced on 29 January 2014 that it has changed its rating outlook of the Company to negative.

Rights of shareholders are governed by Japanese law

The corporate affairs of the Company are governed by and conducted in accordance with the Articles of Incorporation, Regulations of the Board of Directors and Share Handling Regulations and other related regulations thereunder of the Company, as well as the Companies Act. Legal principles relating to such matters as the validity of corporate procedures, directors' and officers' fiduciary duties (including actions that may legitimately be taken by them in respect of unsolicited takeover attempts) and liabilities, and shareholders' rights under Japanese law may be different from those that apply to companies incorporated in other jurisdictions. Holders who acquire the Shares upon exercise of the Stock Acquisition Rights may have more difficulty in asserting their rights as a shareholder than they would as a shareholder of a corporation organised in other jurisdictions. In addition, Japanese courts may not be willing to enforce judgments of non-Japanese courts against the Company which are based on non-Japanese securities laws.

Future changes in Japanese Law may change the provisions relating to Stock Acquisition Rights

Future changes to provisions relating to Stock Acquisition Rights may have mandatory effect under Japanese law. Condition 15.2 provides for amendments to be made to the Conditions relating to the Stock Acquisition Rights where those amendments are required in order to comply with mandatory provisions of Japanese law even if those amendments are materially prejudicial to the interests of Bondholders.

Forward-looking Statements

Statements in this Offering Circular with respect to the Group's plans, strategies, projected financial results and beliefs, as well as other statements that are not historical facts, are forward-looking statements involving risks and uncertainties.

Important factors that could cause actual results to differ materially from such statements include, but are not limited to:

- changes in demand for the products and services produced and offered by the Group's customers, including semiconductors, communications services and electronic goods;
- the environment in which the Group purchases materials, components and supplies for the production of its products, including the availability of necessary materials, components and supplies during a significant expansion in the market in which the Group operates;
- circumstances relating to the Group's investment in technology, including its ability to timely develop products that meet the changing needs of semiconductor manufacturers and communications network equipment and components makers and service providers; and
- changes in economic conditions, competitive environment, currency exchange rates or political stability in the major markets where the Group produces, distributes or sells its products.

Many of the statements included in this Offering Circular contain forward-looking statements and information identified by the use of terminology such as "may", "might", "will", "should", "expect", "intend", "plan", "estimate", "anticipate", "project", "believe" or similar phrases. The Company bases these statements on beliefs as well as assumptions made using information currently available to the Company. As these statements reflect the Company's current views concerning future events, these statements involve risks, uncertainties and assumptions. The Company's or the Group's actual future performance could differ materially from these forward-looking statements. Important factors that could cause actual results to differ from the Company's expectations include those risks identified in "Investment Considerations" and the factors discussed in "Recent Business" and "Business", as well as other matters not yet known to the Company or not currently considered material by the Company. The Company does not undertake to review or revise this document or any forward-looking statements contained in this document to reflect future events or circumstances. The Company cautions prospective investors in the Offering not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to the Company or persons acting on the Company's behalf are qualified in their entirety by these cautionary statements.

TERMS AND CONDITIONS OF THE BONDS

The following terms and conditions of the Bonds (the "Conditions"), subject to completion and amendment, and, save for the paragraphs in italics, will be endorsed on the Certificates (as defined herein):

The ¥30,000,000,000 Zero Coupon Convertible Bonds due 2019 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (the "Bonds", which term shall, unless the context requires otherwise, include Stock Acquisition Rights (as defined below) incorporated in the Bonds) in the denomination of ¥10,000,000 each issued by Advantest Corporation (the "Company") are constituted by a trust deed (the "Trust Deed") dated 14 March 2014 made between the Company and Union Bank, N.A. (the "Trustee", which expression shall include all persons for the time being trustee or trustees appointed under the Trust Deed, as trustee for the holders of the Bonds). Each Bond is issued in the denomination of ¥10,000,000 each and a stock acquisition right (*shinkabu yoyakuken*) (the "Stock Acquisition Right"), entitling the Bondholder (as defined in Condition 1.2) to acquire fully paid and non-assessable shares of common stock of the Company (the "Shares") as described below, is incorporated in each Bond as an integral part thereof. Copies of the Trust Deed and of the agency agreement (the "Agency Agreement") dated 14 March 2014 relating to the Bonds between, *inter alios*, the Company, the Trustee, the principal agent (the "Principal Agent"), the registrar (the "Registrar") and the other agents referred to therein are available for inspection by prior appointment during normal business hours at the specified office for the time being of the Trustee, being at the date of issue of the Bonds at 120 South San Pedro Street, 4th Floor, Los Angeles, CA 90012, U.S.A., and at the specified office(s) of each of the Principal Agent and the Agents (as defined below). References herein to the "Agents" shall, unless the context otherwise requires, include the Principal Agent and any other or further agent(s) appointed by the Company in connection with the Bonds for the purpose of making payments and transfers and acceptance of notices of the exercise of the Stock Acquisition Rights from time to time.

The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of all those provisions of the Agency Agreement applicable to them. The statements in these terms and conditions (the "Conditions") include summaries of, and are subject to, the detailed provisions of the Trust Deed. Any terms defined in the Trust Deed and not in these Conditions shall have the same meanings when used herein except where otherwise indicated.

1. **Form, Denomination, Issue Price, Title, Status, Transfers of Bonds and Relationship between Bonds and Stock Acquisition Rights**

1.1 ***Form, Denomination and Issue Price***

The Bonds are issued in registered form in the denomination of ¥10,000,000 each and are not exchangeable for bonds with stock acquisition rights in bearer form. The issue price of the Bonds (excluding the Stock Acquisition Rights) (the "Issue Price") is 100.5 per cent. of the principal amount of the Bonds. The issue price of the Stock Acquisition Rights is zero.

A bond certificate (each, a "Certificate") will be issued in respect of each Bond. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register (the "Register") of holders of Bonds to be kept by the Registrar in accordance with Condition 1.4.1.

1.2 ***Title***

Title to the Bonds will pass only by transfer and registration of title in the Register. The holder of any Bond will (except as otherwise declared by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust, or any interest in it, or any writing on, or theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

In these Conditions, a "Bondholder" and (in relation to a Bond) a "holder" mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first name thereof).

Upon issue, the Bonds will be evidenced by a global certificate (the "Global Certificate") deposited with and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Trust Deed, owners of interests in Bonds represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds.

1.3 ***Status***

The Bonds are direct, unconditional, unsubordinated and (subject to the provisions of Condition 2) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.

1.4 ***Transfers of Bonds***

1.4.1 *The Register*: The Company will cause to be kept at the specified office of the Registrar, and in accordance with the terms of the Agency Agreement, the Register on which shall be entered the names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers and redemptions of the Bonds and the exercises of Stock Acquisition Rights.

Each Bondholder shall be entitled to receive one Certificate in respect of each Bond held by such holder.

1.4.2 *Transfers*: A Bond may be transferred upon the surrender (at the specified office(s) of the Principal Agent, the Registrar or any other Agent) of the Certificate evidencing such Bond, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Company), duly completed and signed and any other evidence as the relevant Agent or the Registrar (as the case may be) may reasonably require. No transfer of a Bond will be valid unless and until entered on the Register. Upon such transfer, a new Certificate will be issued to the transferee in respect of the Bond so transferred. All transfers of the Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of the Bonds scheduled to the Agency Agreement. The regulations may be changed by the Company, with the prior written approval of the Registrar, the Principal Agent and the Trustee. A copy of the current regulations will be made available during normal business hours by the Principal Agent or the Registrar to any Bondholder upon written request.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems, as described in "Summary of Provisions Relating to the Bonds While in Global Form".

1.4.3 *Delivery of New Certificates*: Each new Certificate to be issued pursuant to Condition 1.4.2 shall be available for delivery within five Transfer Business Days of receipt of the duly completed and signed form of transfer, and surrender of the original Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or any of the Agents to whom delivery or surrender of such form of transfer and Certificate shall have been made, or if so requested in the form of transfer, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address so specified (at the Company's expense) unless such holder requests otherwise and pays in advance to the Registrar or the relevant Agent (as the case may be) the costs of such other method of delivery as agreed between such holder and the Registrar or relevant Agent and/or such insurance as it may specify. In these Conditions, "Transfer Business Day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar or the relevant Agent (as the case may be).

1.4.4 *Formalities Free of Charge*: Registration of a transfer of Bonds and issuance of new Certificates shall be effected without charge by or on behalf of the Company, the Registrar or the relevant Agent, but upon (i) payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Agent may require); (ii) the Registrar being satisfied in its absolute discretion with the documents of title and/or the identity of the person making the application; and (iii) the Company and the Registrar or the relevant Agent being satisfied that the regulations concerning transfer of Bonds having been satisfied.

1.4.5 *No Registration of Transfer*: No Bondholder may require the transfer of a Bond to be registered (i) during the period of seven days ending on (and including) the date for redemption pursuant to Condition 7.1, 7.4, 7.5 or 7.6, (ii) after a Conversion Notice (as defined in Condition 3.1) has been given with respect to such Bond pursuant to Condition 5.9.1 (unless such Conversion Notice is withdrawn pursuant to Condition 5.9.4, in which event registration of transfer of such Bond may be made on or after the date on which such Conversion Notice is withdrawn), (iii) after a notice of redemption has been given pursuant to Condition 7.2 or 7.3, (except for any Bond held by a Bondholder who has given notice to the Company pursuant to the second paragraph of Condition 7.3) or (iv) after a notice of redemption is deposited in respect of such Bond pursuant to Condition 7.7.

1.5 ***Relationship between Bonds and Stock Acquisition Rights***

The obligations of the Company in respect of the Bonds and the Stock Acquisition Rights incorporated therein shall arise and shall be extinguished or cease to be exercisable simultaneously subject as provided herein.

The Bonds and the Stock Acquisition Rights incorporated therein may not be transferred or dealt with separately from each other.

2. Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Trust Deed), the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined below) upon the whole or any part of the Company's or such Principal Subsidiary's property or assets, present or future, to secure (i) payment of any sum due in respect of any Relevant Debt or (ii) any payment under any guarantee of any Relevant Debt or (iii) any payment under any indemnity or other like obligation in respect of any Relevant Debt, without in any such case at the same time according or procuring to be accorded to the Bonds, (x) to the satisfaction of the Trustee or as shall be approved by an Extraordinary Resolution (as defined in Condition 3.1), the same security as is granted to or subsists in respect of such Relevant Debt or such guarantee, indemnity or other like obligation or (y) such other security or guarantee as the Trustee may in its absolute discretion deem to be not materially less beneficial to the interests of the Bondholders or as shall be approved by an Extraordinary Resolution.

For the purposes of this Condition 2, "Relevant Debt" means any present or future indebtedness in the form of, or represented or evidenced by, bonds, debentures, notes or other similar securities of any person with a stated maturity of more than one year from the creation thereof and which:

(a) either are by their terms payable, or confer a right to receive payment, in any currency other than yen, or are denominated in yen and more than 50 per cent. of the aggregate principal amount thereof is initially distributed outside Japan by or with the authorisation of the Company or the relevant Principal Subsidiary; and

(b) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other similar securities market outside Japan.

3. Definitions and Construction of References

3.1 ***Definitions***

In these Conditions (unless the context otherwise requires):

"Account Management Institution" means an account management institution (*koza-kanri-kikan*) which is an entity entitled under the Book-Entry Act to open and maintain an account for another person or entity;

"Additional Amounts" has the meaning provided in Condition 9;

"Additional Shares" has the meaning provided in Condition 5.3;

"Annual Fiscal Period" means a period commencing on 1 April and ending on 31 March of the immediately succeeding year; provided that, if the Company shall change its financial year so as to end on a date other than 31 March, "Annual Fiscal Period" shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

"Articles of Incorporation" means the articles of incorporation of the Company from time to time in effect;

"Asset Transfer Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the sale or transfer of all or substantially all of the assets of the Company to another entity (the "Asset Transferee"), pursuant to the terms of which the Company's obligations under the Bonds are to be transferred to or assumed by the Asset Transferee;

"Asset Transferee" has the meaning provided in the definition of Asset Transfer Event;

"Auditors" means the independent auditors for the time being of the Company or, if there shall be joint independent auditors, any one or more of such independent auditors or, if they are unable or unwilling to carry out any action requested to them, such other auditors or firm of auditors as may be appointed by the Company and promptly notified in writing to the Trustee by the Company;

"Authorised Officer" means any one of the directors or officers of the Company or the New Obligor (as the case may be) or any other person whom the Company or the New Obligor (as the case may be) shall have identified to the Trustee by notice in writing as being duly authorised to sign any document or certificate on behalf of the Company or the New Obligor (as the case may be);

"Bankruptcy Act" means the Bankruptcy Act of Japan (Act No. 75 of 2004, as amended);

"Base Dividend" has the meaning provided in Condition 5.2.4;

"Bondholder" and "holder" have the meaning provided in Condition 1.2;

"Book-Entry Act" means the Act on Book-Entry Transfer of Corporate Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended);

"Business Day" has the meaning provided in Condition 8.3;

"Certificate" has the meaning provided in Condition 1.1;

"Civil Rehabilitation Act" means the Civil Rehabilitation Act of Japan (Act No. 225 of 1999, as amended);

"Clean-up Redemption Notice" has the meaning provided in Condition 7.2;

"Closed Period" has the meaning provided in Condition 7.10;

"Closing Date" means 14 March 2014;

"Closing Price" means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), for any Trading Day, the last reported selling price (regular way) of the Shares or the shares of common stock of the New Obligor (as the case may be) on the Relevant Stock Exchange on such Trading Day or, if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, the average of the closing bid and offered prices of the Shares or the shares of common stock of the New Obligor (as the case may be) for such Trading Day as furnished by any trading participant of the Relevant Stock Exchange selected from time to time by the Company or the New Obligor (as the case may be) and approved in writing by the Trustee for such purpose;

"Companies Act" means the Companies Act of Japan (Act No. 86 of 2005, as amended);

"Company's Territory" has the meaning provided in Condition 12.2;

"Consolidated Financial Statements" means, in relation to any Fiscal Period of the Company, the unaudited consolidated financial statements of the Company prepared in accordance with the Relevant GAAP or, if in respect of such Fiscal Period audited consolidated financial statements have been prepared, the audited consolidated financial statements of the Company prepared as aforesaid;

"Consolidated Subsidiary" means, in relation to a Fiscal Period of the Company, Subsidiaries consolidated in the relevant Consolidated Financial Statements;

"Conversion Notice" means the written notice required to accompany any Bonds deposited for the purposes of the exercise of the Stock Acquisition Rights, the current form of which is set out in Schedule 1 to the Agency Agreement;

"Conversion Price" has the meaning provided in Condition 5.1.3;

"Conversion Price Reduction End Date" has the meaning provided in any of Condition 5.2.15, 5.2.16 or 5.2.17, as the case may be;

"Conversion Price Reduction Period" has the meaning provided in any of Condition 5.2.15, 5.2.16 or 5.2.17, as the case may be;

"Conversion Price Reduction Start Date" has the meaning provided in any of Condition 5.2.15, 5.2.16 or 5.2.17, as the case may be;

"Corporate Event" has the meaning provided in Condition 6.1;

"Corporate Event Effective Date" has the meaning provided in Condition 6.3;

"Corporate Reorganisation Act" means the Corporate Reorganisation Act of Japan (Act No. 154 of 2002, as amended);

"Corporate Split Counterparty" has the meaning provided in the definition of Corporate Split Event;

"Corporate Split Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for any corporate split (*shinsetsu bunkatsu* or *kyushu bunkatsu*) in which the Company's obligations under the Bonds are to be transferred to or assumed by the corporation which is the counterparty to such corporate split (the "Corporate Split Counterparty");

"Current Market Price per Share" has the meaning provided in Condition 5.2.9;

"Custodian" means Union Bank, N.A. at its specified office at 120 South San Pedro Street, 4th Floor, Los Angeles, CA 90012, U.S.A. or such other custodian as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Company, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19 and shall, unless the context otherwise requires, include the nominee of the Custodian;

"Custodian's Agent" means The Bank of Tokyo-Mitsubishi UFJ, Ltd. at its specified office at 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8388, Japan or such other agent of the Custodian in Japan as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Custodian, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19;

"Delisting Event" has the meaning provided in Condition 7.5.1;

"Delisting Redemption Date" has the meaning provided in Condition 7.5.1;

"Deposit Date" has the meaning provided in Condition 5.9.4;

"Due Date" has the meaning provided in Condition 9;

"Exercise Period" has the meaning provided in Condition 5.1.4;

"Extraordinary Dividend" has the meaning provided in Condition 5.2.4;

"Extraordinary Resolution" means a resolution passed at a meeting of the Bondholders duly convened and held in accordance with the provisions contained in the Trust Deed by a majority consisting of not less than three-quarters of the votes cast thereon;

"Financial Instruments and Exchange Act" means the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended);

"Fiscal Period" means, as the context may require, (i) a period commencing on 1 April and ending on 31 March of the immediately succeeding year; or (ii) three month periods each commencing on 1 April, 1 July, 1 October and 1 January; provided that, if the Company shall change its financial year so as to end on a date other than 31 March, the provisions of items (i) and (ii) above shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

"Floor Conversion Price" means ¥1,123, subject to adjustment in the same manner as provided in Condition 5.2 (except for any of Condition 5.2.15, 5.2.16 or 5.2.17), in the period to and including the relevant Conversion Price Reduction Start Date, and disregarding any Retroactive Adjustment to take effect after the relevant Conversion Price Reduction Start Date (but without prejudice to the Company's obligations in respect thereof) in accordance therewith (rounded up to the nearest one yen);

"Holding Company" has the meaning provided in the definition of Holding Company Event;

"Holding Company Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the Company to become a wholly-owned subsidiary of another corporation (the "Holding Company") by way of share exchange (*kabushiki-kokan*) or share transfer (*kabushiki-iten*);

"Independent Financial Adviser" means an independent investment bank, securities company or accounting firm of international repute appointed by the Company at its own expense and approved in writing by the Trustee or, if the Company fails to make such appointment and such failure continues for a reasonable period (as determined by the Trustee in its absolute discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such adviser, appointed by the Trustee in accordance with Condition 18 and notified to the Company;

"Initial Conversion Price" means ¥1,655, subject to adjustment in the same manner as provided in Condition 5.2 (except for any of Condition 5.2.15, 5.2.16 or 5.2.17), in the period to and including the relevant Conversion Price Reduction Start Date, and disregarding any Retroactive Adjustment to take effect after the relevant Conversion Price Reduction Start Date (but without prejudice to the Company's obligations in respect thereof) in accordance therewith (rounded up to the nearest one yen);

"Issue Price" has the meaning provided in Condition 1.1;

"Later Adjustment" has the meaning provided in Condition 5.2.11;

"Listing" has the meaning provided in Condition 6.4.2;

"Merged Company" means the corporation formed by the relevant Merger Event or the corporation into which the Company shall have merged following a Merger Event;

"Merger Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for any consolidation or amalgamation (*shinsetsu gappei*) of the Company with, or merger (*kyushu gappei*) of the Company into any other corporation (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation);

"New Obligor" has the meaning provided in Condition 6.1;

"New Obligor Current Market Price per Share" has the meaning provided in Condition 6.5.3;

"New Stock Acquisition Rights" has the meaning provided in Condition 12.2;

"New Territory" has the meaning provided in Condition 12.2;

"Non-unit Shares" has the meaning provided in Condition 5.1.2;

"Number of Deliverable Shares" has the meaning provided in Condition 6.5.3;

"Number of Held Shares" has the meaning provided in Condition 6.5.3;

"Offeror" has the meaning provided in Condition 7.5.1;

"Principal Subsidiary" means any Consolidated Subsidiary of the Company, (i) whose net sales as shown by the annual non-consolidated financial statements (or, where the Consolidated Subsidiary in question itself prepares consolidated financial statements, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 5 per cent. or more of the net sales of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements or (ii) whose total assets as shown by the annual non-consolidated financial statements (or, as the case may be, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 5 per cent. or more of the total assets of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements. A certificate signed by a Representative Director or an

Authorised Officer of the Company that in the Company's opinion, a Consolidated Subsidiary is or is not or was or was not at a specified date a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

"Proceedings" has the meaning provided in Condition 21.2;

"Record Date" means the date fixed by the Articles of Incorporation or otherwise specified by the Company for the purpose of determining entitlements to dividends or other distributions to, or rights of, holders of Shares; provided, however, that if the Company has fixed no such record date and the context so requires, the "Record Date" shall be construed as a reference to the date of any event in question coming into effect;

"Reference Share Price" in any of Condition 5.2.15, 5.2.16 or 5.2.17 has the respective meaning provided therein;

"Register" has the meaning provided in Condition 1.1;

"Registered Account" has the meaning provided in Condition 8.1;

"Relevant Debt" has the meaning provided in Condition 2;

"Relevant GAAP" means the accounting principles which are adopted by the Company or the New Obligor (as the case may be) for the preparation of the Consolidated Financial Statements under the Financial Instruments and Exchange Act, being one of those generally accepted in the United States or Japan or International Financial Reporting Standards (as issued by the International Accounting Standards Board or, if applicable, as adopted or endorsed by the Accounting Standards Board of Japan);

"Relevant Number of Shares" has the meaning provided in Condition 5.2.4;

"Relevant Securities" has the meaning provided in Condition 5.2.8;

"Relevant Stock Exchange" means Tokyo Stock Exchange, Inc. or, if at the relevant time the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed on Tokyo Stock Exchange, Inc., the principal stock exchange or securities market in Japan on which the Shares or the shares of common stock of the New Obligor (as the case may be) are then listed or quoted or dealt in;

"Representative Director" means a director of the Company (or the New Obligor, as the case may be) who is for the time being a representative director within the meaning of the Companies Act or, where applicable, a representative statutory executive officer of the Company (or the New Obligor, as the case may be) within the meaning of the Companies Act;

"Retroactive Adjustment" has the meaning provided in Condition 5.3;

"Securities" includes, without limitation, Shares, other shares, options, warrants or other rights (including stock acquisition rights) to subscribe for or purchase or acquire Shares and securities convertible into or exchangeable for Shares;

"Shareholder Determination Date" has the meaning provided in Condition 5.1.4;

"Shareholder Determination Date Restriction Period" has the meaning provided in Condition 5.1.4;

"Squeezeout Event" has the meaning provided in Condition 7.6;

"Stock Acquisition Date" has the meaning provided in Condition 5.9.4;

"Stock Split" means any kind of stock split in relation to the Shares, including a free share distribution to the holders of Shares, a stock dividend or a sub-division of Shares;

"Subsidiary" means a company, more than 50 per cent. of the outstanding shareholders' voting rights of which is at any given time owned by the Company, by one or more other Subsidiaries or by the Company and one or more other Subsidiaries, or any other company which is otherwise considered to be controlled by the Company under the Relevant GAAP (and, for this purpose, "voting rights" means the voting power attached to stocks or shares for the election of directors, officers or trustees of such company, other than voting powers attached to stocks or shares outstanding having such power by reason of the happening of a contingency);

"Tax Redemption Date" has the meaning provided in Condition 7.3;

"Tax Redemption Notice" has the meaning provided in Condition 7.3;

"Tokyo Business Day" has the meaning provided in Condition 5.1.4;

"Trading Day" means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), a day on which the Relevant Stock Exchange is open for business, but does not include a day on which (a) no last selling price (regular way) for the Shares or the shares of common stock of the New Obligor (as the case may be) is reported by the Relevant Stock Exchange and (b) if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, no closing bid or offered price is furnished as provided in the definition of Closing Price;

"Transfer Business Day" has the meaning provided in Condition 1.4.3; and

"yen" and "¥" mean Japanese yen, the lawful currency of Japan.

3.2 ***Construction of Certain References***

References to any statute or provision of any statute shall be deemed to include a reference to any statute or the provision of any statute which amends, extends, consolidates or replaces the same, or which has been amended, extended, consolidated or replaced by the same, and shall include any ordinances, regulations, instruments or other subordinate legislation made under the relevant statute.

Except where the context requires otherwise, references to the "issue" of Shares shall include the transfer and/or delivery of Shares by the Company, whether newly issued or previously issued and held by or on behalf of the Company (and the words "issue", "issued" and "issuable" shall be construed accordingly), and references in these Conditions to the word "acquire" used in conjunction with the Shares shall be read as including both the words "issue" and "transfer", and the words "acquired" and "acquisition" shall be construed accordingly, and references to "delivery" used in respect of the Shares shall be read as including the transfer of Shares by way of the book-entry transfer system operated by the Japan Securities Depository Center Inc.'s system. The words "substitution" and "grant" used in relation to the exchange of the Company's obligations in respect of the Bonds for those of a New Obligor following a Corporate Event shall be read as including the necessary legal concepts for such exchange to occur under both Japanese law and English law.

The headings in these Conditions are for convenience only and shall be ignored in construing these Conditions.

4. **Default Interest**

The Bonds do not bear interest unless payment of any amount in respect of any Bond is improperly withheld or refused, in which case such unpaid amount will bear interest (both before and after judgment) from the date of default to the earlier of (i) the day on which all sums due in respect of such Bond up to but excluding that day are received by or on behalf of the relevant Bondholder, and (ii) the day seven days after the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to but excluding that seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Bondholders under these Conditions) at the rate of interest per annum determined by the Principal Agent as being equal to the offered rate quoted by a leading bank in the Euro-yen market selected by the Principal Agent for deposits in yen for the period of three months, as at 11:00 a.m. (London time) on the date of such default. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

5. **Exercise of Stock Acquisition Rights**

5.1 ***Conversion Price, Exercise Period, Shares Issuable and Procedure***

5.1.1 *Contribution of the Bond:* Subject to and upon compliance with the provisions of this Condition 5, each Bondholder is entitled to exercise the Stock Acquisition Right incorporated in each Bond held by it in accordance with and subject to these Conditions. The Bond, the Certificate in respect of which having been deposited with an Agent for exercise of the relevant Stock Acquisition Right pursuant to Condition 5.9.1, shall be deemed to be acquired by the Company as a capital contribution in kind by such Bondholder at the price equal to the principal amount of the Bond as of the Stock Acquisition Date.

5.1.2 *Number of Shares*: The number of Shares to be acquired by a Bondholder exercising its Stock Acquisition Rights will be determined by dividing the aggregate principal amount of the Bonds deposited by such Bondholder at the same time upon exercise of the Stock Acquisition Rights by the Conversion Price applicable on the Stock Acquisition Date. Fractions of a Share will not be issued upon exercise of any Stock Acquisition Right and no adjustment or cash payment will be made in respect thereof. However, if two or more Stock Acquisition Rights are exercised at any one time by the same Bondholder, the number of Shares which shall be acquired upon exercise of such Stock Acquisition Rights shall be calculated on the basis of the aggregate principal amount of the Bonds in which the Stock Acquisition Rights so exercised are incorporated.

For the avoidance of doubt, if a Bondholder would receive a number of Shares ("Non-unit Shares") not constituting a unit (*tangen*) of Shares or integral multiples thereof upon exercise of the Stock Acquisition Right(s) or upon a Retroactive Adjustment, such Non-unit Shares shall be delivered to the relevant Bondholder in the same manner as the Shares constituting a whole unit of Shares, and no cash amounts shall be paid by the Company in respect of such Non-unit Shares.

As of the date of this Offering Circular, the Articles of Incorporation specify that one unit of Shares is comprised of 100 Shares.

5.1.3 *Conversion Price*: The price at which Shares shall be acquired upon exercise of the Stock Acquisition Rights (the "Conversion Price") shall initially be ¥1,655 per Share, subject to adjustment in the manner provided in Condition 5.2.

5.1.4 *Exercise Period*: Each Stock Acquisition Right may be exercised at any time during the period from, and including, 1 April 2014 to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on 28 February 2019, or:

(i) if the relevant Bond shall have been called for redemption pursuant to Condition 7.2, 7.3, 7.4, 7.5 or 7.6, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof (unless, in the case of such Bond being called for redemption pursuant to Condition 7.3, the relevant Bondholder has elected that such Bond shall not be redeemed); or

(ii) if the relevant Bond is to be redeemed pursuant to Condition 7.7, then up to the time when the relevant notice of redemption is deposited at the specified office of an Agent pursuant to Condition 7.7; or

(iii) if the relevant Bond shall have been purchased by the Company or a Subsidiary and cancelled by the Company pursuant to Condition 7.8, then up to the time when such Bond is so cancelled; or

(iv) if the relevant Bond shall become due and repayable pursuant to Condition 10, then up to the time when such Bond becomes so due and repayable,

provided that:

(a) in no event shall the Stock Acquisition Rights be exercised after 28 February 2019;

(b) the Stock Acquisition Rights may not be exercised for such period as may be designated by the Company, if the Company reasonably determines that such suspension is necessary in order to consummate the relevant transaction in compliance with these Conditions (including Conditions 6.4.1, 7.5 and 7.6), and provided that such period may not exceed 30 days, shall end on a date not later than 14 days after the Corporate Event Effective Date and may not extend into a Conversion Price Reduction Period provided in any of Condition 5.2.15, 5.2.16 or 5.2.17; and

(c) the Stock Acquisition Right may not be exercised during such period whereby the relevant Stock Acquisition Date (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period (as defined below); provided that if there is a change to the mandatory provisions of Japanese law and regulation or practice relating to the delivery of shares upon exercise of stock acquisition rights through book-entry transfer system established pursuant to the Book-Entry Act, then this Condition 5.1.4(c) and the definition of Shareholder Determination Date Restriction Period may be amended to the extent permitted by applicable law, regulation and practice by the Company to reflect such change in law, regulation or practice without the consent of the Trustee or the Bondholders and notice thereof shall be given promptly by the Company to the Bondholders in accordance with Condition 19 and to the Trustee in writing.

In these Conditions:

"Shareholder Determination Date" means (i) any Record Date, and (ii) any other date set for the purpose of determination of holders of Shares in connection with Paragraph 1 of Article 151 of the Book-Entry Act;

"Shareholder Determination Date Restriction Period" means the period from and including the second Tokyo Business Day falling immediately prior to any Shareholder Determination Date to and including such Shareholder Determination Date (provided that if such Shareholder Determination Date falls on a date that is not a Tokyo Business Day, then the Shareholder Determination Date Restriction Period means the period from and including the third Tokyo Business Day falling immediately prior to such Shareholder Determination Date to and including the Tokyo Business Day immediately following such Shareholder Determination Date); and

"Tokyo Business Day" means any day (other than a Saturday, Sunday or a day which shall be a legal holiday in Tokyo or a day on which banking institutions in Tokyo are obliged or authorised by law or executive order to close) on which banks are open for business in Tokyo.

The Company shall give the Trustee (unless the Trustee is also the Principal Agent) and the Principal Agent in writing and the Bondholders in accordance with Condition 19, a notice of the determination and period referred to in Condition 5.1.4(b) above (together with a description of the days included in such period) at least 30 days prior to the commencement of such period.

The Company shall give the Trustee (unless the Trustee is also the Principal Agent) and the Principal Agent in writing and the Bondholders in accordance with Condition 19, a notice of the determination of any Shareholder Determination Date Restriction Period (together with a description of the days included in such Shareholder Determination Date Restriction Period) at least two Tokyo Business Days prior to the commencement of such Shareholder Determination Date Restriction Period, provided that no such notice is required where the Shareholder Determination Date Restriction Period in question relates to a Record Date that has been fixed by the Articles of Incorporation then in effect.

So long as the Bonds are evidenced by the Global Certificate, the Company will be required to give notice of the determination of any Shareholder Determination Date Restriction Period (together with a description of the days included in such Shareholder Determination Date Restriction Period) at least two business days prior to the commencement of such Shareholder Determination Date Restriction Period (provided that *no such notice is required where the Shareholder Determination Date Restriction Period in question relates to a Record Date that has been fixed by the Articles of Incorporation then in effect); "business day" in this paragraph means any day on which banks are open for business in Tokyo, Brussels and Luxembourg.*

As at the date of this Offering Circular, the Record Dates fixed by the Articles of Incorporation are 31 March and 30 September. By way of example, in respect of the Record Date falling on 30 September 2014, it is currently anticipated that the Stock Acquisition Rights will not be exercisable where the Stock Acquisition Date would fall on any day from (and including) 26 September 2014 to (and including) 30 September 2014.

The period during which the Stock Acquisition Rights are exercisable pursuant to this Condition 5.1.4 is hereinafter referred to as the "Exercise Period" (for the avoidance of doubt, the Exercise Period in respect of any Stock Acquisition Right may stop and restart from time to time). Upon final expiration of the Exercise Period, the Stock Acquisition Rights incorporated in the relevant Bonds will lapse and cease to be exercisable or valid for any purposes.

5.1.5 *Rights Attached to Shares Acquired upon Exercise of Stock Acquisition Rights*: Shares acquired upon exercise of the Stock Acquisition Rights shall have the same rights in all respects (including in relation to any distribution of dividends) as the Shares outstanding on the relevant Stock Acquisition Date (except for any right the Record Date for which precedes such Stock Acquisition Date and any other right excluded by mandatory provisions of applicable law).

5.2 ***Adjustments of the Conversion Price***

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

5.2.1 *Stock Split and Consolidation of Shares*: if the Company shall (a) make a Stock Split, (b) consolidate its outstanding Shares into a smaller number of shares, or (c) re-classify any of its Shares into other securities of the Company, then the Conversion Price shall be appropriately adjusted so that the holder of any Bond, the Stock Acquisition Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5.2.1, shall be entitled to receive the number of Shares and/or other securities of the Company which it would have held or have been entitled to receive after the coming into effect of any of the events described above had the Stock Acquisition Right in respect of such Bond been exercised immediately prior to the coming into effect of such event (or, if the Company has fixed a prior Record Date for the determination of shareholders entitled to receive any such Shares or other securities issued upon any such Stock Split, consolidations or re-classification, immediately prior to such Record Date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the coming into effect of such event (or such Record Date) or any time thereafter. An adjustment made pursuant to this Condition 5.2.1 shall become effective immediately on the relevant event becoming effective or, if a prior Record Date is fixed therefor, immediately after the Record Date; provided that, in the case of a relevant transaction which must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally effective, and which is so approved after the Record Date fixed for the determination of shareholders entitled to receive such Shares or other securities, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date.

If the Company shall make a Stock Split and the Record Date therefor is also:

(i) the Record Date for the issue of any rights or warrants (including stock acquisition rights) which requires an adjustment of the Conversion Price pursuant to Condition 5.2.2 or 5.2.3, or

(ii) the last date (in the place of issue) of the period during which payment may be made for any securities convertible into or exchangeable for Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.5 or 5.2.8, or

(iii) the last date (in the place of issue) of the period during which payment may be made for the issue or transfer of any Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.6 or 5.2.8, or

(iv) the date of issue of any rights or warrants which requires an adjustment of the Conversion Price pursuant to Condition 5.2.7 or 5.2.8,

then (except where such Stock Split gives rise to a Retroactive Adjustment of the Conversion Price under this Condition 5.2.1) no adjustment of the Conversion Price in respect of such Stock Split shall be made under this Condition 5.2.1, but in lieu thereof an adjustment shall be made under Condition 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 or 5.2.8, as the case may be, by including in item "n" of the formula described therein the aggregate number of additional Shares to be delivered pursuant to such Stock Split;

5.2.2 *Issue to Shareholders of Rights or Warrants to Acquire Shares*: if the Company shall allot, grant, issue or offer to the holders of Shares, rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares:

(i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or

(ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration, then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration, but excluding the number of Shares, if any, contained in the definition of "n" immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares to be allotted, issued or acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with an allotment, grant, issue or offer to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares, any such rights and/or warrants which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are offered to and/or subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such offer and/or subscription, purchase or acquisition;

5.2.3 *Issue to Shareholders of Rights or Warrants to Acquire Convertible/Exchangeable Securities*: if the Company shall grant, issue or offer to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire any securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights):

(i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or

(ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration.

n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or ratio following the exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with a grant, issue or offer to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights), any such securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights) which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are offered to and/or subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such offer and/or subscription, purchase or acquisition;

5.2.4 *Distribution to Shareholders of Assets (including Extraordinary Dividends)*: if the Company shall distribute to the holders of Shares (i) evidences of its indebtedness (such as bonds), (ii) shares of capital stock of the Company (other than Shares), (iii) cash or assets of the Company, or (iv) rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire shares (other than Shares) or securities of the Company (other than those rights and warrants referred to in Conditions 5.2.2 and 5.2.3), in each of the cases set out in (i) through (iv) above, excluding dividends (being "distribution of surplus" within the meaning of, and subject to the limitation on amounts prescribed by, the Companies Act) other than Extraordinary Dividends, then the Conversion Price in effect on the Record Date for the determination of shareholders entitled to receive such distribution shall be adjusted in accordance with the following formula:

$$NCP = OCP \text{ x } \frac{CMP - fmv}{CMP}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

CMP = the Current Market Price per Share on the Record Date for the determination of shareholders entitled to receive such distribution, including a distribution of an Extraordinary Dividend.

fmv = (i) in cases other than an Extraordinary Dividend, the fair market value ((a) as determined by the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account), or (b) if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or by an appraiser appointed by such court, and in each of the cases set out in (a) and (b) above, described in a certificate of the Company signed by a Representative Director and delivered by the Company to the Trustee) of the portion of the evidences of indebtedness, shares, cash, assets, rights or warrants so distributed applicable to one Share or, (ii) in the case of an Extraordinary Dividend, the amount of such Extraordinary Dividend divided by the Relevant Number of Shares used in the calculation thereof.

Such adjustment shall become effective immediately after the Record Date for the determination of shareholders entitled to receive such distribution (including a distribution of an Extraordinary Dividend); provided, however, that (a) if such distribution must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally made, and if such distribution is so approved after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date and (b) if the fair market value of the evidences of indebtedness, shares, cash or assets, rights or warrants so distributed cannot be determined until after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such Record Date.

"Extraordinary Dividend" means, in relation to an Annual Fiscal Period ending on or after the last day of the Annual Fiscal Period in which the Closing Date falls, the part of any dividend (such dividend being the historical dividend without making any retroactive adjustment resulting from Stock Splits or otherwise) in respect of any number of Shares amounting to the Relevant Number of Shares, the Record Date for which falls within such Annual Fiscal Period which, when aggregated with the amount of all other dividends the Record Date for which falls within such Annual Fiscal Period in respect of such number of Shares amounting to the Relevant Number of Shares, is in excess of the sum of (i) the Base Dividend and (ii) the amount, if any, previously determined to be an Extraordinary Dividend in respect of that Annual Fiscal Period.

"Base Dividend" means ¥ 90,630.

The Base Dividend is the amount obtained by multiplying the Relevant Number of Shares (calculated at the initial Conversion Price) by ¥15.

"Relevant Number of Shares" means, such number of Shares (disregarding fractions of a Share) as Bondholders would be entitled to receive in respect of each Bond deposited (were it to be so deposited) for exercise of the Stock Acquisition Right incorporated therein at the Conversion Price in effect at the Record Date in respect of the relevant dividend.

5.2.5 *Issue to Non-shareholders of Convertible/Exchangeable Securities:* if the Company shall issue any securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights (other than the Bonds or in any of the circumstances described in Conditions 5.2.2 and 5.2.3), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue of such convertible or exchangeable securities shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of such convertible or exchangeable securities.

n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue) of the period during which payment may be made in respect of such convertible or exchangeable securities;

5.2.6 *Issue of Shares:* if the Company shall issue or transfer any Shares (other than Shares issued or transferred (i) on conversion or exchange of any convertible or exchangeable securities (including the Bonds) allotted, granted, issued or offered by the Company, (ii) on the exercise of any rights or warrants (including stock acquisition rights) allotted, granted, issued or offered by the Company, (iii) to the extent permitted by the Articles of Incorporation, to any holder of Non-unit Shares for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute a full one unit, (iv) in any of the circumstances described in Conditions 5.2.1, 5.2.2 and 5.2.3, (v) to shareholders of any corporation which merges into the Company upon such merger or which becomes a wholly-owned subsidiary of the Company by a share exchange (*kabushiki-kokan*), in proportion to their shareholding in such corporation immediately prior to such merger or such exchange or (vi) to any corporation or to shareholders of any corporation which transfers its business to the Company following the split of such corporation's business (*kyushu bunkatsu*)), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares, but excluding the number of Shares, if any, contained in the definition of "n" immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares being issued or transferred as aforesaid.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue) of the period during which payment may be made in respect of the issue or transfer of such Shares;

5.2.7 *Issue to Non-shareholders of Rights or Warrants to Acquire Shares or Convertible/Exchangeable Securities*: if the Company shall grant, issue or offer any rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares or securities convertible into or exchangeable for Shares (other than the Stock Acquisition Rights or in any of the circumstances described in Conditions 5.2.2, 5.2.3, 5.2.4 and 5.2.5) and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the grant, issue or offer of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the date of the grant, issue or offer of such rights or warrants shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the date of the issue of such rights or warrants.

n = the number of Shares to be acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price, or upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of all such rights or warrants.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the place of the issue of such rights or warrants;

5.2.8 *Combined Adjustment*: if the Company shall issue or transfer (as the case may be) securities of a type falling within Condition 5.2.5, 5.2.6 or 5.2.7 which otherwise require an adjustment to the Conversion Price pursuant thereto and the date of issue or transfer of such securities or, if applicable, the last day of the period during which payment may be made in respect thereof (in each case, referred to as the "relevant date") is also the relevant date in respect of securities of another type or types (including a different tranche or issue of a same type) falling within Conditions 5.2.5, 5.2.6 and/or 5.2.7 which otherwise require an adjustment to the Conversion Price pursuant thereto (all such securities being hereafter referred to as "Relevant Securities"), then any adjustment of the Conversion Price shall not be made separately under each such Condition but in one calculation in accordance with the following formula:

$$NCP = OCP \times \frac{N + v1 + v2 + v3}{N + n1 + n2 + n3}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the relevant date but excluding the number of Shares contained in the definition of "n2" below to the extent that such Shares are then issued and outstanding.

n1 = the number of Shares to be acquired upon conversion or exchange of any convertible or exchangeable securities (included within the Relevant Securities) at the initial conversion or exchange price or rate.

n2 = the number of any Shares (included within the Relevant Securities) being issued or transferred.

n3 = the number of Shares to be acquired on exercise of any rights or warrants (included within the Relevant Securities) at the initial subscription, purchase or acquisition price, or upon conversion or exchange of any convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of such rights or warrants.

v1 = the number of Shares which the aggregate consideration receivable by the Company for such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

v2 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of such Shares (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

v3 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of the total number of Shares to be acquired on exercise of such rights or warrants and (if applicable) upon conversion or exchange of such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

Any such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the relevant place of issue which is the relevant date.

5.2.9 *Current Market Price per Share*: for the purpose of these Conditions, "Current Market Price per Share" on any date shall be deemed to be the average of the daily Closing Prices of the Shares for the 30 consecutive Trading Days commencing 45 Trading Days before such date.

If, during the said 45 Trading Day period or any period thereafter up to but excluding the date as of which the adjustment of the Conversion Price in question shall be effected, any event (other than the event which requires the adjustment in question) shall occur which gives rise to a separate adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of this Condition 5.2, the Current Market Price per Share as determined above shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall deem to be appropriate and fair in order to compensate for the effect of such event;

5.2.10 *Consideration per Share*: for the purposes of any calculation of the consideration per Share receivable pursuant to Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the following provisions shall be applicable:

(i) in the case of the issue or transfer of Shares for cash, the consideration shall be the amount of such cash, provided that in no case shall any deduction be made for any commissions or any expenses paid or incurred by or on behalf of the Company for any underwriting of the issue or transfer or otherwise in connection therewith;

(ii) in the case of the issue or transfer of Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by the Company in consultation with an Independent Financial Adviser or, if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof. Such determination shall be final and binding on the Company, the Trustee and the Bondholders;

(iii) (a) in the case of the issue by the Company of securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights, the aggregate consideration receivable by the Company shall be deemed to be the consideration for any such securities plus the additional consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate, and (b) in the case of the issue of rights or warrants, including stock acquisition rights, to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares, the aggregate consideration receivable by the Company shall be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise thereof at the initial subscription, purchase or acquisition price and (if applicable) upon the following conversion or exchange of such securities at the initial conversion or exchange price or rate. The consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate (if applicable) following the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above);

(iv) in the case of the grant, issue or offer of rights or warrants (including stock acquisition rights) entitling holders to subscribe for, purchase or otherwise acquire Shares, the aggregate consideration receivable by the Company shall be deemed to be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above), and the consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such exercise at the initial subscription, purchase or acquisition price; and

(v) if any consideration referred to in the foregoing provisions of this Condition 5.2.10 is receivable in a currency other than yen, such consideration shall, in any case where there is a fixed rate of exchange between yen and the relevant currency provided for the purposes of the issue of such Shares or the conversion or exchange of such securities or the exercise of such rights or warrants, be translated into yen for the purposes of this Condition 5.2.10 at such fixed rate of exchange and shall, in all other cases, be so translated at the mean of the exchange rate quotations (being quotations for the cross rate through U.S. dollars if no direct rate is quoted) by a leading bank in Japan for buying and selling spot units of the relevant currency by telegraphic transfer against yen on the date as at which such consideration is required to be calculated;

5.2.11 *Later Adjustments*: if, at the time of computing an adjustment (the "Later Adjustment") of the Conversion Price pursuant to any of Conditions 5.2.2 to 5.2.8 (both inclusive), the Conversion Price already incorporates an adjustment made (or taken into account pursuant to the proviso to Condition 5.6) to reflect (a) the issue or transfer of such Shares, (b) the issue of rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire such Shares or other securities convertible into or exchangeable for such Shares, or (c) the issue of securities convertible into or exchangeable for such Shares, but such Shares are not outstanding at the time relevant for ascertaining the number of outstanding Shares for the purposes of computing the Later Adjustment, such Shares shall be deemed to be outstanding for the purposes of making such computation to the extent that the number of the Shares so deemed to be outstanding exceeds the actual number of Shares in issue as a result thereof at the time of making such computation. For the purposes of determining the number of Shares outstanding in Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the Shares held by the Company as treasury stock on the relevant date shall be deemed not to be outstanding;

5.2.12 *Meaning of "Fixed"*: any reference in this Condition 5.2 to the date on which the consideration is "fixed" shall be construed as a reference to the first day on which such consideration in a cash amount can be ascertained, where the consideration is originally expressed by reference to a formula and not then ascertainable in a cash amount;

5.2.13 *Other Events*: if the Company determines at its sole discretion that a downward adjustment should be made to the Conversion Price as a result of one or more events or circumstances not otherwise referred to in this Condition 5.2, the Company shall, at its own expense, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and, if the adjustment would result in a reduction in the Conversion Price, the date on which such adjustment should take effect and, upon such determination, such downward adjustment (if any) shall be made and shall take effect in accordance with such determination; and

5.2.14 *Modification to Operation of Adjustment Provisions*: notwithstanding the foregoing, where the circumstances giving rise to any adjustment pursuant to this Condition 5.2 have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of other circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 5.2 as may be advised by an Independent Financial Adviser to be in its opinion appropriate to give the intended result.

5.2.15 *Reduction of Conversion Price upon a Corporate Event*: If, upon or following the occurrence of a Corporate Event, the Company gives notice to the Bondholders in accordance with Condition 7.4(a) of satisfaction of any condition set out in items (i) through (iv) of Condition 7.4, then with effect from the Conversion Price Reduction Start Date and during the relevant Conversion Price Reduction Period, the Conversion Price shall be adjusted in accordance with the following table:

Conversion Price Reduction Start Date	**Reference Share Price (Yen)**												
	1,123	**1,200**	**1,400**	**1,600**	**1,800**	**2,000**	**2,200**	**2,400**	**2,600**	**2,800**	**3,000**	**3,200**	**3,400**
14 March 2014	1,123	1,142	1,261	1,356	1,432	1,491	1,537	1,572	1,598	1,618	1,632	1,642	1,655
14 March 2015	1,123	1,148	1,270	1,368	1,445	1,504	1,549	1,583	1,608	1,625	1,638	1,646	1,655
14 March 2016	1,123	1,159	1,286	1,388	1,466	1,524	1,567	1,599	1,621	1,636	1,645	1,651	1,655
14 March 2017	1,123	1,173	1,309	1,415	1,495	1,552	1,592	1,618	1,636	1,647	1,652	1,655	1,655
14 March 2018	1,126	1,193	1,345	1,462	1,542	1,595	1,626	1,643	1,652	1,655	1,655	1,655	1,655
28 February 2019	1,655	1,655	1,655	1,655	1,655	1,655	1,655	1,655	1,655	1,655	1,655	1,655	1,655

"Reference Share Price" means:

(i) if the consideration payable to holders of the Shares in connection with the relevant Corporate Event consists of cash only (including the case where holders of the Shares will receive cash only in respect of their entitlements to securities or other assets deliverable to them in connection with such Corporate Event), the amount of such cash per Share; and

(ii) in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days commencing on the Trading Day immediately following:

(a) the date on which the terms and conditions of the relevant Corporate Event (including the consideration payable or deliverable to holders of the Shares in connection therewith) are approved at a meeting of the Board of Directors of the Company, as required under the Companies Act; or

(b) (if the terms and conditions of the relevant Corporate Event are announced to the public later than that date) the date of such public announcement;

provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect after such period) to the Conversion Price under the provisions of Condition 5.2 (except for this Condition 5.2.15 and Conditions 5.2.16 and 5.2.17), the Reference Share Price so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event, and provided further that the Reference Share Price so determined under this paragraph (ii) shall be subject to adjustment in the same manner as provided in Condition 5.2 (except for this Condition 5.2.15 and Conditions 5.2.16 and 5.2.17), in the period from but excluding the last day of the said five consecutive Trading Days to but excluding the relevant Conversion Price Reduction Start Date, and disregarding any Retroactive Adjustment to take effect on or after the relevant Conversion Price Reduction Start Date.

If the Reference Share Price or the Conversion Price Reduction Start Date does not appear in the above table, and:

(x) if the Reference Share Price falls between two prices in the first row of the above table and/or the Conversion Price Reduction Start Date falls between two dates in the above table, then the adjusted Conversion Price shall be determined by straight line interpolation between two such prices and/or dates, on the basis of a 365-day year, as the case may be;

(y) if the Reference Share Price is higher than the price in the far right column in the first row of the above table, the Reference Share Price shall be deemed to be equal to that price; and

(z) if the Reference Share Price is less than the price set forth in the far left column in the first row of the above table, the Reference Share Price shall be deemed to be equal to that price.

If the Conversion Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 5.2.15, would be less than the Floor Conversion Price, the adjusted Conversion Price shall be the Floor Conversion Price. Conversely, if the Conversion Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 5.2.15, would be more than the Initial Conversion Price, the adjusted Conversion Price shall be the Initial Conversion Price.

If the Conversion Price has been adjusted in accordance with the provisions of Condition 5.2 (except for this Condition 5.2.15 and Conditions 5.2.16 and 5.2.17), then the Conversion Prices in the above table shall be adjusted accordingly but disregarding any Retroactive Adjustment to take effect on or after the relevant Conversion Price Reduction Start Date. The prices in the first row of the above table corresponding to the Reference Share Price will be adjusted as of any date on which the Conversion Price in the above table is adjusted. Those prices will be adjusted to equal to the prices in effect immediately prior to such adjustment multiplied by a fraction, the numerator of which is the Conversion Price so adjusted giving rise to the adjustment of the Conversion Price in the table above and the denominator of which is the Conversion Price in effect immediately prior to such adjustment.

The Conversion Price as so adjusted in accordance with this Condition 5.2.15 shall apply from and including Conversion Price Reduction Start Date to and including the Conversion Price Reduction End Date. On the day immediately following the Conversion Price Reduction End Date, the Conversion Price, as adjusted pursuant to this Condition 5.2.15, shall revert to the Conversion Price in effect on the day immediately prior to the Conversion Price Reduction Start Date, but subject to any adjustment which would have been made in accordance with the provisions of Condition 5.2 (except for this Condition 5.2.15 and Conditions 5.2.16 and 5.2.17), and disregarding any Retroactive Adjustment (but without prejudice to the Company's obligations in respect thereof) in accordance therewith, in the period from and including the Conversion Price Reduction Start Date to and including the Conversion Price Reduction End Date had no adjustment been made under this Condition 5.2.15 during the same period.

The Company shall give notice to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 of the Conversion Price Reduction Period under this Condition 5.2.15 specifying the Conversion Price Reduction Start Date and the Conversion Price Reduction End Date, as soon as practicable after it gives notice to the Bondholders of satisfaction of any condition set out in items (i) through (iv) of Condition 7.4.

For the purpose of this Condition 5.2.15:

"Conversion Price Reduction End Date" means the last day of the Conversion Price Reduction Period as determined by the Company pursuant to the definition of Conversion Price Reduction Period;

"Conversion Price Reduction Period" means a period beginning on, and including, the Conversion Price Reduction Start Date and ending on, and including, the fourth Tokyo Business Day prior to the relevant Corporate Event Effective Date, provided that the Conversion Price Reduction Period shall last at least seven Tokyo Business Days (except for the case of an adjustment of the Conversion Price pursuant to this Condition 5.2.15 due to the satisfaction of the condition set out in Condition 7.5(iii) where the fourth Tokyo Business Day prior to the relevant Corporate Event Effective Date falls before the expiration of the period of such seven Tokyo Business Days, in which case the Conversion Price Reduction Period shall end on the fourth Tokyo Business Day prior to such Corporate Event Effective Date), and provided further that in no event shall the Conversion Price Reduction Period continue beyond the last day of the Exercise Period; and

"Conversion Price Reduction Start Date" means the date determined by the Company in its sole discretion as being as soon as practicable but in any event within 10 Tokyo Business Days after it gives notice to the Bondholders in accordance with Condition 7.4(a) of satisfaction of any condition set out in items (i) through (iv) of Condition 7.4.

5.2.16 *Reduction of Conversion Price upon a Delisting Event*: In the event that the Company is entitled to redeem the Bonds pursuant to Condition 7.5, then with effect from the Conversion Price Reduction Start Date and during the relevant Conversion Price Reduction Period, the Conversion Price shall be adjusted in the same manner as provided in Condition 5.2.15, provided that:

(i) the terms "Conversion Price Reduction End Date", "Conversion Price Reduction Period" and "Conversion Price Reduction Start Date" shall have the meaning provided in this Condition 5.2.16 in lieu of Condition 5.2.15, and

(ii) the Reference Share Price shall mean, if the offer price consists of cash only, the offer price in effect on the last day of the offer per Share and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the last day of the offer; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2 (except for this Condition 5.2.16 and Conditions 5.2.15 and 5.2.17), the Reference Share Price so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event, and provided further that the Reference Share Price so determined in all above cases shall be subject to adjustment in the same manner as provided in Condition 5.2 (except for this Condition 5.2.16 and Conditions 5.2.15 and 5.2.17), in the period from but excluding the last day of the offer to and excluding the relevant Conversion Price Reduction Start Date, and disregarding any Retroactive Adjustment to take effect on or after the relevant Conversion Price Reduction Start Date.

The Conversion Price as so adjusted in accordance with this Condition 5.2.16 shall apply from and including the Conversion Price Reduction Start Date to and including the Conversion Price Reduction End Date. On the day immediately following the Conversion Price Reduction End Date, the Conversion Price, as adjusted pursuant to this Condition 5.2.16, shall revert to the Conversion Price in effect on the day immediately prior to the Conversion Price Reduction Start Date, but subject to any adjustment which would have been made in accordance with the provisions of Condition 5.2 (except for this Condition 5.2.16 and Conditions 5.2.15 and 5.2.17), and disregarding any Retroactive Adjustment (but without prejudice to the Company's obligations in respect thereof) in accordance therewith, in the period from but excluding the Conversion Price Reduction Start Date to and including the Conversion Price Reduction End Date had no adjustment been made under this Condition 5.2.16 during the same period.

The Company shall give notice to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 of the Conversion Price Reduction Period under this Condition 5.2.16 specifying the Conversion Price Reduction Start Date and the Conversion Price Reduction End Date, as soon as practicable after it gives notice to the Bondholders of the Delisting Event pursuant to Condition 7.5.1(a) (except for the case where Condition 7.5.2 is applicable) or after it gives notice to the Bondholders of the revival of the Company's right to redeem the Bonds pursuant to Condition 7.5.1(b).

For the purpose of this Condition 5.2.16:

"Conversion Price Reduction End Date" means the last day of the Conversion Price Reduction Period as determined by the Company pursuant to the definition of Conversion Price Reduction Period;

"Conversion Price Reduction Period" means a period beginning on, and including, the Conversion Price Reduction Start Date and ending on, and including, the earlier of (i) the 30th day after the Conversion Price Reduction Start Date, or (ii) the third Tokyo Business Day prior to the date on which the Shares are to be delisted from the Relevant Stock Exchange; and

"Conversion Price Reduction Start Date" means (i) (in the case that the Company has the right to redeem the Bonds pursuant to Condition 7.5.1) the date determined by the Company at its sole discretion as being as soon as practicable, but in any event within 10 Tokyo Business Days, after it gives notice to the Bondholders of the Delisting Event pursuant to Condition 7.5.1(a) or (ii) (in the case that the Company has the right to redeem the Bonds pursuant to Condition 7.5.2) the date determined by the Company in its sole discretion as being as soon as practicable, but in any event within two Tokyo Business Days after, it gives notice to the Bondholders of the revival of the Company's right to redeem the Bonds pursuant to Condition 7.5.2.

Except where the context requires otherwise, references to "offer" or "offer price" in this Condition 5.2.16 shall have the same meanings under Condition 7.5.1.

5.2.17 *Reduction of Conversion Price upon a Squeezeout Event*: In the event that the Company is entitled to redeem the Bonds pursuant to Condition 7.6, then with effect from the Conversion Price Reduction Start Date and during the relevant Conversion Price Reduction Period, the Conversion Price shall be adjusted in the same manner as provided in Condition 5.2.15, provided that:

(i) the terms "Conversion Price Reduction End Date", "Conversion Price Reduction Period" and "Conversion Price Reduction Start Date" shall have the meaning provided in this Condition 5.2.17 in lieu of Condition 5.2.15, and

(ii) the Reference Share Price shall mean, if the assets to be delivered consist of cash only, the price per Share and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the date of the Squeezeout Event; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2 (except for this Condition 5.2.17 and Conditions 5.2.15 and 5.2.16), the Reference Share Price so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event, and provided further that the Reference Share Price so determined in all above cases shall be subject to adjustment in the same manner as provided in Condition 5.2 (except for this Condition 5.2.17 and Conditions 5.2.15 and 5.2.16), in the period from but excluding the last day of the offer to and excluding the relevant Conversion Price Reduction Start Date, and disregarding any Retroactive Adjustment to take effect on or after the relevant Conversion Price Reduction Start Date.

The Conversion Price as so adjusted in accordance with this Condition 5.2.17 shall apply from and including the Conversion Price Reduction Start Date to and including the Conversion Price Reduction End Date. On the day immediately following the Conversion Price Reduction End Date, the Conversion Price, as adjusted pursuant to this Condition 5.2.17, shall revert to the Conversion Price in effect on the day immediately prior to the Conversion Price Reduction Start Date, but subject to any adjustment which would have been made in accordance with the provisions of Condition 5.2 (except for this Condition 5.2.17 and Conditions 5.2.15 and 5.2.16), and disregarding any Retroactive Adjustment (but without prejudice to the Company's obligations in respect thereof) in accordance therewith, in the period from and including the Conversion Price Reduction Start Date to and including the Conversion Price Reduction End Date had no adjustment been made under this Condition 5.2.16 during the same period.

The Company shall give notice to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 of the Conversion Price Reduction Period under this Condition 5.2.17 specifying the Conversion Price Reduction Start Date and the Conversion Price Reduction End Date, as soon as practicable after it gives notice to the Bondholders of the Squeezeout Event.

For the purpose of this Condition 5.2.17:

"Conversion Price Reduction End Date" means the last day of the Conversion Price Reduction Period as determined by the Company pursuant to the definition of Conversion Price Reduction Period;

"Conversion Price Reduction Period" means a period beginning on, and including, the Conversion Price Reduction Start Date and ending on, and including, the earlier of (i) the 30th day after the Conversion Price Reduction Start Date, or (ii) the third Tokyo Business Day prior to the effective date of the acquisition of the Shares with respect to the Squeezeout Event; and

"Conversion Price Reduction Start Date" means the date determined by the Company at its sole discretion as being as soon as practicable, but in any event within 10 Tokyo Business Days, after it gives notice to the Bondholders of the Squeezeout Event pursuant to Condition 7.6(a).

5.3 ***Retroactive Adjustments***

If the Stock Acquisition Date in relation to a Stock Acquisition Right shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions of Condition 5.2 and the relevant Stock Acquisition Date falls on a date before the relevant adjustment becomes effective under Condition 5.2 (such adjustment, a "Retroactive Adjustment"), the Company shall procure that the provisions of Condition 5.9.5 shall be applied, *mutatis mutandis*, to such number of Shares ("Additional Shares") as is equal to the excess of the number of Shares which would have been acquired upon exercise of such Stock Acquisition Right if the relevant Retroactive Adjustment had been given effect as of the said Stock Acquisition Date over the number of Shares previously acquired pursuant to such exercise, and in such event and in respect of such Additional Shares, references in Condition 5.9.5 to the Stock Acquisition Date shall be deemed to refer to the date upon which such Retroactive Adjustment is first reflected in the Conversion Price.

5.4 ***Limitation on Reduction of Conversion Price***

Notwithstanding the provisions of this Condition 5, the Conversion Price will not be reduced as a result of any adjustment made hereunder to such an extent that, under applicable law then in effect, the Stock Acquisition Rights may not be permitted to be exercised at such lower Conversion Price into legally issued, fully paid and non-assessable Shares.

5.5 ***Employee Share Schemes***

Notwithstanding the provisions of this Condition 5, no adjustment will be made to the Conversion Price where Shares or other Securities are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees, former employees, audit & supervisory board members or directors (including directors holding or formerly holding executive office or the personal service company of any such person) of the Company or any of its Subsidiaries or affiliates, their spouses or relatives, or any associated companies of any such person, or to any trustee or trustees for the benefit of any such person, in any such case, pursuant to any employees' or executives' share or option scheme.

5.6 ***Minimum Adjustments***

No adjustment of the Conversion Price shall be required unless such adjustment would result in an increase or decrease in such Conversion Price of at least ¥1 provided that any adjustment which by reason of this Condition 5.6 is not required to be made shall be carried forward and taken into account (as if such adjustment were made at the time when it would be made but for the provisions of this Condition 5.6) in any subsequent adjustment.

5.7 ***Calculations***

All calculations (including, without limitation, calculations of the Conversion Price and the Current Market Price per Share) under this Condition 5 shall be made to the nearest one-tenth of a yen with five one-hundredths or more of a yen to be considered a full tenth. Neither the Trustee, the Principal Agent nor the other Agents shall be under any duty to determine, calculate or verify the adjusted Conversion Price or to monitor or make enquiries as to whether any adjustment is required to be made and will not be responsible or liable in any respect to Bondholders for any loss arising from any failure by it to do so.

5.8 ***Notification of Adjustments***

Whenever the Conversion Price is adjusted as herein provided, the Company shall promptly notify the Trustee, the Principal Agent, the other Agents, the Custodian and the Custodian's Agent in writing setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment and the effective date thereof, and shall promptly give notice to the Bondholders in accordance with Condition 19 stating that the Conversion Price has been adjusted and setting forth the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

5.9 ***Procedure for Conversion***

5.9.1 *Conversion Notice*: To exercise a Stock Acquisition Right, the exercising Bondholder shall complete, sign and deposit at the specified office of an Agent at its own expense during normal business hours of the Agent with which the deposit is being made a Conversion Notice, in the form obtainable from any Agent, together with the Certificate evidencing the relevant Bond. No Stock Acquisition Right may be exercised in part only.

5.9.2 *Custodian and Custodian's Agent*: The initial Custodian and its initial specified office are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time with 90 days' prior written notice to vary or terminate the appointment of the Custodian and to appoint another Custodian; provided that there shall always be a Custodian, being a non-resident of Japan and having a specified office outside Japan. Notice of any such termination or appointment and of any changes in the specified office of the Custodian will be given to the Bondholders in accordance with Condition 19. The Custodian has, pursuant to the Agency Agreement, initially appointed The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the Custodian's Agent at its initial specified office set out at the end of these Conditions and may, with the prior written approval of the Trustee, alter such appointment at any time. The Company shall give notice to the Bondholders in accordance with Condition 19 of any change in the Custodian's Agent and/or its specified office. The Custodian shall have no liability to Bondholders for any loss suffered by them as a result of any failure on the part of the Custodian's Agent to perform its functions pursuant to these Conditions and the Agency Agreement, nor shall the Custodian have any obligation to perform those functions should the Custodian's Agent not do so.

The Custodian shall not be liable for monitoring or supervising the performance by the Custodian's Agent of such functions. The Contracts (Rights of Third Parties) Act 1999 applies to this Condition 5.9.2 for the benefit of the Custodian.

5.9.3 *Conditions Precedent*: As conditions precedent to the exercise of the Stock Acquisition Right, the Bondholder must pay to the relevant Agent pursuant to this Condition 5.9.3 (or make arrangements satisfactory to such Agent or its delegate for the payment of) all stamp, issue, registration or other similar taxes and duties (if any), together with any incidental expenses in connection therewith, arising on such exercise in the country in which the Stock Acquisition Right is to be exercised or payable in any jurisdiction consequent upon the issue or delivery of Shares to or to the order of a person other than the exercising Bondholder (if any) together with an amount sufficient to pay the expenses of delivery pursuant to Condition 5.9.5(ii). The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be issued or transferred) must provide the relevant Agent with details of the relevant tax authorities to which such Agent must pay moneys received from the Bondholder for payment of taxes and duties. Such Agent is under no obligation to determine whether a Bondholder is liable to pay any taxes, stamp, issue, registration or similar taxes and duties or the amounts payable (if any) arising upon exercise of any Stock Acquisition Rights.

For the avoidance of doubt, the exercising Bondholder shall bear any costs and expenses which relate to the account at the Account Management Institution into which it receives the Shares acquired upon the exercise of the Stock Acquisition Right pursuant to Condition 5.9.5(i). Except as aforesaid, the Company will pay the expenses arising on the acquisition of Shares upon exercise of the Stock Acquisition Rights and all charges of the Agents in connection therewith (including all costs, charges and expenses incurred by any delegate).

5.9.4 *Deposit Date and Stock Acquisition Date*: The date on which the Certificate evidencing any Bond and the Conversion Notice relating thereto are deposited with an Agent, or on which all conditions precedent to the exercise of the relevant Stock Acquisition Right are fulfilled, whichever shall be later, is hereinafter referred to as the "Deposit Date" applicable to such Bond. The request for exercise of the Stock Acquisition Right shall be deemed to have been made, and accordingly the exercise of the Stock Acquisition Right and the delivery of the Certificate will become effective, at 23:59 hours (London time) on the Deposit Date applicable to the relevant Bond (and the next calendar day, being the calendar day in Japan on which such time in London falls, is herein referred to as the "Stock Acquisition Date" applicable to such Bond). A Conversion Notice once deposited shall not be withdrawn without the consent in writing of the Company.

If delivery of the Conversion Notice is made after the end of normal business hours or on a day which is not a business day in the place of the specified office of the Agent, such delivery shall be deemed for all purposes of these Conditions to have been made on the next following such business day.

At any time when the relevant Bond(s) is/are evidenced by the Global Certificate, the exercising Bondholder must deposit the Conversion Notice in the manner aforesaid with any Agent, together with an authority to Euroclear to debit, or to procure Clearstream, Luxembourg to debit, the Bondholder's account pro tanto. With effect from the relevant Stock Acquisition Date, Euroclear or Clearstream, Luxembourg, as the case may be, shall debit the Bondholder's account with the number of the Bond(s) the Stock Acquisition Right(s) incorporated in which has/have been exercised and the Register shall be amended accordingly.

5.9.5 *Delivery of Shares*: The Company shall procure that the relevant Agent shall, with effect as of the Stock Acquisition Date, endorse the Conversion Notice on behalf of the Custodian. With effect from the Stock Acquisition Date (or as soon as practicable thereafter under Japanese law, regulation and practice and the Articles of Incorporation relating to the delivery of shares and the register of shareholders), the Company shall deem the Custodian or its nominee to have become the holder of record of the number of Shares to be acquired upon such exercise of the Stock Acquisition Right (disregarding any fraction of a Share resulting from such exercise, and also disregarding any Retroactive Adjustment of the Conversion Price prior to the time when such Retroactive Adjustment is first reflected in the Conversion Price).

Thereafter, subject to any applicable limitations then imposed by Japanese law, regulation or practice or the Articles of Incorporation:

(i) in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, as soon as practicable and in any event within 14 days after the Stock Acquisition Date, the Company shall issue and deliver the relevant Shares to the Custodian or its nominee at the account maintained with the Custodian's Agent (as an Account Management Institution) and the Custodian's Agent shall transfer the relevant Shares to or to the order of the exercising Bondholder at such account maintained with an Account Management Institution, in Japan as specified in the relevant Conversion Notice (unless the Company fails to make delivery thereof to the relevant account at the Custodian's Agent as aforesaid or such instruction given by the exercising Bondholder in the relevant Conversion Notice is inaccurate, incomplete or insufficient for the purpose of such transfer); and

(ii) the Company shall deliver to the Custodian's Agent, securities (other than Shares), property or cash required to be delivered upon such exercise of the Stock Acquisition Rights, if any, and the Custodian's Agent shall, according to the request made in the relevant Conversion Notice, either:

(a) as soon as practicable, and in any event within 14 days after the Stock Acquisition Date (unless the Company fails to make delivery thereof to the Custodian's Agent as aforesaid) deliver or cause to be delivered to the order of the person named for that purpose in the relevant Conversion Notice at the specified office in Japan for the time being of the Custodian's Agent, any such securities (other than Shares), property or cash required to be delivered on exercise and such assignments and other documents (if any) as may be required by law to effect the transfer thereof; or

(b) as soon as practicable, and in any event within 21 days after the Stock Acquisition Date (unless the Company fails to make delivery thereof to the Custodian's Agent as aforesaid), despatch or cause to be despatched to, or to the order of the person named for that purpose in the relevant Conversion Notice and at the place in Japan (not being the specified office in Japan for the time being of the Custodian's Agent) and in the manner specified in the relevant Conversion Notice (the expense and risk of despatch at any such place being that of the exercising Bondholder), any such securities (other than Shares), property or cash required to be delivered on exercise and such assignments and other documents (if any) as may be required by law to effect the transfer thereof;

provided, however, that if such securities (other than Shares) are subject to the book-entry transfer system established pursuant to the Book-Entry Act, such delivery or despatch will be implemented in accordance therewith.

5.9.6 *Amount of Stated Capital and Additional Paid-in Capital*: With effect as of the Stock Acquisition Date, one-half of the "maximum capital and other increase amount", as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital.

6. Certain Corporate Events

6.1 *Corporate Events*

In the case of a proposal for:

(i) any Merger Event; or

(ii) any Asset Transfer Event; or

(iii) any Corporate Split Event; or

(iv) any Holding Company Event; or

(v) the passing of a resolution at a general meeting of shareholders of the Company (or, where such a resolution is not required, at a meeting of the Board of Directors of the Company) for any other corporate reorganisation procedure then provided for under Japanese law (the passing of any such resolution and any Merger Event, any Asset Transfer Event, any Corporate Split Event and any Holding Company Event being together referred to in these Conditions as a "Corporate Event") pursuant to which the obligations under the Bonds and/or the Stock Acquisition Rights are proposed to be transferred to or assumed by another entity (such other entity and any Merged Company, any Asset Transferee, any Corporate Split Counterparty and any Holding Company being together referred to as a "New Obligor"),

the following provisions of this Condition 6 shall apply.

6.2 *Notice of Proposal*

The Company shall give notice to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 of a proposed Corporate Event at the same time as it gives notice to the holders of Shares (or, if no such notice is required, or if a public announcement of such proposed Corporate Event is made on a date earlier than the date of such notice, promptly after the first public announcement of such proposed Corporate Event) and, as soon as practicable thereafter, of its proposals in relation to the Bonds (including the Stock Acquisition Rights). Such notice shall specify the anticipated Corporate Event Effective Date. If those proposals and/or that date have not been determined, the notice shall state that fact.

6.3 *Notice of Passing of Resolution*

Upon the occurrence of a Corporate Event, the Company shall forthwith give a further notice to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the

Bondholders in accordance with Condition 19 of that fact, the Company's proposals in relation to the Bonds (including the Stock Acquisition Rights) and the anticipated effective date of the transaction, and, if such anticipated effective date or proposals are changed or fixed, a further notice to such effect shall be given in the same manner. The effective date of the transaction contemplated by the relevant Corporate Event is referred to herein as its "Corporate Event Effective Date".

6.4 ***Transfer of Obligations Following a Corporate Event***

6.4.1 *Transfer*: If a Corporate Event occurs and:

(i) it is legally possible under the then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect substitution of the New Obligor for the Company and the grant of the New Stock Acquisition Rights in such a manner as set out in Conditions 6.5 and 12.2;

(ii) a practical structure for such substitution and grant has been or can be established; and

(iii) such substitution and grant can be consummated without the Company or the New Obligor incurring costs or expenses (including taxes) which are in the opinion of the Company unreasonable in the context of the entire transaction,

then the Company shall use its best endeavours to cause the New Obligor to be substituted as the principal obligor under the Bonds and the Trust Deed pursuant to Condition 12.2 and the Trust Deed and for the grant of the New Stock Acquisition Rights in relation to the Bonds in place of the Stock Acquisition Rights in the manner described in Condition 6.5. Such substitution and grant shall take effect on the relevant Corporate Event Effective Date, or, in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, as soon as practicable on or after, but in any event no later than 14 days after, the relevant Corporate Event Effective Date.

6.4.2 *Listing*: In connection with the substitution and grant described in Condition 6.4.1, the Company shall also use its best endeavours to ensure that the shares of common stock of the New Obligor will be listed on any stock exchange in Japan or be quoted or dealt in on any securities market in Japan (such listing, quotation and dealing being hereinafter collectively referred to as "Listing") on the relevant Corporate Event Effective Date.

6.4.3 *Condition*: The obligations of the Company pursuant to this Condition 6.4 shall not apply if the Company delivers a certificate to the Trustee pursuant to Condition 7.4(iv).

6.5 ***New Stock Acquisition Rights***

At the time of the substitution of (or assumption by) the New Obligor as principal obligor under Condition 12.2 and the Trust Deed, New Stock Acquisition Rights will be granted, in place of the Stock Acquisition Rights, to the Bondholders by the New Obligor, in accordance with the following terms:

6.5.1 *Number of the New Stock Acquisition Rights to be Granted*: The number of New Stock Acquisition Rights to be granted will be equal to the number of the Stock Acquisition Rights incorporated in the Bonds outstanding immediately prior to the relevant Corporate Event Effective Date;

6.5.2 *Class of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights*: Upon exercise of the New Stock Acquisition Rights, shares of common stock of the New Obligor shall be issued or transferred;

6.5.3 *Number of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights*: The number of shares of the New Obligor to be issued or transferred upon exercise of the New Stock Acquisition Rights shall be determined by reference to these Conditions (but disregarding any adjustment during any Conversion Price Reduction Period) taking into account the terms of the transaction contemplated under the relevant Corporate Event, and

(i) in the case of a Merger Event or a Holding Company Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right would upon its exercise immediately after the Corporate Event Effective Date receive the number of shares of common stock of the New Obligor (the "Number of Deliverable Shares") receivable upon the relevant Corporate Event by a holder of the number of Shares (such number being the "Number of Held Shares") which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately prior to the relevant Corporate Event Effective Date (but, for the avoidance of doubt, disregarding any adjustment made pursuant to Condition 5.2.15, 5.2.16 or 5.2.17). If securities (other than shares of common stock of the New Obligor) or other property shall be delivered to such holder of the Number of Held Shares upon the taking effect of the Merger Event or the Holding Company Event (as the case may be), such number of shares of common stock of the New Obligor shall form part of the Number of Deliverable Shares as shall be calculated by dividing the fair market value of such securities or properties delivered to such holder of the Number of Held Shares by the New Obligor Current Market Price per Share, such fair market value to be determined by the Company, provided that in determining such fair market value, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of the Independent Financial Adviser; or

(ii) in the case of any other Corporate Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right shall upon its exercise immediately after the Corporate Event Effective Date receive an equivalent economic interest to be determined by the Company as that which would have been received by a holder of the number of Shares which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately before the relevant Corporate Event Effective Date (but, for the avoidance of doubt, disregarding any adjustment made pursuant to Condition 5.2.15, 5.2.16 or 5.2.17), provided that, in determining such equivalent economic interest, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

For the purpose of this Condition 6, the "New Obligor Current Market Price per Share" means (i) the average of the daily Closing Prices of the shares of common stock of the New Obligor for the 30 consecutive Trading Days commencing on the 45th Trading Day immediately prior to (but excluding) the relevant Corporate Event Effective Date, or (ii) if such market price shall not be available, such price as is determined by the Company, provided that in determining such price, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

The conversion price for the New Stock Acquisition Rights shall be subject to adjustment which shall be as nearly equivalent as may be practicable to the adjustments provided in Condition 5.2;

6.5.4 *Description of the Asset to be Contributed upon Exercise of the New Stock Acquisition Rights and the Amount or the Calculation Method Thereof*: Upon exercise of each New Stock Acquisition Right, the relevant Bond shall be deemed to be acquired by the New Obligor as a capital contribution in kind by the relevant Bondholder at the price equal to the principal amount of the Bond;

6.5.5 *Exercise Period of the New Stock Acquisition Rights*: The New Stock Acquisition Rights may be exercised at any time during the period from, and including, the later of the relevant Corporate Event Effective Date or the date of implementation of the scheme described in Condition 6.4.1 up to, and including, the last day of the Exercise Period of the Stock Acquisition Rights;

6.5.6 *Other Conditions for the Exercise of the New Stock Acquisition Rights*: No New Stock Acquisition Right may be exercised in part;

6.5.7 *Amount of Stated Capital and Additional Paid-in Capital*: As of the date on which the exercise of a New Stock Acquisition Right becomes effective, one-half of the "maximum capital and other increase amount" as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital; and

6.5.8 *Others*: Fractions of a share of common stock of the New Obligor will not be issued upon exercise of the New Stock Acquisition Rights and no adjustment or cash payment will be made in respect thereof. The holder of each bond assumed (by way of substitution or otherwise only for the purposes of Japanese law), or bond provided, by the New Obligor may not transfer such bond separately from the New Stock Acquisition Rights. In cases where such restriction on transfer of the bond would not be effective under the then applicable law, a stock acquisition right incorporated in a bond equivalent to the Bond may be issued to the holder of each Bond outstanding immediately prior to the Corporate Event Effective Date in place of the Stock Acquisition Right and the Bond.

6.6 ***No Statutory Put Rights***

Each Bondholder by accepting or acquiring any Bond agrees that its remedies if a Corporate Event or a Squeezeout Event occurs shall not include any statutory rights provided by Japanese law to require the Company to repurchase such Bond at fair market value, such rights being waived to the fullest extent permitted by applicable law.

6.7 ***Subsequent Corporate Events***

The above provisions of this Condition 6 shall apply in the same way to any subsequent Corporate Events.

7. **Redemption, Purchase and Cancellation**

7.1 ***Final Maturity***

Unless the Bonds have previously been redeemed or purchased and cancelled, and unless the Stock Acquisition Rights incorporated therein have previously been exercised (in each case as provided in these Conditions), the Company will redeem the Bonds at 100 per cent. of their principal amount on 14 March 2019. The Bonds may not be redeemed at the option of the Company other than in accordance with this Condition 7.

7.2 ***Redemption at the Option of the Company upon Reduced Outstanding Amounts***

The Company may (subject to Condition 7.11), but shall not be bound to, having given not less than 30 nor more than 60 days' prior notice (the "Clean-up Redemption Notice") to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount on the date fixed for such redemption in the Clean-up Redemption Notice, if at any time prior to the date upon which the Clean-up Redemption Notice is given, the outstanding principal amount of the Bonds is less than 10 per cent. of the aggregate principal amount of the Bonds as of the date of issue thereof.

7.3 ***Redemption for Taxation Reasons***

The Company may (subject to Condition 7.11), but shall not be bound to, at any time, having given not less than 30 nor more than 60 days' prior notice (the "Tax Redemption Notice") to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount on the date fixed for redemption in the Tax Redemption Notice (the "Tax Redemption Date"), if the Company satisfies the Trustee immediately prior to the giving of the Tax Redemption Notice (i) that it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 26 February 2014, and (ii) that such obligation cannot be avoided by the Company taking reasonable measures available to it; provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due. Prior to the giving of any Tax Redemption Notice, the Company shall deliver to the Trustee a certificate signed by a Representative Director or an Authorised Officer, stating that the

Company has or will become obliged to pay Additional Amounts as a result of such change or amendment and that the obligation referred to in (i) above cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above, in which event it shall be conclusive and binding on the Bondholders. Upon the giving of the Tax Redemption Notice to the Bondholders, the Company shall be bound to redeem the Bonds then outstanding at 100 per cent. of their principal amount on the Tax Redemption Date.

Notwithstanding the foregoing, if the Company shall have given a Tax Redemption Notice, and if the outstanding principal amount of the Bonds at the time when such Tax Redemption Notice is given is 10 per cent. or more of the aggregate principal amount of the Bonds as of the date of issue thereof, each holder of the Bonds will have the right to elect, and the Tax Redemption Notice shall state that such Bondholder will have the right to elect, that its Bonds should not be redeemed and that the provisions set forth in Condition 9 shall not apply in respect of payment of any amount to be made in respect of the Bonds which will fall after the Tax Redemption Date and payment of all amounts due on such Bonds thereafter shall be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges referred to in Condition 9. Such right of the Bondholder shall be exercised by the Bondholder giving notice to the Company in the form (for the time being current) obtainable from any Agent no later than 20 days prior to the Tax Redemption Date.

7.4 ***Corporate Event Redemption***

If any of the following conditions are satisfied upon or following the occurrence of a Corporate Event:

(i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation of such laws) to effect a scheme provided for by Condition 6.4.1; or

(ii) it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company cannot effect such a scheme in compliance with Condition 6.4.1; or

(iii) despite the Company using its best endeavours pursuant to Condition 6.4.2, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing has been obtained for the shares of common stock of the New Obligor, and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or

(iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate. The Trustee and the Bondholders shall be bound (and in the case of the Trustee, without liability for so doing) to accept such certificate as sufficient and conclusive evidence of the satisfaction of the condition set out in this Condition 7.4,

then:

(a) the Company shall immediately deliver to the Trustee a certificate signed by a Representative Director stating that such condition is satisfied, and as soon as practicable shall give notice of satisfaction of such condition to the Bondholders in accordance with Condition 19; and

(b) the Company may, but shall not be bound to, having given not less than eight Tokyo Business Days' prior notice to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount, together with all Additional Amounts due on the Bonds (if any), on the Tokyo Business Day immediately preceding the relevant Corporate Event Effective Date as specified in such notice of redemption.

The Trustee and the Bondholders shall be bound (and in the case of the Trustee, without liability for so doing) to accept such certificate signed by a Representative Director to the effect that any of the above conditions is satisfied as sufficient and conclusive evidence of the satisfaction of the relevant condition set out in this Condition 7.4.

The Company shall be bound to redeem the Bonds in accordance with such notice even if (in the case of item (i) or (ii) of this Condition 7.4) a scheme provided for by Condition 6.4.1 subsequently becomes legally possible or able to be implemented or (in the case of item (iii) or (iv) of this Condition 7.4) a Listing for the shares of common stock of the New Obligor is subsequently obtained.

7.5 ***Redemption on Delisting of the Shares***

7.5.1 *Offers and Redemption*: If:

(i) any offer is made by a party or parties (the "Offeror") other than the Company in accordance with the Financial Instruments and Exchange Act to all holders of Shares (or all such holders other than the Offeror and/or any company controlled by the Offeror and/or persons associated or acting in concert with the Offeror) to acquire all or a portion of the Shares;

(ii) the Company expresses its opinion to support such offer in accordance with the Financial Instruments and Exchange Act;

(iii) the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces or admits, that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or may be disqualified from such listing, quotation or dealing, as a result of the acquisition of Shares pursuant to the offer (unless the Company or the Offeror publicly expresses its intention to use its best endeavours to continue such listing, quotation or dealing after such acquisition); and

(iv) the Offeror acquires any Shares pursuant to the offer,

(a "Delisting Event" shall be deemed to occur upon satisfaction of all of the conditions set out in (i) through (iv) above), then (a) the Company shall immediately deliver to the Trustee a certificate signed by the Representative Director stating that a Delisting Event has occurred, and as soon as practicable thereafter shall give notice thereof to the Bondholders in accordance with Condition 19, and (b) the Company may, but shall not be bound to, having given not less than eight Tokyo Business Days' prior notice to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount, together with all Additional Amounts due on the Bonds (if any), on the third Tokyo Business Day (the "Delisting Redemption Date") after the Conversion Price Reduction End Date in respect of the relevant Delisting Event. The Trustee shall be entitled to assume that until it has received written notice from the Company to the contrary, that the Offeror has not so acquired any Shares.

7.5.2 *Offer Followed by Corporate Event or Squeezeout Event*: Notwithstanding the above provisions of this Condition 7.5, if the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces, that it intends to effect a Corporate Event or Squeezeout Event after the date of acquisition of any Shares pursuant to the offer, then the Company's right to redeem the Bonds under this Condition 7.5 shall not apply (but, for the avoidance of doubt, the provisions of Conditions 6 and 7.4 or Condition 7.6, as the case may be, shall be applicable to such Corporate Event or Squeezeout Event) unless such Corporate Event or Squeezeout Event does not occur within 60 days after the date of such acquisition, in which case the Company may, but shall not be bound to, having given not less than eight Tokyo Business Days' prior notice to the Bondholders in accordance with Condition 19, to redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount, together with all Additional Amounts due on the Bonds (if any), on the third Tokyo Business Day (for the avoidance of doubt, the Delisting Redemption Date applicable to such redemption being such date) after the Conversion Price Reduction End Date in respect of the relevant Delisting Event.

7.5.3 *Notice to Bondholders*: The Company shall as soon as practicable give notice to the Bondholders in accordance with Condition 19 of any event resulting in the cancellation or revival of the right to redeem pursuant to this Condition 7.5.

7.5.4 *Condition*: If the Company becomes entitled to redeem the Bonds pursuant to both this Condition 7.5 and Condition 7.4, the procedure pursuant to Condition 7.4 shall apply.

7.6 ***Squeezeout Redemption***

Upon the occurrence of a Squeezeout Event:

(a) the Company shall immediately deliver to the Trustee a certificate signed by a Representative Director stating that a Squeezeout Event has occurred, and as soon as practicable shall give notice thereof to the Bondholders in accordance with Condition 19; and

(b) the Company may, but shall not be bound to, having given not less than eight Tokyo Business Days' prior notice to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable) redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount, together with all Additional Amounts due on the Bonds (if any), on the third Tokyo Business Day after the Conversion Price Reduction End Date in respect of the relevant Squeezeout Event.

"Squeezeout Event" means the passing of a resolution at a general meeting of shareholders of the Company approving its acquisition of all of the outstanding Shares in exchange for a consideration, following the outstanding Shares being transformed into callable shares (*zenbushutokujoko tsuki shuruikabushiki*) by way of an amendment to the Articles of Incorporation, such as for the purpose of making the Company a wholly-owned subsidiary of another corporation.

7.7 ***Redemption at the Option of the Bondholders upon occurrence of a Corporate Event, Delisting Event or Squeezeout Event***

The holder of any Bond is entitled, at its option on or after a Conversion Price Reduction Start Date set out in any of Condition 5.2.15, 5.2.16 or 5.2.17, to require the Company to redeem such Bond at 100 per cent. of its principal amount, together with all Additional Amounts due on such Bond (if any) and the Redemption Premium.

To exercise such option, the holder of such Bond shall complete, execute and deposit at the specified office of any Agent, at such holder's own expense, during normal business hours of such Agent, a notice of redemption in the form (for the time being current) obtainable from any Agent, together with the Certificate in respect of such Bond. Such notice of redemption must be deposited no later than the fifth Tokyo Business Day prior to the Conversion Price Reduction End Date. Such notice shall be irrevocable and shall not be withdrawn without the consent in writing of the Company. The Company shall so redeem all Bonds in respect of which such notice has been given on the second Tokyo Business Day after the Conversion Price Reduction End Date.

"Redemption Premium" means the amount per Bond payable on the date fixed for redemption pursuant to this Condition 7.8, such amount to be determined by straight line interpolation between the Closing Date and the final maturity date set forth in Condition 7.1, on the basis of a 365-day year, and be equal to ¥300,000 at the Closing Date and zero at such final maturity date.

7.8 ***Purchase***

Subject to the requirements (if any) of any stock exchange on which the Bonds may be listed at the relevant time, the Company and/or any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise. Such Bonds may, at the option of the Company or the relevant Subsidiary, be held or resold. The Bonds so purchased, while held by or on behalf of the Company or any of its Subsidiaries, shall not entitle the Bondholder to vote at any meeting of Bondholders and shall be deemed not to be outstanding for the purpose of calculating the quorum at a meeting of Bondholders or for the purposes of these Conditions. Bonds that have been purchased by the Company may, at the option of the Company, be cancelled. Bonds that have been purchased by any Subsidiary may, at the option of such Subsidiary, be delivered to the Company for cancellation.

7.9 ***Cancellation***

All Bonds which are redeemed or with respect to which the Stock Acquisition Rights have been exercised shall forthwith be cancelled and such Bonds may not be reissued or resold. All Certificates in respect of Bonds so cancelled and Certificates in respect of Bonds purchased and cancelled pursuant to Condition 7.8 shall be forwarded to the Principal Agent for cancellation.

7.10 ***Notice of Redemption***

All notices to Bondholders given by or on behalf of the Company pursuant to this Condition 7 will specify the Conversion Price as of the date of the relevant notice, the Closing Price of the Shares as of the latest practicable date prior to the giving of the relevant notice, the applicable date fixed for redemption and the redemption price of the Bonds, the last day on which the Stock Acquisition Rights may be exercised and the aggregate principal amount of the Bonds outstanding as of the latest practicable date prior to the giving of the relevant notice. No notice of redemption given under

Condition 7.2 or 7.3 shall be effective if it specifies a date for redemption which falls during a period (a "Closed Period") in which Stock Acquisition Rights may not be exercised pursuant to Condition 5.1.4(b) or within 15 days following the last day of a Closed Period.

7.11 ***Priorities Among Redemption Provisions***

If any notice of redemption is given by the Company pursuant to any of Condition 7.2, 7.3, 7.4, 7.5 or 7.6, no other notice may be given pursuant to any other of such Conditions, subject as provided in Condition 7.5.2 and except for such Bonds so elected by the relevant Bondholder not to be redeemed pursuant to Condition 7.3.

If the holder of any Bond gives notice of redemption pursuant to Condition 7.7, that notice shall take priority over any notice of redemption given by the Company pursuant to Conditions 7.2, 7.3, 7.4, 7.5 or 7.6.

If the Company becomes entitled to give notice of redemption pursuant to Condition 7.4, 7.5 or 7.6, then a notice pursuant to Condition 7.2 or 7.3 may not subsequently be given.

8. Payments

8.1 ***Method of Payment***

Payments in respect of principal, default interest (if any) and premium (if any) will be made against presentation and (if no further payments are due in respect of the Bonds evidenced by the relevant Certificates) surrender of the Certificates in respect of the relevant Bonds at any specified office outside Japan of the Registrar or any Agent. Such payments will be made by transfer to its Registered Account subject in all cases to any fiscal or other laws and regulations applicable thereto but without prejudice to the provisions of Condition 9. Save as provided in Condition 9, such payments will be subject in all cases to any other applicable fiscal or other laws and regulations in the place of payment and the Company will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements. If an amount which is due in respect of the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

"Registered Account" means a yen account maintained by the payee with a bank in Japan, details of which appear on the Register at the close of business on the sixth Transfer Business Day before the due date of payment.

8.2 ***Agents***

The initial Principal Agent and the Registrar and their respective initial specified offices are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Agent, the Registrar or any other Agent and to appoint other or further Agents, provided that it will at all times maintain (i) a Principal Agent; (ii) a Registrar; (iii) an Agent having a specified office in Singapore, so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited and the rules of that exchange so require; (iv) such other agents as may be required by the rules of any stock exchange on which the Bonds are listed; and (v) an Agent with a specified office in a European Union member state, if any, that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of any such termination or appointment and of any changes in the specified offices of the Principal Agent, the Registrar or any other Agent will be given to the Bondholders in accordance with Condition 19.

8.3 ***Payments on Business Days***

If the due date for payment of any amount in respect of any Bond is not a Business Day, then the holder of such Bond shall not be entitled to payment of the amount due until the next following Business Day and no other payment will be made as a consequence of the day on which the relevant Bond may be presented for payment under this Condition 8.3 falling after the due date. "Business Day" means any day on which banks are open for business in the place of the specified office of the Agent at which (where required) the Certificate is presented for payment and (in the case of payment by transfer to a Registered Account as referred to in Condition 8.1) on which dealings in foreign currency may be carried on both in Tokyo and in such place.

9. Taxation

All payments by the Company in respect of the Bonds, subject to Condition 7.3, will be made without withholding of, or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan, or any political subdivision or any authority thereof or therein having power to tax unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. If such withholding or deduction is so required, the Company will pay such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Bond:

(i) held by or on behalf of a Bondholder (a) who is for Japanese tax purposes treated as an individual resident of Japan or a Japanese corporation, or (b) who fails to comply with the Japanese tax law requirements in respect of the exemption from such withholding or deduction, or (c) who is otherwise subject to such taxes, duties, assessments or governmental charges by reason of its being connected with Japan (including carrying on a business or maintaining a permanent establishment in Japan) otherwise than by reason only of the holding of any Bond or enforcement of rights thereunder or the receipt of payment in respect of any Bond;

(ii) where the relevant Certificate is presented for payment more than 30 days after the Due Date (as defined below) except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting the Certificate in respect of such Bond for payment as of the expiry of such 30-day period;

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) held by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the Certificate in respect of such Bond to another Agent in a European Union member state.

If the Company becomes obliged to pay Additional Amounts in accordance with this Condition 9, then it will have the right to redeem the Bonds, subject to the right of the Bondholders to retain the Bonds without entitlement to such Additional Amounts in accordance with Condition 7.3.

In these Conditions, the "Due Date" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect shall have been duly given to the Bondholders in accordance with Condition 19.

Any reference in these Conditions and the Trust Deed to principal, premium (if any) or default interest in respect of the Bonds shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 9 or any undertakings or covenants given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall, subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction, give notice in writing to the Company that the Bonds are due and repayable on the occurrence of any of the following events:

10.1 *Non-payment*

The Company defaults in the payment of the principal of any of the Bonds under Condition 7.3 or 7.7 as and when the same shall become due and payable, and such default is not remedied within 14 days; or

10.2 ***Breach of Obligations***

The Company defaults in the performance or observance of any covenant, condition or provision contained in the Trust Deed or in the Bonds and on its part to be performed or observed (other than the covenant to pay the principal of any of the Bonds), which default is, in the opinion of the Trustee, incapable of remedy, or if, in the opinion of the Trustee, capable of remedy, is not remedied within the 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Company of notice requiring such default to be remedied; or

10.3 ***Cross Default on Indebtedness***

The obligation to repay any indebtedness for money borrowed by the Company or any Principal Subsidiary and having an aggregate outstanding principal amount of at least ¥500,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is accelerated or capable of being accelerated prior to its stated maturity as a result of a default in respect of the terms thereof, or any such indebtedness due (on demand or otherwise) having an aggregate outstanding principal amount of at least ¥500,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is not paid when due (whether on demand (if applicable) or at the expiration of any grace period as originally provided (if applicable)); or

10.4 ***Cross Default on Guarantee/Indemnity***

The Company or any Principal Subsidiary fails to pay or otherwise defaults in making any payment due under any guarantee and/or any indemnity given by it in respect of any obligation or indebtedness for money borrowed having an aggregate outstanding principal amount of at least ¥500,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10); or

10.5 ***Initiation of Insolvency Proceedings***

Proceedings shall have been initiated against the Company or any Principal Subsidiary seeking with respect to the Company or such Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction and such proceedings shall not have been discharged or stayed within a period of 60 days; or

10.6 ***Decree of Insolvency/Dissolution***

A final decree or order is made or issued by a court of competent jurisdiction adjudicating the Company or any Principal Subsidiary bankrupt or insolvent, or approving a petition seeking with respect to the Company or any Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction or a final decree or order is made or issued by a court of competent jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or any Principal Subsidiary or of all or any material (in the opinion of the Trustee) part of the property of any of them, or for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary in its bankruptcy or insolvency; or

10.7 ***Resolution for Dissolution***

A resolution is passed for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary except:

10.7.1 in the case of the Company, in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which:

(a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied); or

(b) the Bonds will be redeemed pursuant to Condition 7.4, 7.5 or 7.6 prior to the date or proposed date of such winding-up, dissolution or liquidation; or

10.7.2 in the case of a Principal Subsidiary, where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or the Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or Holding Company (as the case may be) in the relevant Principal Subsidiary; or

10.7.3 in any case, where the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or

10.8 ***Institution of Insolvency Proceedings***

The Company or any Principal Subsidiary institutes proceedings seeking with respect to itself adjudication of bankruptcy or seeking with respect to itself a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction, or consents to the institution of any such proceedings, or consents to, or acquiesces in, the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or any material (in the opinion of the Trustee) part of its property, or makes a general assignment for the benefit of its creditors; or

10.9 ***Stop Payment***

The Company or any Principal Subsidiary stops payment (within the meaning of the Bankruptcy Act or any applicable law of any other jurisdiction); or

10.10 ***Cessation of Business***

The Company or any Principal Subsidiary ceases, or through an official action of its Board of Directors threatens to cease to carry on business, except:

10.10.1 in the case of the Company, in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which:

(a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied); or

(b) the Bonds will be redeemed pursuant to Condition 7.4, 7.5 or 7.6 prior to the date or proposed date of such cessation of business; or

10.10.2 in the case of a Principal Subsidiary, where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or the Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or Holding Company (as the case may be) in the relevant Principal Subsidiary; or

10.10.3 in any case, where the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or

10.11 ***Encumbrancer***

Any encumbrancer takes possession of the whole or any material (in the opinion of the Trustee) part of the assets or undertakings of the Company or any Principal Subsidiary or a distress, execution or other similar process is levied or enforced upon or sued out against the whole or any material (in the opinion of the Trustee) part of the assets of the Company or any Principal Subsidiary and is not removed, discharged or paid out within 60 days or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned having taken appropriate legal advice upon which the Trustee shall be entitled to rely absolutely;

and, in the case of any of the events described in Conditions 10.2, 10.3, 10.4 and 10.11, and (if the events relate only to a Principal Subsidiary) Conditions 10.5, 10.6, 10.7, 10.8, 10.9 and 10.10, the Trustee shall have certified in writing to the Company that the event is, in its opinion, materially prejudicial to the interests of the Bondholders.

For the purposes of Conditions 10.3 and 10.4, any indebtedness which is in a currency other than Japanese yen may be translated into Japanese yen at the spot rate for the sale of relevant currency against the purchase of Japanese yen quoted by any leading bank selected by the Trustee at its absolute discretion on any day when the Trustee requests such a quotation for such purpose.

Upon any such notice being given to the Company, the Bonds shall immediately become due and repayable at 100 per cent. of their principal amount (together with premium, if any, and default interest) as provided in the Trust Deed.

11. **Undertakings**

11.1 ***Undertakings with Respect to the Stock Acquisition Rights***

While any Stock Acquisition Rights are, or are capable of being, exercisable, the Company will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of the Bondholders to give such approval:

11.1.1 *Shares*: issue, register and deliver Shares upon exercise of Stock Acquisition Rights in accordance with these Conditions, and keep available free from pre-emptive or other rights for the purpose of effecting the exercise of the Stock Acquisition Rights such number of its Shares (whether authorised and unissued or in issue and held in treasury) as would be required to be acquired upon exercise of all of the Stock Acquisition Rights outstanding from time to time and will ensure that all Shares delivered upon exercise of the Stock Acquisition Rights pursuant to these Conditions will be duly and validly issued and fully-paid and non-assessable;

11.1.2 *Transfers*: not take any action which prevents the transfer of its Shares generally unless, under Japanese law and the Articles of Incorporation as then in effect, the Stock Acquisition Rights may be exercised legally for Shares and the Shares issued upon exercise, may (subject to any limitation imposed by law) be transferred (as between transferor and transferee although not as against the Company) at all times while such action is effective, nor take any action which prevents exercise of the Stock Acquisition Rights or the issue or transfer of Shares in respect thereof, except as permitted under Condition 5.1.4;

11.1.3 *Financial Year and Record Date*: give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 as soon as practicable after it effects any change in its financial year or in the Record Date (including the setting of new Record Dates) for the payment of any cash dividend;

11.1.4 *Listing*: use its best endeavours to obtain and maintain the listing, quotation or dealing in on the Relevant Stock Exchange for the Shares or, if it is unable to do so having used such best endeavours, use its best endeavours to obtain and maintain the listing, quotation or dealing in of the Shares on such other stock exchange or securities market in Japan as the Company with the prior written approval of the Trustee may from time to time reasonably determine and give notice of the identity of such stock exchange or securities market to the Bondholders in accordance with Condition 19; provided that:

(i) so long as the Company is not in breach of its obligations under Condition 6 in the case of any Corporate Event where the obligations under the Bonds and/or Stock Acquisition Rights are proposed to be transferred to or assumed by a New Obligor, then the Shares may be delisted with effect from the date falling no earlier than 30 days prior to the relevant Corporate Event Effective Date or such earlier date as may be determined by the Relevant Stock Exchange and (unless shares of common stock of the New Obligor are then listed or quoted or dealt in on any stock exchange or securities market) the Company shall use its best endeavours to cause the obtaining of a listing, quotation or dealing in of the shares of common stock of the New Obligor on any stock exchange or securities market in Japan;

(ii) the Company's obligations under this Condition 11.1.4 shall not apply if the Bonds are to be redeemed under Condition 7.4 or Condition 7.5 (for the avoidance of doubt, the provisions of this Condition 11.1.4 shall not prevent the Company from (x) delivering a certificate to the Trustee, as provided in Condition 7.4(iv), or (y) taking any action provided in items (ii) and (iii) of Condition 7.5.1); and

(iii) the Company's obligations under this Condition 11.1.4 shall not apply if the Bonds are to be redeemed under Condition 7.6 (for the avoidance of doubt, the provisions of this Condition 11.1.4 shall not prevent the Company from, among other things, proposing an amendment to the Articles of Incorporation for transforming the Shares into callable shares (*zenbushutokujoko tsuki shuruikabushiki*), or announcing or admitting that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or be disqualified from such listing, quotation or dealing as a result of the acquisition of Shares pursuant to a Squeezeout Event);

11.1.5 *Other Securities*: procure that no securities of the Company convertible into, or exchangeable for, by their terms, Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), converted into or exchanged for Shares and that no rights or warrants to subscribe for, purchase or otherwise acquire Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), exercised otherwise than, in each case, in accordance with the terms of issue thereof (for the avoidance of doubt, such terms may be amended as a result of any change in or bringing into force of Japanese law, including but not limited to certain tax qualification requirements relating to incentive stock options);

11.1.6 *Capital*: not create or issue any class of share capital other than Shares, without giving notice to the Trustee in writing and to the Bondholders in accordance with Condition 19, at least 14 days prior to the date of such creation or issue;

11.1.7 *Conversion Price Adjustments*: not take any action which would result in an adjustment of the Conversion Price if, after giving effect thereto, the Conversion Price would (but for the provisions of Condition 5.4) be decreased to such an extent that the Shares to be acquired on exercise of the Stock Acquisition Right could not, under any applicable law then in effect, be legally issued as fully-paid and non-assessable;

11.1.8 *Corporate Event*: if a Corporate Event occurs, use its best endeavours to obtain all consents which may be necessary or appropriate under Japanese law to enable the relevant company to give effect to the relevant arrangement, and to take all other action, as required by Condition 6 in a timely manner (unless, for the avoidance of doubt, the Bonds will be redeemed pursuant to Condition 7.4, 7.5 or 7.6); and

11.1.9 *Consents*: obtain and maintain all consents, clearances, approvals, authorisations, orders, registrations or qualifications (if any) required to be obtained or maintained by the Company on exercise of the Stock Acquisition Rights.

The Trust Deed contains certain other undertakings in relation to the Bonds and the Stock Acquisition Rights.

11.2 ***Charges***

Except as otherwise provided in Condition 5.9, the Company will pay all charges of the Trustee, the Principal Agent, the other Agents, the Custodian and the Custodian's Agent (including the cost of SWIFT message, fax or telex notices by the Trustee or the relevant Agent to the Principal Agent, the Company or the Custodian's Agent and by the Custodian to the Company or the Custodian's Agent) and all issue, transfer and other similar taxes payable with respect to the deposit of Bonds pursuant to Condition 5.9.3, and the issue and delivery of Shares and the delivery of any other securities, property or cash pursuant to Condition 5.9.5 following such deposit.

12. Substitution

12.1 ***Substitution other than under a Corporate Event***

The Trustee may, without the consent of the Bondholders, agree with the Company to the substitution in place of the Company (or any previous substitute under this Condition 12) as the principal obligor under the Bonds and the Trust Deed of any Subsidiary of the Company subject to (i) the Bonds continuing to be convertible into Shares as provided in these Conditions, with such amendments as the

Trustee shall consider appropriate, and (ii) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders in accordance with Condition 19. When determining, pursuant to this Condition, whether a circumstance is materially prejudicial to the interests of the Bondholders, the Trustee may obtain and rely on such directions from the Bondholders and/or expert advice as it considers appropriate and rely thereon without any responsibility for delay occasioned for so doing.

Further conditions to such substitution are set out in the Trust Deed.

12.2 ***Substitution under a Corporate Event***

Prior to a Corporate Event Effective Date the Trustee may, if so requested by the Company, agree with the Company, without the consent of Bondholders, to the substitution in place of the Company of the New Obligor subject to a trust deed supplemental to the Trust Deed (which shall include the provisions described below), which provides that the Company's obligations under the Bonds and the Trust Deed shall be assumed by the New Obligor by way of substitution (which, for the purposes of Japanese law, may be deemed to be a transfer or assumption of such obligations to or by the New Obligor), and that the New Obligor shall grant stock acquisition rights (the "New Stock Acquisition Rights") to all holders of the Bonds then outstanding, in place of the Stock Acquisition Rights incorporated in the Bonds held by them, being executed on or prior to the relevant Corporate Event Effective Date or (in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date) within 14 days after the relevant Corporate Event Effective Date. The Trustee may enter into such supplemental trust deed without consent of Bondholders only if:

(i) under such supplemental trust deed, the New Obligor agrees, in form, manner and substance satisfactory to the Trustee, to be bound by the Trust Deed and the Bonds (with consequential amendments as the Trustee may deem appropriate) with effect (as specified in this Condition 12.2) as if the New Obligor had been named in the Trust Deed and the Bonds as the principal obligor in place of the Company and providing that the holders of the Bonds then outstanding shall be granted New Stock Acquisition Rights;

(ii) except in the case of a Merger Event, pursuant to such supplemental trust deed the Company guarantees, in a form and manner satisfactory to the Trustee, the payment obligations of the New Obligor under the Trust Deed and the Bonds with effect as specified in this Condition 12.2, provided that no such guarantee will be required if the Company determines and has delivered to the Trustee no later than 10 calendar days prior to the relevant Corporate Event Effective Date a certificate of the Company signed by a Representative Director of the Company that, as of the Corporate Event Effective Date, any rating which would be assigned to the New Obligor's long-term, unsecured and unsubordinated debt is unlikely to be lower than the rating then currently assigned to the Company's long-term, unsecured and unsubordinated debt. In making this determination, the Company shall consult an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser;

(iii) if the New Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "New Territory") other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the Company is subject generally (the "Company's Territory"), the New Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 9 with the substitution for, or addition to, in relation to the New Obligor, references in Condition 9 to the Company's Territory of references to the New Territory whereupon the Trust Deed and the Bonds will be read accordingly, and corresponding amendments shall be made to Condition 7.3 in relation to payment of Additional Amounts by the New Obligor (and/ or the guarantor, if any);

(iv) a Representative Director of the New Obligor certifies that it will be solvent immediately after such substitution, and the Trustee shall not have regard to the New Obligor's financial condition, profits or prospects or compare them with those of the Company;

(v) the Company shall have certified (by a certificate of a Representative Director) to the Trustee that the New Stock Acquisition Rights satisfy the provisions of Condition 6.5;

(vi) the Company and the New Obligor comply with such other requirements as the Trustee may direct in the interests of the Bondholders; and

(vii) such substitution and grant of New Stock Acquisition Rights become effective on the Corporate Event Effective Date (or in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, within 14 days after the relevant Corporate Event Effective Date).

12.3 ***Release of Obligations***

An agreement by the Trustee pursuant to Condition 12.2 will (except in respect of any guarantee under Condition 12.2(ii)), if so expressed, release the Company (or a previous substitute) from any or all of its obligations under the Trust Deed and the Bonds.

12.4 ***Deemed Amendment***

On completion of the formalities set out in Condition 12.2, the New Obligor will be deemed to be named in the Trust Deed and the Bonds as the principal obligor in place of the Company (or of any previous substitute) and the Trust Deed and the Bonds will be deemed to be amended as necessary to give effect to the substitution. In particular and without limitation:

(i) the terms "Stock Acquisition Rights" and "Shares" shall, where the context so requires, include the New Stock Acquisition Rights and shares of common stock to be issued by the New Obligor; and

(ii) references to the Company in Condition 10, in the definition of Principal Subsidiary and in the Trust Deed shall also include any guarantor pursuant to Condition 12.2(ii) except where the context requires otherwise.

13. **Prescription**

Each Bond will become void unless presented for payment within the period of 10 years from the Due Date for the payment thereof.

14. **Replacement of Certificates**

Should any Certificate be lost, stolen, destroyed, mutilated or defaced, it may be replaced at the specified office of the Principal Agent upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Company or an Agent may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. **Meetings of Bondholders; Modification and Waiver**

15.1 ***Meetings of Bondholders***

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of a modification of any provision of these Conditions or of the Trust Deed. The quorum for any such meeting convened to consider any matter requiring an Extraordinary Resolution shall be two or more persons holding or representing not less than 50 per cent. in principal amount of the Bonds for the time being outstanding, or for any adjourned meeting two or more persons being or representing Bondholders (whatever the principal amount of Bonds held or represented) except that at any meeting the business of which includes the modification of certain provisions of the Bonds or of the Trust Deed (including, *inter alia*, modifying the date of maturity of the Bonds, reducing or cancelling the principal amount of, or any premium payable in respect of, the Bonds, modifying the method or basis of calculating the rate or amount of default interest in respect of the Bonds, altering the currency of payment of the Bonds or (to the extent permitted by applicable law) abrogating or modifying any Stock Acquisition Right), the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned such meeting not less than 50 per cent., in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

Notwithstanding the above provisions, any resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Bonds outstanding shall for all purposes be as valid and effectual as an Extraordinary Resolution passed at a meeting of such Bondholders duly convened and held in accordance with the provisions contained in the Conditions and in the Trust Deed. Any resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Bondholders.

15.2 ***Modification and Waiver***

The Trustee may, without the consent of the Bondholders, agree to any modification (except as aforesaid and as set out in the Trust Deed) of the Trust Deed or the Bonds (including these Conditions) or to any waiver or authorisation of any breach or potential breach by the Company of the provisions of the Trust Deed or the Bonds which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification of the Trust Deed or the Bonds (including these Conditions) which is, in the opinion of the Trustee, of a formal, minor or technical nature or which is made to correct a manifest error or is necessary in order to comply with mandatory provisions of Japanese law or pursuant to Condition 6 or 12. Any such modification, waiver or authorisation shall be binding on the Bondholders and shall (unless the Trustee agrees otherwise) be notified to the Bondholders in accordance with Condition 19 as soon as practicable thereafter.

If there is a change to the mandatory provisions of (i) Japanese law which in the reasonable opinion of the Company after obtaining advice from legal advisers (evidenced by (a) a certificate of a Representative Director or an Authorised Officer, and (b) an opinion addressed to the Company and the Trustee of legal advisers of recognised standing to the effect that such change has occurred) would make it necessary to amend and/or supplement the provisions of Conditions 1.1, 1.5, 5, 6, 7.4 and/or 7.6 or (ii) the Financial Instruments and Exchange Act which in the reasonable opinion of the Company (evidenced by (a) a certificate of a Representative Director or an Authorised Officer, and (b) an opinion addressed to the Company and the Trustee of legal advisers of recognised standing to the effect that such change has occurred) would make it necessary to amend and/or supplement the provisions of Condition 7.5, the relevant Conditions shall be amended and/or supplemented to reflect that change by means of a trust deed supplemental to the Trust Deed. The Trustee (unless in its sole opinion such supplemental trust deed imposes obligations, responsibilities or liabilities on it which are greater than those it has as Trustee under the Trust Deed) shall be obliged (subject to being indemnified and/or secured and/or prefunded by the Company to its satisfaction) to enter into such supplemental trust deed (in a form satisfactory to it) to effect such change (even if, in the opinion of the Trustee, that change may be materially prejudicial to the interests of the Bondholders) without the consent of the Bondholders, but the Trustee shall have no responsibility or liability to any person for so doing. The Company shall forthwith give notice to the Bondholders following the execution of any such supplemental trust deed in accordance with Condition 19.

15.3 ***Entitlement of the Trustee***

In connection with the exercise of its functions (including but not limited to those referred to in these Conditions), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the interests of individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Company any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

15.4 ***Authority to the Trustee***

To the fullest extent permitted by applicable law, by accepting the Bond, the Bondholder irrevocably authorises and instructs the Trustee (without its direction whether by Extraordinary Resolution or otherwise) to take any action before a Japanese court on behalf of and in the name of the Bondholder which the Trustee considers to be necessary or desirable in the interests of the Bondholders. The Trustee shall not be bound to take any such action unless (a) so directed by an Extraordinary Resolution or so requested in writing by holders of at least one-quarter in principal amount of Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction, and shall incur no liability in taking or refraining from taking such action. The Trustee shall not take any action on behalf of a Bondholder in respect of the statutory rights referred to in Condition 6.6, such rights having been irrevocably waived by the Bondholder to the fullest extent permitted by applicable law.

16. **Enforcement**

At any time after the Bonds shall have become due and repayable, the Trustee may, at its absolute discretion and without further notice, take such proceedings, actions or steps against the Company as it may think fit to enforce repayment of the Bonds, together with accrued default interest, if any, pursuant to Condition 4 and to enforce the provisions of the Trust Deed and the Bonds, but it shall not be bound to take any such proceedings, actions or steps unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder shall be entitled to proceed directly against the Company unless the Trustee, having become bound so to proceed, fails to do so within 30 days of such direction or request or provision of indemnity and/or security and/or prefunding (whichever is the latest) and such failure shall be continuing.

17. **Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings, actions or steps to enforce the provisions of the Trust Deed or the terms of the Bonds and to be paid its costs and expenses in priority to the claims of Bondholders. The Trustee is entitled to enter into business transactions with the Company or any person or body corporate associated with the Company without accounting for any profit resulting therefrom.

The Trustee may rely without liability to Bondholders or any other person on any certificate or report prepared by the Auditors or any Independent Financial Adviser or other expert pursuant to these Conditions and/or the Trust Deed, whether or not addressed to the Trustee and whether or not the liability of the Auditors, Independent Financial Adviser or such expert (as the case may be) in respect thereof is limited by a monetary (or any other) cap or otherwise, and shall be obliged to do so where the certificate or report is delivered pursuant to the obligation of the Company to procure such delivery under these Conditions and/or the Trust Deed and in the absence of manifest error, any such certificate or report shall be conclusive and binding on the Company, the Trustee, and the Bondholders.

18. **Independent Financial Adviser**

If any doubt shall arise as to the appropriate adjustment to the Conversion Price or in relation to any other matter which is reserved in these Conditions for a decision of an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect of such adjustment to the Conversion Price or other matter shall be conclusive and binding on the Company, the Trustee and the Bondholders in the absence of manifest error.

If the Company shall fail to appoint an Independent Financial Adviser when required to do so and such failure continues for a reasonable period (as determined by the Trustee) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such Independent Financial Adviser, the Trustee shall have the power, but shall not be obligated, to make such appointment in its absolute discretion.

19. **Notices**

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the Register and published in a leading newspaper having general circulation in London (which is expected to be the Financial Times). If publication in any of such newspapers is not (in the opinion of the Trustee) practicable, notices will be given in such other newspaper or newspapers as the Company, with the approval of the Trustee, shall determine. Such notices shall be deemed to have been given on the later of (i) the date of their publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required and (ii) the seventh day after being so mailed.

So long as the Bonds are evidenced by the Global Certificate and such Bonds are held on behalf of a clearing system, notices to Bondholders shall be given by delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders in substitution for mailing and publication required by the Conditions.

20. **Contracts (Rights of Third Parties) Act 1999**

Except as provided herein, no person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

21. **Governing Law and Submission to Jurisdiction**

21.1 ***Governing Law***

The Trust Deed and the Bonds, and any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law.

21.2 ***Jurisdiction***

The courts of England are to have jurisdiction to settle any disputes arising out of or in connection with the Trust Deed and the Bonds (including any non-contractual obligations arising out of or in connection with the Trust Deed and the Bonds) and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds (including any non-contractual obligation arising out of or in connection with the Trust Deed and the Bonds) ("Proceedings") may be brought in such courts. The Company has in the Trust Deed submitted to the jurisdiction of such courts and has waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission has been made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

21.3 ***Agent for Service of Process***

The Company has irrevocably appointed Law Debenture Corporate Services Limited, whose office is at present at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, as its agent in England to receive service of process in any Proceedings in England. If for any reason Law Debenture Corporate Services Limited ceases to be able to act as such or no longer has an address in England, the Company irrevocably agrees to appoint a substitute process agent acceptable to the Trustee and shall immediately notify the Trustee of such appointment. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the Conditions set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:

Meetings

The registered holder (as defined in the Conditions) of the Bonds in respect of which the Global Certificate is issued shall (unless the Global Certificate evidences only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each Bond in respect of which the Global Certificate is issued. The Trustee may allow any accountholder (or the representative of such person) of a clearing system entitled to Bonds in respect of which the Global Certificate is issued to attend and speak (but not vote) at a meeting of Bondholders on appropriate proof of his identity.

Exercise of Stock Acquisition Rights

Subject to the requirements of Euroclear or Clearstream, Luxembourg or such other clearing system as shall have been approved in writing by the Trustee (an "Alternative Clearing System"), the Stock Acquisition Right incorporated in a Bond in respect of which the Global Certificate is issued may be exercised by the presentation to, or to the order of, any Agent of one or more Conversion Notices duly completed by, or on behalf of, an accountholder in such system with an entitlement to such Bonds. Deposit of the Global Certificate with an Agent together with the relevant Conversion Notice shall not be required. The exercise of the Stock Acquisition Right shall be notified by the Agent to the Registrar and the holder of the Global Certificate.

Payments

Payments in respect of Bonds evidenced by the Global Certificate shall be made against presentation of or, if no further payment falls to be made in respect of such Bonds, against presentation and surrender of, the Global Certificate to or to the order of the Principal Agent or such other Agent as shall have been notified to the Bondholders for this purpose.

All payments in respect of Bonds evidenced by the Global Certificate will be made to, or to the order of the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment. For the purposes of this paragraph, "Clearing System Business Day" means Monday to Friday inclusive, excluding 25 December and 1 January in each year.

For the purpose of any payments made in respect of the Global Certificate, the relevant place of presentation shall be disregarded in the definition of "Business Day" as set out in Condition 8.3.

Notices

So long as the Bonds are evidenced by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg or any Alternative Clearing System, notices required to be given to the Bondholders shall be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System, for communication by it to entitled accountholders in substitution for publication and mailing as required by the Conditions. Such notices shall be deemed to have been given in accordance with the Conditions on the date of delivery to Euroclear, Clearstream, Luxembourg or such Alternative Clearing System.

Transfers

Transfers of interests in the Bonds in respect of which the Global Certificate is issued shall be effected through the records of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System, as the case may be, and their respective direct and indirect participants.

Prescription

Claims against the Company for payment in respect of principal and premium (if any) in respect of the Bonds evidenced by the Global Certificate shall become void unless made within a period of 10 years from the appropriate Due Date (as defined in the Conditions).

Trustee's Powers

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for any one or more of Euroclear, Clearstream, Luxembourg and an Alternative Clearing System, the Trustee may, to the extent it considers appropriate to do so in the circumstances, have regard to and rely upon any information made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements to the relevant Bonds evidenced by the Global Certificate, and may consider such interests as if such accountholders were the holder of the relevant Bonds.

Cancellation

Cancellation of any Bond evidenced by the Global Certificate which is required by the Conditions to be cancelled will be effected by reduction in the principal amount of the Bonds in the Register and the endorsement (for information only) of the Global Certificate by the Principal Agent.

Early Redemption by the Company

The options of the Company to redeem the Bonds prior to maturity provided for in Conditions 7.2, 7.3, 7.4, 7.5 and 7.6 shall be exercised or performed by the Company giving notice (as applicable) to the Trustee, the Principal Agent and the Bondholders within the time limits relating thereto set out in and containing the information required of the Company in accordance with the relevant Condition in accordance with the paragraph entitled "Notices" above.

Election of Bondholders

The election option of the Bondholders provided for in Condition 7.3 may be exercised by the holder of the Bonds evidenced by the Global Certificate by giving notice to the Principal Agent within the time limits relating thereto set out in that Condition and otherwise in accordance with the procedures of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System (as the case may be) in the form acceptable thereto from time to time.

Redemption at the Option of the Bondholders

The option of the Bondholders provided for in Condition 7.7 may be exercised by the holder of the Bonds in respect of which the Global Certificate is issued by giving notice to the Principal Agent within the time limits relating thereto set out in that Condition substantially in the form of the redemption notice available from any Agent and stating the principal amount of Bonds in respect of which the option is exercised (and the Principal Agent shall accordingly make relevant endorsements on the Global Certificate).

Enforcement

For purposes other than with respect to the payment of principal and premium (if any) on the Bonds in respect of which the Global Certificate is issued, each person who is for the time being shown in the records of Euroclear and Clearstream, Luxembourg or Alternative Clearing System as the holder of a particular principal amount of such Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or Alternative Clearing System) as to the principal amount of Bonds in respect of which the Global Certificate is issued standing to the account of any person shall be conclusive and binding for all purposes) shall be recognised as the holder of such principal amount of Bonds.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds are estimated to amount to approximately ¥30.0 billion, and are expected to be used primarily as follows:

(i) approximately ¥10.0 billion by the end of March 2015 as part of research and development expenses for the purposes of enhancing additional value and strengthening competitiveness in respect of the Group's core business, the Semiconductor and Component Test System Segment. The Company intends to conduct research and development with regard to its management of the evolution of semiconductor technology such as miniaturisation and implementation of TSV, and speeding-up and improving the batched processing ability of its testing systems;

(ii) approximately ¥5.0 billion by the end of March 2015 as part of research and development expenses for start-up businesses with promising future growth other than the Group's core business described above. The Company intends to conduct research and development with regard to semiconductor front-end equipment such as CD-SEM and E-Beam Lithography systems which utilises EB control technologies and with regard to the terahertz product business intended for the medical field and life science field;

(iii) approximately ¥5.0 billion by the end of March 2015 as operating funds for start-up businesses such as the terahertz product business; and

(iv) ¥10.0 billion for repayment of domestic unsecured bonds with expected maturity on 25 May 2015.

ADVANTEST CORPORATION

The following summary of the Company's activities and results of operations is qualified in its entirety by, and is subject to, the more detailed information and financial statements included in this Offering Circular. The description of the Company's operations in this Offering Circular is on a consolidated basis unless otherwise indicated.

The Group is a global leader in the test and measurement industry, providing solutions to customers in a wide range of fields, from semiconductor manufacturing and R&D to electronics, medical devices, and pharmaceuticals.

The Company commenced operations in July 1954, and was incorporated in December 1954 under the name Takeda Riken Industry Co., Ltd. as a limited liability, joint-stock company in Japan under the Commercial Code of Japan. Takeda Riken started focusing on semiconductor test equipment for the semiconductor industry in 1968 and was the first to domestically produce semiconductor test equipment in 1972. Takeda Riken was listed on the Tokyo Stock Exchange in February 1983. Takeda Riken changed its registered name to Kabushiki Kaisha Advantest in October 1985. The Company's ADRs have been listed on the New York Stock Exchange since September 2001.

As of 31 December 2013, the Group was comprised of the Company and its 34 consolidated subsidiaries and one investee which is accounted for by the equity method. The Group conducts its business in the following segments:

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

The Group applies its capital expenditures chiefly to developing new products, streamlining production, expanding its production capacity and capital leases to its customers. The Group's capital expenditures amounted to ¥3.8 billion, ¥7.0 billion and ¥12.6 billion in the fiscal years ended 31 March 2011, 2012 and 2013, respectively. The amount for the fiscal year ended 31 March 2013 includes capital expenditures to build the new factory in Korea.

On 4 July 2011, the Group acquired all of the outstanding shares of common stock of Verigy at US$15.00 per share, pursuant to which Verigy became a wholly-owned subsidiary of the Company. The total purchase price was ¥78.7 billion. In April 2012, the Company reorganised its subsidiaries and fully integrated with Verigy.

Selected Consolidated Financial Information

The following selected consolidated financial information should be read in conjunction with the Group's audited annual consolidated financial statements and related notes, the Group's unaudited quarterly consolidated financial statements and related notes, and "Recent Business" included elsewhere in this Offering Circular. The consolidated statements of operations data for the fiscal years ended 31 March 2011, 2012 and 2013 and the consolidated balance sheet data as of 31 March 2011, 2012 and 2013 are extracted without material adjustment from the audited annual consolidated financial statements of the Group included elsewhere in this Offering Circular. The consolidated statements of operations data for the nine-month periods ended 31 December 2012 and 2013 and the consolidated balance sheet data as of 31 December 2013 are extracted without material adjustment from the unaudited quarterly consolidated financial statements of the Group included elsewhere in this Offering Circular. The consolidated balance sheet data as of 31 December 2012 have been extracted from the published unaudited quarterly consolidated financial statements of the Group as of and for the nine-month period ended 31 December 2012 prepared in English.

The Group's consolidated financial statements have been prepared and presented in accordance with U.S. GAAP, which differ in certain respects from IFRS. The historical results are not necessarily indicative of results to be expected for future periods.

	Fiscal Year Ended/As of 31 March			(Unaudited) Nine-Month Period Ended/ As of 31 December	
	2011	2012	2013	2012	2013
	(Millions of yen, except per Share data and percentages)				
Consolidated Statements of Operations Data:					
Net sales	¥ 99,634	¥ 141,048	¥ 132,903	¥ 97,186	¥ 79,251
Operating income (loss)	6,111	837	80	824	(34,404)
Income (loss) before income taxes and equity in earnings (loss) of affiliated company	5,551	(3,442)	(1,293)	108	(34,321)
Net income (loss)	3,163	(2,195)	(3,821)	(1,917)	(34,148)
Net income (loss) per Share (Yen):					
Basic	18.03	(12.67)	(22.03)	(11.05)	(196.12)
Diluted	18.03	(12.67)	(22.03)	(11.05)	(196.12)
Basic weighted average shares outstanding (Number of Shares)	175,481,854	173,271,717	173,478,054	173,382,196	174,113,609
Diluted weighted average shares outstanding (Number of Shares)	175,495,458	173,271,717	173,478,054	173,382,196	174,113,609
Consolidated Balance Sheet Data:					
Total assets	¥ 180,312	¥ 219,226	¥ 225,515	¥ 216,093	¥ 203,298
Short-term debt	–	25,000	–	–	–
Corporate bonds	–	–	25,000	25,000	25,000
Common stock	32,363	32,363	32,363	32,363	32,363
Stockholders' equity	138,132	131,552	141,241	134,409	120,231
Other Data:					
Capital expenditures	¥ 3,793	¥ 6,984	¥ 12,592	¥ 9,673	¥ 4,883
Research and development expenses	21,197	30,303	33,062	24,200	25,294
Net cash provided by (used in) operating activities	(693)	12,302	(2,215)	(3,336)	(167)
Net cash provided by (used in) investing activities	(5,828)	(37,670)	(11,498)	(9,619)	(4,948)
Net cash provided by (used in) financing activities	(12,028)	9,887	(2,914)	(3,022)	(2,868)
Operating margin(1)	6.13%	0.59%	0.06%	0.85%	(43.41)%
Net income margin(2)	3.17%	(1.56)%	(2.88)%	(1.97)%	(43.09)%

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

RECENT BUSINESS

The following discussion and analysis of the Group's financial condition and results of operations should be read with "Selected Consolidated Financial Information" and the audited consolidated financial statements for the fiscal years ended 31 March 2011, 2012 and 2013 as well as the notes to such consolidated financial statements appearing elsewhere in this Offering Circular. These consolidated financial statements have been prepared in accordance with U.S. GAAP.

Overview

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

The Semiconductor and Component Test System Segment provides customers with test system products for the semiconductor industry and the electronic parts industry. Product lines in the Semiconductor and Component Test System Segment include test systems for memory semiconductors and non-memory semiconductors. Test systems for non-memory semiconductors include test systems for SoC semiconductors, test systems for LCD driver ICs and test systems for semiconductors used in car electronics. This business segment is the most important segment, accounting for 76.1 per cent. of the Group's net sales in the fiscal year ended 31 March 2013.

The Mechatronics System Segment provides product lines such as test handlers, mechatronic-applied products for handling semiconductor devices, device interfaces that serve as interfaces with the devices that are measured and operations related to nano-technology products. This business segment accounted for 10.3 per cent. of the Group's net sales in the fiscal year ended 31 March 2013.

The Services, Support and Others Segment consists of comprehensive customer solutions provided in connection with the Semiconductor and Component Test Systems and Mechatronics System Segments, support services, equipment lease business and others. This business segment accounted for 15.1 per cent. of the Group's net sales in the fiscal year ended 31 March 2013.

Semiconductor and Component Test System Segment

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

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

In the business environment in which the Semiconductor and Component Test System Segment operates, in the early part of the fiscal year ended 31 March 2013, capital expenditure continued to strongly increase production capacity for semiconductors used in mobile devices such as smartphones and tablet computers. The markets thus performed well. From 2012 summer onward, however, PC demand dropped markedly. This caused the semiconductor market to slow down, and semiconductor manufacturers began restricting investments in manufacturing equipment. In addition, from the end of 2012, production levels of some mobile devices were adjusted. Consequently, overall, as of the end of the fiscal year ended 31 March 2013, the business environment worsened.

In this environment, the Group actively marketed semiconductor testing equipment for mobile communications-related semiconductor applications—the largest segment for testing equipment and as a result, the company successfully gained market share. However, the semiconductor market slowdown and resultant capital expenditure restrictions made by semiconductor manufacturers led to decrease in net sales.

As a result of the above, net sales of the Semiconductor and Component Test Systems Segment totalled ¥101,119 million in the fiscal year ended 31 March 2013, a 4.3 per cent. decrease compared to that of the fiscal year ended 31 March 2012.

In the Semiconductor and Component Test System segment, the sales of non-memory test systems performed strongly, driven by increasing testing demand for semiconductors used in mobile device applications. Demand for LCD driver IC testing systems grew due to higher resolution LCD screens being used in mobile devices. Also, test system demand increased for applications processors, baseband processors and other core mobile device ICs.

Demand for test systems for the memory semiconductor business in the Semiconductor and Component Test Systems Segment fell due to a drop in PC demand.

The Group believes that price pressure with respect to semiconductor and component test systems tends to be the strongest during periods when semiconductor manufacturers are subject to price pressure despite an increase in demand for their products. The Group continues to face significant price pressure. Even when the semiconductor industry experienced a recovery, increased competition in the market for digital consumer products and personal computers drove down prices of these goods, subsequently creating significant price pressure on its products and restriction on capital expenditure.

Mechatronics System Segment

In the Mechatronics System Segment, together with the drop in memory test system demand, device interface and test handler product demand, which is highly correlated to memory test systems, also fell.

Mainly as a result of the above, net sales of the Mechatronics System Segment totalled ¥13,653 million in the fiscal year ended 31 March 2013, a 33.8 per cent. decrease compared to that of the fiscal year ended 31 March 2012.

Services, Support and Others Segment

In the Services, Support and Others Segment, the Group has focused on maintenance services such as installation and repair of the Group's products and lease and rental services of its products as a part of the Group's effort to provide customers with comprehensive solutions. In the Services, Support and Others segment, as the number of installed the Group test systems continued to increase, demand for support services also showed stable growth.

As a result of the above, net sales of the Services, Support and Others Segment totalled ¥20,077 million in the fiscal year ended 31 March 2013, a 6.8 per cent. increase compared to that of the fiscal year ended 31 March 2012.

Research and Development

Research and development expenses represent a significant portion of the Group's annual operating expenses. The Group's research and development expenses were ¥21,197 million in the fiscal year ended 31 March 2011. In the fiscal year ended 31 March 2012, as a result of the integration with Verigy, research and development expenses were ¥30,303 million. In the fiscal year ended 31 March 2013, research and development expenses were ¥33,062 million. Consequently research and development expenses were 21.3 per cent., and 21.5 per cent. and 24.9 per cent. of net sales, in the fiscal years ended 31 March 2011, 2012 and 2013, respectively.

Personnel

As of 31 March 2013, the Group had a total of 4,575 full-time employees, an increase of 111 persons, or 2.5 per cent., compared to 31 March 2012.

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

Currency Fluctuation

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

Translation risk is the risk that the Group's consolidated financial statements for a particular period or for a particular date will be affected by changes in the prevailing exchange rates of the currencies in which subsidiaries of the Company prepare their financial statements against the Japanese yen. Even though the fluctuations of currencies against the Japanese yen can be substantial and, therefore, significantly impact comparisons with prior accounting periods and among various geographic markets, the translation effect is a reporting consideration and does not reflect the Group's underlying results of operations.

Transaction risk is the risk that the currency structure of the Group's costs and liabilities will deviate from the currency structure of sales proceeds and assets. The Group produces many of its products, including all semiconductor and component test systems, in Japan. A portion of the components and parts used in the Group's semiconductor and component test systems is purchased in currencies other than the Japanese yen, predominantly the U.S. dollar.

The Group enters into foreign exchange forward contracts to reduce its transaction risk. This has reduced, but not eliminated, the effects of foreign currency exchange rate fluctuations against the Japanese yen, which in some years can be significant.

Generally, the weakening of the Japanese yen against other foreign currencies, particularly the U.S. dollar, has a positive effect on the Group's operating income and net income. The strengthening of the Japanese yen against other foreign currencies, particularly the U.S. dollar, has the opposite effect. In the first quarter of the fiscal year ended 31 March 2011, the Japanese yen started from the low ¥90s to the dollar and strengthened to the high ¥80s to the dollar and appreciated to the low ¥80s to the dollar during the second half of the fiscal year. Immediately after the Great East Japan Earthquake on 11 March 2011, the Japanese yen appreciated to the ¥70s to the dollar, but then depreciated to the low ¥80s to the dollar by the end of the fiscal year ended 31 March 2011. In the fiscal year ended 31 March 2012, the appreciation of the yen continued, going from the low ¥80s to the dollar to the high ¥70s to the dollar after the second quarter and at one point reaching the ¥76 mark in the third quarter, the highest level since World War II. However, by the end of the fiscal year ended 31 March 2012, the Japanese yen had returned to the low ¥80s to the dollar. In the fiscal year ended 31 March 2013, the appreciation of the yen continued, starting from the low ¥80s to the dollar and strengthened to the high ¥70s to the dollar in the second quarter. However, in the third quarter the Japanese yen started to depreciate and returned to the low ¥90s to the dollar by the end of the fiscal year ended 31 March 2013. The weakening of the Japanese yen has continued, reaching the low ¥100s by the end of the nine-month period ended 31 December 2013.

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

Critical Accounting Policies and Estimates

The Group has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities in preparing its consolidated financial statements in conformity with U.S. GAAP. Critical accounting policies are accounting policies that require the application of management's most difficult, subjective or complex judgments and often require management to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The following is not intended to be a comprehensive list of all of the Group's accounting policies. The Group's significant accounting policies are more fully described in Note 1 to the audited consolidated financial statements for the fiscal year ended 31 March 2013 contained elsewhere in this Offering Circular. In many cases, U.S. GAAP specifically dictates the accounting treatment of a particular transaction, with no need for judgment in its application. There are also areas in which management's judgment in selecting an available alternative could produce materially different results. Set forth below is a description of accounting policies under U.S. GAAP that the Group has identified as critical to understanding its business and the reported financial results and condition of the Company.

Revenue Recognition

General

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

Sales of Products

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

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

Long-term Service contracts

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

Leasing Income

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

Multiple deliverables

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

Inventories

The Group's inventories consist of on-hand inventory, including inventory located at customer sites, and inventory that is on-order and subject to a contract that is non-cancellable. The Group states its inventories at the lower of cost or market. Cost is determined using the average cost method. The Group determines the market for finished goods by determining net realisable value and for raw materials by identifying replacement cost. The Group reviews its inventories and determines the appropriate amount of any inventory write-downs periodically based on these reviews. Write-downs occur from the discontinuation of product lines, inventory in excess of estimated usage, the release of new products which renders inventory obsolete and declines in net realisable value of the Group's inventory leased to customers. The Group recognises inventory write-downs in cost of sales. The Group may be required to take additional charges for excess and obsolete inventory in the fiscal year ending 31 March 2014 or other future periods if future weakness in its businesses causes further reductions to the Group's inventory valuations. In addition, unexpected changes in testing technology can render the Group's inventories obsolete. The Group evaluates its inventory levels based on its estimates and forecasts of demand for its products.

The Group's inventories increased by ¥2,013 million, or 6.7 per cent., during the fiscal year ended 31 March 2013 to ¥31,849 million as of 31 March 2013.

Property, Plant and Equipment

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

Depreciation is computed principally using the straight-line method over estimated useful lives of the assets.

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

Depreciation expense was ¥3,977 million, ¥4,326 million and ¥5,778 million for the fiscal years ended 31 March 2011, 2012 and 2013, respectively.

Impairment of Long-Lived Assets

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

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

In the fiscal year ended 31 March 2011, the Group did not incur impairment of long-lived assets. In the fiscal years ended 31 March 2012 and 2013, the Group recognised an impairment loss of ¥920 million and ¥134 million, respectively, on certain building and land asset that was reclassified as assets held for sale. As a result of expected future cash flows based on changes in the business environment weighed on profits, for the nine-month period ended 31 December 2013, the Group recognised impairment losses of ¥1,099 million and ¥11,671 million on property, plant and equipment and intangible assets, respectively included in the Semiconductor and Component Test System Segment. In addition, the Group recognised impairment losses of ¥497 million and ¥228 million on property, plant and equipment and intangible assets, respectively included in the Mechatronics System Segment.

Business Combinations

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

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

Goodwill and Intangible Assets

The Group reviews goodwill and intangible assets with indefinite lives for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The provisions of the accounting standard for goodwill and other intangibles allow the Group to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. For the Group's annual goodwill impairment test in the fourth quarter of the fiscal year ended 31 March 2013, the Group performed a quantitative test for all of the reporting units. In the first step, the Group compares the fair value of each reporting unit to its carrying value. The Group's reporting units are consistent with the reportable segments identified in Note 20 to the audited consolidated financial statements for the fiscal year ended 31 March 2013 contained elsewhere in this Offering Circular. The Group determines the fair value of its reporting units based on an income approach. Under the income approach, the Group calculates the fair value of a reporting unit based on the present value of estimated future cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and the Group is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Group must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then the Group records an impairment loss equal to the difference.

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

The Group's annual goodwill impairment analysis indicated no impairments of goodwill. In order to evaluate the sensitivity of the fair value calculations on the goodwill impairment analysis, the Group applied a hypothetical and approximate 10 per cent. decrease to the fair value of each reporting unit. As a result of the sensitivity analysis, as of 31 March 2013, the Group does not have any reporting units that are at risk that the carrying amount of the reporting unit would reasonably likely exceed its fair value.

Trade Receivables

The Group's trade receivables, less allowance for doubtful accounts was ¥26,953 million as of 31 March 2013, as compared with ¥24,119 million as of 31 March 2012. The Group maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Group provides an allowance for doubtful accounts for all specific accounts receivable that it judges are probable of not being collected.

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

At the end of the fiscal year ended 31 March 2013, the Group decreased its allowance for doubtful accounts to ¥54 million, a decrease of ¥21 million from the fiscal year ended 31 March 2012. A reversal of allowances made for accounts receivable that are later collected, depending upon the recovered financial status of its customers and the Group's collection efforts, will decrease the selling, general and administrative expenses for the accounting period during which such collection takes place. Conversely, additional allowances may be necessary in the future if conditions in the industries of some of the Group's customers do not improve in the near term.

Accrued Warranty Expenses

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

Accrued warranty expenses were ¥1,889 million as of 31 March 2013, a decrease of ¥240 million from ¥2,129 million as of 31 March 2012.

Stock-Based Compensation

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

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

The Group has recorded ¥165 million, ¥583 million and ¥861 million as stock-based compensation expense in the fiscal years ended 31 March 2011, 2012 and 2013, respectively.

Accrued Pension and Severance Cost

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

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

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

Pension related adjustments (net of tax) recognised in other comprehensive loss for the fiscal years ended 31 March 2011, 2012 and 2013 were ¥121 million, ¥6,328 million, and ¥1,779 million, respectively. Pension related adjustments of ¥6,328 million for the fiscal year ended 31 March 2012 were recognised due to the reduction of discount rate used to determine benefit obligations for Japanese plans and losses on plan assets.

The Group has recorded ¥1,911 million, ¥2,251 million and ¥3,166 million as benefit cost in the fiscal years ended 31 March 2011, 2012 and 2013, respectively.

Deferred Tax Assets

In assessing the realisability 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 realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon projections for future taxable income over the periods in which the deferred tax assets are deductible including management's expectations of future semiconductor market and semiconductor and component test systems market prospects and other factors, management believes it is more likely than not that the Group will realise the benefits of these deductible differences, net of valuation allowance. The valuation allowance in the fiscal year ended 31 March 2013 was increased by ¥8,884 million primarily due to an increase of net operating loss carry forwards ("NOL"). The net increases in valuation allowance increased ¥793 million and decreased ¥1,894 million for the fiscal years ended 31 March 2011 and 2012, respectively.

As a result of acquiring Verigy on 4 July 2011, as of 31 March 2012, the Group has recorded on its consolidated balance sheet, deferred tax assets of ¥59,694 million of which ¥31,800 million represents NOL. The Group has also recorded a valuation allowance of ¥50,188 million, and as a result, net deferred tax assets were

¥9,506 million. As of 31 March 2013, the Group has recorded on its consolidated balance sheet, deferred tax assets of ¥69,414 million of which ¥38,912 million represents NOL. The Group has also recorded a valuation allowance of ¥59,072 million, and as a result, net deferred tax assets were ¥10,342 million. NOL carry forwards utilised were ¥554 million, ¥25 million and ¥14,728 million in the fiscal years ended 31 March 2011, 2012 and 2013, respectively.

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

Income Taxes

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

Fair Value

Investment securities

The fair value of available-for-sale equity securities is based on quoted market prices at the reporting date for those investments.

Plan assets

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

New Accounting Standards

In July 2012, the Financial Accounting Standards Board (the "FASB") amended its accounting guidance to simplify how entities test indefinite-lived intangible assets for impairment, which improves consistency in impairment testing requirements among long-lived asset categories. The guidance permits an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, the guidance eliminates the requirement to perform quantitative impairment testing as outlined in the previously issued standards. The guidance was adopted by the Group in the first fiscal quarter beginning on 1 April 2013. The adoption of the guidance did not have a significant impact on its consolidated results of operations and financial condition.

In February 2013, the FASB finalised the accounting guidance for reporting of amounts reclassified out of accumulated other comprehensive income. This new guidance requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. The guidance was adopted by the Group in the first fiscal quarter beginning on 1 April 2013. The adoption of the guidance did not have a significant impact on its consolidated results of operations and financial condition.

Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation for the fiscal year ending 31 March 2014.

Use of Simplified Accounting Method and Special Accounting Policy for Quarterly Consolidated Financial Statements

In the Company's quarterly consolidated financial statements for the nine-month period ended 31 December 2013, tax expense is measured using an estimated annual effective tax rate. The Company made, at the end of the nine-month period ended 31 December 2013, its best estimate of the annual effective tax rate for the full fiscal year and used that rate to provide for income taxes on a current year-to-date basis. The estimated effective tax rate includes the deferred tax effects of expected fiscal year-end temporary differences and carryforwards, and the effects of valuation allowances for deferred tax assets.

Consolidated Results for the Fiscal Year Ended 31 March 2013

In April 2012, the Group reorganised its international subsidiaries to create a new structure based on a principle of one company per country, and fully integrated with Verigy. Therefore, in the fiscal year ended 31 March 2013, it was difficult to calculate the amount of the effect of the integration with Verigy because operations were carried out in an integrated manner in each country. Additionally, Verigy's results of operations for the first quarter of the fiscal year ended 31 March 2012 are not included in the Group's results of operations because it was prior to the acquisition.

Net Sales

The Group's net sales decreased by ¥8,145 million, or 5.8 per cent., compared with the fiscal year ended 31 March 2012, to ¥132,903 million in the fiscal year ended 31 March 2013. This was primarily due to a slowdown in the semiconductor market and resultant capital expenditure restrictions made by semiconductor manufacturers. It is estimated that the fluctuations in exchange rates during the fiscal year ended 31 March 2013 contributed to an increase of the Group's net sales by ¥3,374 million in the fiscal year ended 31 March 2013.

Net Sales by Segment

The following is a discussion of net sales for the Group's Semiconductor and Component Test System, Mechatronics System and Services, Support and Others Segments. Net sales amounts discussed include intercompany sales between segments.

Semiconductor and Component Test System Segment

In the fiscal year ended 31 March 2013, net sales of the Group's Semiconductor and Component Test System Segment accounted for 76.1 per cent. of total net sales. Net sales of the Group's Semiconductor and Component Test System Segment for the fiscal year ended 31 March 2013 decreased by ¥4,489 million, or 4.3 per cent., compared with the fiscal year ended 31 March 2012, to ¥101,119 million. It is estimated that fluctuations in exchange rates during the fiscal year ended 31 March 2013 contributed to an increase of the Group's net sales in its Semiconductor and Component Test System Segment by ¥2,691 million.

Net sales of test systems for non-memory semiconductors in the fiscal year ended 31 March 2013 increased by ¥3,673 million, or 4.6 per cent., compared with the fiscal year ended 31 March 2012 to ¥83,368 million. This increase was mainly due to a steady growth in the sales of V93000 series test systems for SoC semiconductors.

Net sales of test systems for memory semiconductors in the fiscal year ended 31 March 2013 decreased by ¥8,162 million, or 31.5 per cent., compared with the fiscal year ended 31 March 2012 to ¥17,751 million. This decrease was mainly due to a reduced demand for memory test systems caused by a fall in demand for PCs.

Mechatronics System Segment

Net sales of the Mechatronics System Segment including test handlers and device interfaces decreased by ¥6,963 million, or 33.8 per cent., compared to the fiscal year ended 31 March 2012 to ¥13,653 million in the fiscal year ended 31 March 2013. This decrease was mainly due to a drop in memory test system demand. Device interface and test handler product demand, which is highly correlated to memory test system business, also fell.

Services, Support and Other Segment

Net sales of the Services, Support and Other Segment increased by ¥1,270 million, or 6.8 per cent., compared with the fiscal year ended 31 March 2012 to ¥20,077 million in the fiscal year ended 31 March 2013, mainly due to a stable growth in demand for support services. The main businesses in the Services, Support and Others Segment were maintenance services and leasing and rentals.

Geographic Markets

The Group experienced a decrease of 5.8 per cent. in net sales in the fiscal year ended 31 March 2013, which was primarily due to a decrease of sales in the Americas.

Net sales in Japan decreased by ¥2,050 million, or 12.7 per cent., compared with the fiscal year ended 31 March 2012 to ¥14,045 million in the fiscal year ended 31 March 2013. This decrease was mainly due to a reduced demand for digital household appliances, resulting in a drop in demand for T2000 test systems.

Net sales in the Americas decreased by ¥9,159 million compared with the fiscal year ended 31 March 2012 to ¥20,583 million in the fiscal year ended 31 March 2013. This decrease was mainly due to a drop in sales of the T2000 for MPU testers resulting from the counter effect of the major capital expenditures in the fiscal year ended 31 March 2012, and the weakening of the PC market in the fiscal year ended 31 March 2013. It is estimated that fluctuations in exchange rates during the fiscal year ended 31 March 2013 contributed to an increase of the Group's net sales in the Americas by approximately ¥619 million, primarily due to the appreciation of the U.S. dollar against the Japanese yen.

Net sales in Europe increased by ¥2,046 million compared to the fiscal year ended 31 March 2012 to ¥9,061 million in the fiscal year ended 31 March 2013. This increase was mainly due to increased sales of the V93000. It is estimated that fluctuations in effect of changes in exchange rates during the fiscal year ended 31 March 2013 contributed to an increase of the Group's net sales in Europe by approximately ¥291 million.

Net sales in Asia (excluding Japan) increased by ¥1,018 million, or 1.2 per cent., compared with the fiscal year ended 31 March 2012 to ¥89,214 million in the fiscal year ended 31 March 2013. Net sales in Korea and Taiwan increased by ¥2,090 million, or 7.0 per cent. and ¥8,235 million, or 29.8 per cent., compared with the fiscal year ended 31 March 2012, respectively. This increase was mainly due to increased capital expenditures in a variety of semiconductors for communication devices such as smartphones. Net sales in China and the rest of Asia (excluding Japan, Taiwan and Korea) decreased by ¥9,307 million, or 30.1 per cent., compared with the fiscal year ended 31 March 2012. This decrease resulted from decreased sales of the T2000 for MPU testers. It is estimated that fluctuations in exchange rates during the fiscal year ended 31 March 2013 brought up the Group's net sales in Asia by approximately ¥2,362 million.

The Group's overseas sales as a percentage of total sales was 89.4 per cent. and 88.6 per cent. for the fiscal years ended 31 March 2013 and 2012, respectively.

Operating Expenses

In the fiscal year ended 31 March 2013, the Group's operating expenses decreased by ¥7,388 million, or 5.3 per cent., compared with the fiscal year ended 31 March 2012 to ¥132,823 million.

In the fiscal year ended 31 March 2013, cost of sales decreased by ¥8,317 million, or 11.5 per cent., compared to the fiscal year ended 31 March 2012 to ¥63,983 million. This decrease was mainly due to a ¥8,145 million decrease in net sales and the accounting for ¥3,532 million in one-time costs associated with acquisition accounting for Verigy in the fiscal year ended 31 March 2012.

In the fiscal year ended 31 March 2013, research and development expenses increased by ¥2,759 million, or 9.1 per cent., compared to the fiscal year ended 31 March 2012 to ¥33,062 million. This increase in research and development expenses was mainly due to increased costs for materials for future product development.

In the fiscal year ended 31 March 2013, selling, general and administrative expenses decreased by ¥1,830 million, or 4.9 per cent., compared to the fiscal year ended 31 March 2012 to ¥35,778 million. This decrease was mainly due to personnel expenses and costs of ¥3,819 million applicable to the acquisition of Verigy in the fiscal year ended 31 March 2012.

Operating Income

In the fiscal year ended 31 March 2013, operating income decreased by ¥757 million, compared to the fiscal year ended 31 March 2012, to a profit of ¥80 million.

Other Income (Expenses)

In the fiscal year ended 31 March 2013, interest and dividend income decreased by ¥110 million, or 34.1 per cent., compared with the fiscal year ended 31 March 2012 to ¥213 million.

In the fiscal year ended 31 March 2013, interest expenses decreased by ¥21 million compared with the fiscal year ended 31 March 2012 to ¥132 million.

In the fiscal year ended 31 March 2013, impairment loss on investment securities decreased by ¥1,854 million compared with the fiscal year ended 31 March 2012 to ¥400 million.

In the fiscal year ended 31 March 2013, other expense decreased by ¥1,141 million, compared with the fiscal year ended 31 March 2012, to ¥1,054 million. This decrease was mainly due to a decrease in foreign currency exchange loss of ¥892 million compared with the fiscal year ended 31 March 2012 as a result of the appreciation of the U.S. dollar against Japanese yen. Currency exchange profits/losses represent the difference between the value of foreign currency-denominated sales, translated at prevailing exchange rates, and either (i) the value of sales settled during the same fiscal year, including those settled using foreign exchange forward contracts, or (ii) the value of cash and cash equivalents, accounts receivable and payables outstanding re-measured at the exchange rate in effect as of 31 March 2013.

Income Taxes (Benefit)

In the fiscal year ended 31 March 2013, the Group's effective tax rate was 192.8 per cent., while the tax rate for the fiscal year ended 31 March 2012 was –36.0 per cent.. The statutory tax rate of the Company and its domestic consolidated subsidiaries was 37.8 per cent. for the fiscal year ended 31 March 2013. For a more detailed discussion on income taxes of the Group in the fiscal year ended 31 March 2013 and 2012, see Note 14 to the Group's audited consolidated financial statements for the fiscal year ended 31 March 2013.

Net Income (Loss)

In the fiscal year ended 31 March 2013, the Group's net loss increased by ¥1,626 million, compared to the fiscal year ended 31 March 2012, to a loss of ¥3,821 million.

Other Comprehensive Income (Loss)

In the fiscal year ended 31 March 2013, the Group's other comprehensive income (loss), net of tax, improved by ¥19,949 million compared to the fiscal year ended 31 March 2012, to an income of ¥15,645 million compared to a loss of ¥4,304 million in the fiscal year ended 31 March 2012. This improvement was mainly due to an increase of ¥15,828 million in foreign currency translation adjustments from an income of ¥1,422 million in the fiscal year ended 31 March 2012 to an income of ¥17,250 million in the fiscal year ended 31 March 2013.

Unaudited Consolidated Results for the Nine-Month Period Ended 31 December 2013

During the nine-month period ended 31 December 2013, the Japanese economic climate continued to improve, and the U.S. economy likewise continued its gradual recovery supported by solid domestic demand. However, with a few exceptions, countries in Europe remained economically stagnant and signs of decelerating growth were seen in China and other emerging economies as well, resulting in lower overall global growth than had been anticipated.

The semiconductor industry saw moves towards renewed capital investment in the memory sector, where demand continued to strengthen. Several major chipmakers also moved ahead with plans to manufacture the next-generation of logic semiconductors, contributing to an overall positive trend in semiconductor production equipment investment, especially in leading-edge technologies. However, the overall environment in end-user product trends revealed a lack of strength in key demand areas, with the PC market estimated to be in its second consecutive year of contraction and no sign of the vigorous growth previously seen in high-end smartphones. Semiconductor manufacturers, principally in the non-memory sector, have reacted by continuing to limit their investments in new capacity, as they have since last summer.

As a result of expected future cash flows based on changes in the business environment weighed on profits, for the nine-month period ended 31 December 2013, the Group recognised impairment losses of ¥1,099 million and ¥11,671 million on property, plant and equipment and intangible assets, respectively included in the Semiconductor and Component Test System Segment. In addition, the Group recognised impairment losses of ¥497 million and ¥228 million on property, plant and equipment and intangible assets, respectively included in the Mechatronics System Segment.

Net Sales

In the nine-month period ended 31 December 2013, the Group endeavoured to grow profits chiefly in the memory test business, but could not compensate for overall weakness, resulting in orders received of ¥88.3 billion (a 7.8 per cent. decrease compared to the corresponding period in the previous fiscal year). The Group's net sales decreased by ¥17,935 million, or 18.5 per cent., compared with the nine-month period ended 31 December 2012, to ¥79,251 million in the nine-month period ended 31 December 2013.

Net Sales by Segment

Semiconductor and Component Test System Segment

In the nine-month period ended 31 December 2013, the Group's Semiconductor and Component Test System Segment benefited from demand for memory test systems, as customers pursued investments in DRAM and NAND flash production capacity expansion. However, non-memory test systems faced headwinds, as chipmakers adjusted their production and inventories of the advanced semiconductors used in PCs and high-end smartphones, the key demand drivers in this sector. As a result of the above, orders received were ¥56.2 billion for the nine-month period ended 31 December 2013 (a 22.3 per cent. decrease compared to the corresponding period in the previous fiscal year), and net sales decreased by ¥22,328 million, or 30.3 per cent., compared with the nine-month period ended 31 December 2012, to ¥51,460 million.

Mechatronics System Segment

In the nine-month period ended 31 December 2013, the Group's Mechatronics System Segment posted higher orders compared to the corresponding period in the previous fiscal year due to robust customer interest in new nanotechnology products. Sales declined slightly from the corresponding period in the previous fiscal year due to the timing of customer orders.

As a result of the above, orders received in the nine-month period ended 31 December 2013 were ¥12.8 billion (a 27.3 per cent. increase in comparison to the corresponding period in the previous fiscal year), and net sales amounted to ¥10,039 million (a 5.9 per cent. decrease in comparison to the corresponding period in the previous fiscal year).

Services, Support and Other Segment

In the nine-month period ended 31 December 2013, the Group's Services, Support and Others Segment posted year-over-year growth in sales and earnings, driven by the solid improvement in service business sales due to the action taken by the Group since the beginning of the fiscal year ending 31 March 2014 to improve profits.

As a result of the above, orders received in the nine-month period ended 31 December 2013 were ¥19.5 billion (a 38.6 per cent. increase in comparison to the corresponding period in the previous fiscal year), and net sales increased by ¥3,362 million, or 23.1 per cent., compared with the nine-month period ended 31 December 2012, to ¥17,921 million in the nine-month period ended 31 December 2013.

Operating Expenses

In the nine-month period ended 31 December 2013, the Group's operating expenses increased by ¥17,293 million, or 18.0 per cent., compared with the nine-month period ended 31 December 2012, to ¥113,655 million. This principally reflected the inventory valuation loss of ¥3,952 million and impairment losses for long-lived assets of ¥13,495 million.

In the nine-month period ended 31 December 2013, cost of sales decreased by ¥136 million, or 0.3 per cent., compared to the nine-month period ended 31 December 2012, to ¥45,913 million, resulting in a decrease in gross margin, calculated as gross profit as a percentage of net sales, from 52.6 per cent. for the nine-month period ended 31 December 2012 to 42.1 per cent. in the nine-month period ended 31 December 2013. This decrease principally reflected items recorded in the nine-month period ended 31 December 2013, in particular, inventory valuation loss and impairment losses for long-lived assets, which added to the cost of sales.

In the nine-month period ended 31 December 2013, research and development expenses increased by ¥1,094 million, or 4.5 per cent., compared to the nine-month period ended 31 December 2012, to ¥25,294 million. Selling, general and administrative expenses in the nine-month period ended 31 December 2013 increased by ¥3,267 million, or 12.5 per cent., compared to the nine-month period ended 31 December 2012, to ¥29,380 million. The increases in research and development and selling, general and administrative expenses were primarily due to fluctuations in foreign exchange rates.

Operating Income (Loss)

In the nine-month period ended 31 December 2013, operating income decreased by ¥35,228 million, compared to the nine-month period ended 31 December 2012, to a loss of ¥34,404 million.

Other Income (Expenses)

In the nine-month period ended 31 December 2013, interest and dividend income increased by ¥10 million, or 6.3 per cent., compared with the nine-month period ended 31 December 2012, to ¥169 million, and interest expenses increased by ¥7 million, or 7.2 per cent., compared with the nine-month period ended 31 December 2012, to ¥104 million, primarily due to interest expenses on long-term debt. The increase in interest and dividend income was primarily due to increase in cash at a foreign subsidiary where the Company earned a higher interest. The increase in interest expenses was primarily due to corporate bonds issued in May 2012, for which the Company accrued interest for the full nine months during the nine-month period ended 31 December 2013.

In the nine-month period ended 31 December 2013, gain on sale of investment securities increased by ¥778 million, compared with the nine-month period ended 31 December 2012, to ¥778 million, due to sales of investment securities in the nine-month period ended 31 December 2013, which did not occur in the nine-month period ended 31 December 2012. Other expenses decreased by ¥18 million, compared with the nine-month period ended 31 December 2012, to ¥760 million, primarily due to fluctuations in foreign exchange rates.

Income Taxes (Benefit)

In the nine-month period ended 31 December 2013, income tax expense decreased by ¥2,230 million, compared with the nine-month period ended 31 December 2012, to income tax benefit of ¥171 million. The decrease was primarily due to a decrease in taxable income for the nine-month period ended 31 December 2013 and the effects of separate company income tax reporting positions.

Net Income (Loss)

In the nine-month period ended 31 December 2013, the Group's net loss increased by ¥32,231 million, compared to the nine-month period ended 31 December 2012, to a loss of ¥34,148 million.

Other Comprehensive Income (Loss)

In the nine-month period ended 31 December 2013, the Group's total other comprehensive income improved by ¥7,880 million, compared to the nine-month period ended 31 December 2012, to ¥15,255 million. This improvement was mainly due to an increase of ¥7,802 million in foreign currency translation adjustments from an income of ¥7,345 million in the nine-month period ended 31 December 2012 to an income of ¥15,147 million in the nine-month period ended 31 December 2013.

Financial Condition

Consolidated Balance Sheet as of 31 March 2013 Compared to Consolidated Balance Sheet as of 31 March 2012

Total assets at the end of the fiscal year ended 31 March 2013 amounted to ¥225,515 million, an increase of ¥6,289 million, compared to ¥219,226 million as of 31 March 2012, primarily due to increases of ¥7,162 million, ¥5,174 million, ¥2,834 million and ¥2,013 million in property, plant and equipment (net), goodwill, trade receivables (net) and inventories and a decrease of ¥12,550 million in cash and cash equivalents, respectively.

Total liabilities as of 31 March 2013 amounted to ¥84,274 million, a decrease of ¥3,400 million, compared to ¥87,674 million as of 31 March 2012, primarily due to decreases of ¥25,000 million and ¥5,279 million in short term debt and trade accounts payable, respectively, and an increase of ¥25,000 million in corporate bonds.

Total stockholders' equity as of 31 March 2013 amounted to ¥141,241 million, an increase of ¥9,689 million, compared to ¥131,552 million as of 31 March 2012. Equity to assets ratio was 62.6 per cent., an increase of 2.6 percentage points from the fiscal year ended 31 March 2012.

Unaudited Consolidated Balance Sheets as of 31 December 2013 Compared to Consolidated Balance Sheets as of 31 March 2013

Total assets as of 31 December 2013 amounted to ¥203,298 million, a decrease of ¥22,217 million, compared to ¥225,515 million as of 31 March 2013, primarily due to decreases of ¥14,449 million and ¥12,489 million in trade receivables (net) and intangible assets (net), respectively. The ¥12,489 million decrease in intangible assets (net) was primarily due to the impairment loss of ¥11,899 million, which was recognised as of 31 December 2013.

Total liabilities as of 31 December 2013 amounted to ¥83,067 million, a decrease of ¥1,207 million, compared to ¥84,274 million as of 31 March 2013, primarily due to decreases of ¥1,017 million and ¥1,316 million in accrued expenses and other liabilities, respectively.

Total stockholders' equity as of 31 December 2013 amounted to ¥120,231 million, a decrease of ¥21,010 million, compared to ¥141,241 million as of 31 March 2013, primarily due to a decrease of ¥38,493 million in retained earnings.

Liquidity and Capital Resources

Cash Flows for the Fiscal Year Ended 31 March 2013 compared to the Fiscal Year Ended 31 March 2012

In accordance with the Group's funding and treasury policy (including funding for capital expenditures), which is overseen and controlled by its Accounting Department, the Group funds its cash needs through cash from operating activities and cash and cash equivalents on hand, and is able to procure funds as necessary by issuance of debt and equity securities in domestic and foreign capital markets and bank loans.

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

In April 2012, the Group reorganised its international subsidiaries to create a new structure based on a principle of one company per country, and fully integrated with Verigy. All subsidiaries follow the Group's funding and treasury policy, which operates integrally. Therefore, in the fiscal year ended 31 March 2013, it was difficult to calculate the amount of the effect of the integration with Verigy because operations were carried out in an integrated manner in each country.

The Company issued ¥25,000 million in corporate bonds in Japan on 25th May, 2012, and repaid the short-term loans from banks used to fund the acquisition of Verigy.

The Group's cash and cash equivalents balance decreased by ¥12,550 million in the fiscal year ended 31 March 2013 to ¥45,668 million as of 31 March 2013. As of 31 March 2013, approximately 20 per cent. of the Group's cash and cash equivalents were held in Japanese yen.

Net loss in operating activities was ¥3,821 million during the fiscal year ended 31 March 2013. As a result of a decrease of ¥6,475 million in account payable, a decrease of ¥4,529 million in accrued expense and an adjustment of non-cash items such as depreciation and amortisation, net cash used in operating activities was ¥2,215 million in the fiscal year ended 31 March 2013. Net cash provided by operating activities decreased by ¥14,517 million in the fiscal year ended 31 March 2013 compared to ¥12,302 million in net cash provided by operating activities in the fiscal year ended 31 March 2012. The main reason for the decrease in the fiscal year ended 31 March 2013 was an increase of ¥902 million in account payable and an increase of ¥39 million in accrued expense in the fiscal year ended 31 March 2012, and a decrease of ¥6,475 million in account payable and a decrease of ¥4,529 million in accrued expense in the fiscal year ended 31 March 2013.

Net cash used in investing activities was ¥11,498 million in the fiscal year ended 31 March 2013. This amount was primarily attributable to payments for obtaining new property in the amount of ¥11,386 million in connection with a new factory in Korea. Compared to net cash used in investing activities in the amount of ¥37,670 million in the fiscal year ended 31 March 2012, the decrease was ¥26,172 million, which was primarily due to the payments in connection with the Verigy acquisition in the amount of ¥57,145 million in the fiscal year ended 31 March 2012.

Net cash used in financing activities was ¥2,914 million in the fiscal year ended 31 March 2013. Compared to net cash provided by financing activities in the amount of ¥9,887 million in the fiscal year ended 31 March

2012, the decrease was ¥12,801 million. This amount was primarily attributable to a net increase of ¥25,466 million in short term debt in the fiscal year ended 31 March 2012, and an increase in ¥25,000 million corporate bonds in the fiscal year ended 31 March 2013, which was used to repay short-term loans from banks in the amount of ¥25,000 million, which meant that there was no increase in borrowings.

Net effect of exchange rate changes on cash and cash equivalents was favourable by ¥4,077 million in the fiscal year ended 31 March 2013, an improvement of ¥5,701 million compared to the fiscal year ended 31 March 2012.

Cash Flows for the Nine-Month Period Ended 31 December 2013 Compared to the Nine-Month Period Ended 31 December 2012

The Group's cash and cash equivalents balance as of 31 December 2013 amounted to ¥42,121 million, a decrease of ¥1,489 million, compared to ¥43,610 million as of 31 December 2012.

Net cash used in operating activities decreased by ¥3,169 million to ¥167 million in the nine-month period ended 31 December 2013 compared to ¥3,336 million in the nine-month period ended 31 December 2012. Net loss in operating activities was ¥34,148 million during the nine-month period ended 31 December 2013. As a result of an increase of ¥15,651 million in trade receivables and an adjustment of non-cash items such as an impairment charge of ¥13,495 million and depreciation and amortisation, net cash used in operating activities was ¥167 million during the nine-month period ended 31 December 2013.

Net cash used in investing activities decreased by ¥4,671 million to ¥4,948 million in the nine-month period ended 31 December 2013 compared to ¥9,619 million in the nine-month period ended 31 December 2012. The amount for the nine-month period ended 31 December 2013 was primarily attributable to payments for purchases of property, plant and equipment in the amount of ¥5,096 million and acquisition of subsidiary (net of cash acquired) in the amount of ¥1,272 million, offset by proceeds from sale of available-for-sale securities in the amount of ¥1,418 million.

Net cash used in financing activities decreased by ¥154 million to ¥2,868 million in the nine-month period ended 31 December 2013 compared to ¥3,022 million in the nine-month period ended 31 December 2012. The amount for the nine-month period ended 31 December 2013 was primarily attributable to dividends paid in the amount of ¥3,369 million.

Financial Policy

The Group has entered into agreements for committed lines of credit with several banks to ensure that necessary financing may be procured efficiently. From 26 March 2012, the term of a commitment-line agreement is three years and the Group can elect to obtain a two-year loan at the end of the term. A commitment-line agreement generally has financial covenants. The Group is annually required to maintain certain minimum net asset levels. The Company is required to maintain a BBB- rating or above with R&I. The Group's unused commitment lines totalled ¥10.0 billion as of 31 March 2013. R&I's issuer rating of the Group as of 31 March 2013 is A–, but R&I announced on 29 January 2014 that it has changed its rating outlook of the Company to negative.

The Group has various retirement and severance plans for employees, including non-contributory defined benefit retirement and severance plans consisting primarily of the Employees Provident Fund ("EPF") plan. The amount of ¥26,785 million has been recognised as accrued severance and pension costs in the fiscal year ended 31 March 2013. The Group has contributed to the EPF plan in accordance with local statutory requirements. The Group's cash funding requirements would be affected by any changes in interest rates, rate of returns on plan assets and government regulations. The contributions paid by the Group under the EPF were ¥1,917 million in the fiscal year ended 31 March 2012 and ¥1,785 million in the fiscal year ended 31 March 2013. The Group expects to contribute ¥1,921 million under the EPF in the fiscal year ending 31 March 2014.

Capital Expenditure

Total capital expenditure during the fiscal year ended 31 March 2013 amounted to ¥12,592 million, an increase of ¥5,608 million, or 80.3 per cent., compared to ¥6,984 million for the fiscal year ended 31 March 2012. For the fiscal year ended 31 March 2013, capital expenditures relating to the Semiconductor and Component Test System Segment and Mechatronics System Segment, in each case principally for the development, manufacturing and production increase of new products, amounted to ¥3,530 million and ¥4,565 million, respectively, while capital expenditures relating to the Services, Support and Other Segment, principally for the acquisition of lease assets, amounted to ¥4,356 million.

Total capital expenditure during the fiscal year ended 31 March 2012 amounted to ¥6,984 million, an increase of ¥3,191 million, or 84.1 per cent., compared to ¥3,793 million for the fiscal year ended 31 March 2011. For the fiscal year ended 31 March 2012, capital expenditures relating to the Semiconductor and Component Test System Segment and Mechatronics System Segment, in each case principally for the development, manufacturing and production increase of new products, amounted to ¥2,398 million and ¥750 million, respectively, while capital expenditures relating to the Services, Support and Other Segment, principally for the acquisition of lease assets, amounted to ¥3,492 million.

Total capital expenditure during the fiscal year ended 31 March 2011 amounted to ¥3,793 million, an increase of ¥368 million, or 10.7 per cent., compared to ¥3,425 million for the fiscal year ended 31 March 2010. For the fiscal year ended 31 March 2011, capital expenditures relating to the Semiconductor and Component Test System Segment and Mechatronics System Segment, in each case principally for the development, manufacturing and production increase of new products, amounted to ¥1,350 million and ¥374 million, respectively, while capital expenditures relating to the Services, Support and Other Segment, principally for the acquisition of lease assets, amounted to ¥1,733 million.

The Group's capital expenditures for the fiscal years ended 31 March 2011, 2012 and 2013 were funded mainly through internally generated funds. The Group's capital expenditure for the nine-month period ended 31 December 2013 was ¥4,883 million.

For the fiscal year ending 31 March 2014, the Company expects that the Group's capital expenditure will amount to approximately ¥7,800 million, which has been or will be funded primarily through internally generated funds.

The figures in this "Capital Expenditure" section are on an accrual basis.

Off-Balance Sheet Arrangements

As of 31 March 2013, the Group had no material off-balance sheet arrangements.

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

Contractual Obligations and Commercial Commitments

The following table reflects the Group's current obligations and commitments to make future payments under contracts, contractual obligations and commercial commitments as of 31 March 2013:

	Payments Due by Period				
Contractual Cash Obligation	**Total**	**Less than 1 year**	**1–3 years**	**3–5 years**	**More than 5 years**
	(Millions of yen)				
Short-term debt	¥ –	¥ –	¥ –	¥ –	¥ –
Long-term debt, including current portion	25,000	–	10,000	15,000	–
Operating leases	3,902	871	1,458	688	885
Contractual obligations	2,549	2,549	–	–	–
Total contractual cash obligations	¥31,451	¥ 3,420	¥11,458	¥15,688	¥ 885

The contractual cash obligation table above excludes the Group's long-term deferred tax liabilities because it cannot make a reliable estimate of the timing of cash payments. For details see Note 14 to the audited consolidated financial statements for the fiscal year ended 31 March 2013 included elsewhere in this Offering Circular.

Related Party Transactions

Business Relationships

The Group sells products to and purchases parts from Fujitsu Limited ("Fujitsu"), which has the right to give instructions with respect to approximately 12 per cent. of the voting rights of the Company. The Group sells products to Fujitsu and its subsidiaries in arm's-length transactions. The Group purchases parts from Fujitsu and its subsidiaries after receiving competitive bids from several suppliers. The Group derived net sales of ¥1,128 million in the fiscal year ended 31 March 2013 from the sale of products to Fujitsu and its subsidiaries. The Group purchased parts from Fujitsu and its subsidiaries in the amount of ¥3,757 million in the fiscal year ended 31 March 2013. The Group had receivables from Fujitsu and its subsidiaries in the amount of ¥338 million as of 31 March 2013. The Group had payables to Fujitsu and its subsidiaries in the aggregate amount of ¥1,255 million as of 31 March 2013. The Group expects to continue to engage in arm's-length transactions with Fujitsu and its subsidiaries in the future.

Mr. Yamamuro, an audit & supervisory board member of the Company since 2006, currently serves as an audit & supervisory board member of Fujitsu Limited. Mr. Ogura, an audit & supervisory board member of the Company since 2011, currently serves as a standing (full-time) audit & supervisory board member of Fujitsu Limited.

Loans

As of 31 March 2013, the Company has no outstanding loans to its directors and executive officers.

CAPITALISATION AND INDEBTEDNESS

The following table shows the consolidated capitalisation and indebtedness of the Company as of 31 December 2013, which has been extracted without material adjustment from the Company's unaudited quarterly consolidated financial statements as of the same date, and as adjusted to give effect to the issue of the Bonds:

	As of 31 December 2013	
	Actual	**As adjusted**
	(Millions of yen)	
Long-term debt[(2)]:		
Corporate bonds	25,000	25,000
The Bonds now being issued	–	30,000
Total long-term debt	25,000	55,000
Equity:		
Common stock, no par value:		
Authorised: 440,000,000 Shares		
Issued: 199,566,770 Shares	32,363	32,363
Capital surplus	43,492	43,492
Retained earnings	132,133	132,133
Accumulated other comprehensive income	8,326	8,326
Treasury stock (25,368,364 Shares), at cost	(96,083)	(96,083)
Total stockholders' equity	120,231	120,231
Total capitalisation and indebtedness[(5)]	¥145,231	¥ 175,231

Notes:

(1) The above table should be read in conjunction with the consolidated financial statements of the Company contained herein.

(2) As of 31 December 2013, ¥0 of the Group's long-term debt was secured and ¥0 of the Group's long-term debt was guaranteed.

(3) As of 31 December 2013, the Group had ¥0 of contingent liabilities for guarantees of loans.

(4) All of the issued Shares are fully-paid and non-assessable.

(5) Total capitalisation and indebtedness is a total of total long-term debt and total stockholders' equity.

(6) There has been no material change in the Company's consolidated capitalisation, indebtedness, contingent liabilities and guarantees since 31 December 2013.

Changes in Issued Share Capital

The Company has an authorised share capital of 440,000,000 Shares, of which 199,566,770 Shares were in issue as of 31 December 2013. The following table shows the changes in the issued share capital of the Company as of the dates indicated below:

Date	Type of issue/cancellation	Number of Shares issued/(cancelled)	Total number of Shares in issue
1 October 2006	Stock split	99,783,385	199,566,770

As of 31 December 2013, there has been no change in issued share capital of the Company since 1 October 2006.

Dividends

The Company normally pays cash dividends semi-annually, at mid-fiscal year and at fiscal year-end. Pursuant to its Articles of Incorporation, the Company can make dividend payments pursuant to a resolution of its Board of Directors, but the Articles of Incorporation do not preclude the Company from making dividend payments pursuant to a shareholders resolution. The year-end dividend is paid to shareholders of record as of 31 March pursuant to a resolution of either the Board of Directors or the ordinary general shareholders' meeting held usually in June every year. The interim dividend is paid to shareholders of record as of 30 September, pursuant to a resolution of the Board of Directors, usually in December. See "Description of the Shares and Certain Regulations—Distribution of Surplus".

The following table sets forth the dividends paid by the Company for each of the periods shown, which are the six months ended on that date:

Six Months Ended/Record Date	Dividends per Share
	(Yen)
31 March 2010	¥ 5.00
30 September 2010	5.00
31 March 2011	5.00
30 September 2011	5.00
31 March 2012	10.00
30 September 2012	10.00
31 March 2013	10.00
30 September 2013	10.00

Based on the premise that long-term and continued growth in corporate value is fundamental to the creation of shareholder value, the Company deems the consistent distribution of profits to be the most important management priority. Accordingly, the Company engages in active distribution of profits based on consolidated business performance. With respect to the distribution of retained earnings, the Company takes payout decisions after taking into consideration consolidated business performance, financial conditions, as well as the need for strategic investment for mid-to-long-term business development. While aiming to make consistent distributions, because of the fluctuation of the market in which it operates, the Company makes dividend payouts following a target payout ratio of 20 per cent. or more.

Retained earnings are devoted to research and development, streamlining efforts, overseas expansion, investments in new businesses and resources for M&A activities, with an aim to strengthen the Group's business position and enhance its corporate value.

In order to maintain capital strategies responsive to changes in the operating environment, the Company may consider repurchasing its own shares from time to time through taking into account factors such as trends in stock price, capital efficiency and cash flow.

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

Japanese Stock Market and Price Range of the Shares

The Shares are listed on the First Sections of the Tokyo Stock Exchange in the form of common stock and on the New York Stock Exchange in the form of American Depositary Shares evidenced by American Depositary Receipts.

The Tokyo Stock Exchange is the principal stock exchange in Japan. The most widely followed price index of stocks listed on the Tokyo Stock Exchange is the Nikkei Stock Average, an index of 225 selected stocks listed on its First Section computed by Nikkei Inc., a private corporation. In addition, the Tokyo Stock Exchange publishes the Tokyo Stock Price Index ("TOPIX"), an index of the market value of all stocks traded on its First Section.

The following table shows the highest and lowest reported sales prices of the Shares on the Tokyo Stock Exchange, and the highs and lows of the daily closing Nikkei Stock Average and the closing level of TOPIX for the periods indicated, all as reported by the Tokyo Stock Exchange and Nikkei Inc.:

	Price per Share		Nikkei Stock Average		TOPIX	
Calendar Year	**High**	**Low**	**High**	**Low**	**High**	**Low**
	(Yen)		(Yen)		(Points)	
2008	¥3,100	¥ 996	¥14,691.41	¥ 7,162.90	1,430.47	746.46
2009	2,550	1,122	10,639.71	7,054.98	975.59	700.93
2010	2,615	1,456	11,339.30	8,824.06	998.90	803.12
2011	1,924	718	10,857.53	8,160.01	974.63	706.08
2012:						
First quarter.	1,323	671	10,255.15	8,378.36	872.42	725.24
Second quarter	1,386	952	10,109.87	8,295.63	856.05	695.51
Third quarter.	1,261	914	9,232.21	8,365.90	778.70	706.46
Fourth quarter	1,374	838	10,395.18	8,534.12	859.80	713.95
2013:						
First quarter.	1,525	1,156	12,635.69	10,486.99	1,058.10	871.88
Second quarter	1,887	1,246	15,627.26	12,003.43	1,276.03	991.34
Third quarter	1,710	1,121	14,808.50	13,338.46	1,222.72	1,106.05
Fourth quarter	1,343	1,061	16,291.31	13,853.32	1,302.29	1,147.58
2014:						
First quarter (until 26 February 2014)	1,315	1,008	16,121.45	14,008.47	1,306.23	1,139.27

On 26 February 2014, the reported closing price of the Shares on the Tokyo Stock Exchange was ¥1,123 per Share. The closing Nikkei Stock Average and TOPIX on the same date were ¥14,970.97 and 1,225.35, respectively.

Principal Shareholders and Distribution of Shares

As of 30 September 2013, the 10 largest shareholders of record and the number and percentage of Shares held by them were as follows:

Shareholder	**Number of Shares held**	**Percentage of total Shares in issue**
	(Thousands)	(Per cent.)
The Master Trust Bank of Japan, Ltd.(1)	22,718	11.38%
Mizuho Trust & Banking Co., Ltd. (retirement benefit trust (Fujitsu account), re-trust trustees, Trust & Custody Services Bank, Ltd.)(2)	20,143	10.09
Japan Trustee Services Bank, Ltd.(1)	12,434	6.23
BNP Paribas Securities (Japan) Limited.	4,114	2.06
Trust & Custody Services Bank, Ltd. (investment trust account)	3,737	1.88
JPMorgan Securities Japan Co., Ltd.	3,632	1.82
Japan Trustee Services Bank, Ltd. (trust account 4)	3,510	1.76
Societe Generale Securities (North Pacific) Limited	2,830	1.42
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) (standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	2,260	1.13
Mizuho Securities Co., Ltd.	2,146	1.08
Total	77,524	38.85%

Notes:

(1) As of 30 September 2013, the Company held treasury stock of 25,372 thousand Shares, which are not included in the above table.

(2) Held by such holders in their trust accounts.

(3) Mizuho Trust & Banking Co., Ltd. (retirement benefit trust (Fujitsu account), re-trust trustees, Trust & Custody Services Bank, Ltd.) holds the 20,143 thousand Shares listed above as the trustee of a retirement benefit plan of Fujitsu, and exercises its voting rights pursuant to instructions given by Fujitsu.

(4) The Company has acknowledged that in respect of the substantial shareholding reports filed pursuant to the "Disclosure of Substantial Shareholding" system, Sumitomo Mitsui Trust Bank, Limited and its two affiliates jointly held 13,866 thousand Shares as of 15 August 2013 according to the substantial shareholding report filed on 21 August 2013. The Bank of Tokyo-Mitsubishi UFJ, Ltd. and its four affiliates jointly held 16,474 thousand Shares as of 12 August 2013 according to the substantial shareholding report filed on 19 August 2013. Nomura Securities Co., Ltd. and its four affiliates jointly held 10,413 thousand Shares as of 31 May 2013 according to the substantial shareholding report filed on 7 June 2013. However, the Company has not included the number of shares for which beneficial owners cannot be identified in the table above.

    As of 26 February 2014, most recent substantial shareholding reports (including amendments thereto), copies of which the Company has received since 1 October 2013, are as follows:

    - An amendment to the substantial shareholding report filed on 5 November 2013 by The Bank of Tokyo-Mitsubishi UFJ, Ltd. and four other joint holders, informing of the ownership of 19,779 thousand Shares as of 28 October 2013.
    - An amendment to the substantial shareholding report filed on 22 January 2014 by Nomura Securities Co., Ltd. and four other joint holders, informing of the ownership of 13,622 thousand Shares as of 15 January 2014.
    - An amendment to the substantial shareholding report filed on 6 February 2014 by Sumitomo Mitsui Trust Bank, Limited and two other joint holders, informing of the ownership of 15,047 thousand Shares as of 31 January 2014.
    - An amendment to the substantial shareholding report filed on 21 February 2014 by Deutsche Securities Inc. and one other joint holder, informing of the ownership of 9,362 thousand Shares as of 14 February 2014.

(5) Except as stated above, the Company is not aware of any change in the information provided above.

The ownership distribution of the Shares by category of shareholders of record of the Company as of 30 September 2013 was as follows:

Category	**Number of Shares held**	**Percentage of total Shares in issue**
	(Thousands)	**(Per cent.)**
Japanese financial institutions and securities companies	95,105	47.7%
Other Japanese corporations (including treasury stock held by the Company)	29,785	14.9
Foreign corporations and others (including foreign individuals)	39,361	19.7
Japanese individuals and others	35,316	17.7
Total	199,566	100.0%

For information on ownership of Shares by the Company's directors, audit & supervisory board members and executive officers, see "Management and Employees—Management".

As of the date of this Offering Circular, the Company is not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

Stock Acquisition Rights

See "Management and Employees—Stock Options" for details of the Company's outstanding stock acquisition rights.

BUSINESS

History and Development of the Company

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

The Group applies its capital expenditures chiefly to developing new products, streamlining production, expanding its production capacity and capital leases to its customers. The Group's capital expenditures amounted to ¥3.8 billion, ¥7.0 billion and ¥12.6 billion in the fiscal year ended 31 March 2011, 2012 and 2013, respectively. The amount for the fiscal year ended 31 March 2013 includes capital expenditures to build the new factory in Korea.

On 4 July 2011, the Group acquired all of the outstanding shares of common stock of Verigy at US$15.00 per share, pursuant to which Verigy became a wholly-owned subsidiary of the Company. The total purchase price was ¥78.7 billion. In April 2012, the Company reorganised its subsidiaries and fully integrated with Verigy.

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

Overview

As of 31 December 2013, the Group was comprised of the Company and its 34 consolidated subsidiaries and one investee which is accounted for by the equity method. The Group conducts its business in the following segments:

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

Semiconductor and Component Test System Segment

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

Mechatronics System Segment

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

Services, Support and Others Segment

The Services, Support and Others Segment consists of comprehensive customer solutions provided in connection with the Semiconductor and Component Test System and Mechatronics System Segments, support services and an equipment lease business.

Sales by Segment

The following tables illustrate net sales by each segment for the last three fiscal years and the nine-month periods ended 31 December 2012 and 2013.

Segment	Fiscal Year Ended 31 March 2011 Sales	2011 Proportion	2012 Sales	2012 Proportion	2013 Sales	2013 Proportion
	(Millions of yen)	(Per cent.)	(Millions of yen)	(Per cent.)	(Millions of yen)	(Per cent.)
Semiconductor and Component Test System Segment	¥69,333	69.6%	¥105,608	74.9%	¥101,119	76.1%
Mechatronics System Segment	18,515	18.6	20,616	14.6	13,653	10.3
Services, Support and Others Segment	14,166	14.2	18,807	13.3	20,077	15.1
Intercompany transactions elimination	(2,380)	(2.4)	(3,983)	(2.8)	(1,946)	(1.5)
Total net sales	¥99,634	100.0%	¥141,048	100.0%	¥132,903	100.0%

Segment	Nine-month Period Ended 31 December 2012 Sales	2012 Proportion	2013 Sales	2013 Proportion
	(Millions of yen)	(Per cent.)	(Millions of yen)	(Per cent.)
Semiconductor and Component Test System Segment	¥73,788	75.9%	¥51,460	64.9%
Mechatronics System Segment	10,665	11.0	10,039	12.7
Services, Support and Others Segment	14,559	15.0	17,921	22.6
Intercompany transactions elimination	(1,826)	(1.9)	(169)	(0.2)
Total net sales	¥97,186	100.0%	¥79,251	100.0%

Industry Overview

The Group offers products in semiconductor and component test systems, mechatronics systems, and services, support and others. The Group's main customers are semiconductor manufacturers, foundries and test houses. The Group believes that the following factors promote growth of the business carried out by its main customers:

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

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

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

Demand for Semiconductors and Electronic Components

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

Semiconductors are generally classified as either memory semiconductors or non-memory semiconductors. Memory semiconductors are used in electronic systems to store data and programmes. Non-memory semiconductors include various semiconductors that incorporate non-memory circuits, which include logic and analogue circuits. Logic circuits process digital data to control the operations of electronic systems. Analogue circuits process analogue signals translated from real world phenomena such as sound, light, heat and motion. SoC semiconductors are a subset of non-memory semiconductors that combine digital circuits with analogue, memory and RF circuits, among others, on a single semiconductor chip. SoC semiconductors are used in a variety of sophisticated products, including wireless communications, fibre optic equipments and digital consumer products.

Semiconductor sales have increased significantly over the long term. However, semiconductors, particularly memory semiconductors, have experienced significant cyclical variations in growth rates. According to World Semiconductor Trade Statistics (WSTS), worldwide semiconductor sales in 2008 decreased by approximately $7.0 billion or 2.8 per cent. compared to the previous year to approximately $248.6 billion, mainly due to the substantial decline in the price of memory semiconductors. Sales in 2009 also decreased compared to the previous year, by approximately $22.3 billion or 9.0 per cent. to approximately $226.3 billion, mainly due to the slow economy persisting since the previous year. Sales in 2010 increased compared to the previous year, by approximately $72.0 billion or 31.8 per cent. to approximately $298.3 billion, mainly due to increased demand for electronic components in developing nations. Sales in 2011 increased compared to the previous year, by approximately $1.2 billion or 0.4 per cent. to approximately $299.5 billion, mainly due to the global economic recession and natural disasters such as the Great East Japan Earthquake and the floods in Thailand reducing production activities of electronic products. Sales in 2012 decreased compared to the previous year, by approximately $8.0 billion or 2.7 per cent. to approximately $291.6 billion, because the effects of the debt crisis in Southern European countries brought about a further sense of stagnation. The following table sets forth the size of the market for memory semiconductors, non-memory semiconductors and all semiconductors between 2008 and 2012 and the projected market size between 2013 and 2015 as compiled and estimated by WSTS as of December 2013.

	Actual Year Ended 31 December					Projections for Years Ended/Ending 31 December		
	2008	2009	2010	2011	2012	2013	2014	2015
	(Millions of U.S. dollars)							
Memory	$ 46,348	$ 44,797	$ 69,614	$ 60,749	$ 56,995	$ 67,331	$ 67,669	$ 70,164
Non-memory	202,255	181,516	228,701	238,772	234,567	236,998	248,967	257,122
Total	248,603	226,313	298,315	299,521	291,562	304,309	316,636	327,286

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

The semiconductor market experienced negative growth in 2008 for the first time in seven years primarily due to the global economic crisis and further declined in 2009 reflecting the conditions continuing from the previous year. The market significantly recovered in 2010 compared to the previous year, due to a surge in demand for electronic equipment in developing nations. In 2011, the market only increased slightly compared to the previous year due to the global economic recession and natural disasters such as the Great East Japan Earthquake and the floods in Thailand reducing production activities of electronic products. The market for memory semiconductors decreased by 6.2 per cent. in 2012 as compared with 2011, after which it is expected to grow by approximately 18.1 per cent. in 2013, by approximately 0.5 per cent. in 2014 and by approximately 3.7 per cent. in 2015, according to estimates by WSTS. WSTS expects that the market for memory semiconductors will grow to approximately $70.2 billion in 2015. The Group believes that demand for memory semiconductors will be generated in the foreseeable future by the prevalence of DDR3-SDRAM, the next-generation DDR4-SDRAM, flash memory and other high-end semiconductors. WSTS estimates that the non-memory semiconductor market will grow by approximately 1.0 per cent. in 2013, by approximately 5.1 per cent. in 2014 and by approximately 3.3 per cent. in 2015. WSTS expects that the market for non-memory semiconductors will grow to approximately $257.1 billion in 2015. The Group believes that the demand for non-memory semiconductors will depend on consumer products such as smartphones and tablet-type devices, and will continue to grow in the foreseeable future, led by the further prevalence of, and new developments in, digital consumer products and personal computers.

Advancements in Semiconductor and Electronic Component Technology

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

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

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

- increase in demand for, and improvements in technology for, communication devices such as tablet-type devices and smartphones;
- growing demand for, and continuous improvements in, personal computers and digital consumer products, such as flat-panel TVs, DVD/Blu-ray disc recorders, digital cameras, electronic books and mobile phone handsets;
- requirements of communications network equipment, such as network routers, switches and base stations, as well as wireless handsets and other Internet access devices, to enable advances in Internet hardware and software applications, increases in infrastructure performance and simplification and miniaturisation of Internet access devices; and
- the move from vehicles with internal combustion engines to hybrid or electric vehicles partially or wholly driven by electric motors in response to society's increasing call for environmental measures and greater energy efficiency.

Demand for personal computers, servers, smartphones and tablet-type devices with higher performance and capabilities are also driving changes in the memory semiconductor sector. This demand is causing manufacturers to shift to the production of the DDR4-SDRAM high-speed data transfer memory semiconductor, and to further expand production of lower power LPDDR2/3 for mobile devices and large capacity and non-volatile and high-speed read or writable flash memory semiconductors. The Group believes that this shift is creating demand for test systems for memory semiconductors capable of handling these new types of memory semiconductors, as well as contributing to a reduction in testing costs. In addition, the Group believes that additional demand for mechatronics systems, including test handlers and device interfaces connecting semiconductor devices and semiconductor test systems, will be created and will grow in line with advances in semiconductor technologies.

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

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

Changes in Semiconductor and Electronic Component Manufacturing Processes

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

Production Outsourcing

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

Technological Innovation in Manufacturing Processes

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

New Testing Technologies

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

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

Business Strategy

The Group is currently facing a challenging business environment primarily due to the recent downturn in the global economy and weakened demand for semiconductors. In order to create a stable foundation amidst the fast-changing and challenging semiconductor market, on 4 July 2011, the Group acquired Verigy, pursuant to which Verigy became a wholly-owned subsidiary of the Group. In April 2012, the Group reorganised its subsidiaries and fully integrated with Verigy. Furthermore the Group has established the following core business goals to achieve mid- to long-term growth:

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

To achieve these goals, the Group plans to:

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

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

- developing semiconductor and component test systems with increased test speeds and throughput capabilities and test handlers in line with the technological development of memory semiconductors and non-memory semiconductors;
- proactively developing products to address the recent shift in emphasis in the semiconductor industry towards front-end testing of dies;
- actively applying high-frequency analogue technology developed for measuring instruments for the wireless communications market to test systems for non-memory semiconductors including test systems for SoC semiconductors;
- in addition to the Group's existing technologies, actively utilising Verigy's technologies, including the high-frequency test technology or the per-site processor architecture, and promoting product development that utilises the strengths of both companies;
- developing testing solutions for complexed IC incorporating RF, logic and memory chips in a single package in order to achieve IC with advanced 3D integration as well as downsizing and technical advantages with TSV technology;
- offering semiconductor and component test systems and device interfaces with high throughput in order to test recent devices incorporating interfaces with data rates of several gigabits per second; and
- developing device interfaces that can optimise the performance of semiconductor and component test systems and test handlers in responding to semiconductors with higher speed and large pin counts.

Strengthen the test system business for non-memory semiconductors

The Group believes that in 2012 the market for test systems for non-memory semiconductors was approximately six times the size of the market for test systems for memory semiconductors. The Group has therefore devoted its resources to develop test systems and modules for non-memory semiconductors to meet the demands of a large number of manufacturers for the testing of a wide variety of non-memory semiconductors.

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

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

Focus sales and support efforts on key customer accounts

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

The Company acquired Verigy, then the Company reorganised its subsidiaries and integrated with Verigy

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

Highly Complementary Technology and Products

Building on the Group's strength in memory semiconductor test systems and mass production lines and Verigy's strength in non-memory semiconductor test systems and research and development, the Group expects to drive technological innovation in the more comprehensive field of automatic semiconductor test equipment.

The Group will also work to enhance growth and profitability by reallocating resources currently devoted to areas of duplicative research and development, with a goal of accelerating the Group's combined technical capabilities and developing new business.

Customer Relationships

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

Global Business Development

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

Products

As of the fiscal year ended 31 March 2013, the Group's main products are products developed, manufactured and sold in the Semiconductor and Component Test System Segment, Mechatronics System Segment and Services Support and Others Segment. They are as follows:

Semiconductor and Component Test Systems Segment

Semiconductor and component test systems are used during the semiconductor and electronic component manufacturing process to confirm that a semiconductor functions properly. Semiconductor and component test systems consist of test systems for memory semiconductors and test systems for non-memory semiconductors.

The following table sets forth the amount of net sales of the Group's semiconductor and component test systems, for memory and non-memory semiconductors for the periods presented.

	Fiscal Year Ended 31 March		
	2011	2012	2013
	(Millions of yen)		
Test systems for memory semiconductors	¥30,016	¥ 25,913	¥ 17,751
Test systems for non-memory semiconductors	39,317	79,695	83,368
Total	¥69,333	¥105,608	¥101,119

Test Systems for Memory Semiconductors

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

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

Characteristics of the performance and other characteristics of test systems for memory semiconductors that are important to customers include:

Throughput. Throughput is measured by the number of semiconductors that can be tested by test systems for memory semiconductors during a specified time.

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

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

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

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

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

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

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

The Group estimates that its market share in test systems for memory semiconductors was approximately 62 per cent., 57 per cent. (which includes Verigy for 2011) and 63 per cent. in 2010, 2011 and 2012, respectively, as a result of increasing capital expenditure in test systems for DRAM semiconductors. The Group has a substantially larger market share in test systems for DRAM memory semiconductors than in test systems for flash memory semiconductors. The Group is currently seeking to increase its market share in test systems for flash memory semiconductors.

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

T5500 Series. The T5588 is a test system for mass production suitable for testing speeds of up to 800 Mbps for DDR3-SDRAM cell testing and LPDDR. The T5503 and T5503HS are memory semiconductor test systems suitable for the mass production of DDR3-SDRAM, DDR4-SDRAM, LPDDR3 and LPDDR4 (1 Gbps-4 Gbps class high-speed memory semiconductors). The T5511, which is the top of the range model in the T5500 series, is a memory semiconductor test system which can handle testing speeds of up to 8 Gbps and is suitable for the evaluation and production of ultra-high-speed memory semiconductors such as DDR4-SDRAM and GDDR. The T5500 series are the Group's best selling line of test systems used for the back end testing of DRAM semiconductors.

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

T5700 Series. Because variations in memory cell characteristics must be kept within a defined range, front-end testing for flash memory semiconductors require more types of testing than is required in front-end testing for DRAM semiconductors. Accordingly, front-end testing for flash memory semiconductors contributes to higher testing costs. Furthermore, although the volume of production with respect to NAND-type flash memory semiconductors is rapidly growing, prices have fallen substantially and there is a demand for higher efficiency for test systems. As a result, by specialising in NAND-type flash memories the Group introduced the T5773 memory test system, which enabled a significant reduction in testing costs compared to existing products. The T5700 series will provide effective solutions that will enable everything from design to mass production of flash memories.

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

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

Test Systems for Non-memory Semiconductors

The Group's main line of test systems for non-memory semiconductors relates to test systems for SoC semiconductors, test systems for LCD driver integrated circuits, test systems for image sensor and test systems for semiconductors used in car electronics. Test systems for SoC semiconductors test SoC semiconductors that combine circuits such as digital, analogue, memory and RF circuits on a single semiconductor chip. Test systems for LCD driver integrated circuits test semiconductors with specific functions, such as LCD driver integrated circuits that display images on LCD panels. The factors that are important to customers in the performance and other characteristics of test systems for memory semiconductors described above also apply to test systems for non-memory semiconductors. The Group's market share in test systems for non-memory semiconductors was approximately 18 per cent. in 2010, approximately 47 per cent. (which includes Verigy for 2011) as a result of the integration with Verigy in 2011 and reached approximately 50 per cent. in 2012.

The Group's main product lines of test systems for non-memory semiconductors are the T2000, the V93000 series and the T6300 series.

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

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

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

Mechatronics System Segment

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

Test Handlers

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

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

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

Test Handlers for Memory Semiconductors. The M6242 test handler for test systems for memory semiconductors, including DDR3-SDRAM, can handle up to 512 semiconductors at a time. The maximum throughput is 42,200 semiconductors per hour through the use of a new high-speed handling technology that shortens the time between tests to approximately half of the time associated with the Group's ordinary model. In addition, the M6242 has a built-in temperature control device, which can minimise the temperature fluctuation within a 1.5°C range for temperatures between –10°C and 100°C. The Group also has other test handler product line for test systems for memory semiconductors that meet varying cost and functional needs of its customers.

Test Handlers for Non-memory Semiconductors. The Group's test handlers for non-memory semiconductors, including SoC semiconductors, are the M4841, the M4742A and the M4871, among others. With a rate of 16 semiconductors at a time, the M4841 can handle approximately twice as many semiconductors at a time as the Group's previous model. The M4841's maximum throughput of up to 18,500 semiconductors per hour is triple the maximum throughput of the previous model. Furthermore, the M4841 is also capable of testing in a wide range of temperatures, from as low as -55°C or as high as 125°C.

The M4742A realises a reduction in contact pitch exchange time in handling of various products, visualisation of operation screen, visibility check of internal devices, and improvement of operability, hence contributing to the reduction of test costs.

The M4871 integrates the Group's proven technology from the Company's existing product lines with advanced, new functions including visual alignment with high throughput, active thermal control using the Group's Dural Fluid design capability and a new handler data visualisation framework that enables users to conduct real-time monitoring of a test cell's production status from any network-enabled connection. The M4871's visual-alignment capability is most suited to handle fine-pitch devices with both top- and bottom-side contacts. Precision alignment also enables faster set-up and calibration, helping to increase productivity. In addition, the defrosting cycle time for low-temperature testing is dramatically reduced with the M4871 system, which can operate over a broad range of temperatures.

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

Device Interfaces

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

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

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

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

Sockets: the Group provides sockets for test systems for memory semiconductors. The Group provides low-inductance (0.4 nanohenry) sockets and fine pitch (0.4 millimetre) sockets for semiconductors that are becoming more high-speed and more compact in size.

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

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

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

E-Beam Lithography systems and SEM systems

F7000 Series. The F7000 series utilises electron beams to write fine-pitch patterns directly onto substrates. It offers best in class levels of throughput at the 1Xnm node, where semiconductor R&D demand is now focused. The F7000 supports substrates of diverse materials, sizes and shapes, and is optimised for diverse applications such as advanced LSIs, photonics, MEMS (microelectromechanical systems) and other nano-processes.

E3600 Series. The E3640 series is a new entry in the Company's widely-adopted E3600 Series of SEM systems for photomasks. The E3640 delivers significantly improved measurement accuracy and higher throughput and its industry-best pattern measurement capability supports the coming shift to the 1Xnm node for semiconductor volume production. In addition to photomasks, the E3640 also offers enhanced metrology performance for EUV (extreme ultraviolet) masks, NIL (nanoimprint lithography) templates, and patterned media.

E3300 Series. The E3310 series is breakthrough SEM for wafers, which has further advanced the technology used in E3630 SEM for photomasks. While mass production of devices using 3D structural process such as FinFET (fin-shaped field effect transistor) is expected in the future, the E3310 which enables multidimensional observation and length measurement for wafers provides process development at the 1Xnm node and a stable, high-accuracy measurement solution for mass production at the 22nm node and beyond, contributing to reduced process TAT (turnaround time) and higher productivity.

Services, Support and Others Segment

Terahertz Spectroscopic / Imaging Systems

Terahertz waves lie between microwaves and light with frequency of 0.1-10THz on the electromagnetic spectrum and can be used to perform non-destructive analysis inside substance which is difficult to carry out using ultrasonic waves or infrared rays. In addition, as terahertz waves have adequate spatial resolution, they are ideal for practical imaging analysis.

TAS7500 Series. The TAS7500 series is a family of compact and multipurpose terahertz spectroscopic / imaging systems. These systems perform non-destructive analysis of pharmaceuticals, chemicals, communications materials, etc. with ease and at high speed. In addition to non-destructive analysis applications, the TAS7500 series is also an optimal choice for terahertz related research, leveraging high-precision detection technology to provide best-in-class sampling performance.

TAS7400 Series. The TAS7400 series is a series of low-cost, all-purpose spectroscopy systems that enable spectroscopic measurements using terahertz waves. The tools are capable of performing non-destructive analysis on a wide variety of sample types, making them applicable to a broad range of fields from life sciences to electronics, where precise chemical and material characterisation is critical. The systems can also be utilised for basic research applications.

System-Level Test Systems

NEO-SSD. The Group has entered the market for testing advanced PCI Express (PCIe) 3.0 NVMe SSDs for enterprise and consumer applications with the versatile NEO-SSD platform, on which the Group is building a family of test solutions that began receiving orders from customers in the third quarter of the fiscal year ending 31 March 2014. The configurable NEO-SSD platform is capable of supporting multiple protocols, and addresses SSD system-level test requirements by providing a wide range of test capabilities, including engineering validation, design verification, reliability demonstration and production testing.

Customers

The Group's semiconductor and component test systems and mechatronics systems are shipped and delivered to world's leading semiconductor manufacturers, as well as foundries and test houses. Sales to INTEL Corporation and Hynix Semiconductor Inc. in the fiscal year ended 31 March 2011, INTEL Corporation and Samsung Electronics Co., Ltd. in the fiscal year ended 31 March 2012 and INTEL Corporation in the fiscal year ended 31 March 2013 accounted for 10 per cent. or more of the Group's net sales in each of those respective years. The Group's five largest customers, all of which are semiconductor and component test system customers, accounted for approximately 49 per cent. of net sales in the fiscal year ended 31 March 2011, approximately

56 per cent. in the fiscal year ended 31 March 2012 and approximately 37 per cent. in the fiscal year ended 31 March 2013.

Geographic Sales

Of the Group's net sales for the fiscal year ended 31 March 2013, 89.4 per cent. were derived from products sold to customers located outside Japan. The following table sets forth the Group's net sales by geographic area, as well as net sales by geographic area as a percentage of total net sales, for the Group's last three fiscal years. Net sales are classified into geographic areas based on the location to which the products are shipped.

	Fiscal Year Ended 31 March					
	2011		2012		2013	
Segment	**Sales**	**Proportion**	**Sales**	**Proportion**	**Sales**	**Proportion**
	(Millions of yen)	(Per cent.)	(Millions of yen)	(Per cent.)	(Millions of yen)	(Per cent.)
Japan	¥22,398	22.5%	¥ 16,095	11.4%	¥ 14,045	10.6%
Asia (excluding Japan)	65,706	65.9	88,196	62.5	89,214	67.1
Americas	9,278	9.3	29,742	21.1	20,583	15.5
Europe	2,252	2.3	7,015	5.0	9,061	6.8
Total	¥99,634	100.0%	¥141,048	100.0%	¥132,903	100.0%

Japan. The Group's Japanese memory semiconductor market share in 2012 decreased to approximately 35 per cent. from approximately 73 per cent. in 2011 (which includes Verigy) due to the low sales of test systems for DRAM memory semiconductors that were affected by the weakening of the DRAM industry. The Group's Japanese non-memory semiconductor market share in 2012 increased to approximately 54 per cent. from approximately 48 per cent. in 2011 (which includes Verigy). Sales of SoC semiconductors in the Japanese non-memory semiconductor market were led by peripheral devices predominantly consisting of Blu-ray disc recorders and flat-panel TVs in the fiscal year ended 31 March 2011, but the fiscal year ended 31 March 2012 was a significant change and sales were led by analogue/power devices and CMOS image sensor devices. Sales continued to be led by analogue/power devices and CMOS image sensor devices in the fiscal year ended 31 March 2013. The Group is working to maintain and expand its large market share in Japan by continuing to work closely with its major customers to identify their needs during the early stages of their product development cycles. Since the fiscal year ended 31 March 2012 Japan's semiconductor manufacturers have been increasingly outsourcing its manufacturing to Taiwan, Korea and China rather than investing in-house, and the Group has also been actively pursuing outsourcing its manufacturing support overseas.

Asia (excluding Japan). Asia is the largest market for semiconductor and component test systems and mechatronics systems, with semiconductor manufacturers, assembly makers and test houses located in Taiwan, Korea, China and Singapore accounting for a majority of semiconductor production in Asia. The Group views its relationships with these companies as critical to its semiconductor and component test system and mechatronics system business. Many Japanese, U.S. and European semiconductor manufacturers have shifted production to Asia, either to subsidiaries or foundries and test houses. Capital expenditure decisions for subsidiaries are usually taken at the Company's headquarters. Foundries and test houses, a majority of which are located in Taiwan, often consult with their customers before investing in semiconductor and component test systems. Therefore, the Group's performance in Asia will also depend on its ability to maintain strong relationships with customers in Japan, the U.S. and Europe. In addition, some of the Group's customers have partnered with semiconductor manufacturers in Asia and outsourced manufacturing processes, thus further increasing the reliance on net sales to the Asia geographic market.

Americas. The Group's marketing efforts in this region are centred in the United States, which accounted for 15.5 per cent. of its total sales in the fiscal year ended 31 March 2013. The Group's market share of semiconductor and component test systems sold in the U.S. in 2011 was approximately 63 per cent. (which includes Verigy) and remained at the same level at approximately 64 per cent. in 2012. Semiconductor and component test systems are marketed and sold in the Americas primarily through the Company's subsidiary, Advantest America, Inc.

Europe. Sales in Europe constituted 6.8 per cent. of the Group's sales in the fiscal year ended 31 March 2013. The Group's market share of semiconductor and component test systems sold in Europe in 2012 increased to approximately 59 per cent. from approximately 40 per cent. in 2011 (which includes Verigy) due to the strong sales of non-memory test systems. The Group's principal European markets are Germany, Italy and France.

Sales and Marketing

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

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

Support and Customer Service

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

- *Testing Technology Support*. The Group engineers work with customers from the design phase of new products to the development of testing methods and device interfaces. The Group also supports customers' initiatives to reduce costs at the large-scale production phase by proposing procedures to improve production yield and throughput, and offering advice in connection with the operation of semiconductors and component test systems and other test products.
- *Application Software Support*. Each different semiconductor design requires customised software programmes for analysis of test data. As a part of its solution services, the Group's engineers assist customers in designing device interface, application software and test programmes that optimise production throughput, reliability and capacity.
- *Procurement Support*. The procurement process for semiconductor and component test systems and mechatronics systems is time consuming and complicated. Semiconductor and component test systems consist of a combination of multiple components, including test handlers or probers, device interfaces and software. The Group sales personnel and engineers work with customers to identify the semiconductor and component test systems and mechatronics systems and related optional functions that best address their needs.
- *Installation and Warranty Support*. The introduction of a new line of semiconductors by a manufacturer typically requires either the purchase of new semiconductor and component test systems and mechatronics systems or warranty support for the customer's existing system. Upon the sale of a new system, the Group's engineers provide installation services and work with the customer to integrate the purchased system with the customer's existing manufacturing infrastructure.
- *Training Support*. The Group engineers prepare customer training materials related to the operation and maintenance of the Group's semiconductor and component test systems and mechatronics systems, and offer their customers suitable training on-site and at the Group's facilities in a timely manner.
- *Maintenance Support*. The Group's maintenance support services consist of:
    - *Call Centre Support*. The Group previously offered call centre support services for hardware and software in Japan. However, as a result of the integration with Verigy, the Group now offers call centre support services to customers in Japan, Singapore, the U.S. and Germany.
    - *Internet Support*. The Group's customer support website offers maintenance tips and access to a database with possible solutions to semiconductor and component test system problems. The

Group customers can also make online requests for maintenance work and check the status of equipment sent in for repair through the Group's web page.

- *Repairs and Parts*. Requests for repairs or parts can be made through the Group's website or by phone. In addition, the Group has in place a system that aims to deliver parts anywhere in the world within 4 hours, 24 hours or 72 hours, based on maintenance contracts, etc., the customers' requests and the urgency of the request. Equipment for maintenance is located in Germany, Singapore and Japan to supplement each other in the event of a major natural disaster. To provide for quick and efficient repairs, the Group's repair factories in Japan serve as the hub, and those in Germany, Singapore, the U.S., Korea, Taiwan and China also undertake repairs of test boards.
- *System Monitoring*. The Group can build system monitoring functions into semiconductor and component test systems. These functions allow the Group's engineers and customers to monitor the operating status as well as the status and history of malfunctions of semiconductor and component test systems, enabling rapid and efficient repairs.
- *Worldwide Presence*. The Group provides maintenance support through customer support centres in Japan; other parts of Asia, including Korea, China, Taiwan and Singapore; the Americas and Europe.

Manufacturing and Supplies

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

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

The Group has integrated many production processes in an effort to introduce a new production system based on the just-in-time production system and to improve upon the existing production system with a view to attaining a shorter production cycle, cost reduction and reduction of inventories.

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

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

If the production or sale of custom or general components or parts that the Group uses or plans to use in the future use is terminated for reasons such as a supplier's withdrawal from business, the Group may lose its capacity to supply its test systems.

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

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

Seasonality

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

Competition

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

- *Performance*. The performance of products is determined by their accuracy, test speed, throughput and ability to test semiconductors with large pin counts. High performance products reduce the customer's cost of testing.
- *Reliability*. Products that operate with minimal downtime allow semiconductor production and engineering work to proceed without frequent intervention and provides more cost-effective operation.
- *Delivery Time*. Semiconductor manufacturers require timely delivery of products, especially in periods of high demand.
- *Price*. The need for more sophisticated products often translates into higher testing costs for semiconductor manufacturers. In addition, primarily as a result of increased efficiency in the fabrication process and lower market prices for semiconductors, test costs have come to represent a higher proportion of the total cost of manufacturing. The Group currently faces significant price pressure on its Semiconductor and Component Test System Segment.
- *System Architecture*. Product architecture that is modular expands the product life because the system can be adapted to meet the customer's new requirements, while largely retaining compatibility with existing test programmes.
- *Software*. Products that use software that is easier to use and more powerful reduce the amount of engineering resources needed to develop and operate test programmes.
- *Customer Support*. Customer-specific applications programmes, worldwide service and customer training contribute to the efficient use of products and minimise the customer's cost of testing.
- *Qualified Technical Personnel*. Having in place a team of highly qualified engineers and other customer service and support personnel is essential for securing sales and maintaining and developing strong relationships with key customers.

According to a report issued by a research company, from 2008 to 2010, Teradyne, Inc. held the highest share in the semiconductor test systems industry. In 2011 and 2012, the Group achieved the highest share (which includes Verigy for 2011). Teradyne, Inc. held the second largest share followed by LTX-Credence Corporation.

Some of the Group's other competitors include DHK Solution Corporation, UniTest Inc. and EXICON Ltd. In addition, the Group also competes in the mechatronics system market with, among others, Delta Design, Inc., Seiko Epson Corporation, Mirae Corporation and TechWing Inc. for test handlers, and TSE Co., Ltd. and Secron Co., Ltd. for device interfaces. In addition, in the Services, Support and Others Segment, the Group has been competing with companies providing similar services. It also has been suggested by customers that the Group competes with start-up companies with newer technologies or products in the market for both the test systems for memory semiconductors and test systems for non-memory semiconductors.

Property, Plant and Equipment

Set forth below is a list of each of the Group's material properties, the use and location of the property and the approximate size of the property on which the facility is located.

Name	Location	Approximate Size	Use
		(m^2)	
Gunma R&D Center	Gunma, Japan	195,887	Research and development of semiconductor and component test systems and mechatronics systems
Saitama R&D Center	Saitama, Japan	56,978	Research and development for and manufacturing of mechatronics systems
Kitakyushu R&D Center	Fukuoka, Japan	5,461	Research and development of semiconductor and component test systems
Advantest Laboratory and Sendai Factory	Miyagi, Japan	66,904	Basic technology research, and research for and manufacturing of key devices installed in semiconductor and component test systems
Gunma Factory	Gunma, Japan	88,512	Manufacture of semiconductors and component test systems and test handlers
Gunma Factory 2	Gunma, Japan	93,112	Manufacture of semiconductor and component test systems and device interfaces
Advantest Korea Co., Ltd. Cheonan factory	Chungcheongnam-do, Korea	39,605	Manufacture of test handlers, probe cards, etc.

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

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

The Group believes that there are no material environmental issues that may affect utilisation of its assets.

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

Licences and Intellectual Property Rights

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

Research and Development and Product Enhancement

In order to support technology on the leading edge, the Group undertakes research and development initiatives to develop products which play a central role in the area of measuring technologies to support electronics, information and communications, and semiconductor manufacturing. The Group's research and development focuses on the development of new products and the improvement of existing products. In particular, in the Semiconductor and Component Test System Segment, a large and ongoing investment in research and development is necessary in order to maintain market competitiveness and to provide many types of products that meet the various needs of the customers. The Group also conducts research of basic technologies. The Group's expenditures for research and development were ¥21,197 million in the fiscal year ended 31 March 2011. Due to integration with Verigy, the Group's expenditures for research and development were ¥30,303 million in the fiscal year ended 31 March 2012 and ¥33,062 million in the fiscal year ended 31 March 2013. The Group employs over 1,000 engineers and other personnel in its research and development division.

The contents and achievements to date of the Group's current research and development activities include:

Basic Technology

- development of constituent technologies in the field of terahertz;
- development of constituent technologies, including high speed, energy-saving micro switches and high speed samplers used in semiconductor and component test systems and millimetre wave measuring instruments;
- development of methods to detect timing jitters in high bit-rate signals; and
- development of compound semiconductor devices, including less-distortion devices used for semiconductor and component test systems.

Semiconductor and Component Test System Segment

- development of semiconductor and component test systems that enable testing of super high speed memory semiconductors at actual motion speed;
- development of semi conductor and component test systems that enhance the functionality of testing of DRAM semiconductors and flash memory semiconductors and require less floor space;
- development of semiconductor and component test systems that have the capacity to simultaneously test multiple complex SoC semiconductors with large pin counts and require less floor space;
- development of semiconductor and component test systems with specialised applications;
- development of measurement modules for devices that operate at extremely high frequencies and for networks that carry extremely high density transmissions;
- development of high speed transmission technologies for high speed large pin counts and high speed transmission signal contact technologies; and
- development of application software for interface between the semiconductor designing environment and semiconductor and component test systems, as well as development of software to analyse defective semiconductors.

Mechatronics System Segment

- development of test handlers for memory semiconductors enabling measuring of multiple semiconductors for high throughput testing;
- development of test handlers for SoC semiconductors that respond to diversified device types and packages; and
- development of real Active Thermal Control technology with high speed response for high power devices.

The Group has research and development facilities in Japan, the U.S., Europe and China.

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

The Group has been carrying out research and development activities for its burn-in system, concentrating its development resources on Japan Engineering Co., Ltd, a subsidiary of the Company.

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

Environment

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

The Group's primary environmental activities during the fiscal year ended 31 March 2013 are as follows:

- *ISO 14001 Certification*. The Group has received ISO 14001 Uniform Certification for all eight of its domestic manufacturing and research and development facilities. With respect to its overseas manufacturing and research and development activities, principal facilities in Asia, Europe and North America regions are receiving ISO 14001 Uniform Certification.
- *Environmental Measures for Products*. In order to actively develop environmentally friendly lines of products, the Group conducts environmental assessments of all its new products from their development stages. In the fiscal year ended 31 March 2013, nine models complied with the Group's internal environment-oriented design standards, and have qualified as environmentally friendly "Green" products.
- *Reduce Waste*. The Group has implemented a recycling programme and introduced liquid waste disposal capabilities at its facilities. Through such initiatives, the Group's waste volume was a total of 397 tonnes in the fiscal year ended 31 March 2013.
- *Use of Safe Components*. The Group has established an internal procurement standard for parts and components and has procured parts and components for its new products that do not contain specified toxic substances. Primarily reflecting the foregoing, the Group has eliminated most regulated toxic substances from approximately 98 per cent. of the surface-mounted components on its new products in 2012, except lead solder, which is used for mounting parts and components for its products.
- *Prevention of Global Warming*. Through the use of energy efficient equipment and the re-evaluation of manufacturing processes, the Group strives to reduce levels of carbon dioxide emissions resulting from energy consumption relating to its business activities. The Group's carbon dioxide emissions was 25,972-CO_2 tonnes in the fiscal year ended 31 March 2013.

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

The Group spent approximately ¥332 million during the fiscal year ended 31 March 2013 to further implement its environmental protection activities.

The Group has been addressing issues of social contribution activities and environmental issues from a global perspective. With increased attention in recent years on corporate ethics, the Group believes that it should focus even more on the issue of CSR (Corporate Social Responsibility). Accordingly, the Group has established a CSR & Environmental Affairs Promotion Office and seven committees (Disclosure Committee, Personnel Mediation Committee, Information Security Committee, Internal Control Committee, Corporate Ethics Committee, Product Liability Committee and Safety and Health Committee), and engages in corporate social responsibility efforts.

Legal Proceedings

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

MANAGEMENT AND EMPLOYEES

Management

The Board of Directors has the ultimate responsibility for the administration of the affairs of the Company. The Company's articles of incorporation limit the number of directors to ten. Directors are elected at a general meeting of shareholders, and the standard term of directors is one year. Directors may serve any number of consecutive terms. The Board of Directors elects one or more representative directors from among its members, each of whom has the authority individually to represent the Company. From among its members, the Board of Directors may elect the chairman and the vice chairman. None of the directors of the Company has a service contract with the Company that provides for benefits upon termination of service.

Pursuant to the Companies Act and the Company's articles of incorporation, and to the extent permitted by the laws and regulations, the Company may, by resolution of the Board of Directors, exempt liabilities of its directors (including persons who have previously served as the Company's directors) for failing to perform their duties. The Company may enter into contracts with outside directors to limit their liabilities for a failure to perform their duties, provided that the maximum amount of liabilities under such contracts shall be the total of the amounts provided in each item of Article 425, Paragraph 1 of the Companies Act.

The Company's articles of incorporation provide for no more than five audit & supervisory board members and the Company currently has two standing (full-time) audit & supervisory board members and two outside audit & supervisory board members. Audit & supervisory board members are elected at the general meeting of shareholders and the standard term of office of audit & supervisory board members is four years. Under the Companies Act, at least half of the audit & supervisory board members are required to be persons who have not been a director, accounting counsellor (if an accounting counsellor is a corporation, an employee of such corporation who executes its duties), executive officer, manager, or employee of the Company or any of its subsidiaries at any time in the past. Audit & supervisory board members may not at the same time be directors, accounting counsellors (if an accounting counsellor is a corporation, an employee who executes its duties), executive officers, managers, or employees of the Company or any of its subsidiaries. The Company increased the number of required outside audit & supervisory board members from one to two at the general meetings of shareholders held in June 2003 in order to strengthen the auditing function of the audit & supervisory board. Audit & supervisory board members are under a statutory duty to oversee the administration of the Company's affairs by its directors, to audit its financial statements to be submitted by its Board of Directors to the general meetings of the shareholders and to report their opinions thereon. They are also required to attend the meetings of the Board of Directors and to express their opinions, but are not entitled to vote.

Audit & supervisory board members constitute the audit & supervisory board. The audit & supervisory board has a statutory duty to prepare and submit an audit report to the directors each year. An audit & supervisory board member may note his or her opinion in the audit report if his or her opinion is different from the opinion expressed in the audit report. The audit & supervisory board is empowered to establish audit policy, methods to investigate the state of business operations and assets and other matters relating to the execution of duties by audit & supervisory board members.

Pursuant to the Companies Act and the Company's articles of incorporation, and to the extent permitted by the laws and regulations, the Company may, by resolution of the Board of Directors, exempt liabilities of its audit & supervisory board members (including persons who have previously served as the Company's audit & supervisory board members) for failing to perform their duties. The Company may enter into contracts with outside audit & supervisory board members to limit their liabilities for a failure to perform their duties, provided that the maximum amount of liabilities under such contracts shall be the total of the amounts provided in each item of Article 425, Paragraph 1 of the Companies Act.

The Company is required to appoint and have appointed independent auditors, who have the statutory duties of examining the financial statements to be submitted to the shareholders by a representative director at general meetings of shareholders and to report their opinion thereon to the relevant audit & supervisory board members and directors. The independent auditors also audit the financial statements included in the securities reports, which are publicly available and which the Company is required to file with the director-general of the competent Local Finance Bureau of the Ministry of Finance. Ernst & Young ShinNihon LLC, an independent registered public accounting firm, acts as the Company's independent auditors.

The names and titles of the directors, audit & supervisory board members and executive officers of the Company as of the date of this Offering Circular, and their respective beneficial ownership of Shares as of 31 March 2013, are as follows:

Name	**Title**	**Number of Shares**[3]
Toshio Maruyama	Chairman of the Board and Representative Director	201,213
Haruo Matsuno	Representative Director, President and CEO	204,626
Yasushige Hagio[1]	Director	22,342
Osamu Karatsu[1]	Director	5,335
Seiichi Yoshikawa[1]	Director	0
Shinichiro Kuroe	Director, Corporate Vice President	115,319
Sae Bum Myung	Director, Managing Executive Officer	100,670
Hiroshi Nakamura	Director, Managing Executive Officer	109,518
Yoshiaki Yoshida	Director, Managing Executive Officer	101,143
Yuichi Kurita	Standing Audit & Supervisory Board Member (Full-Time)	88,686
Akira Hatakeyama	Standing Audit & Supervisory Board Member (Full-Time)	22,652
Megumi Yamamuro[2]	Audit & Supervisory Board Member	20,939
Masamichi Ogura[2]	Audit & Supervisory Board Member	10,000
Hideaki Imada	Managing Executive Officer	98,222
Hans-Juergen Wagner	Managing Executive Officer	293,789
Takashi Sugiura	Executive Officer	94,818
Takashi Sekino	Executive Officer	84,865
Soichi Tsukakoshi	Executive Officer	80,041
Josef Schraetzenstaller	Executive Officer	78,000
R. Keith Lee	Executive Officer	78,000
Makoto Nakahara	Executive Officer	54,998
Toshiyuki Okayasu	Executive Officer	58,821
CH Wu	Executive Officer	34,000
Kazuhiro Yamashita	Executive Officer	26,000
Kenji Sato	Executive Officer	37,676
Takayuki Nakamura	Executive Officer	18,150
Wilhelm Radermacher	Executive Officer	32,967
Masuhiro Yamada	Executive Officer	16,357
Satoru Nagumo	Executive Officer	15,000

Notes:

(1) Outside director under the Companies Act.

(2) Outside audit & supervisory board member under the Companies Act.

(3) Each of the persons listed above owns less than 1 per cent. of the issued and outstanding Shares. The number of Shares owned by the Company's directors, audit & supervisory board members and executive officers include options that are currently exercisable for 1,914,000 Shares. For a description of these options, see "—Stock Option Plans" below. The number of Shares owned by the Company's directors, audit & supervisory board members and executive officers reflects the number of Shares that are owned through the director and audit & supervisory board member stock ownership association and allocated to an individual director, audit & supervisory board member or executive officer. For a description of this association, see "—Stock Ownership Associations" below.

All the directors (other than Mr. Hagio, Mr. Karatsu and Mr. Yoshikawa) are engaged in the business of the Company on a full-time basis.

The business address for the Company's directors and audit & supervisory board members is Shin-Marunouchi Building, 6-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan.

The aggregate amount of compensation of all of the Company's directors and audit & supervisory board members was approximately ¥502 million during the fiscal year ended 31 March 2013. Of the foregoing, the aggregate amount of compensation for the Company's directors (outside corporate directors excluded) was ¥404 million (¥265 million in fixed compensation, ¥49 million in bonus and ¥90 million in qualifying stock options), ¥55 million for the Company's audit & supervisory board members (outside audit & supervisory board members excluded) (¥42 million in fixed compensation, ¥10 million in bonus and ¥3 million in qualifying stock options) and ¥43 million for outside directors and outside audit & supervisory board members (¥34 million in fixed compensation and ¥9 million in qualifying stock options). The amount of compensation for Director Toshio

Maruyama was ¥106 million (¥68 million in fixed compensation, ¥13 million in bonus and ¥25 million in qualifying stock options).

The maximum amount of compensation per year for directors and audit & supervisory board members was authorised by resolutions of the general meeting of shareholders on 27 June 2007 and to the extent compensation by the general meeting of shareholders is within the authorised range, further authorisation is not required. For a description of the Company's equity-based compensation plans, see "—Stock Options" below.

The amounts of compensation for directors and audit & supervisory board members set forth above includes fixed compensation paid to one director and one audit & supervisory board member who retired from their positions as of the closing of the 70th ordinary general meeting of shareholders, which was held on 26 June 2012.

As of 31 March 2013, no director of the Company had an interest in any transaction that was unusual in its nature or conditions or significant to the Group's business which was effected by the Company.

Corporate Governance

Management Structure

The global business environment is changing more rapidly than ever before. To continuously increase the Group's corporate value and competitiveness in today's world, the Group emphasises speedy decision-making and execution. The Group also places an emphasis on sound, highly transparent business operations in compliance with laws and regulations. In order to meet these challenges, the Group draws clear lines of authority within its organisation and set responsibilities in accordance with each management function, assigning each role to the best person for the job.

The Company utilises the audit & supervisory board system built around the Board of Directors and the audit & supervisory board. Since 2003, the Company has also introduced an executive officer system in order to improve its response times and enhance corporate governance.

Board of Directors

The Board of Directors takes decisions on management policy, strategy, and other critical matters for the Group, and also monitors and supervises the Company's executive officers to ensure business is conducted swiftly and efficiently. Effective June 2006, the Company shortened the term of office of directors from two years to one in an effort towards better clarifying their management responsibilities while building a management structure capable of rapidly addressing prevailing issues in our business environment. As of 31 December 2013, the Board of Directors consists of nine directors, of whom six are internal directors and three are outside directors.

In 2005, the Company also established the Nomination and Compensation Committee to discuss matters concerning the nomination and compensation of officers in consultation with the Board of Directors, and propose the results to the Board of Directors.

Executive Officer System

The Company has introduced an Executive Officer system that keeps decision-making functions separate from executive functions in order to boost management efficiency.

Executive Officers are selected by the Board of Directors as senior management dedicated to the execution of operations. They have the responsibility of swiftly and efficiently implementing management policies and strategies determined by the Board of Directors. The term of each Executive Officer is limited to one year to achieve more explicit accountability.

As of 31 December 2013, there are a total of 21 Executive Officers, some of whom are based in Japan while others are assigned to locations in North America, Europe, and Asia to enhance integration of the company's global operations.

Executive Compensation

The Nomination and Compensation Committee discusses executive compensation in consultation with the Board of Directors and proposes the results to the Board of Directors. Within the maximum amount authorised by the general meeting of shareholders, Director compensation is determined by the Board of Directors based on such proposals, while compensation of the audit & supervisory board is determined with the cooperation of its board members after such proposals have been presented to the audit & supervisory board by the Board of Directors.

Internal Controls

The Group created an internal controls system compliant with the U.S. Sarbanes Oxley ("SOX") Act, enacted in July 2002. The system has since been upgraded to meet the compliance requirements of the Companies Act, which came into effect in May 2006, as well as the FIEA (April 2008). In June 2013, the Group's Internal Controls Committee assessed the efficacy of the Group's fiscal year ended 31 March 2013 internal controls, and met again in February 2014 to confirm the progress of assessment in the fiscal year ending 31 March 2014.

As part of an internal system of control, the Group carefully identifies and classifies risk factors in our key business processes that may be latent in our management environment, business activities, and company properties. The Group analyses the seriousness and probability of these risks, and formulate policies and procedures to properly manage them.

Furthermore, in the interests of consolidated group management where focus is placed more on consolidated financial performance than on separate aspects of financial performance, the Group ensures that the same high quality internal control systems are maintained and operated throughout the Group Corporation and its investees. The internal control systems employed within the Group's worldwide affiliate companies are operated regionally in accordance with the group wide, uniform policy formulated by the Internal Control Committee. Important matters concerning internal controls that occur within the Group are reported to the Board of Directors by the Internal Control Committee.

The Company is planning to integrate the accounts system of all Group companies into a new system in April 2014.

Audit System

The audit & supervisory board members audit the administration of the Company's affairs by the Directors, Executive Officers and other executive bodies of the company in accordance with the audit policy and audit plan established by the audit & supervisory board. They carry out their duties by attending the meetings of the Board of Directors and other important meetings, and conducting detailed reviews of the Group's operations and assets. The audit & supervisory board has four audit & supervisory board members, two of them full-time. As of 31 December 2013, two are internal audit & supervisory board members and two outside audit & supervisory board members. The Group has also established an Auditing Group as an internal audit organisation. The Auditing Group monitors the status of the Group's internal controls on a daily basis, and identifies problems and recommends improvements wherever needed.

Internal Auditing

The Company's Auditing Group annually conducts an internal audit of risk and operational control of each Group company to ensure compliance with relevant laws and regulations.

As a listed company on the New York Stock Exchange, the Company is required to comply with the U.S. Sarbanes Oxley ("SOX") Act. The Group therefore utilises the COSO's original framework issued in 1992 framework and the control self-assessment ("CSA") technique to ensure that the operational processes of each division exceed the standards required. In recognition of the indispensability of these efforts in boosting the transparency of the Group's business activities and building a positive corporate culture, the Group works hard to address each and every problem discovered during an internal audit.

The Board of Directors' meeting is held at least once a month to determine fundamental management policies, matters required by laws and regulations and other important management-related matters, as well as to supervise business executions. The audit & supervisory board members also attend the Board of Directors' meeting.

Employees

Set forth below is a table listing the total number of full-time employees and a breakdown of persons employed by main category of activity and by geographic location, as of 31 March 2011, 2012 and 2013. The increase of the number of employees as of 31 March 2012 is primarily due to the acquisition of Verigy as a wholly-owned subsidiary of the Company in July 2011.

	As of 31 March		
	2011	2012	2013
Full-Time Employees	3,163	4,464	4,575
By Category of Activity:			
Administrative	321	444	474
Sales.	256	475	398
Customer Support	700	1,123	1,214
Manufacturing	674	829	806
Research and Development	1,121	1,510	1,628
Other	91	83	55
By Geographic Location:			
Japan	2,404	2,504	2,500
Asia (excluding Japan)	409	816	892
Americas	183	585	587
Europe	167	559	596

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

During the fiscal years ended 31 March 2011, 2012 and 2013, the Group had an annual average of 223, 279 and 330 temporary employees, respectively.

Stock Option Plans

At the meetings of Board of Directors held in June 2009, June 2010, June 2011, July 2011, June 2012 and June 2013, the Board Directors of the Company resolved to issue stock acquisition rights granted under stock option plans for qualified directors, audit & supervisory board members, executive officers and employees of the Group. The following table shows selected information related to these stock options:

Date of grant	Exercise period	Exercise price per Share	Number of Shares to be issued upon exercise of options granted	Number of directors, audit & supervisory board members and executive officers of the Company to which granted	Number of other employees to which granted
10 July 2009	1 April 2010 to 31 March 2014	¥ 1,844	338,000	25	0
12 July 2010	1 April 2011 to 31 March 2015	¥ 2,089	308,000	23	0
12 July 2011	1 April 2012 to 31 March 2016	¥ 1,529	988,000	23	228
16 August 2011	1 April 2012 to 31 March 2016	¥ 1,529	658,000	5	55
12 July 2012	1 April 2013 to 31 March 2017	¥ 1,207	2,521,000	28	321
12 July 2013	1 April 2014 to 31 March 2018	¥ 1,669	2,763,000	30	354

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

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

Employee Stock Purchase Programme

Since 1 August 2002, eligible employees of Advantest America, Inc. and its U.S. subsidiaries are able to participate in an employee stock purchase programme. Since 1 January 2013, any employee except for employees in Japan and certain countries are eligible to participate in an employee stock purchase programme. Under the programme, each eligible employee may authorise payroll deductions of up to 15 per cent. of their base salary towards the purchase of ADRs representing Shares. In addition, each subsidiary that employs the eligible employee will make an additional contribution equal to 15 per cent. of each eligible employee's payroll deductions towards the purchase of the ADRs.

Stock Ownership Associations

The Company's director and audit & supervisory board member stock ownership association is a partnership formed by the current and former directors, executive officers and audit & supervisory board members of the Company for the purpose of acquiring the Shares. Only current directors, executive officers and audit & supervisory board members and company advisors that formerly were directors, audit & supervisory board members and executive officers of the Company may join the director and audit & supervisory board member stock ownership association. The Company established its director and audit & supervisory board member stock ownership association in 1983. Any member of the association may request that record ownership of the stock held by that member be transferred, in lots of a single unit, to that member. As of 31 March 2013, 23 current and former directors, audit & supervisory board members and company advisors were members of the director, executive officer and audit & supervisory board member stock ownership association, and the association held 50,515 Shares. The Company also has an employee stock ownership association for other employees in Japan. As of 31 March 2013, the association had 560 members and held 531,816 Shares.

SUBSIDIARIES AND INVESTEES

As of 31 December 2013, the Group had 11 Japanese subsidiaries, 23 overseas subsidiaries and one investee accounted for by the equity method. The following table sets out certain information as at 31 March 2013 with respect to the Company's principal subsidiaries:

Subsidiary	Location	Principal business	Percentage of voting rights directly or indirectly held by the Company[(1)]	Paid-in Capital[(2)]	
			(Per cent.)	(Millions)	
Advantest Laboratories Ltd.	Sendai, Miyagi	Research and development of measuring and testing technologies	100.0	¥	50
Japan Engineering Co., Ltd.[(3)]	Kawasaki, Kanagawa	Development, manufacture and sales of the Group's products	100.0	¥	305
Advantest Finance Inc.	Chiyoda-ku, Tokyo	Leasing the Group's products and sales of second-hand products	100.0	¥	1,000
Advantest America, Inc.	California, U.S.	Development and sales of the Group's Products	100.0	US$	4.059
Advantest Europe GmbH..............	Munich, Germany	Development and sales of the Group's Products	100.0	EUR	10.793
Advantest Taiwan Inc..................	Hsinchu County, Taiwan	Sales of the Group's products	(100.0) 100.0	NT$	760
Advantest (Singapore) Pte. Ltd.	Singapore	Sales of the Group's products	100.0	S$	15.3
Advantest Korea Co., Ltd.	Seoul, Korea	Sales support of the Group's products	(62.5) 100.0	KRW	9,516
Advantest (China) Co., Ltd...........	Shanghai, China	Sales support of the Group's products	(100.0) 100.0	US$	8

Notes:

(1) Figures in parentheses denote indirect holding.

(2) In the above table, "KRW" stands for South Korean won, "NT$" stands for Taiwan dollar and "S$" stands for Singapore dollar.

(3) The Company announced on 28 January 2014 that it has resolved at the meeting of its Board of Directors to merge Japan Engineering Co., Ltd. into the Company with the scheduled effective date being 1 April 2014.

DESCRIPTION OF THE SHARES AND CERTAIN REGULATIONS

Set forth below is information concerning the Shares, including brief summaries of certain provisions of the Company's Articles of Incorporation, the Company's Share Handling Regulations and the Companies Act relating to joint stock corporations (*kabushiki kaisha*) and certain related legislation, all as currently in effect.

General

Under the Company's Articles of Incorporation, the Company is authorised to issue 440,000,000 Shares, of which 199,566,770 Shares have been issued as at 31 December 2013.

All issued Shares are fully-paid and non-assessable and generally transferable through the book-entry system as described below. The transfer agent for the Shares is Mitsubishi UFJ Trust and Banking Corporation, located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan. The transfer agent maintains the Company's register of shareholders.

Effective on 5 January 2009, a new central book-entry transfer system for listed shares of Japanese companies was established pursuant to the Book-Entry Act, and this system is applied to the Shares. Under this system, shares of all Japanese companies listed on any Japanese stock exchange are dematerialised, and shareholders of listed shares must have accounts at account management institutions to hold their shares unless such shareholders have an account at JASDEC, the only institution that is designated by the relevant authorities as a clearing house under the Book-Entry Act. "Account management institutions" are financial instruments business operators (*i.e.* securities companies), banks, trust companies and certain other financial institutions that meet the requirements prescribed by the Book-Entry Act. Transfer of the Shares is effected exclusively through entry in the records maintained by JASDEC and the account management institutions, and title to the Shares passes to the transferee at the time when the transfer of the Shares is recorded in the transferee's account at an account management institution. The holder of an account at an account management institution is presumed to be the legal holder of the Shares recorded in such account.

Under the Companies Act and the Book-Entry Act, in order to assert against the Company shareholders' rights to which shareholders as of a given record date are entitled (such as the rights to vote at a general meeting of shareholders or receive dividends), a shareholder must have its name and address registered in the Company's register of shareholders. Under the central book-entry transfer system, such registration on the register of shareholders is made upon the Company's receipt of necessary information from JASDEC through all shareholders notice (*soukabunushi tsuchi*). See "—Record Date" below. On the other hand, in order to assert shareholders' rights to which shareholders are entitled regardless of record dates, such as minority shareholders' rights, including the right to propose a matter to be considered at a general meeting of shareholders but excluding shareholders' rights to request the Company to purchase or sell Shares constituting less than a full unit (as described in "—Unit Share System"), upon a shareholder's request, JASDEC shall issue to the Company a notice of certain information, which information includes the name and address of such shareholder. Thereafter, such shareholder is required to present to the Company a receipt of the request of the notice in accordance with the Company's Share Handling Regulations. Under the Book-Entry Act, a shareholder must exercise its shareholder's right within four weeks after the notice above.

Non-resident shareholders are required to appoint a standing proxy in Japan or provide a mailing address in Japan. Each such shareholder must give notice of such standing proxy or mailing address to the relevant account management institution. Such notice will be forwarded to the Company through JASDEC. Japanese securities companies and commercial banks customarily act as standing proxies and provide related services for standard fees. Notices from the Company to non-resident shareholders are delivered to such standing proxies or mailing addresses.

Distribution of Surplus

General

Under the Companies Act, distribution of cash or other assets by a joint stock corporation to its shareholders, including dividends, takes the form of distribution of Surplus (as defined in "—Restriction on Distribution of Surplus"). The Company is permitted to make distributions of Surplus to the Company's shareholders any number of times per fiscal year, subject to certain limitations described in "—Restriction on Distribution of Surplus". Under the Companies Act, distributions of Surplus are, in principle, required to be authorised by resolution of a general meeting of shareholders. However, the Company's Articles of Incorporation, in accordance with the Companies Act, provide that the Company's Board of Directors has the authority to make decisions regarding distributions of Surplus except for limited exceptions as provided by the Companies Act, as long as the Company satisfies the following requirements:

(a) the normal term of office of the Company's directors is no longer than one year (the Company's current Articles of Incorporation satisfies this requirement since it provides that the normal term of office of the Company's directors expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year within one year after such director's assumption of office); and

(b) the Company's non-consolidated annual financial statements and certain documents for the latest fiscal year fairly present its assets and profit or loss, as required by ordinances of the Ministry of Justice.

Distributions of Surplus may be made in cash or in kind in proportion to the number of the Shares held by each shareholder. A resolution adopted at the Board of Directors authorising a distribution of Surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of Surplus is to be made in kind, the Company may, pursuant to a resolution of the Board of Directors, grant to the Company's shareholders a right to require the Company to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of Surplus must be approved by special resolution adopted at a general meeting of shareholders (see "—Voting Rights" with respect to a "special resolution").

Under the Company's Articles of Incorporation, the record dates for year-end dividends and interim dividends are 31 March and 30 September, respectively, in each year. In Japan, the "ex-dividend date" (the date from which purchasers of Shares through Japanese stock exchanges will not be entitled to the dividends to be paid to registered shareholders as of any record date) and the record date for dividends precede the date of determination of the amount of the dividend to be paid. The ex-dividend date of the shares of common stock is generally the second business day prior to the record date. Under the Company's Articles of Incorporation, the Company is not obligated to pay any year-end dividend nor interim dividend that has not been received by a shareholder after the lapse of three years from the commencement date of such distribution.

Restriction on Distribution of Surplus

In making a distribution of Surplus, the Company must set aside in the Company's additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of Surplus so distributed until the sum of such additional paid-in capital and legal reserve reaches one-quarter of the Company's stated capital.

The amount of Surplus at any given time must be calculated in accordance with the following formula:

$$A + B + C + D - (E + F + G)$$

In the above formula:

"A" = the total amount of other capital surplus and other retained earnings, each such amount being that appearing on the Company's non-consolidated balance sheet as of the end of the last fiscal year;

"B" = (if the Company has disposed of the Company's treasury stock after the end of the last fiscal year) the amount of the consideration for such treasury stock received by the Company less the book value thereof;

"C" = (if the Company has reduced the Company's stated capital after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any);

"D" = (if the Company has reduced the Company's additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any);

"E" = (if the Company has cancelled the Company's treasury stock after the end of the last fiscal year) the book value of such treasury stock;

"F" = (if the Company has distributed Surplus to the Company's shareholders after the end of the last fiscal year) the total book value of the Surplus so distributed;

"G" = certain other amounts set forth in ordinances of the Ministry of Justice, including the following:

- if the Company has reduced Surplus and increased the Company's stated capital, additional paid-in capital or legal reserve after the end of the last fiscal year, the amount of such reduction; and
- if Company has distributed Surplus to shareholders after the end of the last fiscal year, the amount set aside in the Company's additional paid-in capital or legal reserve, if any, as required by ordinances of the Ministry of Justice.

The aggregate book value of Surplus distributed by the Company may not exceed a prescribed distributable amount (the "Distributable Amount"), as calculated on the effective date of such distribution. The Distributable Amount at any given time shall be the amount of Surplus less the aggregate of (a) the book value of the Company's treasury stock, (b) the amount of consideration for any of the Company's treasury stock disposed of by the Company after the end of the last fiscal year and (c) certain other amounts set forth in ordinances of the Ministry of Justice, including all or a certain part of the amount by which one-half of the Company's goodwill and deferred assets exceeds, if at all, the total of the stated capital, additional paid-in capital and legal reserve, each such amount being the amount in the Company's non-consolidated balance sheet as of the end of the last fiscal year, as calculated in accordance with the ordinances of the Ministry of Justice.

If the Company has become, at the Company's option, a company with respect to which its consolidated balance sheet should also be considered in the calculation of the Distributable Amount (*renketsu haito kisei tekiyo kaisha*), the Company shall further deduct from the amount of Surplus the excess amount, if any, of (x) the total amount of the shareholders' equity appearing on the Company's non-consolidated balance sheet as of the end of the last fiscal year and certain other amounts set forth in ordinances of the Ministry of Justice over (y) the total amount of the shareholders' equity and certain other amounts set forth in ordinances of the Ministry of Justice appearing on the Company's consolidated balance sheet as of the end of the last fiscal year.

If the Company has prepared quarterly financial statements as described below, and if such quarterly financial statements have been approved by the Board of Directors or (if so required by the Companies Act) by a general meeting of shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for any of the Company's treasury stock disposed of by the Company, during the period in respect of which such quarterly financial statements have been prepared. The Company may prepare non-consolidated quarterly financial statements consisting of a balance sheet as of any date subsequent to the end of the last fiscal year and a statement of operations for the period from the first day of the subject fiscal year to the date of such balance sheet. Quarterly financial statements so prepared by the Company under the Companies Act must be audited by the audit & supervisory board members and/or the independent auditor, the detail of which is prescribed by ordinances of the Ministry of Justice.

Capital and Reserves

The Company may generally reduce its additional paid-in capital or legal reserve by resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as stated capital. On the other hand, the Company may generally reduce its stated capital by special resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as additional paid-in capital. In addition, the Company may reduce its Surplus and increase either (i) stated capital or (ii) additional paid-in capital and/or legal reserve by the same amount, in either case by resolution of a general meeting of shareholders.

Stock Splits

The Company may at any time split the Shares into a greater number of the Shares by resolution of the Board of Directors. When a stock split is to be made, so long as the Company's only class of outstanding stock is the common stock, the Company may increase the number of authorised shares by the same ratio as that of such stock split by amending the Company's Articles of Incorporation, which amendment may be effected by resolution of the Board of Directors without the approval of shareholders.

Before a stock split, the Company must give public notice of the stock split, specifying the record date therefor, not less than two weeks prior to such record date.

Unit Share System

The Company's Articles of Incorporation provide that 100 Shares each constitute one unit of Shares. Under the unit share system, shareholders have, at general meetings of shareholders, one voting right for each unit of Shares held by them, and Shares constituting less than a full unit carry no voting rights. The Company's Articles of Incorporation provide that the holders of Shares constituting less than a full unit do not have shareholder rights, except for those specified in the Companies Act or ordinances of the Ministry of Justice which include rights (i) to receive dividends, (ii) to receive cash or other assets in the case of a consolidation or split of shares, share exchange (*kabushiki-kokan*) or share transfer (*kabushiki-iten*), or merger or (iii) to be allotted rights to subscribe for new shares and stock acquisition rights for free when such rights are granted to shareholders. Holders of Shares constituting less than a full unit may at any time request that the Company purchase such Shares constituting less than a full unit at their market price in accordance with the Company's Share Handling Regulations. In addition, holders of Shares constituting less than a full unit may require that the Company sell them such number of Shares, that, when combined with the number of Shares already held by such holder, constitute a whole unit of Shares; provided that the Company be obliged to comply with such request only when there is a sufficient number of treasury shares to accommodate such request. As prescribed in the Company's Share Handling Regulations, such requests must be made through an account management institution and JASDEC pursuant to the rules set by JASDEC without going through the notification procedure required for the exercise of shareholders' rights to which shareholders are entitled regardless of record dates as described in "—General". The Board of Directors may reduce the number of shares constituting one unit or cease to use the unit share system by amendments to the Articles of Incorporation without shareholders' approval even though amendments to the Articles of Incorporation generally require a special resolution adopted at the general meeting of shareholders.

Under the new book-entry transfer system described in "—General," shares constituting less than a full unit are transferable. Under the rules of the Japanese stock exchanges, however, shares constituting less than a full unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges.

General Meetings of Shareholders

The ordinary general meeting of shareholders is held in June of each year. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary. Notice of a general meeting of shareholders stating the place, the time and the purpose thereof must be given to each shareholder having voting rights (or, in the case of a non-resident shareholder, to its standing proxy or mailing address in Japan) at least two weeks prior to the date set for the meeting. The record date for an ordinary general meeting of shareholders is 31 March of each year.

Any shareholder holding at least 300 voting rights or 1 per cent. of the total number of voting rights for six months or longer may propose a matter to be considered at a general meeting of shareholders by submitting a request to a representative director at least eight weeks prior to the date of such meeting. Any of the minimum percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened if the Company's Articles of Incorporation so provide. The Company's Articles of Incorporation currently do not include any such provisions.

Voting Rights

Shareholders of the Company's common stock have one voting right for each unit of Shares held by them.

Except as otherwise provided by law or in the Company's Articles of Incorporation, a majority of the voting rights held by the shareholders present at a general meeting of shareholders is necessary to adopt a resolution at the meeting. The Company's Articles of Incorporation provide that the quorum for election of directors and audit & supervisory board members is one-third of the total number of voting rights. The Company's shareholders are not entitled to cumulative voting in the election of directors. A shareholder may exercise its voting rights in writing or through a proxy, provided that the proxy also be a holder of the Shares having voting rights at such meeting. Generally, a shareholder may also exercise its voting rights by electronic means pursuant to the method designated by the Company.

The Companies Act provides that certain important matters shall be approved by "special resolution" of a general meeting of shareholders. Under the Company's Articles of Incorporation, the quorum for a special resolution is one-third of the total number of voting rights, and the approval of not less than two-thirds of the voting rights held by the shareholders present at the meeting is required for adopting a special resolution. Such important matters include:

1. any amendment to the Company's Articles of Incorporation (except for such amendments that may be made without the approval of shareholders under the Companies Act, such as (i) an increase of the number of authorised shares by the same ratio as that of a stock split, (ii) a reduction of the number of shares per unit of shares and (iii) termination of the unit share system);
2. dismissal of an audit & supervisory board member;
3. the Company's dissolution, merger or consolidation requiring shareholders' approval;
4. establishment of a parent and wholly owned subsidiary relationship by way of a share transfer (*kabushiki-iten*) or share exchange (*kabushiki-kokan*) requiring shareholders' approval;
5. transfer of the whole or a substantial part of the Company's business;
6. taking over of the whole of the business of another company requiring shareholders' approval;
7. the Company's corporate split requiring shareholders' approval;
8. consolidation of the Shares;
9. the Company's acquisition of the Shares from a specific shareholder other than the Company's subsidiary;
10. distribution of Surplus in kind (except when shareholders are granted the right to require that such distribution be made in cash instead of in kind);
11. issuance of new Shares or sale of existing Shares held by the Company as treasury stock to persons other than the shareholders at a "specially favourable" price; and
12. issuance of stock acquisition rights (including those incorporated in bonds with stock acquisition rights) to persons other than the shareholders under "specially favourable" conditions.

Liquidation Rights

In the event of the Company's liquidation, the assets remaining after payment of all debts, liquidation expenses, and taxes will be distributed among holders of the Shares in proportion to the respective numbers of the Shares held by them.

Issue of Additional Shares and Pre-emptive Rights

Holders of the Shares have no pre-emptive rights. Authorised but unissued Shares may be issued at such times and upon such terms as the Board of Directors determines subject to the limitations as to the issuance of new shares of common stock at a "specially favourable" price mentioned in "—Voting Rights". The Board of Directors may, however, determine that shareholders shall be given subscription rights regarding a particular issue of new Shares, in which case such rights must be given on uniform terms to all shareholders as of a record date not less than two weeks' prior to which public notice must be given. Each of the shareholders to whom such rights are given must also be given at least two weeks' prior notice of the date on which such rights expire.

Stock Acquisition Rights

The Company may issue stock acquisition rights (*shinkabu yoyakuken*). Holders of stock acquisition rights are entitled to acquire Shares from the Company upon payment of the applicable exercise price and subject to other terms and conditions. The Company may also issue bonds with stock acquisition rights (*shinkabu yoyakuken-tsuki shasai*). The issuance of stock acquisition rights and bonds with stock acquisition rights may be authorised by the Board of Directors unless it is made under "specially favourable" conditions, as described in "—Voting Rights".

Record Date

As mentioned above, 31 March is the record date for the payment of year-end dividends and the determination of shareholders entitled to vote at the ordinary general meeting of shareholders. 30 September is the record date for the payment of interim dividends. In addition, by resolution of the Board of Directors and after giving at least two weeks' prior public notice, the Company may at any time set a record date in order to determine the shareholders who are entitled to certain rights pertaining to the Shares.

Under the Book-Entry Act, JASDEC is required to give the Company notice of the names and addresses of the Company's shareholders, the numbers of shares held by them and other relevant information as of such record date.

The Company's Acquisition of Common Stock

The Company may acquire Shares:

1. by way of purchase on any Japanese stock exchange on which the Shares are listed or by way of tender offer (in either case pursuant to a resolution adopted by the Board of Directors);
2. from a specific shareholder other than any of the Company's subsidiaries (pursuant to a special resolution adopted at a general meeting of shareholders); or
3. from any of the Company's subsidiaries (pursuant to a resolution adopted by the Board of Directors).

In the case of 2 above, any other shareholder may make a request to the Company that such shareholder be included as a seller in the proposed purchase unless the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the last trading price of the Shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in 2 above is adopted (or, if there is no trading in the Shares on the stock exchange or the stock exchange is not open on such day, the price at which the Shares are first traded on such stock exchange thereafter).

The total amount of the purchase price of the Shares may not exceed the Distributable Amount as described in "—Distribution of Surplus-Restriction on Distribution of Surplus".

The Company may hold the Shares acquired and may generally dispose of or cancel such Shares by resolution of the Board of Directors.

The Company's Disposal of Shares Held by Shareholders Whose Location is Unknown

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

In the above case, if the relevant shareholder also fails to receive dividends on the Shares continuously for five years or more at such shareholder's address registered in the Company's register of shareholders or otherwise notified to the Company, then the Company may in general dispose of such Shares at their then market price and hold or deposit the proceeds of such disposition on behalf of the relevant shareholder.

Japanese Foreign Exchange Regulations

The Foreign Exchange and Foreign Trade Act of Japan (Act No. 228 of 1949, as amended) and its related cabinet orders and ministerial ordinances (collectively, the "Foreign Exchange Regulations") govern certain aspects relating to the transfer of shares by "exchange residents" and the acquisition and holding of Shares by "exchange non-residents" and "foreign investors" (as these terms are defined below). In general, the Foreign Exchange Regulations currently in effect do not affect transactions between exchange non-residents to purchase or sell shares outside Japan using currencies other than Japanese yen.

Exchange residents are defined in the Foreign Exchange Regulations as:

(i) individuals who reside within Japan; or

(ii) corporations whose principal offices are located within Japan.

Exchange non-residents are defined in the Foreign Exchange Regulation as:

(i) individuals who do not reside in Japan; or

(ii) corporations whose principal offices are located outside Japan.

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

Foreign investors are defined in the Foreign Exchange Regulations as:

(i) individuals who are exchange non-residents;

(ii) corporations organised under the laws of foreign countries or whose principal offices are located outside Japan; or

(iii) corporations (1) of which 50 per cent. or more of the total voting rights are held, directly or indirectly, by individuals and/or corporations falling within (i) and/or (ii) above or (2) a majority of whose directors or other officers (or directors or other officers having the power of representation) are non-resident individuals.

Acquisition of Shares

Acquisition by an exchange non-resident of shares of common stock of a Japanese corporation from an exchange resident requires *post facto* reporting by the exchange resident to the Minister of Finance of Japan through The Bank of Japan. No such reporting requirement is imposed, however, if:

(i) the aggregate purchase price of the relevant shares is ¥100 million or less;

(ii) the acquisition is effected through any bank, securities company or other entity prescribed by the Foreign Exchange Regulations acting as an agent or intermediary; or

(iii) the acquisition constitutes an "inward direct investment" described below.

Inward Direct Investment in Shares of Listed Corporations

If a foreign investor acquires shares of a Japanese company that is listed on a Japanese stock exchange, such as the Shares, or that is traded on an over-the-counter market in Japan and, as a result of the acquisition, the foreign investor, in combination with any existing holdings, directly or indirectly holds 10 per cent. or more of the issued shares of the relevant company, the foreign investor must file a report of the acquisition with the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese company by the 15th day of the month immediately following the month to which the date of such acquisition belongs. In limited circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, or where that Japanese company is engaged in certain businesses designated by the Foreign Exchange Regulations, a prior notification of the acquisition must be filed with the Minister of Finance and any other competent Ministers, who may then modify or prohibit the proposed acquisition.

Acquisition of shares by foreign investors by way of stock split is not subject to any of the foregoing notification or reporting requirements.

Dividends and Proceeds for Sale

Under the Foreign Exchange Regulations, dividends paid on, and the proceeds from sales in Japan of, shares held by exchange non-residents may generally be converted into any foreign currency and repatriated abroad.

Reporting of Substantial Shareholding

The FIEA and its related regulations require any person who has become, beneficially and solely or jointly, a holder of more than 5 per cent. of the total issued voting shares of capital stock of a company listed on any Japanese stock exchange to file a report concerning the shareholdings with the Director-General of the competent Local Finance Bureau of the Ministry of Finance, in general, within five business days. A similar report must also be filed if the percentage of such holdings subsequently increases or decreases 1 per cent. or more, or if any change occurs in material matters set out in reports previously filed. For this purpose, shares issuable or transferable to such person upon his or her exchange of exchangeable securities, conversion of convertible securities or exercise of warrants or stock acquisition rights (including those incorporated in bonds with stock acquisition rights) are taken into account in determining both the size of his or her holding and the issuer's total issued share capital. Copies of any reports must also be furnished to the issuer of the shares and to all Japanese stock exchanges on which the shares are listed.

TAXATION

Japan

The following is a summary of the principal Japanese tax consequences to Bondholders and owners of Shares acquired upon the exercise of the Stock Acquisition Rights incorporated in the Bonds, who are non-resident individuals or non-Japanese corporations, in either case having no permanent establishment in Japan ("Non-resident Holders"). The statements regarding Japanese tax laws set out below are based on the laws in force and interpreted by the Japanese taxation authorities as of the date hereof and are subject to changes in the applicable Japanese laws or tax treaties, conventions or agreements or in the interpretation thereof after that date.

This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the Bonds and Shares acquired upon exercise of the Stock Acquisition Rights, including, specifically, the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident, and any tax treaty between Japan and their country of residence, by consulting their own tax advisers.

Bonds

Receipts of premium (if any) upon redemption of the Bonds are subject to regular Japanese income tax or corporate tax but are not subject to any withholding tax. If the recipient is a resident or a corporation of a country with which Japan has an income tax treaty, Japanese tax treatment may be modified by any applicable provisions of such income tax treaty. Bondholders are advised to consult with their legal, accounting or other professional advisers as to the applicable tax treatment.

Gains derived from the sale of Bonds by a Non-resident Holder thereof are, in general, not subject to Japanese income tax. Exercise of the Stock Acquisition Rights is not a taxable event in general.

Japanese inheritance tax and gift tax at progressive rates may be payable by an individual, who has acquired Bonds from another individual as legatee, heir or donee even if the acquiring individual is not a Japanese resident.

Shares

Generally, a Non-resident Holder of Shares is subject to Japanese withholding tax on dividends (meaning distributions from retained earnings of the Company for Japanese corporate law purposes) paid by the Company.

In the absence of any applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations on their shares of stock to Non-resident Holders is generally 20.42 per cent. on or before 31 December 2037 and 20 per cent. thereafter under Japanese tax law. However, with respect to dividends paid on listed shares issued by a Japanese corporation (such as Shares) to Non-resident Holders, other than any individual shareholder who holds 3 per cent. or more of the total number of shares issued by the relevant Japanese corporation, the aforementioned 20.42 per cent. or 20 per cent. withholding tax rate is reduced to (i) 15.315 per cent. for dividends to be paid on or after 1 January 2014 but on or before 31 December 2037 and (ii) 15 per cent. for dividends to be paid thereafter. Due to the imposition of a special additional withholding tax (2.1 per cent. of the original withholding tax amount) to secure funds for reconstruction from the Great East Japan Earthquake, the original withholding tax rate of 15 per cent. and 20 per cent., as applicable, has been effectively increased, respectively, to 15.315 per cent. and 20.42 per cent., during the period beginning on 1 January 2013 and ending on 31 December 2037.

If distributions were made from capital surplus, rather than retained earnings, of the Company for Japanese corporate law purposes, the portion of such distributions in excess of the amount corresponding to a *pro rata* portion of return of capital as determined under Japanese tax laws would be deemed dividends for Japanese tax purposes, while the rest would be treated as return of capital for Japanese tax purposes. The deemed dividend portion, if any, would generally be subject to the same tax treatment as dividends as described above, and the return of capital portion would generally be treated as proceeds derived from the sale of Shares and subject to the same tax treatment as sale of Shares as described below. Distributions made in consideration of repurchase by the Company of its own Shares or in connection with certain reorganisation transactions will be treated substantially in the same manner.

As of the date of this Offering Circular, Japan has income tax treaties whereby the abovementioned withholding tax rate is reduced, generally, to 15 per cent. for portfolio investors, with, among other countries, Belgium, Canada, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, New Zealand, Norway, Singapore, Spain and Sweden. Additionally, the income tax treaties with, among other countries, Australia, France, Hong Kong, the Netherlands, Portugal, Switzerland, the United Kingdom and the United States generally reduce the withholding tax rate to 10 per cent. for portfolio investors. Under the income tax treaty between the United States and Japan, dividends paid to pension funds which are qualified United States residents eligible to enjoy treaty benefits are exempt from Japanese income taxation by way of withholding or otherwise, unless such dividends are derived from the carrying on of a business, directly or indirectly, by such pension funds. Under the income tax treaties with the Netherlands, Switzerland and the United Kingdom, similar treatment will be applied to dividends paid to pension funds. Under Japanese tax law, any reduced maximum rate applicable under a tax treaty will be available when such maximum rate is below the rate otherwise applicable under the Japanese tax law referred to in the preceding paragraph with respect to the dividends to be paid by the Company on Shares. A Non-resident Holder of Shares who is entitled, under any applicable tax treaty, to a reduced rate of Japanese withholding tax, or exemption therefrom, as the case may be, is, in principle, required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends (together with any other required forms and documents) in advance, through the withholding agent, to the relevant tax authority before payment of dividends. A standing proxy for a Non-resident Holder may provide such application service. In this regard, a certain simplified special filing procedure is available for Non-resident Holders to claim treaty benefits of exemption from or reduction of Japanese withholding tax, with respect to dividends paid on or after 1 January 2014, by submitting a Special Application Form for Income Tax Convention regarding Relief from Japanese Income Tax and Special Income Tax for Reconstruction on Dividends of Listed Stocks (together with any other required forms and documents). Non-resident Holders who are entitled, under any applicable tax treaty, to a reduced rate of Japanese withholding tax below the rate otherwise applicable under Japanese tax law, or exemption therefrom, as the case may be, but fail to submit the required application in advance may nevertheless be entitled to claim a refund from the relevant Japanese tax authority of withholding taxes withheld in excess of the rate under an applicable tax treaty (if such Non-resident Holders are entitled to a reduced treaty rate under the applicable tax treaty) or the full amount of tax withheld (if such Non-resident Holders are entitled to an exemption under the applicable tax treaty), as the case may be, by complying with a certain subsequent filing procedure. The Company does not assume any responsibility to ensure withholding at the reduced rate, or exemption therefrom, for Non-resident Holders who would be so eligible under an applicable tax treaty but where the required procedures as stated above are not followed.

Gains derived from the sale of Shares by a Non-resident Holder who is a portfolio investor are, in general, not subject to Japanese income tax.

Japanese inheritance tax and gift tax at progressive rates may be payable by an individual who has acquired Shares from another individual as legatee, heir or donee even if the acquiring individual is not a Japanese resident.

Others

Proposed Financial Transactions Tax

The European Commission has published a proposal for a Directive for a common financial transactions tax ("FTT") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States").

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Bonds are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Subscription Agreement

Pursuant to a subscription agreement dated 26 February 2014 in respect of the Bonds (the "Subscription Agreement") between the Company on the one hand and Nomura International plc and Mizuho International plc (together, the "Joint Lead Managers") on the other, the Joint Lead Managers have agreed with the Company, subject to the satisfaction of certain conditions, severally but not jointly, to purchase the aggregate principal amount of the Bonds as indicated in the table below at the issue price (the "Issue Price") of 100.5 per cent. of the principal amount of the Bonds and to offer the Bonds at the Offer Price as stated on the cover page of this Offering Circular (the "Offer Price").

Joint Lead Managers	Aggregate Principal Amount of the Bonds
Nomura International plc	¥16,500,000,000
Mizuho International plc	13,500,000,000
Total	¥30,000,000,000

No selling concession or combined management and underwriting commission will be payable by the Company with respect to the offering of the Bonds. The difference between the Offer Price and the Issue Price will be retained by the Joint Lead Managers.

The Company has agreed to pay certain costs in connection with the issue and offering of the Bonds. The Joint Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement or to terminate the Subscription Agreement in certain circumstances prior to payment to the Company as set out therein. The Company has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the issue and offering of the Bonds.

Lock-up Arrangements

In connection with the issue and offering of the Bonds, the Company has agreed that it will not, and will procure that none of its directors or officers or any person acting on the direction of the Company will, for a period beginning on the date of the Subscription Agreement and ending on the date 180 calendar days after the Closing Date:

(i) issue, offer, pledge, lend, sell, contract to sell, sell or grant any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (including stock acquisition rights) to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, any Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for, or that constitutes the right to receive, Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for Shares (including any depositary receipts representing Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for Shares); or

(ii) enter into a transaction (including a derivative transaction) that transfers, in whole or in part, directly or indirectly, ownership (or any economic consequences thereof) of Shares or any other capital stock of the Company, or that has an effect on the market in the Shares similar to that of a sale; or

(iii) deposit any Shares (or any securities convertible into or exercisable or exchangeable for Shares or any other capital stock of the Company or which carry rights to subscribe or purchase Shares or any other capital stock of the Company) in any depositary receipt facility; or

(iv) publicly announce any intention to do any of the above,

without the prior written consent of the Joint Lead Managers, other than:

(a) the issue and sale by the Company of the Bonds or the issue or transfer of Shares upon exercise of the Stock Acquisition Rights;

(b) the issue or transfer of any Shares by the Company upon conversion of convertible bonds (including the exercise of stock acquisition rights in relation to any bonds with stock acquisition rights) or upon exercise of any warrants to subscribe for shares or stock acquisition rights outstanding as of the date of the Subscription Agreement and referred to in this Offering Circular;

(c) the grant of stock options, stock acquisition rights or warrants to directors, audit & supervisory board members, executive officers and employees of the Company and any of its subsidiaries and investees pursuant to its stock option plans and the issue or transfer of Shares upon exercise of such stock options, stock acquisition rights or warrants;

(d) the sale of Shares by the Company to any holder of Shares constituting less than one unit for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute one full unit of Shares;

(e) the issue of Shares by the Company as a result of any stock split or the *pro rata* allocation of Shares or the stock acquisition rights to holders of Shares without any consideration and the issue or transfer of Shares upon exercise of such stock acquisition rights; and

(f) any other issue or sale of Shares required by the Japanese laws and regulations.

Selling Restrictions

United States

Neither the Bonds nor the Shares issuable upon exercise of the Stock Acquisition Rights offered herein have been or will be registered under the Securities Act or may be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act. Each Joint Lead Manager has represented and agreed that it has not offered or sold and will not offer or sell the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights (i) as part of their distribution, at any time or (ii) otherwise, until 40 days after the later of the commencement of the Offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and only in accordance with Rule 903 of Regulation S, and it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration to whom it sells the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meaning given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Joint Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), it has not made and will not make an offer of Bonds which are the subject of the Offering contemplated by this Offering Circular to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Bonds to the public in that Relevant Member State:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Joint Lead Managers; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds shall require the Company or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Bonds to the public" in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Switzerland

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Bonds described therein. The Bonds may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Bonds constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland, and neither this document nor any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and it will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds or the Shares to be issued upon exercise of the Stock Acquisition Rights in circumstances in which section 21(1) of the FSMA does not apply to the Company; and

(b) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds or the Shares to be issued upon exercise of the Stock Acquisition Rights in, from or otherwise involving the United Kingdom.

Japan

The Bonds have not been and will not be registered under the FIEA. Accordingly, each Joint Lead Manager has represented and agreed that, in connection with the initial offering of the Bonds, it has not, directly or indirectly, offered or sold and shall not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the account or benefit of, any resident of Japan or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan, except pursuant to an exemption available from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and governmental guidelines in Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore (the "SFA") and accordingly, the Bonds may not be offered or sold, nor may the Bonds be the subject of an invitation for subscription or purchase, nor may this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Bonds be circulated or distributed, whether directly or indirectly, to any person in Singapore other than under exemptions provided in the SFA for offers made (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with, the conditions of any other applicable provision of the SFA.

Where the Bonds are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferrable within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor (under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights or interest in that trust are acquired at a consideration of not less than 200,000 Singapore dollars (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275(1A) of the SFA;

(2) where no consideration is given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulation 2005 of Singapore.

Hong Kong

Each Joint Lead Manager has represented and agreed that:

(a) the Bonds and the Shares to be acquired upon exercise of the Stock Acquisition Rights may not be offered or sold by means of any document other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the "SFO") and any rules made under the SFO, or (b) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) (the "Companies Ordinance") or which do not constitute an offer to the public within the meaning of the Companies Ordinance; and

(b) no advertisement, invitation or document relating to the Bonds or the Shares to be acquired upon exercise of the Stock Acquisition Rights may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Bonds and Shares to be acquired upon exercise of the Stock Acquisition Rights which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under the SFO.

General

Neither the Company nor any of the Joint Lead Managers represents that the Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating such sales.

Other Relationships

Certain of the Joint Lead Managers or their affiliates may purchase the Bonds and be allocated the Bonds for asset management and/or proprietary purposes but not with a view to distribution.

In connection with the Offering, any Joint Lead Manager may purchase the Bonds for its or their own account and may for its or their own account enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps or other derivatives relating to the Bonds and/or the Shares and/or other securities of the Company or its subsidiaries or investees and/or components of such Bonds and/or Shares and/or other securities, at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). As a result of such transactions any of the Joint Lead Managers may hold long or short positions in the Bonds and/or the Shares and/or derivatives relating thereto. No disclosure will be made of any such positions.

Certain of the Joint Lead Managers or their affiliates have in the past provided, are currently providing and may in the future provide, investment and commercial banking, underwriting, advisory and other services to the Company and its subsidiaries and investees for which they have received, expect to receive or may receive (as the case may be) customary compensation. Interests may evolve out of these transactions that could potentially conflict with the interests of a purchaser of the Bonds. In particular, Mizuho Bank, Ltd. is one of the principal bank lenders of the Company and is an affiliate of Mizuho International plc, one of the Joint Lead Managers. In addition, Mizuho Securities Co., Ltd. is one of the principal shareholders of the Company, and Mizuho International plc is an indirectly wholly owned subsidiary of Mizuho Securities Co., Ltd.

GENERAL INFORMATION

1. The Bonds have been accepted for clearance through Euroclear and through Clearstream, Luxembourg. The International Security Identification Number (ISIN) is XS1034964111 and the Common Code is 103496411.

2. The Securities Identification Code for the Shares given by Securities Identification Code Committee of Japan is 6857.

3. Approval in-principle has been received for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of ¥200,000 with a minimum of 100 lots to be traded in a single transaction for so long as the Bonds are listed on the SGX-ST. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Company will appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for definitive Certificates. In addition, in the event that the Global Certificate is exchanged for definitive Certificates, an announcement of such exchange shall be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the paying agent in Singapore.

4. The Company has obtained all necessary consents, approvals and authorisations in Japan, if any, in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by a resolution dated 26 February 2014 of the Board of Directors of the Company.

5. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Group and no material adverse change in the prospects of the Group since 31 March 2013.

6. Save as disclosed in this Offering Circular, neither the Company nor any other member of the Group is, or has been involved in, any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position or the profitability of the Group nor is the Company aware that any such proceedings are pending or threatened.

7. Copies of the latest annual report on Form 20-F of the Company including the audited consolidated annual financial statements in English, and the Company's latest unaudited consolidated quarterly financial statements in English (being English translations of unaudited consolidated quarterly financial statements included in the Company's published *Shihanki houkokusho*) included in the Company's Form 6-K may be obtained, and copies of the Trust Deed and the Agency Agreement will be available for inspection, at the specified offices of each of the Agents during normal business hours, so long as any of the Bonds is outstanding.

8. The consolidated financial statements of the Company for each of the three fiscal years ended 31 March 2011, 2012 and 2013, included in this Offering Circular, have been audited by Ernst & Young ShinNihon LLC, the Company's independent auditors, as stated in their audit reports appearing herein.

9. The quarterly consolidated balance sheet of the Company and consolidated subsidiaries as of 31 December 2013, and the related quarterly consolidated statements of operations, comprehensive income (loss) and cash flows for the nine-month periods ended 31 December 2012 and 2013, included in this Offering Circular, have been reviewed by Ernst & Young ShinNihon LLC, the Company's independent auditors, as stated in their review report appearing herein.

10. Except to the extent provided in Condition 6, the Conditions do not provide for participating rights in the event of a take-over of the Company.

11. The Trustee is entitled under the Trust Deed to rely on reports and certificates addressed and/or delivered to it by the independent auditors to the Company whether or not the same are subject to any limitation on the liability of the independent auditors to the Company and whether by reference to a monetary cap or otherwise.

INDEX TO THE FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Advantest Corporation

We have audited the accompanying consolidated balance sheets of Advantest Corporation and subsidiaries as of March 31, 2012 and 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advantest Corporation and subsidiaries at March 31, 2012 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young ShinNihon LLC

Tokyo, Japan
June 27, 2013

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets
March 31, 2012 and 2013

	Yen (Millions)	
	2012	**2013**
Assets		
Current assets:		
Cash and cash equivalents	¥ 58,218	45,668
Trade receivables, net	24,119	26,953
Inventories	29,836	31,849
Other current assets	6,522	8,319
Total current assets	118,695	112,789
Investment securities	5,929	5,923
Property, plant and equipment, net	34,206	41,368
Intangible assets, net	15,794	15,833
Goodwill	36,496	41,670
Other assets	8,106	7,932
Total assets	¥219,226	225,515

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets
March 31, 2012 and 2013

	Yen (Millions)	
	2012	**2013**
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	¥ 15,659	10,380
Short term debt	25,000	–
Accrued expenses	12,068	7,910
Income taxes payable	600	1,436
Accrued warranty expenses	2,129	1,889
Customer prepayments	2,228	3,198
Other current liabilities	2,688	3,087
Total current liabilities	60,372	27,900
Corporate bonds	–	25,000
Accrued pension and severance costs	23,444	26,785
Other liabilities	3,858	4,589
Total liabilities	87,674	84,274
Commitments and contingent liabilities		
Stockholders' equity:		
Common stock,		
Authorized 440,000,000 shares; issued 199,566,770 shares	32,363	32,363
Capital surplus	42,280	42,801
Retained earnings	179,081	170,626
Accumulated other comprehensive income (loss)	(22,574)	(6,929)
Treasury stock, 26,295,390 shares in 2012 and 25,773,688 shares in 2013, at cost	(99,598)	(97,620)
Total stockholders' equity	131,552	141,241
Total liabilities and stockholders' equity	¥219,226	225,515

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Operations
Years ended March 31, 2011, 2012 and 2013

	Yen (Millions)		
	2011	**2012**	**2013**
Net sales	¥99,634	141,048	132,903
Cost of sales	51,164	72,300	63,983
Gross profit	48,470	68,748	68,920
Research and development expenses	21,197	30,303	33,062
Selling, general and administrative expenses	21,162	37,608	35,778
Operating income	6,111	837	80
Other income (expense):			
Interest and dividend income	326	323	213
Interest expense	(3)	(153)	(132)
Impairment losses on investment securities	(512)	(2,254)	(400)
Other, net	(371)	(2,195)	(1,054)
Total other income (expense)	(560)	(4,279)	(1,373)
Income (loss) before income taxes and equity in earnings (loss) of affiliated company	5,551	(3,442)	(1,293)
Income taxes (benefit)	2,352	(1,240)	2,493
Equity in earnings (loss) of affiliated company	(36)	7	(35)
Net income (loss)	¥ 3,163	(2,195)	(3,821)

	Yen		
	2011	**2012**	**2013**
Net income (loss) per share:			
Basic	¥ 18.03	(12.67)	(22.03)
Diluted	18.03	(12.67)	(22.03)

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)
Years ended March 31, 2011, 2012 and 2013

	Yen (Millions)		
	2011	2012	2013
Comprehensive income (loss)			
Net income (loss)	¥ 3,163	(2,195)	(3,821)
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	(3,231)	1,422	17,250
Net unrealized gains (losses) on investment securities:			
Net unrealized gains (losses) arising during the year	(311)	(216)	165
Less reclassification adjustments for net gains (losses) realized in earnings	252	818	9
Net unrealized gains (losses)	(59)	602	174
Pension related adjustments	(121)	(6,328)	(1,779)
Total other comprehensive income (loss)	(3,411)	(4,304)	15,645
Total comprehensive income (loss)	¥ (248)	(6,499)	11,824

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
Years ended March 31, 2011, 2012 and 2013

	Yen (Millions)		
	2011	2012	2013
Common stock			
Balance at beginning of year	¥ 32,363	32,363	32,363
Changes in the year	–	–	–
Balance at end of year	32,363	32,363	32,363
Capital surplus			
Balance at beginning of year	40,463	40,628	42,280
Changes in the year			
Stock option compensation expense	165	1,652	861
Exercise of stock options	–	–	(340)
Total changes in the year	165	1,652	521
Balance at end of year	40,628	42,280	42,801
Retained earnings			
Balance at beginning of year	181,606	183,009	179,081
Changes in the year			
Net income (loss)	3,163	(2,195)	(3,821)
Cash dividends	(1,760)	(1,733)	(3,468)
Sale of treasury stock	(0)	(0)	(1,166)
Total changes in the year	1,403	(3,928)	(8,455)
Balance at end of year	183,009	179,081	170,626
Accumulated other comprehensive income (loss)			
Balance at beginning of year	(14,859)	(18,270)	(22,574)
Changes in the year			
Other comprehensive income (loss), net of tax	(3,411)	(4,304)	15,645
Balance at end of year	(18,270)	(22,574)	(6,929)
Treasury stock			
Balance at beginning of year	(89,331)	(99,598)	(99,598)
Changes in the year			
Purchases of treasury stock	(10,267)	(1)	(1)
Sale of treasury stock	0	1	1,979
Total changes in the year	(10,267)	0	1,978
Balance at end of year	(99,598)	(99,598)	(97,620)
Total stockholders' equity			
Balance at beginning of year	150,242	138,132	131,552
Changes in the year			
Net income (loss)	3,163	(2,195)	(3,821)
Other comprehensive income (loss), net of tax	(3,411)	(4,304)	15,645
Cash dividends	(1,760)	(1,733)	(3,468)
Stock option compensation expense	165	1,652	861
Exercise of stock options	–	–	(340)
Purchases of treasury stock	(10,267)	(1)	(1)
Sale of treasury stock	0	1	813
Total changes in the year	(12,110)	(6,580)	9,689
Balance at end of year	¥138,132	131,552	141,241

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years ended March 31, 2011, 2012 and 2013

	Yen (Millions)		
	2011	2012	2013
Cash flows from operating activities:			
Net income (loss)	¥ 3,163	(2,195)	(3,821)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,209	6,838	8,063
Deferred income taxes	425	(3,663)	693
Stock option compensation expense	165	583	861
Impairment losses on investment securities	512	2,254	400
Changes in assets and liabilities, net of effect of acquisition:			
Trade receivables	(7,645)	616	(1,004)
Inventories	(7,285)	4,613	(566)
Trade accounts payable	1,146	902	(6,475)
Accrued expenses	2,540	39	(4,529)
Income taxes payable	302	(659)	677
Accrued warranty expenses	(1,040)	164	(302)
Customer prepayments	1,276	(1,815)	611
Accrued pension and severance costs	225	975	841
Other	1,314	3,650	2,336
Net cash provided by (used in) operating activities	(693)	12,302	(2,215)
Cash flows from investing activities:			
(Increase) decrease in short-term investments	(2,446)	14,387	–
Proceeds from sale of available-for-sales securities	6	10,717	287
Acquisition of subsidiary, net of cash acquired	–	(57,145)	–
Decrease of other investment in equity method investee	–	620	–
Proceeds from sale of property, plant and equipment	12	89	32
Purchases of property, plant and equipment	(3,138)	(5,931)	(11,386)
Purchases of intangible assets	(323)	(329)	(443)
Other	61	(78)	12
Net cash provided by (used in) investing activities	(5,828)	(37,670)	(11,498)
Cash flows from financing activities:			
Increase (decrease) in short term debt	–	25,466	(25,000)
Proceeds from issuance of corporate bonds	–	–	25,000
Redemption of senior convertible notes of acquired subsidiary	–	(13,835)	–
Purchases of treasury stock	(10,268)	(1)	(1)
Dividends paid	(1,760)	(1,729)	(3,460)
Other	0	(14)	547
Net cash provided by (used in) financing activities	(12,028)	9,887	(2,914)
Net effect of exchange rate changes on cash and cash equivalents	(2,567)	(1,624)	4,077
Net change in cash and cash equivalents	(21,116)	(17,105)	(12,550)
Cash and cash equivalents at beginning of year	96,439	75,323	58,218
Cash and cash equivalents at end of year	¥ 75,323	58,218	45,668
Supplemental data:			
Cash paid during the year for:			
Income taxes	¥ 1,412	3,267	1,519
Interest	4	153	87

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(a) Description of Business

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

Description of the business by segment is as follows:

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

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

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

(b) Principles of Consolidation

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

(c) Cash Equivalents

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

(d) Allowance for Doubtful Accounts

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

(e) Inventories

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

(f) Investment Securities

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

Marketable Equity Securities

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

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

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

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

Non-marketable Equity Securities

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

(g) Derivative Financial Instruments

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

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.

(h) Property, Plant and Equipment

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

Depreciation is computed principally using the straight-line method over estimated useful lives of the assets.

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

(i) Goodwill and Intangible Assets

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

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

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

(j) Impairment of Long-Lived Assets

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

(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 provide for future repairs during warranty periods, estimated repair expenses over the warranty period are accrued based on the historical ratio of actual repair expenses to corresponding sales, and any facts and circumstances that occurred.

(l) Accrued Pension and Severance Costs

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

(m) Revenue Recognition

General

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

Sales of Products

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

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

Long-term Service Contracts

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

Leasing Income

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

Multiple Deliverables

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

(n) Shipping and Handling Costs

Shipping and handling costs totaled ¥929 million, ¥1,409 million and ¥1,564 million for the years ended March 31, 2011, 2012 and 2013, respectively, and are included in selling, general and administrative expenses in the consolidated statements of operations.

(o) Research and Development Expenses

Research and development costs are expensed as incurred.

(p) Advertising Costs

Advertising costs totaled ¥104 million, ¥178 million and ¥497 million for the years ended March 31, 2011, 2012 and 2013, respectively, and are expensed as incurred.

(q) Stock-Based Compensation

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

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

(r) Income Taxes

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

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

(s) Net Income (Loss) per Share

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

(t) Foreign Financial Statements

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

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

(u) Foreign Currency Transactions

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

Foreign exchange gains (losses) were (¥508) million, (¥2,319) million and (¥1,427) million for the years ended March 31, 2011, 2012 and 2013, respectively.

(v) Use of Estimates

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

(w) New Accounting Standards

In July 2012, the FASB amended the accounting guidance to simplify how entities test indefinite-lived intangible assets for impairment which improve consistency in impairment testing requirements among long-lived asset categories. The guidance permits an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, the guidance eliminates the requirement to perform quantitative impairment testing as outlined in the previously issued standards. The guidance is effective for fiscal years beginning on or after September 16, 2012, with early adoption permitted. The guidance is required to be adopted by Advantest in the first quarter beginning April 1, 2013. Advantest is currently evaluating the effect that this adoption will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

In February 2013, the FASB finalized the accounting guidance for reporting of amounts reclassified out of accumulated other comprehensive income. This new guidance requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2012, with early adoption permitted. The guidance is required to be adopted by Advantest in the first quarter beginning April 1, 2013. Advantest is currently evaluating the effect that this adoption will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

(x) Reclassifications

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

(2) Business Combinations

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

Summary of the total purchase price is as follows.

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

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

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

This acquisition was accounted for using the acquisition method.

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

	Yen (Millions)
Assets acquired and liabilities assumed	
Cash and cash equivalents	20,516
Trade receivable, net	2,104
Inventories	11,013
Property, plant and equipment	3,316
Intangible assets	16,899
Goodwill	35,140
Other assets	20,145
Trade accounts payable	(3,136)
Other liabilities	(27,268)
Net assets acquired	78,729
Purchase Price	78,729

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

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

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

	Yen (Millions)
	Year ended March 31, 2012
Pro forma net sales	149,916
Pro forma income (loss) before income taxes	(1,866)

(3) Trade Receivables

Trade receivables at March 31, 2012 and 2013 were as follows:

	Yen (Millions)	
	2012	2013
Notes	¥ 157	2,570
Accounts	24,037	24,437
	24,194	27,007
Less allowance for doubtful accounts	75	54
	¥24,119	26,953

(4) Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts for the years ended March 31, 2011, 2012 and 2013 were as follows:

	Yen (Millions)		
	2011	2012	2013
Balance at beginning of year	¥ 159	67	75
Provision for (reversal of) allowance	(88)	8	(13)
Amounts written off	(4)	–	(8)
Balance at end of year	¥ 67	75	54

(5) Inventories

Inventories at March 31, 2012 and 2013 were composed of the following:

	Yen (Millions)	
	2012	2013
Finished goods	¥ 8,318	6,485
Work in process	11,303	11,378
Raw materials and supplies	10,215	13,986
	¥29,836	31,849

(6) Property, Plant and Equipment

Property, plant and equipment at March 31, 2012 and 2013 were composed of the following:

	Yen (Millions)	
	2012	2013
Land	¥ 14,035	14,557
Buildings	24,383	26,213
Machinery and equipment	20,595	24,071
Tools, furniture and fixtures	14,216	16,191
Construction in progress	363	4,205
	73,592	85,237
Less accumulated depreciation	39,386	43,869
	¥ 34,206	41,368

Depreciation expense was ¥3,977 million, ¥4,326 million and ¥5,778 million for the years ended March 31, 2011, 2012 and 2013, respectively.

(7) Goodwill and Intangible Assets

The components of intangible assets excluding goodwill at March 31, 2012 and 2013 were as follows:

	Yen (Millions)			
	2012		2013	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Intangible assets subject to amortization:				
Software	¥ 2,704	1,998	¥ 2,306	1,624
Customer relationships	2,227	215	2,549	573
Patented technologies	4,365	389	4,995	1,037
Developed technologies	6,238	603	7,524	1,652
Other	1,690	175	2,005	473
	17,224	3,380	19,379	5,359
Intangible assets not subject to amortization:				
In-process technologies	1,726	–	1,589	–
Other	224	–	224	–
	1,950	–	1,813	–
Intangible assets:				
Balance at end of year	¥ 19,174	3,380	¥ 21,192	5,359

Aggregate amortization expense for the years ended March 31, 2011, 2012 and 2013 was ¥232 million, ¥2,512 million and ¥2,285 million, respectively. Estimated amortization expense for the next five years ending March 31 is ¥2,333 million in 2014, ¥2,411 million in 2015, ¥2,321 million in 2016, ¥2,109 million in 2017, and ¥1,899 million in 2018, respectively.

Goodwill at March 31, 2011 was ¥645 million. Goodwill was related to the semiconductor and component test system segment. Changes in the carrying amount of goodwill for the years ended March 31, 2012 and 2013 were as follows:

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

	Yen (Millions)			
	2013			
	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Total
Balance at beginning of year	¥ 21,911	–	14,585	36,496
Translation adjustments	3,069	–	2,105	5,174
Balance at end of year	24,980	–	16,690	41,670

Advantest performed its annual impairment test for goodwill at the reporting unit level and identified no impairments at March 31, 2011, 2012 and 2013.

(8) Investment Securities

Marketable equity securities are classified as available-for-sale securities. The acquisition cost, gross unrealized gains, gross unrealized losses and fair value at March 31, 2012 and 2013 were as follows:

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

	Yen (Millions)			
	2013			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Fair value
Noncurrent:				
Available-for-sale:				
Equity securities	¥ 3,079	2,377	1	5,455

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

Proceeds from the sale of available-for-sale securities and gross realized gains on the sale of available-for-sale securities for the year ended March 31, 2011 were insignificant. No losses were realized on the sale of available-for-sale securities for the year ended March 31, 2011. Proceeds from the sale of available-for-sale securities and gross realized gains on available-for-sales securities for the year ended March 31, 2012 were ¥10,717 million and ¥19 million. Gross realized losses on the sale of available-for-sale securities for the year ended March 31, 2012 were insignificant. Proceeds from the sale of available-for-sale securities and gross realized gains on available-for-sale securities for the year ended March 31, 2013 were ¥425 million and ¥388 million. No losses were realized on the sale of available-for-sale securities for the year ended March 31, 2013.

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

For the years ended March 31, 2011, 2012 and 2013, Advantest recognized impairment losses of ¥426 million, ¥1,259 million and ¥388 million, respectively, on available-for-sale securities, which were considered other-than-temporarily impaired and wrote them down to the fair value.

Gross unrealized losses on available-for-sale securities and the fair value of the related securities, aggregated by length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2012 and 2013, were as follows:

	Yen (Millions)			
	2012			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Noncurrent:				
Available-for-sale:				
Equity securities	¥825	178	179	13

	Yen (Millions)			
	2013			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Noncurrent:				
Available-for-sale:				
Equity securities	¥ –	–	5	1

Advantest maintains non-marketable equity securities, which are recorded at cost. The carrying amounts of non-marketable equity securities were ¥450 million and ¥468 million at March 31, 2012 and 2013, respectively. Advantest had not estimated the fair value of other non-marketable equity securities aggregating ¥50 million and ¥460 million at March 31, 2012 and 2013, respectively, since it was not practicable to estimate the fair value of the investments due to the lack of readily determinable fair values and difficulty in estimating fair value without incurring excessive cost. Non-marketable equity securities that had impairment indicators were evaluated to determine whether the investments were impaired and the impairment, if any, was other than temporary. For the years ended March 31, 2011, 2012 and 2013, non-marketable equity securities with a purchase cost of ¥98 million, ¥1,395 million and ¥20 million were written down to their estimated fair values of ¥12 million, ¥400 million and ¥8 million, resulting in other-than-temporary impairment charges of ¥86 million, ¥995 million and ¥12 million, respectively, which were included in impairment losses on investment securities in the accompanying consolidated statements of operations.

(9) Derivative Financial Instruments

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

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

Derivatives not designated as hedging instruments

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

Advantest had foreign exchange contracts to exchange currencies among Japanese yen, US dollar and Euro at March 31, 2012 and 2013. The notional amounts of outstanding forward contracts for foreign currency purchases were approximately ¥653 million, and the outstanding forward contracts for foreign currency sales were ¥280 million at March 31, 2012. The notional amounts of outstanding forward contracts for foreign currency sales were ¥147 million at March 31, 2013.

Fair Value of Derivative Contracts

Fair values of derivatives not designated as hedging instruments at March 31, 2012 and 2013 were as follows:

Derivatives not designated as hedging instruments

	Yen (Millions)			
	March 31, 2012		March 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Assets				
Foreign exchange contracts..........	Other current assets	¥ 21	Other current assets	16
Liabilities				
Foreign exchange contracts..........	Other current liabilities	¥ 0	Other current liabilities	0

Effect of derivative instruments on the consolidated statements of operations

Derivatives not designated as hedging instruments

The effects of derivatives not designated as hedging instruments on the consolidated statements of operations for the years ended March 31, 2011, 2012 and 2013 were as follows:

		Yen (Millions)		
		Amount of gain (loss) recognized in income on derivatives		
	Location of gain (loss) recognized in income on derivatives	2011	2012	2013
Foreign exchange contracts.....................................	Other income (expense)	¥ 223	630	(96)

(10) Fair Value Measurement

Disclosure about the fair value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of Advantest's financial instruments at March 31, 2012 and 2013. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

	Yen (Millions)			
	2012		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Investment securities				
Available-for-sale securities	¥ 5,479	5,479	¥ 5,455	5,455
Foreign exchange contracts..	21	21	16	16
Financial liabilities:				
Foreign exchange contracts..	0	0	0	0
Corporate bonds	–	–	25,000	25,026

The carrying amounts of available-for-sale securities are included in the consolidated balance sheets under investment securities. The carrying amounts of foreign exchange contracts are included in other current assets and other current liabilities.

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

Cash and cash equivalents, trade receivables and trade accounts payable: The carrying amounts approximate fair value because of the short maturity of these instruments.

Available-for-sale securities: The fair values of available-for-sale equity securities are based on quoted market prices at the reporting date for those investments.

Foreign exchange contracts: The fair value of foreign exchange contracts are estimated by obtaining quotes from financial institutions.

Corporate bonds: The fair value of corporate bonds is estimated using market quotes and are classified as Level 2.

Fair Value Hierarchy

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally the inputs to valuation techniques used to measure fair value are prioritized into the following three levels:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2—Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3—Unobservable inputs for the asset or liability.

Assets / Liabilities Measured at Fair Value on a Recurring Basis

As of March 31, 2012 and 2013, carrying amount of assets and liabilities that were measured at fair value on a recurring basis by level was as follows:

		Yen (Millions)		
		Fair Value Measurements at March 31, 2012		
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale equity securities	¥5,479	5,479	–	–
Foreign exchange contracts	21	–	21	–
Total assets measured at fair value	5,500	5,479	21	–
Liabilities				
Foreign exchange contracts	0	–	0	–
Total liabilities measured at fair value	¥ 0	–	0	–

	Yen (Millions)			
		Fair Value Measurements at March 31, 2013		
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale equity securities	¥5,455	5,455	–	–
Foreign exchange contracts	16	–	16	–
Total assets measured at fair value	5,471	5,455	16	–
Liabilities				
Foreign exchange contracts	0	–	0	–
Total liabilities measured at fair value	¥ 0	–	0	–

Adjustments to fair value of available-for-sale equity securities are recorded as an increase or decrease, net of tax, in accumulated other comprehensive income (loss) except where losses are considered to be other than temporary, in which case the losses are recorded in impairment losses on investment securities. Changes in fair value of foreign exchange contracts are recorded as other income (expense).

Assets / Liabilities Measured at Fair Value on a Nonrecurring Basis

As of March 31, 2012 and 2013, carrying amounts of assets and liabilities, which were measured at fair value on a nonrecurring basis by level during the years ended March 31, 2012 and 2013, were as follows:

	Yen (Millions)				
		Fair Value Measurements at March 31, 2012			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total gains (losses) for the year ended March 31, 2012
Assets					
Non-marketable equity securities	¥ 400	–	400	0	(995)
Assets held for sale	1,471	–	–	1,471	(920)
Total assets measured at fair value	1,871	–	400	1,471	
Total gains (losses) for assets held as of March 31, 2012					(1,915)

	Yen (Millions)				
		Fair Value Measurements at March 31, 2013			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total gains (losses) for the year ended March 31, 2013
Assets					
Non-marketable equity securities	¥ 8	–	–	8	(12)
Assets held for sale	1,337	–	–	1,337	(134)
Total assets measured at fair value	1,345	–	–	1,345	
Total gains (losses) for assets held as of March 31, 2013					(146)

Advantest recognized impairment losses of non-marketable equity securities when their fair values were below the carrying amounts and the decline in fair values was considered to be other than temporary. The non-marketable equity securities are valued using the market and income approaches. The fair value of non-marketable equity securities is based on quoted prices in markets that are not active at the reporting date, or present value of expected future cash flows for those investments. As of March 31, 2012 and 2013, Advantest reclassified certain land measured at fair value on a nonrecurring basis of ¥1,471 million and ¥1,337 million as asset held for sale, respectively. As of March 31, 2013, Advantest reclassified certain land of ¥1,144 million as asset held for sale. The assets held for sale were included in other current assets on the consolidated balance sheets. The fair value was determined based on a third-party appraisal using similar assets and sales. The fair value is classified as Level 3 because significant unobservable inputs were involved in the fair value measurements.

(11) Leases—Lessor

Advantest provides leases that enable its customers to use semiconductor test systems. All leases are classified as operating leases. Lease terms range from 1 year to 5 years, and certain of the lease agreements are cancelable. The gross amount of machinery and equipment and the related accumulated depreciation under operating leases as of March 31, 2012 and 2013 were as follows:

	Yen (Millions)	
	2012	**2013**
Machinery and equipment	¥ 8,406	9,419
Less accumulated depreciation	4,841	5,840
	¥ 3,565	3,579

Depreciation of machinery and equipment held under operating leases is included with depreciation expense. These assets are included in property, plant and equipment.

Future minimum lease income under noncancelable operating leases as of March 31, 2013 is as follows:

Year ending March 31	**Yen (Millions)**
2014	¥ 1,158
2015	198
2016	32
2017	8
2018	–
Thereafter	–
Total minimum lease income	¥ 1,396

(12) Leases—Lessee

Advantest has several noncancelable operating leases, primarily for office space and office equipment. Rent expense, including rental payments for cancelable leases, for the years ended March 31, 2011, 2012 and 2013 was ¥1,122 million, ¥1,565 million and ¥1,800 million, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of March 31, 2013 are as follows:

Year ending March 31	**Yen (Millions)**
2014	¥ 871
2015	773
2016	685
2017	403
2018	285
Thereafter	885
	3,902
Less sublease income to be received in the future under noncancelable subleases	673
Net minimum lease payments	¥ 3,229

(13) Short Term Debt and Corporate Bonds

Short term debt at March 31, 2012 and 2013 were as follows:

	Yen (Millions)	
	2012	2013
Unsecured borrowing		
Weighted average annual interest 0.38%	¥25,000	–
	¥25,000	–

As of March 31, 2012, the Company had no corporate bonds. As of March 31, 2013, the amount, interest rates and maturity dates of unsecured corporate bonds were as follows:

Amount	Interest rate	Maturity date
¥10,000 million	0.416% per annum	May 25, 2015
¥15,000 million	0.606% per annum	May 25, 2017

(14) Income Taxes

The components of income (loss) before income taxes and equity in earnings (loss) of affiliated company and provision (benefit) for income taxes as shown in the consolidated statements of operations were as follows:

	Yen (Millions)		
	2011	2012	2013
Income (loss) before income taxes and equity in earnings (loss) of affiliated company:			
The Company and domestic subsidiaries	¥(1,130)	(2,775)	(16,721)
Foreign subsidiaries	6,681	(667)	15,428
	¥ 5,551	(3,442)	(1,293)

	Yen (Millions)		
	2011	2012	2013
Provision (benefit) for income taxes:			
Current:			
The Company and domestic subsidiaries	¥ 813	555	411
Foreign subsidiaries	1,160	1,841	1,243
Deferred:			
The Company and domestic subsidiaries	330	(1,513)	(272)
Foreign subsidiaries	49	(2,123)	1,111
	¥ 2,352	(1,240)	2,493

The Company and its domestic subsidiaries are subject to a number of income taxes, which in the aggregate resulted in statutory income tax rates of 40.4%, 40.4% and 37.8% for the years ended March 31, 2011, 2012 and 2013, respectively.

Amendments to the Japanese tax regulations were enacted into law on December 2, 2011. As a result of these amendments, the statutory income tax rate was reduced to approximately 37.8% effective from the year beginning April 1, 2012, and will be reduced to approximately 35.4% effective from the year beginning April 1, 2015.

Prior to the acquisition, Verigy was a Singapore corporation and had negotiated tax incentives with the Singapore Economic Development Board ("EDB"), an agency of the Government of Singapore, which had been approved by Singapore's Ministry of Finance and Ministry of Trade and Industry. Subsequent to the acquisition, our reorganization of subsidiaries in Singapore was developed, and such tax incentives were terminated on March 31, 2012. New tax incentives were granted by the EDB effective April 1, 2012. Under the new incentive, a majority of the income earned in Singapore during the incentive periods is subject to reduced rates of Singapore income tax. The incentive will expire on March 31, 2014. The Singapore corporate income tax rates that would apply, absent of the incentive, is 17% for the fiscal years ended March 31, 2012 and 2013. Due to the low level of taxable income attributable to Singapore, the impact on income taxes was immaterial for the fiscal years ended March 31, 2012 and 2013.

A reconciliation of the Japanese statutory income tax rate and the effective income tax rate as a percentage of income before income taxes was as follows:

	2011	2012	2013
Statutory rates for expense (benefit)	40.4%	(40.4)%	(37.8)%
Effects on income taxes resulting from:			
Earnings of foreign subsidiaries taxed at different rates from the statutory rate in Japan	(16.2)	12.3	(319.8)
Tax credits	(13.7)	(60.9)	(176.5)
Expenses not deductible for tax purposes	2.6	4.3	11.3
Expiration of stock options	11.0	9.5	16.6
Undistributed earnings of foreign subsidiaries	3.8	(20.0)	(6.0)
Change in valuation allowance	13.0	(92.1)	704.3
Effect of enacted changes in tax laws and rates on Japanese tax	–	149.9	–
Other, net	1.5	1.4	0.7
	42.4%	(36.0)%	192.8%

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2012 and 2013 were presented below.

	Yen (Millions)	
	2012	2013
Deferred tax assets:		
Inventories	¥ 3,820	3,327
Accrued warranty expenses	722	614
Accrued pension and severance costs	8,426	9,212
Accrued expenses	2,088	1,358
Research and development expenses capitalized for tax purposes	1,807	2,470
Operating loss carryforwards	31,800	38,912
Property, plant and equipment	3,449	3,340
Tax credits	5,873	8,122
Other	1,709	2,059
Total gross deferred tax assets	59,694	69,414
Less valuation allowance	(50,188)	(59,072)
Net deferred tax assets	9,506	10,342
Deferred tax liabilities:		
Intangible assets	(1,615)	(2,558)
Net unrealized gains on marketable securities	(676)	(805)
Undistributed earnings of foreign subsidiaries	(932)	(689)
Other	(57)	(43)
Total gross deferred tax liabilities	(3,280)	(4,095)
Net deferred tax assets (liabilities)	¥ 6,226	6,247

Management of Advantest intends to reinvest undistributed earnings of the Company's certain foreign subsidiaries for an indefinite period of time. As a result, no deferred tax liabilities has been recognized on undistributed earnings of these subsidiaries not expected to be remitted in the foreseeable future, aggregating ¥6,712 million and ¥9,697 million at March 31, 2012 and 2013, respectively. Deferred tax liabilities will be recognized when Advantest expects that it will realize those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. The related deferred tax liability would have been ¥1,134 million and ¥1,426 million at March 31, 2012 and 2013, respectively.

Included in other current assets and other assets were deferred tax assets of ¥7,337 million and ¥7,639 million at March 31, 2012 and 2013, respectively.

Included in other current liabilities and other liabilities were deferred tax liabilities of ¥1,111 million and ¥1,392 million at March 31, 2012 and 2013, respectively.

At March 31, 2013, Advantest had total net operating loss carry forwards for income tax purposes of ¥118,205 million which are available to reduce future taxable income. Net operating loss carry forwards of ¥98,605 million attributable to the Company and domestic subsidiaries in Japan will expire during the years ending March 31, 2015 through 2022. Other net operating loss carry forwards of ¥15,515 million have no expiration dates and the remaining other net operating loss carry forwards of ¥4,085 million will expire predominately during the years ending March 31, 2032. Net operating loss carryforwards utilized during the years ended March 31, 2011, 2012 and 2013 were ¥554 million, ¥25 million and ¥14,728 million, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon projections for future taxable income including management's expectations of future semiconductor market and semiconductor and component test systems market prospects over the periods in which the deferred tax assets are deductible and other factors, management believes it is more likely than not that Advantest will realize the benefits of these deductible tax differences, net of valuation allowance.

The changes in valuation allowance for the years ended March 31 were as follows:

	Yen (Millions)		
	2011	2012	2013
Balance at beginning of year	¥51,289	52,082	50,188
Additions	793	–	8,884
Reductions	–	1,894	–
Balance at end of year	¥52,082	50,188	59,072

For the year ended March 31, 2011, valuation allowance increased primarily due to an increase in net operating loss carryforwards, which was partially offset by decreases in deferred tax assets associated with inventory and research and development expenses capitalized for tax purposes. For the year ended March 31, 2012, the valuation allowance decreased due to reductions in deferred tax assets associated with change of tax rate in Japan. For the year ended March 31, 2013, valuation allowance increased primarily due to an increase in net operating loss carryforwards.

The management believes the amount of the deferred tax assets, net of valuation allowance were considered realizable. However, the amount of the deferred tax assets considered realizable could be changed in the future if estimates of future taxable income are revised. This could result in the significant impact on the Company's consolidated financial position and results of operations.

There were no unrecognized tax benefits for the years ended March 31, 2011. Unrecognized tax benefits for the years ended March 31, 2012 and 2013 were as follows:

	Yen (Millions)	
	2012	2013
Balance at beginning of year	¥ –	1,484
Acquisition of Verigy	1,671	–
Increase for tax positions of previous years	148	84
Increase for tax positions of current year	57	0
Settlements	(47)	(58)
Lapse of the applicable statute of limitations	(341)	(248)
Translation adjustments	(4)	156
Balance at end of year	1,484	1,418

Although Advantest believes its estimates and assumptions of unrecognized tax benefits are reasonable, uncertainty regarding the final determination of tax audits, settlements and any related litigation could affect the effective tax rate in the future periods. The total amount of unrecognized tax benefits that would reduce the effective tax rate, if recognized, is ¥1,418 million at March 31, 2013. As of March 31, 2013, Advantest does not expect changes in its tax positions that would significantly increase or decrease unrecognized tax benefits within next 12 months. Both interest and penalties accrued are included in other liabilities in the accompanying consolidated balance sheets, and both interest and penalties are included in the income tax provision in the accompanying consolidated statements of operations are immaterial.

Advantest files income tax returns in Japan and various foreign tax jurisdictions. As of March 31, 2013, Advantest open tax years are from 2007 in Japan, 2011 in Taiwan, and 2009 in the United States.

(15) Other Comprehensive Income (Loss)

The accumulated balances for each classification of other comprehensive income (loss), net of tax, for the years ended March 31, 2011, 2012 and 2013 were as follows:

	Yen (Millions)				
	Foreign currency translation adjustments	Net unrealized gains (losses) on investment securities	Pension related adjustment	Net unrealized gains (losses) on derivative instruments	Accumulated other comprehensive income (loss)
Balance at March 31, 2010	¥ (11,507)	832	(4,184)	–	(14,859)
Change during the year	(3,231)	(311)	(401)	–	(3,943)
Reclassification adjustments	–	252	280	–	532
	(3,231)	(59)	(121)	–	(3,411)
Balance at March 31, 2011	¥ (14,738)	773	(4,305)	–	(18,270)
Change during the year	864	(216)	(6,565)	(55)	(5,972)
Reclassification adjustments	558	818	237	55	1,668
	1,422	602	(6,328)	–	(4,304)
Balance at March 31, 2012	¥ (13,316)	1,375	(10,633)	–	(22,574)
Change during the year	17,250	165	(2,251)	–	15,164
Reclassification adjustments	–	9	472	–	481
	17,250	174	(1,779)	–	15,645
Balance at March 31, 2013	¥ 3,934	1,549	(12,412)	–	(6,929)

The related tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2011, 2012 and 2013 were as follows:

	Yen (Millions)		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
Year ended March 31, 2011:			
Foreign currency translation adjustments	¥(3,231)	–	(3,231)
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) arising during the year	(540)	229	(311)
Less reclassification adjustments for net gains (losses) realized in earnings	423	(171)	252
Net unrealized gains (losses)	(117)	58	(59)
Pension related adjustment	(121)	–	(121)
Other comprehensive income (loss)	¥(3,469)	58	(3,411)
Year ended March 31, 2012:			
Foreign currency translation adjustments	¥ 1,422	–	1,422
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) arising during the year	(509)	293	(216)
Less reclassification adjustments for net gains (losses) realized in earnings	1,267	(449)	818
Net unrealized gains (losses)	758	(156)	602
Pension related adjustment	(7,191)	863	(6,328)
Other comprehensive income (loss)	¥(5,011)	707	(4,304)
Year ended March 31, 2013:			
Foreign currency translation adjustments	¥17,250	–	17,250
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) arising during the year	321	(156)	165
Less reclassification adjustments for net gains (losses) realized in earnings	(1)	10	9
Net unrealized gains (losses)	320	(146)	174
Pension related adjustment	(1,908)	129	(1,779)
Other comprehensive income (loss)	¥15,662	(17)	15,645

(16) Stock-Based Compensation

Advantest has stock-based compensation plans using stock options as incentive plans for directors, executive officers, audit & supervisory board members and selected employees. Stock options have been issued to directors, executive officers, audit & supervisory board members and certain employees of the Company and its subsidiaries under stock option plans approved by the Board of Directors. Options were generally granted with an exercise prices of per share that were equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options have an exercise period of 4 years.

In connection with the acquisition of Verigy, the Company assumed the stock options previously granted to Verigy directors and employees. Therefore, replacement options were granted for all 89 types of stock options arrangements previously granted to the directors and employees of Verigy and its subsidiaries under a stock option plan approved by the Board of Directors of Advantest. The terms and conditions of the granted options are substantially the same as those for the Verigy stock options. The number of granted shares totaled 2,387,046. Options were granted with exercise prices from ¥620 to ¥2,748 per share. All options are exercisable from July 20, 2011. The options have expiration dates from July 29, 2011 to January 31, 2018.

The exercise price of the stock options is subject to adjustment, if there is a stock split or consolidation of shares, or if new shares are issued or treasury stocks are sold at a price that is less than the market price.

Stock option activity during the years ended March 31, 2011, 2012 and 2013 was as follows:

	2011		2012		2013	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at beginning of year	3,060,000	¥4,647	1,948,000	¥3,392	4,888,206	¥1,616
Granted	308,000	2,089	4,033,046	1,399	2,521,000	1,207
Exercised	–	–	–	–	(522,297)	880
Expired	(1,262,000)	5,881	(595,840)	5,302	(592,354)	2,590
Forfeited	(158,000)	5,287	(497,000)	2,396	(589,856)	1,461
Outstanding at end of year	1,948,000	3,392	4,888,206	1,616	5,704,699	1,418
Exercisable at end of year	1,640,000	¥3,636	3,585,206	¥1,648	3,222,699	¥1,580

Stock based compensation expense recognized was ¥165 million, ¥583 million and ¥861 million, which was included in selling, general and administrative expenses for the years ended March 31, 2011, 2012 and 2013, respectively. The recognized tax benefits were ¥61 million, ¥153 million and ¥235 million for the years ended March 31, 2011, 2012 and 2013, respectively. In addition, the stock options, granted during the fiscal years ended March 31, 2007 and 2008 subsequent to a change in Japanese tax law effective April 1, 2006, expired unused during the fiscal year ended March 31, 2012 and 2013, and the related deferred tax assets of ¥328 million and ¥214 million were reversed, respectively. As of March 31, 2011, 2012 and 2013, a valuation allowance was recorded against substantially all related deferred tax assets.

The weighted average fair value per share for stock options that were granted during the years ended March 31, 2011, 2012 and 2013 were ¥535, ¥448 and ¥347, respectively. These figures were calculated based on the Black Scholes option pricing model by using the following weighted average estimates:

	2011	2012	2013
Expected dividend yield	1.6%	0.4%	1.1%
Risk free interest rate	0.2%	0.5%	0.1%
Volatility	45.4%	49.3%	50.7%
Expected life	3.9 years	3.1 years	3.9 years

No stock options were exercised during the years ended March 31, 2011 and 2012. Cash proceeds from options exercised for the year ended March 31, 2013 was ¥ 472 million. The total fair value of shares vested during the years ended March 31, 2011, 2012 and 2013 was ¥ 141 million, ¥ 1,244 million and ¥ 583 million, respectively. No intrinsic value of options exercised was recognized for the years ended March 31, 2011 and 2012. The total intrinsic values of options exercised for the year ended March 31, 2013 was ¥ 131 million.

At March 31, 2013, all of the outstanding stock options were as follows:

	Outstanding			Exercisable		
Exercise price	Number of options	Weighted average exercise price	Weighted average remaining contractual life	Number of options	Weighted average exercise price	Weighted average remaining contractual life
¥620 – ¥1,529	4,765,961	1,303	3.4 years	2,283,961	1,407	2.8 years
¥1,531 – ¥2,748	938,738	2,002	1.5 years	938,738	2,002	1.5 years
	5,704,699	1,418	3.1 years	3,222,699	1,580	2.4 years

The aggregate intrinsic value for the options outstanding and exercisable at March 31, 2013 was ¥ 523 million and ¥ 178 million, respectively.

(17) Accrued Pension and Severance Costs

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

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

Information about the retirement and severance plans of Advantest for the years ended March 31 was as follows:

	Yen (Millions)				
	2011	2012		2013	
	Japanese plans	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans
Components of net periodic benefit cost:					
Service cost	¥1,362	1,355	227	1,487	345
Interest cost	724	748	242	689	348
Expected return on plan assets	(486)	(405)	(237)	(299)	(267)
Amortization of unrecognized:					
Net actuarial (gain) or loss	487	511	–	790	241
Prior service (benefit) cost	(176)	(172)	–	(168)	–
Other	–	(18)	–	–	–
Net periodic benefit cost	¥1,911	2,019	232	2,499	667

The following table sets forth the plans' benefit obligation, fair value of plan assets, funded status at March 31, 2012 and 2013.

	Yen (Millions)			
	2012		2013	
	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans
Change in benefit obligation:				
Balance at beginning of year	¥ 34,285	230	38,433	10,214
Service cost	1,355	227	1,487	345
Interest cost	748	242	689	348
Actuarial (gain) or loss	2,464	2,349	3,645	420
Plan amendment	123	–	–	34
Plan participants' contributions	–	66	–	16
Benefits paid	(542)	(80)	(665)	(548)
Acquisition of Verigy	–	7,518	–	–
Translation adjustments	–	(338)	–	1,103
Balance at end of year	38,433	10,214	43,589	11,932
Change in plan assets:				
Balance at beginning of year	20,282	–	19,995	4,636
Employer contributions	1,786	131	1,759	26
Plan participants' contributions	–	66	–	131
Actual return or (loss) on plan assets	(1,594)	(278)	2,010	297
Benefits paid	(479)	(35)	(557)	(158)
Acquisition of Verigy	–	5,051	–	–
Translation adjustments	–	(299)	–	504
Balance at end of year	19,995	4,636	23,207	5,436
Funded status	¥(18,438)	(5,578)	(20,382)	(6,496)

Amounts recognized in the consolidated balance sheets at March 31, 2012 and 2013 were as follows:

	Yen (Millions)			
	2012		2013	
	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans
Accrued expenses	¥ (183)	(389)	(196)	(107)
Accrued pension and severance costs	(18,255)	(5,189)	(20,186)	(6,389)
	(18,438)	(5,578)	(20,382)	(6,496)

Pension related adjustments (net of tax) recognized in accumulated other comprehensive income (loss) at March 31, 2012 and 2013 were as follows:

	Yen (Millions)			
	2012		2013	
	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans
Actuarial loss	¥(9,405)	(1,979)	(10,648)	(2,421)
Prior service benefit	751	–	657	–
	(8,654)	(1,979)	(9,991)	(2,421)

Changes in pension related adjustments (net of tax) recognized in other comprehensive income (loss) for the year ended March 31, 2012 and 2013 were summarized as follows:

	Yen (Millions)			
	2012		2013	
	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans
Current year actuarial gain (loss)	¥(4,463)	(1,979)	(1,934)	(317)
Amortization of actuarial gain	243	–	691	162
Current year prior service benefit	(123)	–	–	–
Amortization of prior service benefit and other	(6)	–	(94)	–
Translation adjustments	–	–	–	(287)
	(4,349)	(1,979)	(1,337)	(442)

The estimated prior service cost and actuarial loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next year are summarized as follow:

	Yen (Millions)	
	Japanese Plans	Non-Japanese plans
Actuarial loss	¥ 919	¥276
Prior service benefit	(168)	–
	751	276

Pension plans with accumulated benefit obligations in excess of plan assets at March 31, 2012 and 2013 were summarized as follows:

	Yen (Millions)			
	2012		2013	
	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans
Projected benefit obligation	¥38,433	10,214	43,589	11,932
Accumulated benefit obligation	37,531	8,638	42,573	10,076
Fair value of plan assets	19,995	4,636	23,207	5,436

Other information about the retirement and severance plans of Advantest was as follows:

Measurement date:

The measurement date for the pension plans is March 31.

Assumptions:

Weighted-average assumptions used to determine benefit obligations as of March 31:

	2012		2013	
	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans
Discount rate	1.8%	3.7%	1.3%	3.5%
Rate of compensation increase	3.0%	2.8%	3.0%	2.6%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended March 31:

	2011	2012		2013	
	Japanese plans	Japanese plans	Non-Japanese plans	Japanese plans	Non-Japanese plans
Discount rate	2.2%	2.2%	4.8%	1.8%	3.7%
Expected return on plan assets	2.5%	2.0%	6.6%	1.5%	5.7%
Rate of compensation increase	3.0%	3.0%	2.8%	3.0%	2.8%

Advantest determines the expected return based on the asset portfolio, historical returns and estimated future returns.

Plan assets:

Advantest's investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants by attaining necessary long-term total returns on plan assets. Taking into consideration the expected returns, associated risks and correlations of returns between asset categories in plan assets, Advantest determines an optimal combination of equity, debt securities and other investments as Policy Asset Allocation ("PAA"). Plan assets are invested in accordance with PAA with mid-term to long-term viewpoint, which is revised periodically to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

Japanese benefit plans' weighted-average asset allocation at March 31, 2012 and 2013 by asset category were as follows:

	2012	2013	Target
Equity securities	39.1%	34.5%	30.0%
Debt securities	26.9	30.1	35.0
Cash	5.6	9.5	2.0
Life insurance company general accounts	16.3	13.0	13.0
Other	12.1	12.9	20.0
	100.0%	100.0%	100.0%

Non-Japanese benefit plans' weighted-average asset allocation at March 31, 2012 and 2013 by asset category were as follows:

	2012	2013	Target
Equity securities	38.4%	42.8%	43.6%
Debt securities	12.3	35.1	35.8
Cash	42.4	18.2	16.7
Other	6.9	3.9	3.9
	100.0%	100.0%	100.0%

The three levels of inputs that may be used to measure fair value of plan assets are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets.

Level 2: Observable inputs other than quoted prices included within Level 1 for the assets, either directly or indirectly.

Level 3: Unobservable inputs for the assets.

Japanese benefit plans' asset allocation at March 31, 2012 and 2013 by asset level were as follows:

		Yen (Millions)		
		Fair Value Measurements at March 31, 2012		
	Total	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	1,110	1,110	–	–
Equity securities:				
Japanese companies	1,509	1,509	–	–
Pooled funds[(a)]	6,319	–	6,319	–
Debt securities:				
Pooled funds[(b)]	5,375	–	5,375	–
Hedge funds[(c)]	2,415	–	1,278	1,137
Life insurance company general accounts	3,267	–	3,267	–
Total	19,995	2,619	16,239	1,137

(a) These funds invested in listed equity securities consisting of approximately 50% Japanese listed companies and 50% foreign listed companies. This category included both long and short positions aggregating ¥1,070 million, invested in Japanese listed companies' equity.

(b) These funds invested in approximately 45% foreign government bonds, 40% Japanese government bonds, 10% Japanese corporate bonds, and 5% Japanese municipal bonds.

(c) These hedge funds invested in stock price index futures / options, bond futures / options, bonds and private equity funds and others.

		Yen (Millions)		
		Fair Value Measurements at March 31, 2013		
	Total	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	2,202	2,202	–	–
Equity securities:				
Japanese companies	1,379	1,379	–	–
Pooled funds[(d)]	6,633	–	6,633	–
Debt securities:				
Pooled funds[(e)]	6,975	–	6,975	–
Hedge funds[(f)]	2,993	–	1,980	1,013
Life insurance company general accounts	3,025	–	3,025	–
Total	23,207	3,581	18,613	1,013

(d) These funds invested in listed equity securities consisting of approximately 60% Japanese listed companies and 40% foreign listed companies.

(e) These funds invested in approximately 80% Japanese government bonds, 15% Japanese corporate bonds, and 5% Japanese municipal bonds.

(f) These hedge funds invested in stock price index futures / options, bond futures / options, bonds and private equity funds and others.

Level 1 assets are comprised principally of listed equity securities, which are valued based on quoted market prices at the reporting date for those investments.

Level 2 assets are comprised principally of pooled funds and investments in life insurance company general accounts. Pooled funds are valued at their net asset values that are calculated by the sponsors of the funds. Investments in life insurance company general accounts are valued at conversion value. Level 2 also includes certain hedge funds that are redeemable in the near term at their net asset values.

Level 3 assets are comprised of hedge funds, which are valued at their net asset values that are calculated by the sponsors of the funds.

Changes in the Level 3 plan assets for the years ended March 31, 2012 and 2013 were as follows:

	Yen (Millions)	
	2012	2013
	Hedge funds	Hedge funds
Balance at beginning of year	¥ 1,433	1,137
Net realized / unrealized gain (loss)	(1,572)	23
Purchases, issuances and settlements	1,276	(147)
Transfer in and / or out of Level 3	–	–
Balance at end of year	¥ 1,137	1,013

Non-Japanese benefit plan asset allocation at March 31, 2012 and 2013 by asset level were as follows:

	Yen (Millions)			
		Fair Value Measurements at March 31, 2012		
	Total	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents[(a)]	1,967	1,967	–	–
Equity securities:				
Pooled funds[(b)]	1,779	–	1,779	–
Debt securities:				
Pooled funds[(c)]	571	–	571	–
Commodities	319	–	319	–
Total	4,636	1,967	2,669	–

(a) Cash equivalents were primarily in short-term investment funds, which consisted of short-term money market instruments that were valued using quoted prices for similar assets and liabilities in active markets.

(b) These funds invested in listed equity securities consisting of foreign equities.

(c) These funds invested in international bonds.

	Yen (Millions)			
		Fair Value Measurements at March 31, 2013		
	Total	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents[(d)]	992	992	–	–
Equity securities:				
Pooled funds[(e)]	2,326	–	2,326	–
Debt securities:				
Pooled funds[(f)]	1,910	–	1,910	–
Commodities	208	–	208	–
Total	5,436	992	4,444	–

(d) Cash equivalents were primarily in short-term investment funds, which consisted of short-term money market instruments that were valued using quoted prices for similar assets and liabilities in active markets.

(e) These funds invested in listed equity securities consisting of foreign equities.

(f) These funds invested in international bonds.

Cash flows:

Advantest expects to contribute ¥1,885 million and ¥36 million to its Japanese defined benefit plans and Non-Japanese benefit plans during the year ending March 31, 2014.

Estimated future benefit payments:

The following benefit payments, which reflect expected future service, as appropriate, are estimated as follows:

	Yen (Millions)	
Year ending March 31	**Japanese plans**	**Non-Japanese plans**
2014	¥ 850	145
2015	929	175
2016	1,017	113
2017	1,136	240
2018	1,258	208
2019 through 2023	9,264	2,091

(18) Stockholders' Equity

Changes in the number of shares issued and treasury stock during the years ended March 31, 2011, 2012 and 2013 were as follows:

	Total shares of common stock	**Shares of treasury stock**
Number of shares as of April 1, 2010	199,566,770	20,845,178
Purchase of shares	–	5,449,721
Sale of shares	–	(80)
Number of shares as of March 31, 2011	199,566,770	26,294,819
Purchase of shares	–	899
Sale of shares	–	(328)
Number of shares as of March 31, 2012	199,566,770	26,295,390
Purchase of shares	–	671
Exercise of stock options	–	(522,297)
Sale of shares	–	(76)
Number of shares as of March 31, 2013	199,566,770	25,773,688

The Companies Act of Japan provides that an amount equal to 10% of distributions paid by the Company shall be appropriated as additional paid-in capital or a legal reserve until the total amount of the additional paid-in capital and the legal reserve equals to 25% of common stock. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of the respective countries.

Cash dividends for the years ended March 31, 2011, 2012 and 2013 represent dividends paid out during those years. The accompanying consolidated financial statements do not include any provision for a dividend of ¥10 per share, aggregating ¥1,738 million for the second-half of the year ended March 31, 2013, subsequently proposed by the Board of Directors.

The amount available for future payment of dividends was determined under the Companies Act of Japan and amounted to ¥53,834 million at March 31, 2013.

(19) Accrued Warranty Expenses

Advantest issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period. Changes in accrued warranty expenses for the years ended March 31, 2011, 2012 and 2013 were summarized as follows:

	Yen (Millions)		
	2011	**2012**	**2013**
Balance at beginning of year	¥ 2,802	1,754	2,129
Acquisition of Verigy	–	209	–
Addition	2,653	3,432	3,172
Reduction	(3,693)	(3,269)	(3,474)
Translation adjustments	(8)	3	62
Balance at end of year	¥ 1,754	2,129	1,889

(20) Operating Segment and Geographic Information

Advantest manufactures and sells semiconductor and component test system products and mechatronics-related products such as test handlers and device interfaces. Advantest also engages in research and development activities and provides maintenance and support services associated with these products. Advantest's organizational structure consists of three reportable operating segments, which are the design, manufacturing, and sale of semiconductor and component test systems, mechatronics systems and services, support and others. These reportable operating segments are determined based on the nature of the products and the markets. Segment information is prepared on the same basis that Advantest's management reviews financial information for operational decision making purposes.

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

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

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

Fundamental research and development activities and headquarters functions are represented by Corporate.

Reportable operating segment information during the years ended March 31, 2011, 2012 and 2013 was as follows:

	Yen (Millions)				
	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Total
As of and for the year ended March 31, 2011:					
Net sales to unaffiliated customers	¥ 67,070	18,398	14,166	–	99,634
Inter-segment sales	2,263	117	–	(2,380)	–
Net sales	69,333	18,515	14,166	(2,380)	99,634
Depreciation and amortization	1,417	533	1,755	504	4,209
Operating income (loss) before stock option compensation expenses	9,857	(251)	2,133	(5,463)	6,276
Adjustment:					
Stock based compensation expense					165
Operating income					6,111
Expenditures for additions to long-lived assets	1,350	374	1,733	336	3,793
Total assets	53,570	11,780	9,226	105,736	180,312
As of and for the year ended March 31, 2012:					
Net sales to unaffiliated customers	¥ 101,831	20,410	18,807	–	141,048
Inter-segment sales	3,777	206	–	(3,983)	–
Net sales	105,608	20,616	18,807	(3,983)	141,048
Depreciation and amortization	2,658	627	3,070	483	6,838
Operating income (loss) before stock option compensation expenses	9,845	(1,324)	1,614	(8,715)	1,420
Adjustment:					
Stock based compensation expense					583
Operating income					837
Expenditures for additions to long-lived assets	2,398	750	3,492	344	6,984
Total assets	93,603	12,789	30,713	82,121	219,226
As of and for the year ended March 31, 2013:					
Net sales to unaffiliated customers	¥ 99,719	13,107	20,077	–	132,903
Inter-segment sales	1,400	546	–	(1,946)	–
Net sales	101,119	13,653	20,077	(1,946)	132,903
Depreciation and amortization	3,423	486	3,690	464	8,063
Operating income (loss) before stock option compensation expenses	10,956	(4,614)	775	(6,176)	941
Adjustment:					
Stock based compensation expense					861
Operating income					80
Expenditures for additions to long-lived assets	3,530	4,565	4,356	141	12,592
Total assets	99,168	18,242	36,065	72,040	225,515

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.

Advantest uses the operating income (loss) before stock based compensation expenses for management's analysis of business segment results.

Additions to long-lived assets included in Corporate consist of purchases of software and fixed assets for general corporate use.

Total assets included in Corporate consist of cash and cash equivalents, assets for general corporate use and assets used for fundamental research activities, which are not allocated to reportable segments.

One customer and its related entities mainly in the semiconductor and component test system segment and the mechatronics system segment accounted for approximately 20%, 29% and 14% of total consolidated net sales for the years ended March 31, 2011, 2012 and 2013, respectively. Another customer accounted for approximately 7%, 12% and 6% for the years ended March 31, 2011, 2012 and 2013, respectively. A third customer accounted for approximately 13%, 2% and 4% for the years ended March 31, 2011, 2012 and 2013, respectively.

Information as to Advantest's net sales and property, plant and equipment in various geographical areas was as follows:

Net sales to unaffiliated customers for the years ended March 31, 2011, 2012 and 2013 were as follows:

	Yen (Millions)		
	2011	2012	2013
Japan	22,398	16,095	14,045
Americas	9,278	29,742	20,583
Europe	2,252	7,015	9,061
Asia	65,706	88,196	89,214
Total	99,634	141,048	132,903

Net sales to unaffiliated customers are based on the customer's location. Net sales indicated as Asia were generated in Korea, Taiwan and China and others in the amount of ¥20,752 million, ¥21,835 million and ¥23,119 million for the year ended March 31, 2011, ¥29,687 million, ¥27,591 million and ¥30,918 million for the year ended March 31, 2012, and ¥31,777 million, ¥35,826 million and ¥21,611 million for the year ended March 31, 2013, respectively. Substantially all net sales indicated as Americas were generated in the United States of America.

Property, plant and equipment as of March 31, 2011, 2012 and 2013 were as follows:

	Yen (Millions)		
	2011	2012	2013
Japan	¥29,280	28,234	27,336
Americas	281	1,073	2,693
Europe	563	1,582	2,106
Asia	1,754	3,317	9,233
Total	¥31,878	34,206	41,368

Property, plant and equipment are those assets located in each geographic area.

Substantially all property, plant and equipment indicated as Americas were located in the United States of America. Substantially all property, plant and equipment indicated as Europe were located in Germany. Property, plant and equipment in Asia were primarily located in Korea, Taiwan, Singapore and China.

(21) Related Party Transactions

Advantest sells products to and purchases raw materials from Fujitsu Limited, its 11.6% stockholder as of March 31, 2013 and its group companies (collectively, "Fujitsu"). The terms of sales are the same as those with third parties. Advantest purchases raw materials after receiving competitive bids from several suppliers. Advantest also purchases various software products for internal use, information system related services, research and development materials and services from Fujitsu. Advantest had the following transactions with Fujitsu as of and for the years ended March 31:

	Yen (Millions)		
	2011	2012	2013
Sales of products	¥2,461	1,847	1,128
Purchases of raw materials	4,622	6,155	3,757
Receivables	696	459	338
Payables	2,717	2,653	1,255
Purchases of software, hardware and others	442	95	66
Research and development expenses, computer rentals, maintenance and other expenses	1,779	1,976	1,634

Advantest is holding approximately 35% of common stock of e-Shuttle, Inc., a subsidiary of Fujitsu, since the initial investment, which is accounted for by the equity method of accounting.

(22) Per Share Data

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

	Yen (Millions) except per share data		
	2011	2012	2013
Numerator:			
Net income (loss)	¥ 3,163	(2,195)	(3,821)
Denominator:			
Basic weighted average shares of common stock outstanding	175,481,854	173,271,717	173,478,054
Dilutive effect of exercise of stock options	13,604	–	–
Diluted weighted average shares of common stock outstanding	175,495,458	173,271,717	173,478,054
Basic net income (loss) per share	¥ 18.03	(12.67)	(22.03)
Diluted net income (loss) per share	18.03	(12.67)	(22.03)

At March 31, 2011, 2012 and 2013, Advantest had outstanding stock options convertible into 1,610,000, 4,888,206 and 5,704,699 shares of common stock, respectively, which were anti-dilutive and excluded from the calculation of diluted net income per share but could potentially dilute net income per share in future periods.

(23) Concentrations of Credit Risk

Advantest is exposed to credit risk in the event of default by financial institutions to cash and cash equivalents, but such risk is considered mitigated by the high credit rating of the financial institutions.

At March 31, 2012 and 2013, Advantest had two foreign semiconductor customers and one foreign semiconductor customer with significant receivables, respectively. Receivables from these customers accounted for 32% and 16% of consolidated trade receivables at March 31, 2012 and 2013, respectively. Although Advantest does not expect that these customers will fail to meet their obligations, Advantest is potentially exposed to concentrations of credit risk if these customers failed to perform according to the terms of the contracts.

(24) Commitments and Contingent Liabilities

Advantest is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Advantest's consolidated financial position, results of operations, or cash flows.

Outstanding commitments for the purchase of property, plant and equipment totaled ¥1,159 million and for the purchase of parts and raw materials totaled ¥1,390 million at March 31, 2013. Outstanding commitments for the purchase of property, plant and equipment are mainly for a new factory in Korea.

Advantest maintains a commitment line agreement with a number of banks and pays commitment fees as consideration in order to secure a financing source for business operations. The commitment agreement term ends in March 2015, and the unused availability under this agreement as of March 31, 2013 amounted to ¥10,000 million.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Advantest Corporation

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

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

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

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

/s/ Ernst & Young ShinNihon LLC

Tokyo, Japan
June 27, 2012

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets
March 31, 2011 and 2012

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

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets
March 31, 2011 and 2012

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

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Operations
Years ended March 31, 2010, 2011 and 2012

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

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

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)
Years ended March 31, 2010, 2011 and 2012

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

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
Years ended March 31, 2010, 2011 and 2012

	Yen (Millions)		
	2010	2011	2012
Common stock			
Balance at beginning of year	¥ 32,363	32,363	32,363
Changes in the year	–	–	–
Balance at end of year	32,363	32,363	32,363
Capital surplus			
Balance at beginning of year	40,320	40,463	40,628
Changes in the year—Stock options	143	165	1,652
Balance at end of year	40,463	40,628	42,280
Retained earnings			
Balance at beginning of year	194,848	181,606	183,009
Changes in the year			
Net income (loss)	(11,454)	3,163	(2,195)
Cash dividends	(1,787)	(1,760)	(1,733)
Sale of treasury stock	(1)	(0)	(0)
Total changes in the year	(13,242)	1,403	(3,928)
Balance at end of year	181,606	183,009	179,081
Accumulated other comprehensive income (loss)			
Balance at beginning of year	(14,587)	(14,859)	(18,270)
Changes in the year—Other comprehensive income (loss), net of tax	(272)	(3,411)	(4,304)
Balance at end of year	(14,859)	(18,270)	(22,574)
Treasury stock			
Balance at beginning of year	(89,328)	(89,331)	(99,598)
Changes in the year			
Purchases of treasury stock	(4)	(10,267)	(1)
Sale of treasury stock	1	0	1
Total changes in the year	(3)	(10,267)	0
Balance at end of year	(89,331)	(99,598)	(99,598)
Total stockholders' equity			
Balance at beginning of year	163,616	150,242	138,132
Changes in the year			
Net income (loss)	(11,454)	3,163	(2,195)
Other comprehensive income (loss), net of tax	(272)	(3,411)	(4,304)
Cash dividends	(1,787)	(1,760)	(1,733)
Stock options	143	165	1,652
Purchases of treasury stock	(4)	(10,267)	(1)
Sale of treasury stock	0	0	1
Total changes in the year	(13,374)	(12,110)	(6,580)
Balance at end of year	¥150,242	138,132	131,552

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years ended March 31, 2010, 2011 and 2012

	Yen (Millions)		
	2010	**2011**	**2012**
Cash flows from operating activities:			
Net income (loss)	¥(11,454)	3,163	(2,195)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,314	4,209	6,838
Deferred income taxes	(148)	425	(3,663)
Stock option compensation expense	143	165	583
Impairment losses on investment securities	316	512	2,254
Changes in assets and liabilities, net of effect of acquisition:			
Trade receivables	(5,457)	(7,645)	616
Inventories	(6,942)	(7,285)	4,613
Trade accounts payable	6,525	1,146	902
Accrued expenses	(1,126)	2,540	39
Accrued warranty expenses	(8)	(1,040)	164
Customer prepayments	24	1,276	(1,815)
Accrued pension and severance costs	1,386	225	975
Other	(5,319)	1,616	2,991
Net cash provided by (used in) operating activities	(17,746)	(693)	12,302
Cash flows from investing activities:			
(Increase) decrease in short-term investments	13,881	(2,446)	14,387
Proceeds from sale of available-for-sales securities	2	6	10,717
Acquisition of subsidiary, net of cash acquired	–	–	(57,145)
Decrease of other investment in equity method investee	–	–	620
Proceeds from sale of property, plant and equipment	287	12	89
Purchases of property, plant and equipment	(2,798)	(3,138)	(5,931)
Purchases of intangible assets	(215)	(323)	(329)
Other	(333)	61	(78)
Net cash provided by (used in) investing activities	10,824	(5,828)	(37,670)
Cash flows from financing activities:			
Increase (decrease) in short term debt	–	–	25,466
Redemption of senior convertible notes of acquired subsidiary	–	–	(13,835)
Purchases of treasury stock	(4)	(10,268)	(1)
Dividends paid	(1,796)	(1,760)	(1,729)
Other	(3)	0	(14)
Net cash provided by (used in) financing activities	(1,803)	(12,028)	9,887
Net effect of exchange rate changes on cash and cash equivalents	(291)	(2,567)	(1,624)
Net change in cash and cash equivalents	(9,016)	(21,116)	(17,105)
Cash and cash equivalents at beginning of year	105,455	96,439	75,323
Cash and cash equivalents at end of year	¥ 96,439	75,323	58,218
Supplemental data:			
Cash paid during the year for:			
Income taxes	¥ 1,083	1,412	3,267
Interest	10	4	153

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(a) Description of Business

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

Description of the business by segment is as follows:

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

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

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

(b) Principles of Consolidation

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

(c) Cash Equivalents

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

(d) Short-term investments

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

(e) Allowance for Doubtful Accounts

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

(f) Inventories

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

(g) Investment Securities

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

Debt and Marketable Equity Securities

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

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

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

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

Non-marketable Equity Securities

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

(h) Derivative Financial Instruments

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

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

(i) Property, Plant and Equipment

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

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

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

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

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

(j) Goodwill and Intangible Assets

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

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

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

(k) Impairment of Long-Lived Assets

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

(l) Accrued Warranty Expenses

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

(m) Accrued Pension and Severance Costs

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

(n) Revenue Recognition

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

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

General

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

Sales of Products

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

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

Long-term Service Contracts

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

Leasing Income

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

Multiple Deliverables

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

(o) Shipping and Handling Costs

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

(p) Research and Development Expenses

Research and development costs are expensed as incurred.

(q) Advertising Costs

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

(r) Stock-Based Compensation

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

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

(s) Income Taxes

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

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

(t) Net Income (Loss) per Share

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

(u) Foreign Financial Statements

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

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

(v) Foreign Currency Transactions

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

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

(w) Use of Estimates

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

(x) New Accounting Standards

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

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

(y) Reclassifications

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

(2) Business Combinations

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

Summary of the total purchase price is as follows.

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

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

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

This acquisition was accounted for using the acquisition method.

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

	Yen (Millions)
Assets acquired and liabilities assumed	
Cash and cash equivalents	20,516
Trade receivable, net	2,104
Inventories	11,013
Property, plant and equipment	3,316
Intangible assets	16,899
Goodwill	35,140
Other assets	20,145
Trade accounts payable	(3,136)
Other liabilities	(27,268)
Net assets acquired	78,729
Purchase Price	78,729

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

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

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

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

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

(3) Trade Receivables

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

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

(4) Allowance for Doubtful Accounts

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

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

(5) Inventories

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

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

(6) Property, Plant and Equipment

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

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

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

(7) Goodwill and Intangible Assets

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

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

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

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

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

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

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

(8) Investment Securities

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

	Yen (Millions)			
	2011			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Fair value
Noncurrent:				
Available-for-sale:				
Equity securities	¥ 4,309	1,455	156	5,608

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

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

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

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

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

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

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

	Yen (Millions)			
	2012			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Noncurrent:				
Available-for-sale:				
Equity securities	¥ 825	178	179	13

Advantest maintains non-marketable equity securities, which are recorded at cost. The carrying amounts of non-marketable equity securities were ¥1,824 million and ¥450 million at March 31, 2011 and 2012, respectively. Advantest had not estimated the fair value of other non-marketable equity securities aggregating ¥1,812 million and ¥50 million at March 31, 2011 and 2012, respectively, since it was not practicable to estimate the fair value of the investments due to the lack of readily determinable fair values and difficulty in estimating fair value without incurring excessive cost. Non-marketable equity securities that had impairment indicators were evaluated to determine whether the investments were impaired and the impairment, if any, was other than temporary. For the years ended March 31, 2010, 2011 and 2012, non-marketable equity securities with a purchase cost of ¥376 million, ¥98 million and ¥1,395 million were written down to their estimated fair values of ¥117 million, ¥12 million and ¥400 million, resulting in other-than-temporary impairment charges of ¥259 million, ¥86 million and ¥995 million, respectively, which were included in impairment losses on investment securities in the accompanying consolidated statements of operations.

(9) Derivative Financial Instruments

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

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

Cash Flow Hedges

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

Derivatives not designated as hedging instruments

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

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

Fair Value of Derivative Contracts

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

Derivatives not designated as hedging instruments

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

Effect of derivative instruments on the consolidated statements of operations

Derivatives designated as hedging instruments

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

	Yen (Millions)		
	2012		
	Amount of gain (loss) recognized in OCI on derivatives (effective portion)	Location	Gain (loss) reclassified from accumulated OCI into earnings (effective portion)
Foreign exchange contracts	¥ (55)	Cost of Sales	¥ 30
		Operating Expenses	25

Derivatives not designated as hedging instruments

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

		Yen (Millions)		
		Amount of gain (loss) recognized in income on derivatives		
	Location of gain (loss) recognized in income on derivatives	2010	2011	2012
Foreign exchange contracts	Other income (expense)	¥ 361	223	630

(10) Fair Value Measurement

Disclosure about the fair value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of Advantest's financial instruments at March 31, 2011 and 2012. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

	Yen (Millions)			
	2011		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Investment securities				
Available-for-sale securities	¥ 5,608	5,608	¥5,479	5,479
Foreign exchange contracts	24	24	21	21
Financial liabilities:				
Foreign exchange contracts	6	6	0	0

The carrying amounts of available-for-sale securities are included in the consolidated balance sheets under investment securities. The carrying amounts of foreign exchange contracts are included in other current assets and other current liabilities.

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

Cash and cash equivalents, short-term investments, trade receivables, trade accounts payable, short term debt, accrued expenses and customer prepayments: The carrying amounts approximate fair value because of the short maturity of these instruments.

Available-for-sale securities: The fair values of available-for-sale equity securities are based on quoted market prices at the reporting date for those investments.

Foreign exchange contracts: The fair value of foreign exchange contracts are estimated by obtaining quotes from financial institutions.

Fair Value Hierarchy

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally the inputs to valuation techniques used to measure fair value are prioritized into the following three levels:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2—Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3—Unobservable inputs for the asset or liability.

Assets / Liabilities Measured at Fair Value on a Recurring Basis

As of March 31, 2011 and 2012, carrying amount of assets and liabilities that were measured at fair value on a recurring basis by level was as follows:

		Yen (Millions) Fair Value Measurements at March 31, 2011		
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale equity securities	¥5,608	5,608	–	–
Foreign exchange contracts	24	–	24	–
Total assets measured at fair value	5,632	5,608	24	–
Liabilities				
Foreign exchange contracts	6	–	6	–
Total liabilities measured at fair value	¥ 6	–	6	–

		Yen (Millions) Fair Value Measurements at March 31, 2012		
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale equity securities	¥5,479	5,479	–	–
Foreign exchange contracts	21	–	21	–
Total assets measured at fair value	5,500	5,479	21	–
Liabilities				
Foreign exchange contracts	0	–	0	–
Total liabilities measured at fair value	¥ 0	–	0	–

Adjustments to fair value of available-for-sale equity securities are recorded as an increase or decrease, net of tax, in accumulated other comprehensive income (loss) except where losses are considered to be other than temporary, in which case the losses are recorded in impairment losses on investment securities. Changes in fair value of foreign exchange contracts are recorded as cost of sales, operating expenses, other income (expense), or as other comprehensive income (loss).

Changes in the Level 3 assets and liabilities measured on a recurring basis for the years ended March 31, 2011 and 2012 were as follows:

	Yen (Millions)	
	2011	
	Debt Securities	Total
Balance at beginning of year	¥ 411	411
Translation adjustments	(43)	(43)
Transfers out of Level 3	(368)	(368)
Balance at end of year	¥ –	–

	Yen (Millions)	
	2012	
	Debt Securities	Total
Balance at beginning of year	¥ –	–
Acquisition of Verigy	1,685	1,685
Sales	(1,649)	(1,649)
Translation adjustments	(36)	(36)
Balance at end of year	¥ –	–

During the year ended March 31, 2011, debt securities that were redeemable at the option of Advantest were transferred out of Level 3 due to a conversion into non-marketable common stocks.

Assets / Liabilities Measured at Fair Value on a Nonrecurring Basis

As of March 31, 2011 and 2012, carrying amount of assets and liabilities, which were measured at fair value on a nonrecurring basis by level during the years ended March 31, 2011 and 2012, was as follows:

		Yen (Millions)			
		Fair Value Measurements at March 31, 2011			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total gains (losses) for the year ended March 31, 2011
Assets					
Non-marketable equity securities	¥ 12	–	–	12	(86)
Total gains (losses) for assets held as of March 31, 2011					(86)

	Yen (Millions)				
		Fair Value Measurements at March 31, 2012			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total gains (losses) for the year ended March 31, 2012
Assets					
Non-marketable equity securities	400	–	400	0	(995)
Assets held for sale	1,471	–	–	1,471	(920)
Total assets measured at fair value	1,871	–	400	1,471	
Total gains (losses) for assets held as of March 31, 2012					(1,915)

Advantest recognized impairment losses of non-marketable equity securities when their fair values were below the carrying amounts and the decline in fair values was considered to be other than temporary. The non-marketable equity securities are valued using the market and income approaches. The fair value of non-marketable equity securities is based on quoted prices in markets that are not active at the reporting date, or present value of expected future cash flows for those investments. For the year ended March 31, 2012, Advantest recognized an impairment loss of ¥920 million on certain building and land included as a corporate asset that was reclassified as assets held for sale. The fair value was determined based on a third-party appraisal using similar assets and sales. The impairment loss was included in selling, general and administrative expenses in the accompanying consolidated statements of operations. The fair value of the assets held for sale was reclassified to other current assets on the consolidated balance sheets. The fair value is classified as Level 3 because significant unobservable inputs were involved in the fair value measurements.

(11) Leases—Lessor

Advantest provides leases that enable its customers to use semiconductor test systems. All leases are classified as operating leases. Lease terms range from 1 year to 5 years, and certain of the lease agreements are cancelable. The gross amount of machinery and equipment and the related accumulated depreciation under operating leases as of March 31, 2011 and 2012 were as follows:

	Yen (Millions)	
	2011	2012
Machinery and equipment	¥ 6,577	8,406
Less accumulated depreciation	4,640	4,841
	¥ 1,937	3,565

Depreciation of machinery and equipment held under operating leases is included with depreciation expense. These assets are included in property, plant and equipment.

Future minimum lease income under noncancelable operating leases as of March 31, 2012 is as follows:

Year ending March 31	Yen (Millions)
2013	¥ 1,880
2014	1,049
2015	482
2016	312
2017	79
Thereafter	19
Total minimum lease income	¥ 3,821

(12) Leases—Lessee

Advantest has several noncancelable operating leases, primarily for office space and office equipment. Rent expense, including rental payments for cancelable leases, for the years ended March 31, 2010, 2011 and 2012 was ¥1,227 million, ¥1,122 million and ¥1,565 million, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of March 31, 2012 are as follows:

Year ending March 31	Yen (Millions)
2013	¥ 775
2014	550
2015	460
2016	430
2017	88
Thereafter	19
	2,322
Less sublease income to be received in the future under noncancelable subleases	749
Net minimum lease payments	¥ 1,573

(13) Short term debt

Short term debt at March 31, 2011 and 2012 are as follows:

	Yen (Millions)	
	2011	2012
Unsecured borrowing, with weighted average annual interest 0.38%	¥ –	25,000
	¥ –	25,000

On May 25, 2012, the Company issued under its existing domestic bond shelf registration ¥25,000 million of unsecured corporate bonds. The funds procured from this issuance were applied to repay short term debt outstanding at March 31, 2012. The bonds have interest rates and maturity dates as follows:

Amount	Interest rate	Maturity date
¥10,000 million	0.416% per annum	May 25, 2015
¥15,000 million	0.606% per annum	May 25, 2017

(14) Income Taxes

The components of income before income taxes and equity in earnings (loss) of affiliated company and provision (benefit) for income taxes as shown in the consolidated statements of operations were as follows:

	Yen (Millions)		
	2010	2011	2012
Income before income taxes and equity in earnings (loss) of affiliated company:			
The Company and domestic subsidiaries	¥(13,376)	(1,130)	(2,775)
Foreign subsidiaries	3,450	6,681	(667)
	¥ (9,926)	5,551	(3,442)

	Yen (Millions)		
	2010	2011	2012
Provision (benefit) for income taxes:			
Current:			
The Company and domestic subsidiaries	¥ 856	813	555
Foreign subsidiaries	818	1,160	1,841
Deferred:			
The Company and domestic subsidiaries	(272)	330	(1,513)
Foreign subsidiaries	55	49	(2,123)
	¥ 1,457	2,352	(1,240)

The Company and its domestic subsidiaries are subject to a number of income taxes, which in the aggregate resulted in statutory income tax rates of 40.5%, 40.4% and 40.4% for the years ended March 31, 2010, 2011 and 2012, respectively.

Amendments to the Japanese tax regulations were enacted into law on December 2, 2011. As a result of these amendments, the statutory income tax rate will be reduced to approximately 37.8% effective from the year beginning April 1, 2012, and to approximately 35.4% effective from the year beginning April 1, 2015. The adjustments of deferred tax assets and liabilities for these changes in the tax rate resulted in a net decrease of ¥5,160 million to deferred tax assets. However, there was a corresponding decrease to the valuation allowance.

The acquired company, Verigy, was a Singapore corporation and had negotiated tax incentives with the Singapore Economic Development Board ("EDB"), an agency of the Government of Singapore, which had been approved by Singapore's Ministry of Finance and Ministry of Trade and Industry. Subsequent to the acquisition, our reorganization of subsidiaries in Singapore was developed, and such tax incentives were terminated on March 31, 2012. New tax incentives were granted by the EDB effective April 1, 2012. Under the new incentive, a portion of the income we earn in Singapore during the incentive periods is subject to reduced rates of Singapore income tax. The incentive will expire on March 31, 2014. The Singapore corporate income tax rates that would apply, absent the incentive, is 17% for fiscal year ended March 31, 2012. Due to the low level of taxable income attributable to Singapore, the impact on our income taxes was immaterial for the fiscal year ended March 31, 2012.

A reconciliation of the Japanese statutory income tax rate and the effective income tax rate as a percentage of income before income taxes was as follows:

	2010	2011	2012
Statutory rates for expense (benefit)	(40.5)%	40.4%	(40.4)%
Effects on income taxes resulting from:			
Earnings of foreign subsidiaries taxed at different rate from the statutory rate in Japan	(2.1)	(16.2)	12.3
Tax credits	5.5	(13.7)	(60.9)
Expenses not deductible for tax purposes	0.8	2.6	4.3
Expiration of stock options	–	11.0	9.5
Undistributed earnings of foreign subsidiaries	(1.1)	3.8	(20.0)
Change in valuation allowance	52.3	13.0	(92.1)
Effect of enacted changes in tax laws and rates on Japanese tax	–	–	149.9
Other, net	(0.2)	1.5	1.4
	14.7%	42.4%	(36.0)%

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2011 and 2012 were presented below.

	Yen (Millions)	
	2011	2012
Deferred tax assets:		
Inventories	¥ 4,356	3,820
Accrued warranty expenses	681	722
Accrued pension and severance costs	5,732	8,426
Accrued expenses	1,557	2,088
Research and development expenses capitalized for tax purposes	2,245	1,807
Operating loss carryforwards	30,352	31,800
Property, plant and equipment	3,054	3,449
Tax credits	3,616	5,873
Other	1,887	1,709
Total gross deferred tax assets	53,480	59,694
Less valuation allowance	(52,082)	(50,188)
Net deferred tax assets	1,398	9,506
Deferred tax liabilities:		
Intangible assets	–	(1,615)
Net unrealized gains on marketable securities	(528)	(676)
Undistributed earnings of foreign subsidiaries	(2,567)	(932)
Other	(22)	(57)
Total gross deferred tax liabilities	(3,117)	(3,280)
Net deferred tax assets (liabilities)	¥ (1,719)	6,226

At March 31, 2011, deferred tax liabilities were provided for all foreign subsidiaries with undistributed earnings. Management of Advantest intends to reinvest certain undistributed earnings of the Company's foreign subsidiaries for an indefinite period of time. As a result, no deferred tax liabilities has been recognized on undistributed earnings of these subsidiaries not expected to be remitted in the foreseeable future, aggregating ¥6,712 million at March 31, 2012. Deferred tax liabilities will be recognized when Advantest expects that it will realize those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. The related deferred tax liability would have been ¥1,134 million at March 31, 2012.

Included in other current assets and other assets were deferred tax assets of ¥354 million and ¥7,337 million at March 31, 2011 and 2012, respectively.

Included in other current liabilities and other liabilities were deferred tax liabilities of ¥2,073 million and ¥1,111 million at March 31, 2011 and 2012, respectively.

At March 31, 2012, Advantest had total net operating loss carry forwards for income tax purposes of ¥106,566 million which are available to reduce future income taxes. Operating losses of ¥78,354 million attributable to the Company and domestic subsidiaries in Japan will expire during the years ending March 31, 2015 through 2021. Other net operating losses of ¥24,300 million have no expiration dates and remaining other net operating losses of ¥3,912 million will expire predominately during the years ending March 31, 2032. Net operating loss carryforwards utilized during the years ended March 31, 2010, 2011 and 2012 were ¥2,421 million, ¥554 million and ¥25 million, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon projections for future taxable income over the periods in which the deferred tax assets are deductible including management's expectations of future semiconductor market and semiconductor and component test systems market prospects and other factors, management believes it is more likely than not that Advantest will realize the benefits of these deductible differences, net of valuation allowance.

The changes in valuation allowance for the years ended March 31 were as follows:

	Yen (Millions)		
	2010	2011	2012
Balance at beginning of year	¥48,015	51,289	52,082
Additions	3,274	793	–
Reductions	–	–	1,894
Balance at end of year	¥51,289	52,082	50,188

For the year ended March 31, 2010, valuation allowance increased primarily due to an increase in net operating loss carryforwards, which was partially offset by decreases in deferred tax assets associated with inventory and property, plant and equipment. For the year ended March 31, 2011, valuation allowance increased primarily due to an increase in net operating loss carryforwards, which was partially offset by decreases in deferred tax assets associated with inventory and research and development expenses capitalized for tax purposes. For the year ended March 31, 2012, the valuation allowance decreased due to reductions in deferred tax assets associated with change of tax rate in Japan.

The amount of the deferred tax assets considered realizable, however, could be changed in the near term if estimates of future taxable income are revised and the effect on the company's consolidated financial position and results of operations could be significant.

There were no unrecognized tax benefits for the years ended March 31, 2010 and 2011. Unrecognized tax benefits for the year ended March 31, 2012 were as follows:

	Yen (Millions)
	2012
Balance, April 1, 2011	¥ –
Acquisition of Verigy	1,671
Increase for tax positions of previous years	148
Increase for current year tax positions	57
Settlements	(47)
Lapse of the applicable statute of limitations	(341)
Translation adjustments	(4)
Balance, March 31, 2012	1,484

Although Advantest believes its estimates and assumptions of unrecognized tax benefits are reasonable, uncertainty regarding the final determination of tax audits, settlements and any related litigation could affect the effective tax rate in the future periods. The total amount of unrecognized tax benefits that would reduce the effective tax rate, if recognized, are ¥1,484 million at March 31, 2012. As of March 31, 2012, Advantest does not expect changes in its tax positions that would significantly increase or decrease unrecognized tax benefits within next 12 months. Both interest and penalties accrued are included in other liabilities in the accompanying consolidated balance sheets, and both interest and penalties are included in the income tax provision in the accompanying consolidated statements of operations.

Advantest files income tax returns in Japan and various foreign tax jurisdictions. As of March 31, 2012, Advantest had open tax years beginning April 1, 2007 for Japan, 2010 for Taiwan, and 2006 for the United States.

(15) Other Comprehensive Income (Loss)

The accumulated balances for each classification of other comprehensive income (loss), net of tax, for the years ended March 31, 2010, 2011 and 2012 were as follows:

	Yen (Millions)				
	Foreign currency translation adjustments	Net unrealized gains (losses) on investment securities	Pension related adjustment	Net unrealized gains (losses) on derivative instruments	Accumulated other comprehensive income (loss)
Balance at March 31, 2009	¥ (8,893)	56	(5,750)	–	(14,587)
Change during the year	(2,614)	742	1,241	–	(631)
Reclassification adjustments	–	34	325	–	359
	(2,614)	776	1,566	–	(272)
Balance at March 31, 2010	¥ (11,507)	832	(4,184)	–	(14,859)
Change during the year	(3,231)	(311)	(401)	–	(3,943)
Reclassification adjustments	–	252	280	–	532
	(3,231)	(59)	(121)	–	(3,411)
Balance at March 31, 2011	¥ (14,738)	773	(4,305)	–	(18,270)
Change during the year	864	(216)	(6,565)	(55)	(5,972)
Reclassification adjustments	558	818	237	55	1,668
	1,422	602	(6,328)	–	(4,304)
Balance at March 31, 2012	¥ (13,316)	1,375	(10,633)	–	(22,574)

The related tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2010, 2011 and 2012 were as follows:

	Yen (Millions)		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
Year ended March 31, 2010:			
Foreign currency translation adjustments	¥ (2,614)	–	(2,614)
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) arising during the year	1,224	(482)	742
Less reclassification adjustments for net gains (losses) realized in earnings	57	(23)	34
Net unrealized gains (losses)	1,281	(505)	776
Pension related adjustment	1,566	–	1,566
Other comprehensive income (loss)	¥ 233	(505)	(272)
Year ended March 31, 2011:			
Foreign currency translation adjustments	¥ (3,231)	–	(3,231)
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) arising during the year	(540)	229	(311)
Less reclassification adjustments for net gains (losses) realized in earnings	423	(171)	252
Net unrealized gains (losses)	(117)	58	(59)
Pension related adjustment	(121)	–	(121)
Other comprehensive income (loss)	¥ (3,469)	58	(3,411)
Year ended March 31, 2012:			
Foreign currency translation adjustments	¥ 1,422	–	1,422
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) arising during the year	(509)	293	(216)
Less reclassification adjustments for net gains (losses) realized in earnings	1,267	(449)	818
Net unrealized gains (losses)	758	(156)	602
Pension related adjustment	(7,191)	863	(6,328)
Other comprehensive income (loss)	¥ (5,011)	707	(4,304)

(16) Stock-Based Compensation

Advantest has stock-based compensation plans using stock options as incentive plans for directors, executive officers, audit & supervisory board members and selected employees. Stock options have been issued to directors, executive officers, audit & supervisory board members and certain employees of the Company and its subsidiaries under stock option plans approved by the Board of Directors. Options were generally granted with an exercise prices of per share that were equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options have an exercise period of 4 years.

In connection with the acquisition of Verigy, the Company assumed the stock options previously granted to Verigy directors and employees. Therefore, replacement options were granted for all 89 types of stock options arrangements previously granted to the directors and employees of Verigy and its subsidiaries under a stock option plan approved by the Board of Directors of Advantest. The terms and conditions of the granted options are substantially the same as those for the Verigy stock options. The number of granted shares totaled 2,387,046. Options were granted with exercise prices from ¥620 to ¥2,748 per share. All options are exercisable from July 20, 2011. The options have expiration dates from July 29, 2011 to January 31, 2018.

The exercise price of the stock options is subject to adjustment, if there is a stock split or consolidation of shares, or if new shares are issued or treasury stocks are sold at a price that is less than the market price.

Stock option activity during the years ended March 31, 2010, 2011 and 2012 was as follows:

	2010		2011		2012	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at beginning of year	3,938,980	¥ 4,804	3,060,000	¥ 4,647	1,948,000	¥ 3,392
Granted	350,000	1,872	308,000	2,089	4,033,046	1,399
Expired	(1,117,980)	4,309	(1,262,000)	5,881	(595,840)	5,302
Forfeited	(111,000)	4,854	(158,000)	5,287	(497,000)	2,396
Outstanding at end of year	3,060,000	4,647	1,948,000	3,392	4,888,206	1,616
Exercisable at end of year	2,722,000	¥ 4,995	1,640,000	¥ 3,636	3,585,206	¥ 1,648

Stock based compensation expense recognized was ¥143 million, ¥165 million and ¥583 million, which was included in selling, general and administrative expenses for the years ended March 31, 2010, 2011 and 2012, respectively. The recognized tax benefits were ¥53 million, ¥61 million and ¥153 million for the years ended March 31, 2010, 2011 and 2012, respectively. In addition, the stock options, granted during the fiscal years ended March 31, 2007 and 2008 subsequent to a change in Japanese tax law effective April 1, 2006, expired unused during the fiscal year ended March 31, 2011 and 2012, and the related deferred tax assets of ¥610 and ¥328 million were reversed, respectively. As of March 31, 2010, 2011 and 2012, a valuation allowance was recorded against substantially all related deferred tax assets.

The weighted average fair value per share for stock options that were granted during the years ended March 31, 2010, 2011 and 2012 were ¥409, ¥535 and ¥448, respectively. These figures were calculated based on the Black Scholes option pricing model by using the following weighted average estimates:

	2010	2011	2012
Expected dividend yield	2.6%	1.6%	0.4%
Risk free interest rate	0.5%	0.2%	0.5%
Volatility	45.3%	45.4%	49.3%
Expected life	3.8 years	3.9 years	3.1 years

No stock options were exercised during the years ended March 31, 2010, 2011 and 2012. The total fair value of shares vested during the years ended March 31, 2010, 2011 and 2012 was ¥ 251 million, ¥ 141 million and ¥ 1,244 million, respectively. No intrinsic value of options exercised was recognized for the years ended March 31, 2010, 2011 and 2012.

At March 31, 2012, all of the outstanding stock options were as follows:

	Outstanding			Exercisable		
Exercise price	Number of options	Weighted average exercise price	Weighted average remaining contractual life	Number of options	Weighted average exercise price	Weighted average remaining contractual life
¥620 - ¥1,529	3,255,144	1,298	4.0 years	1,952,144	1,144	3.9 years
¥1,531 - ¥2,748	1,633,062	2,250	1.9 years	1,633,062	2,250	1.9 years
	4,888,206	1,616	3.3 years	3,585,206	1,648	3.0 years

The aggregate intrinsic value for the options outstanding and exercisable at March 31, 2012 was ¥ 455 million.

(17) Accrued Pension and Severance Costs

The Company and certain of its Japanese subsidiaries have unfunded retirement and severance plans (point-based benefits system). Under a point-based benefits system, the benefits are calculated based on accumulated points allocated to employees each year according to their job classification and their performance.

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

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

Information about the retirement and severance plans of Advantest for the years ended March 31 was as follows:

	Yen (Millions)			
	2010	2011	2012	
	Japanese plans	Japanese plans	Japanese plans	Non-Japanese plans
Components of net periodic benefit cost:				
Service cost	¥ 1,320	1,362	1,355	227
Interest cost	745	724	748	242
Expected return on plan assets	(280)	(486)	(405)	(237)
Amortization of unrecognized:				
Net actuarial (gain) or loss	560	487	511	–
Prior service (benefit) cost	(176)	(176)	(172)	–
Other	–	–	(18)	–
Net periodic benefit cost	¥ 2,169	1,911	2,019	232

The following table sets forth the plans' benefit obligation, fair value of plan assets, funded status at March 31, 2011 and 2012.

	Yen (Millions)		
	2011	2012	
	Japanese plans	Japanese plans	Non-Japanese plans
Change in benefit obligation:			
Balance at beginning of year	¥ 33,100	34,285	230
Service cost	1,362	1,355	227
Interest cost	724	748	242
Actuarial (gain) or loss	(417)	2,464	2,349
Plan amendment	–	123	–
Plan participants' contributions	–	–	66
Benefits paid	(484)	(542)	(80)
Acquisition of Verigy	–	–	7,518
Translation adjustments	–	–	(338)
Balance at end of year	34,285	38,433	10,214
Change in plan assets:			
Balance at beginning of year	19,427	20,282	–
Employer contributions	1,606	1,786	131
Plan participants' contributions	–	–	66
Actual return or (loss) on plan assets	(331)	(1,594)	(278)
Benefits paid	(420)	(479)	(35)
Acquisition of Verigy	–	–	5,051
Translation adjustments	–	–	(299)
Balance at end of year	20,282	19,995	4,636
Funded status	¥(14,003)	(18,438)	(5,578)

Amounts recognized in the consolidated balance sheets at March 31, 2011 and 2012 were as follows:

	Yen (Millions)		
	2011	2012	
	Japanese plans	Japanese plans	Non-Japanese plans
Accrued expenses	¥ (164)	(183)	(389)
Accrued pension and severance costs	(13,839)	(18,255)	(5,189)
	(14,003)	(18,438)	(5,578)

Pension related adjustments (net of tax) recognized in accumulated other comprehensive income (loss) at March 31, 2011 and 2012 were as follows:

	Yen (Millions)		
	2011	2012	
	Japanese plans	Japanese plans	Non-Japanese plans
Actuarial loss	¥(5,185)	(9,405)	(1,979)
Prior service benefit	880	751	–
	(4,305)	(8,654)	(1,979)

Changes in pension related adjustments (net of tax) recognized in other comprehensive income (loss) for the year ended March 31, 2011 and 2012 were summarized as follows:

	Yen (Millions)		
	2011	2012	
	Japanese plans	Japanese plans	Non-Japanese plans
Current year actuarial gain (loss)	¥ (401)	(4,463)	(1,979)
Amortization of actuarial gain	369	243	–
Current year prior service benefit	–	(123)	–
Amortization of prior service benefit and other	(89)	(6)	–
	(121)	(4,349)	(1,979)

The estimated prior service cost and actuarial loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next year are summarized as follow:

	Yen (Millions)	
	Japanese plans	Non-Japanese plans
Actuarial loss	¥ 791	¥ 241
Prior service benefit	(168)	–
	623	241

Pension plans with accumulated benefit obligations in excess of plan assets at March 31, 2011 and 2012 were summarized as follows:

	Yen (Millions)		
	2011	2012	
	Japanese plans	Japanese plans	Non-Japanese plans
Projected benefit obligation	¥34,285	38,433	10,214
Accumulated benefit obligation	33,454	37,531	8,638
Fair value of plan assets	20,282	19,995	4,636

Other information about the retirement and severance plans of Advantest was as follows:

Measurement date:

The measurement date for the pension plans is March 31.

Assumptions:

Weighted-average assumptions used to determine benefit obligations as of March 31:

	2011	2012	
	Japanese plans	Japanese plans	Non-Japanese plans
Discount rate	2.2%	1.8%	3.7%
Rate of compensation increase	3.0%	3.0%	2.8%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended March 31:

	2010	2011	2012	
	Japanese plans	Japanese plans	Japanese plans	Non-Japanese plans
Discount rate	2.3%	2.2%	2.2%	4.8%
Expected return on plan assets	1.5%	2.5%	2.0%	6.6%
Rate of compensation increase	3.0%	3.0%	3.0%	2.8%

Advantest determines the expected return based on the asset portfolio, historical returns and estimated future returns.

Plan assets:

Advantest's investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants by attaining necessary long-term total returns on plan assets. Taking into consideration the expected returns, associated risks and correlations of returns between asset categories in plan assets, Advantest determines an optimal combination of equity, debt securities and other investments as Policy Asset Allocation ("PAA"). Plan assets are invested in accordance with PAA with mid-term to long-term viewpoint, which is revised periodically to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

Japanese benefit plans' weighted-average asset allocation at March 31, 2011 and 2012 by asset category were as follows:

	2011	2012	Target
Equity securities	45.3%	39.1%	45.0%
Debt securities	24.9	26.9	30.0
Cash	9.5	5.6	2.0
Life insurance company general accounts	11.7	16.3	10.0
Other	8.6	12.1	13.0
	100.0%	100.0%	100.0%

Non-Japanese benefit plans' weighted-average asset allocation at March 31, 2012 by asset category were as follows:

	2012	Target
Equity securities	38.4%	34.8%
Debt securities	12.3	14.0
Cash	42.4	47.3
Other	6.9	3.9
	100.0%	100.0%

The three levels of inputs that may be used to measure fair value of plan assets are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets.

Level 2: Observable inputs other than quoted prices included within Level 1 for the assets, either directly or indirectly.

Level 3: Unobservable inputs for the assets.

Japanese benefit plans' asset allocation at March 31, 2011 and 2012 by asset level were as follows:

	Yen (Millions)			
		Fair Value Measurements at March 31, 2011		
	Total	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	1,929	1,929	–	–
Equity securities:				
Japanese companies	1,436	1,436	–	–
Pooled funds[(a)]	7,756	–	7,756	–
Debt securities:				
Pooled funds[(b)]	5,044	–	5,044	–
Hedge funds[(c)]	1,736	–	303	1,433
Life insurance company general accounts	2,381	–	2,381	–
Total	20,282	3,365	15,484	1,433

(a) These funds invested in listed equity securities consisting of approximately 60% Japanese listed companies and 40% foreign listed companies. This category included both long and short positions aggregating ¥2,249 million, invested in Japanese listed companies' equity.

(b) These funds invested in approximately 45% foreign government bonds, 40% Japanese government bonds, 10% Japanese municipal bonds, and 5% Japanese corporate bonds.
(c) These hedge funds invested in stock price index futures / options, bond futures / options, bonds and private equity and others.

	Yen (Millions)			
		Fair Value Measurements at March 31, 2012		
	Total	**(Level 1)**	**(Level 2)**	**(Level 3)**
Cash and cash equivalents	1,110	1,110	–	–
Equity securities:				
Japanese companies	1,509	1,509	–	–
Pooled funds(d)	6,319	–	6,319	–
Debt securities:				
Pooled funds(e)	5,375	–	5,375	–
Hedge funds(f)	2,415	–	1,278	1,137
Life insurance company general accounts	3,267	–	3,267	–
Total	19,995	2,619	16,239	1,137

(d) These funds invested in listed equity securities consisting of approximately 50% Japanese listed companies and 50% foreign listed companies. This category included both long and short positions aggregating ¥1,070 million, invested in Japanese listed companies' equity.
(e) These funds invested in approximately 45% foreign government bonds, 40% Japanese government bonds, 10% Japanese corporate bonds, and 5% Japanese municipal bonds.
(f) These hedge funds invested in stock price index futures / options, bond futures / options, bonds and private equity and others.

Level 1 assets are comprised principally of listed equity securities, which are valued based on quoted market prices at the reporting date for those investments.

Level 2 assets are comprised principally of pooled funds and investments in life insurance company general accounts. Pooled funds are valued at their net asset values that are calculated by the sponsors of the funds. Investments in life insurance company general accounts are valued at conversion value. Level 2 also includes certain hedge funds that are redeemable in the near term at their net asset values.

Level 3 assets are comprised of hedge funds, which are valued at their net asset values that are calculated by the sponsors of the funds.

Changes in the Level 3 plan assets for the year ended March 31, 2011 and 2012 were as follows:

	Yen (Millions)	
	2011	
	Hedge funds	**Total**
Balance at beginning of year	¥ 2,132	2,132
Net realized / unrealized gain (loss)	97	97
Purchases, issuances and settlements	(796)	(796)
Transfer in and / or out of Level 3	–	–
Balance at end of year	¥ 1,433	1,433

	Yen (Millions)	
	2012	
	Hedge funds	**Total**
Balance at beginning of year	¥ 1,433	1,433
Net realized / unrealized gain (loss)	(1,572)	(1,572)
Purchases, issuances and settlements	1,276	1,276
Transfer in and / or out of Level 3	–	–
Balance at end of year	¥ 1,137	1,137

Non-Japanese benefit plan asset allocation at March 31, 2012 by asset level were as follows:

	Yen (Millions)			
		Fair Value Measurements at March 31, 2012		
	Total	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents[(a)]	1,967	1,967	–	–
Equity securities:				
Pooled funds[(b)]	1,779	–	1,779	–
Debt securities:				
Pooled funds[(c)]	571	–	571	–
Commodities	319	–	319	–
Total	4,636	1,967	2,669	–

(a) Cash equivalents were primarily in short-term investment funds, which consisted of short-term money market instruments that were valued using quoted prices for similar assets and liabilities in active markets.
(b) These funds invested in listed equity securities consisting of Foreign equities.
(c) These funds invested in International bonds.

Cash flows:

Advantest expects to contribute ¥1,812 million and ¥13 million to its Japan defined benefit plans and Non-Japan benefit plans during the year ending March 31, 2013.

Estimated future benefit payments:

The following benefit payments, which reflect expected future service, as appropriate, are estimated as follows:

	Yen (Millions)	
Year ending March 31	Japanese plans	Non-Japanese plans
2013	¥ 803	59
2014	915	66
2015	934	85
2016	1,019	100
2017	1,136	119
2018 through 2022	8,281	1,251

(18) Stockholders' Equity

Changes in the number of shares issued and treasury stock during the years ended March 31, 2010, 2011 and 2012 were as follows:

	Total shares of common stock	Shares of treasury stock
Number of shares as of April 1, 2009	199,566,770	20,843,298
Purchase of shares	–	2,112
Sale of shares	–	(232)
Number of shares as of March 31, 2010	199,566,770	20,845,178
Purchase of shares	–	5,449,721
Sale of shares	–	(80)
Number of shares as of March 31, 2011	199,566,770	26,294,819
Purchase of shares	–	899
Sale of shares	–	(328)
Number of shares as of March 31, 2012	199,566,770	26,295,390

The Companies Act of Japan provides that an amount equal to 10% of distributions paid by the Company shall be appropriated as additional paid-in capital or a legal reserve until the total amount of the additional paid-in capital and the legal reserve equals to 25% of common stock. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of the respective countries.

Cash dividends for the years ended March 31, 2010, 2011 and 2012 represent dividends paid out during those years. The accompanying consolidated financial statements do not include any provision for a dividend of ¥10 per share, aggregating ¥1,733 million for the second-half of the year ended March 31, 2012, subsequently proposed by the Board of Directors.

The amount available for future payment of dividends was determined under the Companies Act of Japan and amounted to ¥55,734 million at March 31, 2012.

(19) Accrued Warranty Expenses

Advantest issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period. Changes in accrued warranty expenses for the years ended March 31, 2010, 2011 and 2012 were summarized as follows:

	Yen (Millions)		
	2010	2011	2012
Balance at beginning of year	¥ 2,811	2,802	1,754
Acquisition of Verigy	–	–	209
Addition	3,364	2,653	3,432
Reduction	(3,372)	(3,693)	(3,269)
Translation adjustments	(1)	(8)	3
Balance at end of year	¥ 2,802	1,754	2,129

(20) Operating Segment and Geographic Information

Advantest manufactures and sells semiconductor and component test system products and mechatronics-related products such as test handlers and device interfaces. Advantest also engages in research and development activities and provides maintenance and support services associated with these products. Advantest's organizational structure consists of three reportable operating segments, which are the design, manufacturing, and sale of semiconductor and component test systems, mechatronics systems and services, support and others. These reportable operating segments are determined based on the nature of the products and the markets. Segment information is prepared on the same basis that Advantest's management reviews financial information for operational decision making purposes.

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

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

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

Fundamental research and development activities and headquarters functions are represented by Corporate.

Reportable operating segment information during the years ended March 31, 2010, 2011 and 2012 was as follows:

	Yen (Millions)				
	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Total
As of and for the year ended March 31, 2010:					
Net sales to unaffiliated customers	¥ 30,168	11,219	11,838	–	53,225
Inter-segment sales	2,404	18	–	(2,422)	–
Net sales	32,572	11,237	11,838	(2,422)	53,225
Depreciation and amortization	1,364	470	1,977	503	4,314
Operating income (loss) before stock option compensation expenses	(7,042)	(1,897)	2,175	(4,732)	(11,496)
Adjustment:					
Stock based compensation expense					143
Operating income (loss)					(11,639)
Expenditures for additions to long-lived assets	942	396	1,856	231	3,425
Total assets	38,782	10,478	11,474	127,929	188,663
As of and for the year ended March 31, 2011:					
Net sales to unaffiliated customers	¥ 67,070	18,398	14,166	–	99,634
Inter-segment sales	2,263	117	–	(2,380)	–
Net sales	69,333	18,515	14,166	(2,380)	99,634
Depreciation and amortization	1,417	533	1,755	504	4,209
Operating income (loss) before stock option compensation expenses	9,857	(251)	2,133	(5,463)	6,276
Adjustment:					
Stock based compensation expense					165
Operating income (loss)					6,111
Expenditures for additions to long-lived assets	1,350	374	1,733	336	3,793
Total assets	53,570	11,780	9,226	105,736	180,312
As of and for the year ended March 31, 2012:					
Net sales to unaffiliated customers	¥101,831	20,410	18,807	–	141,048
Inter-segment sales	3,777	206	–	(3,983)	–
Net sales	105,608	20,616	18,807	(3,983)	141,048
Depreciation and amortization	2,658	627	3,070	483	6,838
Operating income (loss) before stock option compensation expenses	9,845	(1,324)	1,614	(8,715)	1,420
Adjustment:					
Stock based compensation expense					583
Operating income (loss)					837
Expenditures for additions to long-lived assets	2,398	750	3,492	344	6,984
Total assets	93,603	12,789	30,713	82,121	219,226

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

Advantest uses the operating income (loss) before stock option compensation expenses for management's analysis of business segment results.

Additions to long-lived assets included in Corporate consist of purchases of software and fixed assets for general corporate use.

Total assets included in Corporate consist of cash and cash equivalents, assets for general corporate use and assets used for fundamental research activities, which are not allocated to reportable segments.

One customer and its related entities mainly in the semiconductor and component test system segment and the mechatronics system segment accounted for approximately 20%, 20% and 29% of total consolidated net sales for the years ended March 31, 2010, 2011 and 2012, respectively. Other customer accounted for approximately 6%, 7% and 12% for the years ended March 31, 2010, 2011 and 2012, respectively. Another customer accounted for approximately 2%, 13% and 2% for the years ended March 31, 2010, 2011 and 2012, respectively.

Information as to Advantest's net sales and property, plant and equipment in various geographical areas was as follows:

Net sales to unaffiliated customers for the years ended March 31, 2010, 2011 and 2012 were as follows:

	Yen (Millions)		
	2010	2011	2012
Japan	11,976	22,398	16,095
Americas	4,930	9,278	29,742
Europe	2,137	2,252	7,015
Asia	34,182	65,706	88,196
Total	53,225	99,634	141,048

Net sales to unaffiliated customers are based on the customer's location. Net sales indicated as Asia were generated in Korea, Taiwan and China and others in the amount of ¥10,334 million, ¥12,805 million and ¥11,043 million for the year ended March 31, 2010, ¥20,752 million, ¥21,835 million and ¥23,119 million for the year ended March 31, 2011, and ¥29,687 million, ¥27,591 million and ¥30,918 million for the year ended March 31, 2012, respectively. Substantially all net sales indicated as Americas were generated in the United States of America.

Property, plant and equipment as of March 31, 2010, 2011 and 2012 were as follows:

	Yen (Millions)		
	2010	2011	2012
Japan	¥29,750	29,280	28,234
Americas	214	281	1,073
Europe	539	563	1,582
Asia	2,378	1,754	3,317
Total	¥32,881	31,878	34,206

Property, plant and equipment are those assets located in each geographic area.

There was no individually material country with respect to property, plant and equipment outside Japan. Substantially all property, plant and equipment indicated as Americas were located in the United States of America. Substantially all property, plant and equipment indicated as Europe were located in Germany. Property, plant and equipment in Asia were primarily located in Taiwan, Singapore and China.

(21) Related Party Transactions

Advantest sells products to and purchases raw materials from Fujitsu Limited, its 11.6% stockholder as of March 31, 2012 and its group companies (collectively, "Fujitsu"). The terms of sales are the same as those with third parties. Advantest purchases raw materials after receiving competitive bids from several suppliers. Advantest also purchases various software products for internal use, information system related services, research and development materials and services from Fujitsu. Advantest had the following transactions with Fujitsu as of and for the years ended March 31:

	Yen (Millions)		
	2010	2011	2012
Sales of products	¥2,085	2,461	1,847
Purchases of raw materials	4,065	4,622	6,155
Receivables	826	696	459
Payables	2,372	2,717	2,653
Purchases of software, hardware and others	199	442	95
Research and development expenses, computer rentals, maintenance and other expenses	1,056	1,779	1,976

Advantest is holding approximately 35% of common stock of e-Shuttle, Inc., a subsidiary of Fujitsu, since the initial investment, which is accounted for by equity method of accounting.

(22) Per Share Data

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

	Yen (Millions) except per share data		
	2010	2011	2012
Numerator:			
Net income (loss)	¥ (11,454)	3,163	(2,195)
Denominator:			
Basic weighted average shares of common stock outstanding	178,722,505	175,481,854	173,271,717
Dilutive effect of exercise of stock options	–	13,604	–
Diluted weighted average shares of common stock outstanding	178,722,505	175,495,458	173,271,717
Basic net income (loss) per share	¥ (64.09)	18.03	(12.67)
Diluted net income (loss) per share	(64.09)	18.03	(12.67)

At March 31, 2010, 2011 and 2012, Advantest had outstanding stock options into 3,060,000, 1,610,000 and 4,888,206 shares of common stock, respectively, which were anti-dilutive and excluded from the calculation of diluted net income per share but could potentially dilute net income per share in future periods.

(23) Concentrations of credit risk

Advantest is exposed to credit risk in the event of default by financial institutions to cash and cash equivalents, but such risk is considered mitigated by the high credit rating of the financial institutions.

At March 31, 2011 and 2012, Advantest had two foreign semiconductor customers with significant receivables. Receivables from these customers accounted for 36% and 32% of consolidated trade receivables at March 31, 2011 and 2012, respectively. Although Advantest does not expect that these customers will fail to meet their obligations, Advantest is potentially exposed to concentrations of credit risk if these customers failed to perform according to the terms of the contracts.

(24) Commitments and Contingent Liabilities

Advantest is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Advantest's consolidated financial position, results of operations, or cash flows.

Advantest entered into a contract to purchase land in Cheonan City, Korea for a new plant in the amount of ¥1,362 million on March 30, 2012 and paid the full amount on April 23, 2012. In addition, outstanding commitments for the purchase of property, plant and equipment totaled ¥78 million and for the purchase of parts and raw materials totaled ¥2,330 million at March 31, 2012.

Advantest maintains a commitment line agreement with a number of banks and pays commitment fees as consideration in order to secure a financing source for business operations. The commitment agreement term ends in March 2015, and the unused availability under this agreement as of March 31, 2012 amounted to ¥10,000 million.

Independent Auditor's Quarterly Review Report

The Board of Directors
Advantest Corporation

We have reviewed the accompanying quarterly consolidated financial statements of Advantest Corporation and its consolidated subsidiaries, which comprise the quarterly consolidated balance sheet as at December 31, 2013, and the quarterly consolidated statements of operations, comprehensive income (loss) for the nine-month and three-month periods ended December 31, 2013 and 2012, and the quarterly consolidated statements of cash flows for the nine-month periods ended December 31, 2013 and 2012 and the related notes.

Management's Responsibility for the Quarterly Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these quarterly consolidated financial statements in accordance with accounting principles for quarterly consolidated financial statements generally accepted in the United States pursuant to Article 95 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the quarterly consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on these quarterly consolidated financial statements based on our review. We conducted our review in accordance with review standards for quarterly financial statements generally accepted in Japan.

A review of quarterly consolidated financial statements consists of making inquiries, primarily of management and persons responsible for financial and accounting matters, and applying analytical and other quarterly review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our review conclusion.

Auditor's Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the quarterly consolidated financial statements referred to above do not present fairly, in all material respects, the consolidated financial position of Advantest Corporation and its consolidated subsidiaries as at December 31, 2013 and their consolidated financial performance for the nine-month and three-month periods ended December 31, 2013 and 2012, and their cash flows for the nine-month periods ended December 31, 2013 and 2012 in conformity with the accounting principles for quarterly consolidated financial statements generally accepted in the United States.

/s/ Ernst & Young Shinnihon LLC

Tokyo, Japan
February 14, 2014

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)

	Yen (Millions)	
	March 31, 2013	**December 31, 2013**
Assets		
Current assets:		
Cash and cash equivalents	¥ 45,668	42,121
Trade receivables, net	26,953	12,504
Inventories	31,849	32,914
Other current assets	8,319	8,321
Total current assets	112,789	95,860
Investment securities	5,923	5,040
Property, plant and equipment, net of accumulated depreciation of 43,869 million yen and 46,469 million yen, as of March 31, 2013 and December 31, 2013, respectively	41,368	40,938
Intangible assets, net of accumulated amortization of 4,334 million yen and 1,346 million yen, as of March 31, 2013 and December 31, 2013, respectively	15,833	3,344
Goodwill	41,670	47,800
Other assets	7,932	10,316
Total assets	¥ 225,515	203,298

The accompanying notes, together with the Notes to Consolidated Financial Statements for the year ended March 31, 2013 are an integral part of the consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)

	Yen (Millions)	
	March 31, 2013	**December 31, 2013**
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	¥ 10,380	11,300
Accrued expenses	7,910	6,893
Income taxes payable	1,436	909
Accrued warranty expenses	1,889	1,675
Customer prepayments	3,198	3,110
Other current liabilities	3,087	2,664
Total current liabilities	27,900	26,551
Corporate bonds	25,000	25,000
Accrued pension and severance costs	26,785	28,243
Other liabilities	4,589	3,273
Total liabilities	84,274	83,067
Commitments and contingent liabilities		
Stockholders' equity:		
Common stock,		
Authorized 440,000,000 shares; issued 199,566,770 shares	32,363	32,363
Capital surplus	42,801	43,492
Retained earnings	170,626	132,133
Accumulated other comprehensive income (loss)	(6,929)	8,326
Treasury stock, 25,773,688 shares and 25,368,364 shares as of March 31, 2013 and December 31, 2013, respectively	(97,620)	(96,083)
Total stockholders' equity	141,241	120,231
Total liabilities and stockholders' equity	¥ 225,515	203,298

The accompanying notes, together with the Notes to Consolidated Financial Statements for the year ended March 31, 2013 are an integral part of the consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

	Yen (Millions)	
	Nine months ended December 31,	
	2012	2013
Net sales	¥ 97,186	79,251
Cost of sales	46,049	45,913
Gross profit	51,137	33,338
Research and development expenses	24,200	25,294
Selling, general and administrative expenses	26,113	29,380
Impairment charge	–	13,068
Operating income (loss)	824	(34,404)
Other income (expense):		
Interest and dividend income	159	169
Interest expense	(97)	(104)
Gain on sale of investment securities	–	778
Other, net	(778)	(760)
Total other income (expense)	(716)	83
Income (loss) before income taxes and equity in earnings of affiliated company	108	(34,321)
Income tax expense (benefit)	2,059	(171)
Equity in earnings of affiliated company	34	2
Net income (loss)	¥ (1,917)	(34,148)

	Yen	
	Nine months ended December 31,	
	2012	2013
Net income (loss) per share:		
Basic	¥(11.05)	(196.12)
Diluted	(11.05)	(196.12)

The accompanying notes, together with the Notes to Consolidated Financial Statements for the year ended March 31, 2013 are an integral part of the consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

	Yen (Millions)	
	Three months ended December 31,	
	2012	2013
Net sales	¥ 24,628	19,613
Cost of sales	11,551	15,120
Gross profit	13,077	4,493
Research and development expenses	7,526	7,886
Selling, general and administrative expenses	8,096	9,949
Impairment charge	–	13,068
Operating income (loss)	(2,545)	(26,410)
Other income (expense):		
Interest and dividend income	68	69
Interest expense	(37)	(34)
Gain on sale of investment securities	–	202
Other, net	(495)	(761)
Total other income (expense)	(464)	(524)
Income (loss) before income taxes and equity in earnings of affiliated company	(3,009)	(26,934)
Income tax expense (benefit)	431	(2,125)
Equity in earnings of affiliated company	4	0
Net income (loss)	¥ (3,436)	(24,809)

	Yen	
	Three months ended December 31,	
	2012	2013
Net income (loss) per share:		
Basic	¥(19.80)	(142.42)
Diluted	(19.80)	(142.42)

The accompanying notes, together with the Notes to Consolidated Financial Statements for the year ended March 31, 2013 are an integral part of the consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

	Yen (Millions)	
	Nine months ended December 31,	
	2012	2013
Comprehensive income (loss)		
Net income (loss)	¥ (1,917)	(34,148)
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments	7,345	15,147
Net unrealized gains (losses) on investment securities:		
Net unrealized gains (losses) arising during the period	(605)	209
Less reclassification adjustments for net gains (losses) realized in earnings	251	(503)
Net unrealized gains (losses)	(354)	(294)
Pension related adjustments	384	402
Total other comprehensive income	7,375	15,255
Total comprehensive income (loss)	¥ 5,458	(18,893)

	Yen (Millions)	
	Three months ended December 31,	
	2012	2013
Comprehensive income (loss)		
Net income (loss)	¥ (3,436)	(24,809)
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments	13,201	9,428
Net unrealized gains (losses) on investment securities:		
Net unrealized gains (losses) arising during the period	208	133
Less reclassification adjustments for net gains (losses) realized in earnings	–	(131)
Net unrealized gains (losses)	208	2
Pension related adjustments	(23)	31
Total other comprehensive income	13,386	9,461
Total comprehensive income (loss)	¥ 9,950	(15,348)

The accompanying notes, together with the Notes to Consolidated Financial Statements for the year ended March 31, 2013 are an integral part of the consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

	Yen (Millions)	
	Nine months ended December 31,	
	2012	2013
Cash flows from operating activities:		
Net income (loss)	¥ (1,917)	(34,148)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,828	6,831
Deferred income taxes	(449)	(2,048)
Stock option compensation expense	581	870
Impairment charge	–	13,495
Changes in assets and liabilities:		
Trade receivables	2,201	15,651
Inventories	(3,980)	311
Trade accounts payable	(4,624)	(79)
Accrued expenses	(5,296)	(1,310)
Income taxes payable	1,639	(631)
Accrued warranty expenses	(224)	(269)
Customer prepayments	76	(662)
Accrued pension and severance costs	952	1,207
Other	1,877	615
Net cash provided by (used in) operating activities	(3,336)	(167)
Cash flows from investing activities:		
Proceeds from sale of available-for-sale securities	–	1,418
Acquisition of subsidiary, net of cash acquired	–	(1,272)
Proceeds from sale of property, plant and equipment	30	370
Purchases of property, plant and equipment	(9,527)	(5,096)
Purchases of intangible assets	(323)	(648)
Other	201	280
Net cash provided by (used in) investing activities	(9,619)	(4,948)
Cash flows from financing activities:		
Increase (decrease) in short term debt	(25,000)	–
Proceeds from issuance of corporate bonds	25,000	–
Dividends paid	(3,356)	(3,369)
Other	334	501
Net cash provided by (used in) financing activities	(3,022)	(2,868)
Net effect of exchange rate changes on cash and cash equivalents	1,369	4,436
Net change in cash and cash equivalents	(14,608)	(3,547)
Cash and cash equivalents at beginning of period	58,218	45,668
Cash and cash equivalents at end of period	¥ 43,610	42,121

The accompanying notes, together with the Notes to Consolidated Financial Statements for the year ended March 31, 2013 are an integral part of the consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(1) Accounting Principles, Procedures and the Presentation of the Consolidated financial Statements

(a) Terminology, Form and Method of Preparation of the Consolidated Financial Statements

Advantest Corporation (the "Company") and its consolidated subsidiaries (collectively, "Advantest") prepare its consolidated financial statements in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). U.S. GAAP is codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), which is the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities.

Advantest prepared the accompanying interim consolidated financial statements in conformity with U.S. GAAP, consistent in all material respects with those applied in Advantest's audited consolidated financial statements for the year ended March 31, 2013.

The interim financial statements are unaudited, but reflect all normal adjustments that are, in the opinion of management, necessary to provide a fair presentation of results for the interim periods presented. This interim information should be read with Advantest's audited consolidated financial statements for the year ended March 31, 2013.

(b) Preparation of the Consolidated Financial Statements and Registration with the U.S. Securities and Exchange Commission

The Company became listed on the New York Stock Exchange on September 17, 2001 (local time) by means of an issuance of American Depository Shares, and has been filing a Form 20-F (equivalent to the Annual Securities Report in Japan) with the U.S. Securities and Exchange Commission since the year ended March 31, 2002. Advantest prepares the consolidated financial statements in its Form 20-F in accordance with U.S. GAAP.

(c) Significant differences from the preparation of financial statements under Japanese GAAP

Of the accounting principles, procedures and method of presentation adopted by Advantest, the following is a brief summary description of certain significant differences from the preparation of financial statements using the accounting principles, procedures and methods of presentation under Japanese GAAP, as required under the Financial Instruments and Exchange Law of Japan:

(i) Allowance for compensated absences

An allowance is provided for the right of employees to receive compensated absences in the future.

(ii) Accrued pension and severance costs

The funded status, which is the difference between the fair value of plan assets and the projected benefit obligation, of pension plans is recognized in the consolidated balance sheets.

(iii) Business Combination

Goodwill arising from business combination is not amortized, but instead is tested for impairment at least annually. Acquisition related costs are expensed as incurred.

(iv) Stock option

Unused gains from stock based compensation are not recognized upon expiration of stock option.

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

(a) Description of Business

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

Description of the business by segment is as follows:

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

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

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

(b) Accounting Changes and Accounting Standards Not Yet Adopted

In July 2012, the FASB amended the accounting guidance to simplify how entities test indefinite-lived intangible assets for impairment which improve consistency in impairment testing requirements among long-lived asset categories. The guidance permits an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, the guidance eliminates the requirement to perform quantitative impairment testing as outlined in the previously issued standards. The guidance was adopted by Advantest in the first quarter beginning April 1, 2013. The adoption of the guidance did not have a significant impact on its consolidated results of operations and financial condition.

In February 2013, the FASB finalized the accounting guidance for reporting of amounts reclassified out of accumulated other comprehensive income. This new guidance requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. The guidance was adopted by Advantest in the first quarter beginning April 1, 2013. The adoption of the guidance did not have a significant impact on its consolidated results of operations and financial condition.

(c) Reclassification

Certain reclassifications have been made to the prior fiscal year's consolidated financial statements to conform to the current quarter and year-to-date presentation.

(3) Inventories

Inventories at March 31, 2013 and December 31, 2013 were composed of the following:

	Yen (Millions)	
	March 31, 2013	December 31, 2013
Finished goods	¥ 6,485	7,326
Work in process	11,378	12,448
Raw materials and supplies	13,986	13,140
	¥ 31,849	32,914

(4) Investment Securities

Marketable equity securities are classified as available-for-sale securities. The acquisition cost, gross unrealized gains, gross unrealized losses and fair value at March 31, 2013 and December 31, 2013 were as follows:

	Yen (Millions)			
	March 31, 2013			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Fair value
Noncurrent:				
Available-for-sale:				
Equity securities	¥ 3,079	2,377	1	5,455

	Yen (Millions)			
	December 31, 2013			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Fair value
Noncurrent:				
Available-for-sale:				
Equity securities	¥ 2,625	1,966	22	4,569

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

No proceeds from the sale of available-for-sale securities and no gross gains and losses were realized on the sale of available-for-sale securities for the nine months and three months ended December 31, 2012. Proceeds from the sale of available-for-sale securities for the nine months and three months ended December 31, 2013 were ¥1,298 million and ¥492 million. Gross realized gains on available-for-sales securities for the nine months and three months ended December 31, 2013 were ¥778 million and ¥202 million. No losses were realized on the sale of available-for-sale securities for the nine months and three months ended December 31, 2013.

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

For the nine months and three months ended December 31, 2012, Advantest recognized impairment losses of ¥388 million and nil on available-for-sale securities, which were considered other-than-temporarily impaired. There were no impairment losses on available-for-sale securities, which were not considered other-than-temporarily impaired for the nine months and three months ended December 31, 2013.

Gross unrealized losses on available-for-sale securities and the fair value of the related securities, aggregated by length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2013 and December 31, 2013, were as follows:

	Yen (Millions)			
	March 31, 2013			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Noncurrent:				
Available-for-sale:				
Equity securities	¥ –	–	5	1

	Yen (Millions)			
	December 31, 2013			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Noncurrent:				
Available-for-sale:				
Equity securities	¥ 302	21	5	1

Advantest maintains non-marketable equity securities, which are recorded at cost and included in "investment securities" in the consolidated balance sheets. The carrying amounts of non-marketable equity securities were ¥468 million and ¥471 million at March 31, 2013 and December 31, 2013, respectively. For certain non-marketable equity securities which Advantest identified events or changes in circumstances that might have had significant adverse effect on the fair value of the investments, the fair value approximates the carrying value. Advantest had not estimated the fair value of the majority of these non-marketable equity securities aggregating ¥460 million and ¥471 million at March 31, 2013 and December 31, 2013, respectively, since it was not practicable to estimate the fair value of the investments due to the lack of readily determinable fair values and difficulty in estimating fair value without incurring excessive cost. Non-marketable equity securities that had impairment indicators were evaluated to determine whether the investments were impaired and the impairment, if any, was other than temporary.

(5) Derivative Financial Instruments

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

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

Derivatives not designated as hedging instruments

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

Advantest had foreign exchange contracts to exchange currencies among Japanese yen, US dollar and Euro at March 31, 2013. The notional amounts of outstanding forward contracts for foreign currency sales were ¥147 million at March 31, 2013 and ¥420 million at December 31, 2013 respectively. The notional amounts of outstanding forward contracts for foreign currency purchases were ¥210 million at December 31, 2013.

Fair Value of Derivative Contracts

Fair values of derivatives not designated as hedging instruments at March 31, 2013 and December 31, 2013 were as follows:

Derivatives not designated as hedging instruments

	Yen (Millions)			
	March 31, 2013		December 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Assets				
Foreign exchange contracts..................	Other current assets	¥ 16	Other current assets	–
Liabilities				
Foreign exchange contracts..................	Other current liabilities	¥ 0	Other current liabilities	2

Effect of derivative instruments on the consolidated statements of operations

Derivatives not designated as hedging instruments

The effects of derivatives not designated as hedging instruments on the consolidated statements of operations for the nine months and three months ended December 31, 2012 and 2013 were as follows:

		Yen (Millions)	
		Amount of gain (loss) recognized in income on derivatives	
	Location of gain (loss) recognized in income on derivatives	Nine months ended December 31, 2012	Nine months ended December 31, 2013
Foreign exchange contracts..................................	Other income (expense)	¥ (62)	63

	Location of gain (loss) recognized in income on derivatives	Yen (Millions) Amount of gain (loss) recognized in income on derivatives	
		Three months ended December 31, 2012	Three months ended December 31, 2013
Foreign exchange contracts	Other income (expense)	¥ (68)	(27)

(6) Fair Value Measurement

Disclosure about the fair value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of Advantest's financial instruments at March 31, 2013 and December 31, 2013. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

	Yen (Millions)			
	March 31, 2013		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Investment securities				
Available-for-sale securities	¥ 5,455	5,455	4,569	4,569
Foreign exchange contracts	16	16	–	–
Financial liabilities:				
Foreign exchange contracts	0	0	2	2
Corporate bonds	25,000	25,026	25,000	25,044

The carrying amounts of available-for-sale securities are included in the consolidated balance sheets under investment securities. The carrying amounts of foreign exchange contracts are included in other current assets and other current liabilities.

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

Cash and cash equivalents, trade receivables and trade accounts payable: The carrying amounts approximate fair value because of the short maturity of these instruments.

Available-for-sale securities: The fair values of available-for-sale equity securities are based on quoted market prices at the reporting date for those investments.

Foreign exchange contracts: The fair value of foreign exchange contracts are estimated by obtaining quotes from financial institutions.

Corporate bonds: The fair value of corporate bonds is estimated using market quotes and are classified as Level 2.

Fair Value Hierarchy

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally the inputs to valuation techniques used to measure fair value are prioritized into the following three levels:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2—Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3—Unobservable inputs for the asset or liability.

Assets / Liabilities Measured at Fair Value on a Recurring Basis

As of March 31, 2013 and December 31, 2013 carrying amount of assets and liabilities that were measured at fair value on a recurring basis by level was as follows:

		Yen (Millions) Fair Value Measurements at March 31, 2013		
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Available-for-sale equity securities	¥5,455	5,455	–	–
Foreign exchange contracts	16	–	16	–
Total assets measured at fair value	5,471	5,455	16	–
Liabilities				
Foreign exchange contracts	0	–	0	–
Total liabilities measured at fair value	¥ 0	–	0	–

		Yen (Millions) Fair Value Measurements at December 31, 2013		
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Available-for-sale equity securities	¥4,569	4,569	–	–
Total assets measured at fair value	4,569	4,569	–	–
Liabilities				
Foreign exchange contracts	2	–	2	–
Total liabilities measured at fair value	¥ 2	–	2	–

Adjustments to fair value of available-for-sale equity securities are recorded as an increase or decrease, net of tax, in accumulated other comprehensive income (loss) except where losses are considered to be other than temporary, in which case the losses are recorded in impairment losses on investment securities. Changes in fair value of foreign exchange contracts are recorded as other income (expense).

Assets / Liabilities Measured at Fair Value on a Nonrecurring Basis

As of March 31, 2013 and December 31, 2013, the carrying amount of assets and liabilities, which were measured at fair value on a nonrecurring basis by level during the year ended March 31, 2013 and December 31, 2013 was as follows:

		Yen (Millions) Fair Value Measurements at March 31, 2013		
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Non-marketable equity securities	¥ 8	–	–	8
Assets held for sale	1,337	–	–	1,337
Total assets measured at fair value	¥1,345	–	–	1,345

	Yen (Millions)			
		Fair Value Measurements at December 31, 2013		
	Total	Level 1	Level 2	Level 3
Assets				
Assets held for sale	1,230	–	–	1,230
Property, plant and equipment	–	–	–	–
Intangible assets	–	–	–	–
Total assets measured at fair value	¥1,230	–	–	1,230

As of December 31, 2012, there were no amount of assets and liabilities, which were measured at fair value on a nonrecurring basis. For the three month ended December 31, 2013, Advantest recognized loss of ¥107 million on certain building and land included as a corporate asset that was reclassified as assets held for sale and this loss was included in selling, general and administrative expenses in the accompanying quarterly consolidated statements of operations. The assets held for sale was included in other current assets on the quarterly consolidated balance sheets. As a result of expected future cash flows based on changes in the business environment weighed on profits, for the three months ended December 31, 2013, Advantest recognized impairment losses of ¥1,099 million and ¥11,671 million on property, plant and equipment and intangible assets, respectively included in semiconductor and component test system segment. Also, Advantest recognized impairment losses of ¥497 million and ¥228 million on property, plant and equipment and intangible assets, respectively included in mechatronics system segment. The total impairment loss of ¥13,495 million was included in cost of sales and impairment charge in the accompanying quarterly consolidated statements of operations.

The non-marketable equity securities are valued using the market and income approaches. The fair value of non-marketable equity securities is based on quoted prices in markets that are not active at the reporting date, or present value of expected future cash flows for those investments. The fair value of the assets held for sale was determined based on a third-party appraisal using similar assets and sales. The fair value of the assets held for sale was reclassified to other current assets on the consolidated balance sheets. The property, plant and equipment and the intangible assets are valued using the income approaches based on present value of expected future cash flows. The fair value is classified as Level 3 because significant unobservable inputs were involved in the fair value measurements.

(7) Corporate Bonds

Corporate bonds at March 31, 2013 and December 31, 2013 were as follows:

	Yen (Millions)	
	March 31, 2013	December 31, 2013
Unsecured corporate bonds		
Maturity date May 25, 2015, 0.416% per annum	¥ 10,000	10,000
Maturity date May 25, 2017, 0.606% per annum	15,000	15,000
	¥ 25,000	25,000

(8) Income Taxes

As of December 31, 2012 and 2013, the estimated annual effective tax rate for FY2012 and FY2013 differ from the 37.8 and 37.7 percent statutory income tax rate primarily due to related impacts of valuation allowance on deferred tax assets, effects of foreign income tax rates, and effects of separate company income tax reporting positions.

(9) Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the nine months ended December 31, 2013 were as follows:

	Yen (Millions)			
	Nine months ended December 31, 2013			
	Foreign currency translation adjustment	Net unrealized gains (losses) on investment securities	Pension related adjustment	Accumulated other comprehensive income (loss)
Balance at March 31, 2013	¥ 3,934	1,549	(12,412)	(6,929)
Other comprehensive income (loss) before reclassifications	15,147	209	(304)	15,052
Amounts reclassified from Accumulated other comprehensive Income (loss)	–	(503)	706	203
Net change during the period	15,147	(294)	402	15,255
Balance at December 31, 2013	¥ 19,081	1,255	(12,010)	8,326

Reclassifications out of accumulated other comprehensive income (loss) for the nine months and three months ended December 31, 2013 were as follow:

	Yen (Millions)	
	Nine months ended December 31, 2013	
	Amount reclassified from accumulated other comprehensive income (loss) *(1)	Affected line items in consolidated statements of income
Unrealized gains and losses on investment securities	¥ (778)	Other income (expense): Other, net
	275	Income taxes
	(503)	Net income (loss)
Pension liability adjustments	914	(2)
Amortization of actuarial loss	(126)	(2)
Amortization of prior service cost	(82)	Income taxes
	706	Net income (loss)
Total amount reclassified, net of tax	¥ 203	

(1) Amounts in parentheses indicate gain in consolidated statements of operations.

(2) The accumulated other comprehensive income components are included in the computation of net periodic pension cost (see note 11 for additional details).

	Yen (Millions)	
	Three months ended December 31, 2013	
	Amount reclassified from accumulated other comprehensive income (loss) *(1)	Affected line items in consolidated statements of income
Unrealized gains and losses on investment securities	¥ (202)	Other income (expense): Other, net
	71	Income taxes
	(131)	Net income (loss)
Pension liability adjustments		
Amortization of actuarial loss	307	(2)
Amortization of prior service cost	(42)	(2)
	(28)	Income taxes
	237	Net income (loss)
Total amount reclassified, net of tax	¥ 106	

(1) Amounts in parentheses indicate gain in consolidated statements of operations.
(2) The accumulated other comprehensive income components are included in the computation of net periodic pension cost (see note 11 for additional details).

(10) Stock-Based Compensation

In July 2013, stock options were issued to directors, audit & supervisory board members, executive officers and employees of the Company and directors and employees of its domestic and foreign subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 2,763,000. Options were granted with an exercise price of ¥1,669 per share that is equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options have an exercise period of 4 years and are exercisable from April 1, 2014.

Stock based compensation expense recognized was ¥581 million and ¥870 million for the nine months ended December 31, 2012 and 2013, and ¥290 million and ¥432 million for the three months ended December 31 2012 and 2013, which were included in selling, general and administrative expenses. The tax related benefit was ¥161 million and ¥225 million for the nine months ended December 31, 2012 and 2013, and ¥81 million and ¥112 million for the three months ended December 31, 2012 and 2013. As of March 31, 2013 and December 31, 2013, a valuation allowance was recorded against substantially all related deferred tax assets.

(11) Accrued Pension and Severance Costs

The components of net periodic benefit cost recognized were as follows:

	Yen (Millions)			
	Nine months ended December 31,			
	2012		2013	
	Japanese Plans	Non-Japanese Plans	Japanese Plans	Non-Japanese Plans
Service cost	¥ 1,113	291	1,301	381
Interest cost	517	253	424	329
Expected return on plan assets	(225)	(198)	(348)	(244)
Amortization of unrecognized:				
Net actuarial (gain) or loss	593	175	689	225
Prior service (benefit) cost	(126)	–	(126)	–
Net periodic benefit cost	¥ 1,872	521	1,940	691

	Yen (Millions)			
	Three months ended December 31,			
	2012		2013	
	Japanese Plans	Non-Japanese Plans	Japanese Plans	Non-Japanese Plans
Service cost	¥ 373	120	434	145
Interest cost	172	86	142	113
Expected return on plan assets	(75)	(67)	(116)	(84)
Amortization of unrecognized:				
Net actuarial (gain) or loss	198	59	229	78
Prior service (benefit) cost	(42)	–	(42)	–
Net periodic benefit cost	¥ 626	198	647	252

(12) Dividends

Based on the resolution for the payment of year-end dividends at the Board of Directors meeting held on May 30, 2012, Advantest declared cash dividends totaling ¥1,733 million, or ¥10 per share of common stock on June 4, 2012 to stockholders of record on March 31, 2012.

Based on the resolution for the payment of interim dividends at the Board of Directors meeting held on October 25, 2012, Advantest declared cash dividends totaling ¥1,735 million, or ¥10 per share of common stock on December 3, 2012 to stockholders of record on September 30, 2012.

Based on the resolution for the payment of year-end dividends at the Board of Directors meeting held on May 30, 2013, Advantest declared cash dividends totaling ¥1,738 million, or ¥10 per share of common stock on June 4, 2013 to stockholders of record on March 31, 2013.

Based on the resolution for the payment of interim dividends at the Board of Directors meeting held on October 29, 2013, Advantest declared cash dividends totaling ¥1,742 million, or ¥10 per share of common stock on December 2, 2013 to stockholders of record on September 30, 2013.

(13) Accrued Warranty Expenses

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

Changes in accrued warranty expenses for the nine months ended December 31, 2012 and 2013 were summarized as follows:

	Yen (Millions)	
	Nine months ended December 31,	
	2012	2013
Balance at beginning of period	¥ 2,129	1,889
Addition	2,268	1,917
Reduction	(2,491)	(2,186)
Translation adjustments	28	55
Balance at end of period	¥ 1,934	1,675

(14) Other income (expense)

Other income (expense) includes impairment losses on investment securities of ¥388 million for the nine months ended December 31, 2012, and foreign exchange losses of ¥449 million and ¥475 million for the nine months and the three months ended December 31, 2012, respectively.

Other income (expense) includes foreign exchange losses of ¥961 million and ¥1,046 million for the nine months and the three months ended December 31, 2013, respectively.

(15) Operating Segment Information

Advantest manufactures and sells semiconductor and component test system products and mechatronics-related products such as test handlers and device interfaces. Advantest also engages in research and development activities and provides maintenance and support services associated with these products. Advantest's organizational structure consists of three reportable operating segments, which are the design, manufacturing, and sale of semiconductor and component test systems, mechatronics systems and services, support and others. These reportable operating segments are determined based on the nature of the products and the markets. Segment information is prepared on the same basis that Advantest's management reviews financial information for operational decision making purposes.

Reportable operating segment information for the nine months and three months ended December 31, 2012 and 2013 was as follows:

	Yen (Millions)				
	Nine months ended December 31, 2012				
	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Total
Net sales to unaffiliated customers	¥ 72,505	10,122	14,559	–	97,186
Inter-segment sales	1,283	543	–	(1,826)	–
Net sales	73,788	10,665	14,559	(1,826)	97,186
Operating income (loss) before stock option compensation expense	9,027	(3,135)	488	(4,975)	1,405
Adjustment:					
Stock option compensation expense					581
Operating income (loss)					¥ 824

	Yen (Millions)				
	Nine months ended December 31, 2013				
	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Total
Net sales to unaffiliated customers	¥ 51,299	10,031	17,921	–	79,251
Inter-segment sales	161	8	–	(169)	–
Net sales	51,460	10,039	17,921	(169)	79,251
Operating income (loss) before stock option compensation expense	(26,960)	(4,530)	2,095	(4,139)	(33,534)
Adjustment:					
Stock option compensation expense					870
Operating income (loss)					¥(34,404)

	Yen (Millions)				
	Three months ended December 31, 2012				
	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Total
Net sales to unaffiliated customers	¥ 17,229	2,491	4,908	–	24,628
Inter-segment sales	121	–	–	(121)	–
Net sales	17,350	2,491	4,908	(121)	24,628
Operating income (loss) before stock option compensation expense	17	(1,179)	234	(1,327)	(2,255)
Adjustment:					
Stock option compensation expense					290
Operating income (loss)					¥ (2,545)

	Yen (Millions)				
	Three months ended December 31, 2013				
	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Total
Net sales to unaffiliated customers	¥ 10,086	3,244	6,283	–	19,613
Inter-segment sales	70	8	–	(78)	–
Net sales	10,156	3,252	6,283	(78)	19,613
Operating income (loss) before stock option compensation expense	(23,175)	(2,042)	923	(1,684)	(25,978)
Adjustment:					
Stock option compensation expense					432
Operating income (loss)					¥(26,410)

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

Advantest uses the operating income (loss) before stock option compensation expense for management's analysis of business segment results.

	Yen (Millions)				
	March 31, 2013				
	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Total
Total assets	¥ 99,168	18,242	36,065	72,040	225,515

	Yen (Millions)				
	December 31, 2013				
	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Total
Total assets	¥ 76,962	17,172	40,502	68,662	203,298

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.

(16) Per Share Data

The following table sets forth the computation of basic and diluted net income (loss) per share for the nine months and the three months ended December 31, 2012 and 2013:

	Yen (Millions) except share and per share data	
	Nine months ended December 31,	
	2012	2013
Numerator:		
Net income (loss)	¥ (1,917)	(34,148)
Denominator:		
Basic weighted average shares of common stock outstanding	173,382,196	174,113,609
Dilutive effect of exercise of stock options	–	–
Diluted weighted average shares of common stock outstanding	173,382,196	174,113,609
Basic net income (loss) per share	¥ (11.05)	(196.12)
Diluted net income (loss) per share	¥ (11.05)	(196.12)

	Yen (Millions) except share and per share data	
	Three months ended December 31,	
	2012	2013
Numerator:		
Net income (loss)	¥ (3,436)	(24,809)
Denominator:		
Basic weighted average shares of common stock outstanding	173,536,283	174,195,834
Dilutive effect of exercise of stock options	–	–
Diluted weighted average shares of common stock outstanding	173,536,283	174,195,834
Basic net income (loss) per share	¥ (19.80)	(142.42)
Diluted net income (loss) per share	¥ (19.80)	(142.42)

At December 31, 2012 and 2013, Advantest had outstanding stock options of 6,930,162 and 7,956,414 shares of common stock, respectively, which were anti-dilutive and excluded from the calculation of diluted net income per share but could potentially dilute net income per share in future periods.

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