

**FY2004 Interim Consolidated Financial Results**  
**(Prepared in accordance with U.S. GAAP)**  
(Six months ended September 30, 2004)

October 26, 2004

Company name : **Advantest Corporation**  
(URL <http://www.advantest.co.jp/investors/>)  
Stock exchanges on which shares are listed : Tokyo Stock Exchange  
Stock code number : 6857  
Location of head office : Tokyo Prefecture  
Company representative : Toshio Maruyama, Representative Board Director, President of  
Corporate Executive Officers and COO  
Contact person : Hiroshi Nakamura, Manager, Accounting Department  
(03) 3214-7500  
Date of board meeting approving the interim  
financial results : October 26, 2004  
Adoption of U.S. GAAP : Yes

**1. Consolidated Results of FY2004 Interim (April 1, 2004 through September 30, 2004)**

(1) Consolidated Financial Results

	Net sales		Operating income		Income before income taxes	
	Million yen	Increase(%)	Million yen		Million yen	
<b>FY2004 interim</b>	<b>146,589</b>	<b>135.3</b>	<b>45,420</b>	<b>10.2 times</b>	<b>46,844</b>	<b>12.6 times</b>
FY2003 interim	62,286	51.5	4,439	-	3,721	-
FY2003	174,218		30,960		28,878	

	Net income		Net income per share (basic)		Net income per share (diluted)	
	Million yen		yen		yen	
<b>FY2004 interim</b>	<b>28,573</b>	<b>11.7 times</b>	<b>290.68</b>		<b>290.07</b>	
FY2003 interim	2,453	-	24.96		24.94	
FY2003	17,329		176.37		176.02	

Note 1: Equity in losses of affiliates was nil in FY2004 interim, ¥117 million in FY2003 interim and ¥117 million in FY2003, respectively.

Note 2: Average number of shares outstanding on a consolidated basis was 98,295,932 shares during FY2004 interim, 98,245,709 shares during FY2003 interim and 98,250,830 shares during FY2003, respectively.

Note 3: No change in accounting practices was adopted during these periods.

Note 4: The percentage shown for net sales is the increase rate from the corresponding six month period of the previous fiscal year while the multiples shown for operating income, income before income taxes and net income are the changes in comparison to the corresponding six month period of the previous fiscal year.

(2) Consolidated Financial Position

	Total assets	Stockholders' equity	Equity-to-assets ratio	Stockholders' equity per share
	Million yen	Million yen	%	Yen
<b>FY2004 interim</b>	<b>349,951</b>	<b>249,928</b>	<b>71.4</b>	<b>2,542.41</b>
FY2003 interim	287,094	210,303	73.2	2,140.61
FY2003	330,808	221,768	67.0	2,256.59

Note: Outstanding number of shares on a consolidated basis at the end of each period was 98,303,393 in FY2004 interim, 98,244,608 in FY2003 interim and 98,275,640 shares in FY2003, respectively.

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
<b>FY2004 interim</b>	<b>44,545</b>	<b>(5,308)</b>	<b>(2,255)</b>	<b>139,911</b>
FY2003 interim	13,361	(2,263)	(2,627)	94,606
FY2003	28,215	(5,070)	(6,376)	101,146

- (4) Scope of Consolidation and Equity Method  
 Number of consolidated subsidiaries: 39 companies  
 Number of unconsolidated subsidiaries: none  
 Number of affiliates accounted for under the equity method: none

- (5) Changes in Scope of Consolidation and Equity Method  
 Consolidated subsidiaries  
     (Newly included)           1 company  
     (Excluded)                2 company  
 Affiliates accounted for under the equity method  
     (Newly included)         none  
     (Excluded)                none

**2. Projected Results for FY2004 (April 1, 2004 through March 31, 2005)**

	Net sales	Income before income taxes	Net income
	Million yen	Million yen	Million yen
<b>FY2004</b>	<b>250,000</b>	<b>71,000</b>	<b>43,000</b>

(Reference) Projected net income per share for the fiscal year: ¥437.42

Figures presented in this Earning Digest have been rounded to the nearest million yen.  
 For a discussion of the assumptions and other factors upon which these projections are based, please refer to “Prospects for the Fiscal Year” appearing elsewhere in the document.

**Cautionary Statement with Respect to Forward-Looking Statements**

This document contains “forward-looking statements” that are based on Advantest’s current expectations, estimates and projections. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause Advantest’s actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. These factors include: (i) changes in demand for the products and services produced and offered by Advantest’s customers, including semiconductors, communications services and electronic goods; (ii) circumstances relating to Advantest’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; (iii) significant changes in the competitive environment in the major markets where Advantest purchases materials, components and supplies for the production of its products or where its products are produced, distributed or sold; and (iv) changes in economic conditions, currency exchange rates or political stability in the major markets where Advantest procures materials, components and supplies for the production of its principal products or where its products are produced, distributed or sold. A discussion of these and other factors which may affect Advantest’s actual results, levels of activity, performance or achievements is contained in the “Operating and Financial Review and Prospects”, “Key Information — Risk Factors” and “Information on the Company” sections and elsewhere in Advantest’s annual report on Form 20-F, which is on file with the United States Securities and Exchange Commission.

## 1. Management Policy

### Advantest's Basic Management Policy

Advantest believes that its mission is to support leading-edge technology at its forefront. Its basic management policy consists of the following elements: increasing corporate value, improving shareholder and customer satisfaction and achieving excellence.

### Business Strategy

Advantest is focused on improving operating results through establishing an operating structure that responds timely to market changes, promoting early development of key future technologies and providing timely customer solutions under the concept of “GETsolution.”<sup>\*1</sup> To achieve these objectives, Advantest is driven to further strengthen its product development operations and improve production efficiency by selectively focusing on certain businesses, while strengthening its overseas operations in the U.S., Europe and Asia.

Further, Advantest seeks to achieve better transparency and strengthen its corporate branding by stressing the importance of corporate social responsibilities, enhancing its disclosure process and compliance system, and addressing environmental as well as human rights issues.

Since October 2001, Advantest has launched a company-wide initiative called “Initiative 21.” This initiative seeks to promote new ideas and improvement strategies at all levels of the company, from divisions ranging from sales, development and manufacturing to maintenance and administration, with an aim toward strengthening the company's competitiveness. Advantest expects to achieve further growth and fulfill its social mission by having each employee take the initiative to tackle new issues. This initiative will continue throughout FY2004, the year of Advantest's 50th anniversary.

- \*1 GETsolution (Globally Enabled Total solution) is Advantest's service business designed to provide a set of comprehensive solutions to deal with issues ranging from the design to the delivery of semiconductors.

### Target Financial Index

In addition to such indicators of performance as profit margin, ROE and cash flows, Advantest uses “AVA” (Advantest Value Added), a financial index incorporating the concept of EVA<sup>\*2</sup> (Economic Value Added), to measure its business performance. Advantest will continue to set the minimum return-on-investment ratio (“hurdle rate”) for evaluating AVA at 8% and a mid-term target at 12% with an aim to further increase corporate value and shareholder value.

- \*2 EVA<sup>®</sup> is a registered trademark of Stern Steward & Co.

### Basic Policy on Distribution of Profits

Advantest believes that shareholder value is premised on the realization of long-term and continued growth in corporate value.

In this regard, retained profits are invested in new businesses, research and development, streamlining efforts and overseas expansion to enable the strengthening of Advantest's business position and creation of corporate value.

With respect to the direct distribution of profits, Advantest has adopted a policy of maintaining consistent dividend payouts subject to its financial condition.

### Advantest's Views and Policies on Lowering its Investment Unit

As part of its capital policy, Advantest has long recognized the importance of increasing the market liquidity of its shares, promoting long-term and stable holding of its shares among investors

and expanding its investor base. Back in August 1995, the company reduced the minimum investment unit for its shares from 1000 to 100 shares.

As Advantest currently considers the liquidity level of its shares to be sufficient and expects any further reduction of investment unit to require significant costs, it is cautious about implementing any further reductions and will do so only after careful consideration of prevailing market conditions, business performance, share prices and other factors.

#### Advantest's Basic View on Corporate Governance; State of Implementation of Corporate Governance

##### (Advantest's Basic View on Corporate Governance)

Advantest intends to strengthen its global competitiveness by enhancing transparency of management to all stakeholders such as investors (shareholders) and customers.

##### (State of Implementation of Corporate Governance)

##### (1) Description of Company Organization

In order to ensure timely response to rapid changes in the business environment and to strengthen corporate governance, Advantest introduced the Executive Officer system in June 2003, and bifurcated the decision-making function and the operations execution function.

The Board of Directors is the ultimate decision-making organ in charge of formulating business policies and strategies, as well as monitoring and supervising the company's operations. The Executive Officers, on the other hand, are delegated significant authority for executing operations speedily and efficiently. In an effort to strengthen the company's management structure and corporate governance, it was decided at the general shareholders' meeting held in June 2004, that the number of directors on the Board of Directors be increased from seven to eight.

Advantest adopts a Board of Corporate Auditors system and the Board of Corporate Auditors consists of four auditors, two of whom are outside corporate auditors. Each auditor audits the Board of Directors' performance by attending important meetings including the Board of Directors meetings and reviewing the company's operations and assets based on auditing policies and plans formulated by the Board of Corporate Auditors.

##### (2) Internal Control System and Risk Management Structure

Advantest seeks to promote its corporate activities in accordance with higher standards of ethics, good faith and social responsibility. Advantest's "Code of Business Conduct" was established in order to fully delineate the company philosophy. In June 2004, Advantest's "Code of Ethics for Directors and Executive Officers" was effectuated to set forth the directors' and executive officers' responsibility to act ethically and in good faith.

In addition, Advantest established the Corporate Social Responsibility Committee ("CSR Committee") to comprehensively monitor and supervise the company's activities from the view of corporate social responsibility. The CSR Committee oversees the Disclosure Committee, the Internal Control Committee, the Committee on Environmental Conservation, the Information Security Committee, the Human Rights Protection Committee and the Personnel Mediation Committee. The Internal Control Committee established in January 2004, in particular, is working to establish a structure to assess and monitor internal controls in an effort to achieve the three objectives for internal controls: "management effectiveness and efficiency," "reliability of financial reporting," and "legal and regulatory compliance." Auditing Group, an internal organ of the internal auditing function, monitors internal controls and operations on a daily basis, identifies issues and makes recommendations as part of the business audit. In July 2004, Advantest set forth the "Third Advantest Group Environmental Action Program" in accordance with its environmental vision of "balancing corporate management and environmental preservation and fulfilling sustainable growth and social responsibilities as a company" as a mid-term plan for fiscal years 2004 through 2006.

## 2. Business Results and Financial Condition

### (1) Business Results

#### Interim Fiscal Period Results

During this interim fiscal period, business conditions affecting the company have generally continued to be strong due to a continuing appetite for capital expenditure in the semiconductor manufacturing industry, as stimulated by the strong performance of digital consumer products including flat-screen televisions and DVD recorders, and continued demands for personal computers.

Under this environment, Advantest made concentrated efforts to increase incoming orders and expand sales through the timely introduction of new products that attempted to meet customer needs. In addition to its continued efforts to reduce fixed costs, Advantest and its group companies combined forces in a drive towards attaining profitability, including the shortening of time to market by improving the manufacturing process, parts procurement and manufacturing efficiencies.

As a result of the above, as compared to the corresponding interim period for the previous fiscal year, incoming orders increased by 56.0% to ¥125.2 billion and net sales increased by 135.3% to ¥146.5 billion. Net income before income taxes increased by 12.6 times to ¥46.8 billion and interim net income increased by 11.7 times to ¥28.5 billion. Overseas sales as a percentage of total sales was 74.3%, as compared to 60.2% in the corresponding interim period for the previous fiscal year.

#### <Results by Business Segment>

In conjunction with its business and organizational restructuring, since this fiscal period, Advantest reclassified its two previous automated test equipment and measuring instruments business segments into three business segments: semi-conductor and component test system; mechatronics system; and services, support and others. The comparison figures against the previous interim period have been calculated by reclassifying the figures from the previous interim period into the three new business segments.

#### (Semi-conductor and Component Test System Segment)

In the semi-conductor and component test system segment, flash memory testers in the memory tester market continued to perform strongly both domestically and overseas. In addition, DRAM testers experienced solid sales in Japan and overseas, particularly with respect to new models such as the ultra high-speed memory tester for next generation DDR memory and the general purpose high-speed memory tester.

In the SoC (System-on-a-chip)/AS (Application Specific) tester market, strong sales of the T2000 testers based on OPENSTAR<sup>®</sup> continued. In addition, SoC testers for mobile phones and digital consumer devices and testers for LCD driver ICs continued to perform strongly particularly in Japan and Taiwan. In addition, new products aimed at the CCD market and on-board device markets enjoyed strong sales.

As a result of the above, as compared to the corresponding interim period for the previous fiscal year, incoming orders in the semi-conductor and component test system segment increased by 70.7% to ¥96.1billion, while net sales of the segment increased by 176.3% to ¥113.1billion. Operating income in the semi-conductor and component test system segment increased by 10.5 times to ¥37.7 billion, as compared with the corresponding interim period for the previous fiscal year.

#### (Mechatronics System Segment)

In the mechatronics system segment, test handlers with simultaneous multiple handling capacity and cooling capabilities as well as device interface products continued to perform well due to the positive growth in sales of memory testers.

As a result of the above, incoming orders in the mechatronics system segment, as compared with the corresponding period for the previous fiscal year, increased by 51.8% to ¥24.6 billion, while net sales of the segment increased by 111.9% to ¥28.1billion. Operating income in the mechatronics

system segment increased by 211.6% to ¥9.9 billion, as compared with the corresponding period for the previous fiscal year.

(Services, Support and Others Segment)

Incoming orders in the services, support and others segment, as compared with the corresponding period for the previous fiscal year, increased by 3.6% to ¥10.0 billion, while net sales of the segment increased by 9.3% to ¥10.8 billion. Operating income in the services, support and others segment increased by 33.0% to ¥0.7 billion, as compared with the corresponding period for the previous fiscal year.

- \*3 OPENSTAR<sup>®</sup> – The name of an open architecture standard published by the Semiconductor Test Consortium, Inc. OPENSTAR<sup>®</sup> is a registered trademark or trademark of Semiconductor Test Consortium, Inc. in the U.S., Japan and other countries.

<Distribution of Profits>

Advantest believes that it has achieved its goals for the current interim period as presented above. Although business conditions remain uncertain, based on the profit distribution policy described above, Advantest expects to distribute an interim dividend of ¥25 per share as originally forecasted.

Prospects for the Fiscal Year

With respect to business conditions in the upcoming future, semiconductor-related demands are expected to continue growth resulting from the continued success of third generation mobile phones and continued demand for personal computers and an expected increase in demand for digital consumer devices in the medium term. In addition, capital investment among semiconductor manufacturers are expected to increase as 300 mm wafer-related investments are expected and the next generation of memory devices are rolled out.

Responding to the above situation, Advantest plans to focus on improvement of profitability through revenue growth generated by timely introduction of new products designed to meet customer satisfaction, continued renovation of the manufacturing process for quick delivery and cost-cutting efforts.

While factors such as the temporary production and inventory adjustments of drivers of the digital sector such as semiconductors and electronic components and the increase in crude oil prices may have dampening effects on Advantest's performance in the short run, Advantest's current estimates for the full year are as follows:

(Consolidated)

	Net Sales	Income before income taxes	Net Income
Previous forecast (A) (as of July 28, 2004)	250,000	70,000	43,000
Revised forecast (B)	250,000	71,000	43,000
Increase / decrease (B-A)	0	1,000	0

(million yen)

<Profit Distribution Forecast>

Based on the business prospects and profit distribution policy described above, Advantest expects to pay yearend dividends of ¥25 per share (or ¥50 per share for the fiscal year including an interim dividend of ¥25 per share) as originally forecasted.

(2) Financial Condition

Cash and cash equivalents held at September 30, 2004 were ¥139.9 billion, an increase of ¥38.7billion from March 31, 2004. Significant cash flows during this interim fiscal period and their causes are described below.

Net cash provided by operating activities was an inflow of ¥44.5 billion. This amount was primarily attributable to net income of ¥28.5 billion and a ¥17.1 billion decrease in inventories.

Net cash used in investment activities was an outflow of ¥5.3 billion. This amount was primarily attributable to capital expenditures of ¥5.0 billion, including capital expenditures related to equipment for leasing.

Net cash used in financing activities was an outflow of ¥2.2 billion. This amount was primarily attributable to the payment of dividends (¥2.4 billion).

**Interim Consolidated Financial Statements, etc.**

## Interim Consolidated Balance Sheets

	Notes	FY2003 interim (As of September 30, 2003)		FY2004 interim (As of September 30, 2004)		Summarized balance sheet of FY2003 (As of March 31, 2004)	
		Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)
(Assets)							
Cash and cash equivalents		94,606		139,911		101,146	
Trade accounts receivable, less allowance for doubtful accounts	*1	44,089		86,222		76,133	
Inventories		34,346		32,687		49,423	
Deferred tax assets		13,556		12,411		25,875	
Other current assets		2,251		2,504		3,185	
Total current assets		188,848	65.8	273,735	78.2	255,762	77.3
Investment securities	Note 4	7,480	2.6	6,882	2.0	7,952	2.4
Property, plant and equipment, net	*2 *3	53,688	18.7	51,938	14.8	50,516	15.3
Deferred tax assets		29,647	10.3	11,781	3.4	10,964	3.3
Intangible assets, at cost, less accumulated amortization		5,196	1.8	3,334	1.0	3,756	1.1
Other assets		2,235	0.8	2,281	0.6	1,858	0.6
Total assets		287,094	100.0	349,951	100.0	330,808	100.0

	Notes	FY2003 interim (As of September 30, 2003)		FY2004 interim (As of September 30, 2004)		Summarized balance sheet of FY2003 (As of March 31, 2004)	
		Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)
(Liabilities)							
Current installments of long-term debt	*3	2,243		4,543		4,543	
Trade accounts payable		16,496		24,985		38,214	
Income taxes payable		1,963		5,025		3,845	
Accrued expenses		5,909		8,809		8,939	
Accrued warranty expenses		2,367		4,746		3,121	
Deferred revenue		1,740		4,252		4,543	
Other current liabilities		2,415		5,109		3,406	
Total current liabilities		33,133	11.6	57,469	16.4	66,611	20.1
Long-term debt, excluding current installments	*3	24,604	8.6	20,062	5.7	20,083	6.1
Accrued pension and severance cost		15,172	5.3	18,866	5.4	18,348	5.6
Other liabilities		3,569	1.2	3,512	1.1	3,411	1.0
Total liabilities		76,478	26.7	99,909	28.6	108,453	32.8
(Minority interests)							
Minority interests		313	0.1	114	0.0	587	0.2
(Stockholders' equity)							
Common stock		32,363	11.3	32,363	9.3	32,363	9.8
Capital surplus		32,973	11.5	32,973	9.4	32,973	10.0
Retained earnings		164,017	57.1	203,420	58.1	177,404	53.5
Accumulated other comprehensive income (loss)	*4	(5,873)	(2.1)	(6,157)	(1.8)	(8,061)	(2.4)
Treasury stock		(13,177)	(4.6)	(12,671)	(3.6)	(12,911)	(3.9)
Total stockholders' equity		210,303	73.2	249,928	71.4	221,768	67.0
Total liabilities and stockholders' equity		287,094	100.0	349,951	100.0	330,808	100.0

(Notes)

	FY2003 interim (As of September 30, 2003)	FY2004 interim (As of September 30, 2004)	FY2003 (As of March 31, 2004)
	Amount (in million yen)	Amount (in million yen)	Amount (in million yen)
*1. Allowance for doubtful accounts	2,214	2,472	2,464
*2. Accumulated depreciation on property, plant and equipment	69,182	66,602	64,533
*3. Collateralized assets and secured obligations			
Property, plant and equipment	409	398	403
Obligations secured by the above	46	31	38
*4. Accumulated other comprehensive income (loss)			
Foreign currency translation adjustments	(6,488)	(5,720)	(8,087)
Net unrealized gains on available-for-sale securities	615	746	1,422
Minimum pension liability adjustment	-	(1,183)	(1,396)
5. Net assets per share (in yen)	2,140.61	2,542.41	2,256.59

## Interim Consolidated Statements of Income

	Notes	FY2003 interim (April 1, 2003 through September 30, 2003)		FY2004 interim (April 1, 2004 through September 30, 2004)		Summarized statement of income of FY2003 (April 1, 2003 through March 31, 2004)	
		Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)
Net sales		62,286	100.0	146,589	100.0	174,218	100.0
Cost of sales		31,801	51.1	68,238	46.6	85,513	49.1
Gross profit		30,485	48.9	78,351	53.4	88,705	50.9
Research and development expenses		10,749	17.3	12,087	8.2	21,637	12.4
Selling, general and administrative expenses		15,297	24.5	20,844	14.2	36,108	20.7
Operating income		4,439	7.1	45,420	31.0	30,960	17.8
Other income (expense):							
Interest and dividends income		163		212		339	
Interest expense		(248)		(225)		(469)	
Minority interests		(5)		(85)		(214)	
Equity in losses of affiliates		(117)		-		(117)	
Other		(511)	(718)	1,522	1,424	(1,621)	(2,082)
Income before income taxes			6.0		32.0		16.6
Income Taxes			2.1		12.5		6.6
Net income			3.9		19.5		10.0

	Notes	FY2003 interim (April 1, 2003 through September 30, 2003)	FY2004 interim (April 1, 2004 through September 30, 2004)	FY2003 (April 1, 2003 through March 31, 2004)
		Amount (in yen)	Amount (in yen)	Amount (in yen)
Net income per share				
Basic		24.96	290.68	176.37
Diluted		24.94	290.07	176.02

## Interim Consolidated Statements of Stockholders' Equity

		FY2003 interim (April 1, 2003 through September 30, 2003)	FY2004 interim (April 1, 2004 through September 30, 2004)	Statement of stockholders' equity of FY2003 (April 1, 2003 through March 31, 2004)
	Notes	Amount (in million yen)	Amount (in million yen)	Amount (in million yen)
Common stock :				
Balance at beginning of period		32,363	32,363	32,363
Balance at end of period		32,363	32,363	32,363
Capital surplus :				
Balance at beginning of period		32,973	32,973	32,973
Balance at end of period		32,973	32,973	32,973
Retained earnings :				
Balance at beginning of period		162,547	177,404	162,547
Net income		2,453	28,573	17,329
Cash dividends		(983)	(2,458)	(2,456)
Loss on disposal of treasury stock		-	(99)	(16)
Balance at end of period		164,017	203,420	177,404
Accumulated other comprehensive income (loss) :				
Balance at beginning of period		(4,055)	(8,061)	(4,055)
Other comprehensive income (loss), net of tax		(1,818)	1,904	(4,006)
Balance at end of period		(5,873)	(6,157)	(8,061)
Treasury stock :				
Balance at beginning of period		(13,165)	(12,911)	(13,165)
Treasury stock purchased		(12)	(11)	(32)
Exercise of stock options		-	249	180
Decrease in treasury stock upon Share exchange		-	-	105
Treasury stock sold		-	2	1
Balance at end of period		(13,177)	(12,671)	(12,911)
Total stockholders' equity		210,303	249,928	221,768
Disclosure of comprehensive income:				
Net income		2,453	28,573	17,329
Other comprehensive income (loss), net of tax		(1,818)	1,904	(4,006)
Total comprehensive income		635	30,477	13,323

## Interim Consolidated Statements of Cash Flows

	FY2003 interim (April 1, 2003 through September 30, 2003)	FY2004 interim (April 1, 2004 through September 30, 2004)	Summarized statement of cash flows of FY2003 (April 1, 2003 through March 31, 2004)
	Amount (in million yen)	Amount (in million yen)	Amount (in million yen)
<b>I Cash flows from operating activities:</b>			
Net income	2,453	28,573	17,329
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,857	4,035	9,328
Deferred income taxes	(231)	13,081	6,703
Impairment loss on long-lived assets	-	-	3,030
Decrease (increase) in trade accounts receivable	(1,535)	(8,544)	(35,285)
Decrease (increase) in inventories	1,028	17,171	(14,570)
Increase (decrease) in trade accounts payable	6,105	(14,455)	29,190
Increase (decrease) in income taxes payable	12	1,074	1,997
Increase (decrease) in accrued expenses	(659)	(196)	2,518
Increase (decrease) in accrued warranty expenses	(45)	1,625	709
Increase (decrease) in deferred revenue	444	(514)	3,441
Increase (decrease) in accrued pension and severance cost	860	876	2,639
Other	72	1,819	1,186
Net cash provided by operating activities	13,361	44,545	28,215

	FY2003 interim (April 1, 2003 through September 30, 2003)	FY2004 interim (April 1, 2004 through September 30, 2004)	Summarized statement of cash flows of FY2003 (April 1, 2003 through March 31, 2004)
	Amount (in million yen)	Amount (in million yen)	Amount (in million yen)
II Cash flows from investing activities:			
Proceeds from sale of available-for-sale marketable securities	236	634	323
Proceeds from sale of non-marketable securities	301	45	387
Purchases of non-marketable securities	(1,000)	-	(1,288)
Proceeds from sale of property, plant and equipment	277	31	435
Purchases of intangible assets	(135)	(204)	(358)
Purchases of property, plant and equipment	(2,127)	(4,818)	(5,068)
Other	185	(996)	499
Net cash used in investing activities	(2,263)	(5,308)	(5,070)
III Cash flows from financing activities:			
Principal payments on long-term debt	(1,590)	(21)	(3,811)
Payments to acquire treasury stock	(12)	(7)	(31)
Dividends paid	(981)	(2,453)	(2,462)
Other	(44)	226	(72)
Net cash used in financing activities	(2,627)	(2,255)	(6,376)
IV Net effect of exchange rate changes on cash and cash equivalents	(1,203)	1,783	(2,961)
V Net change in cash and cash equivalents	7,268	38,765	13,808
VI Cash and cash equivalents at beginning of period	87,338	101,146	87,338
VII Cash and cash equivalents at end of period	94,606	139,911	101,146

## Notes to the Interim Consolidated Financial Statements

### (Note 1) Accounting Principles, Procedures and the Presentation of the Interim Consolidated Financial Statements

#### (a) Terminology, Form and Method of Preparation of the Interim Consolidated Financial Statements

Advantest prepares these interim consolidated financial statements in accordance with the accounting principles, procedures, terminology, form and mode of preparation required in the U.S. in connection with its issuance of American Depository Shares as established under Accounting Research Bulletins (“ARB”), Accounting Principles Board (“APB”) statements, Statements of Financial Accounting Standards (“SFAS”) and other relevant sources.

#### (b) The Preparation of Consolidated Financial Statements and Registration with the U.S. Securities and Exchange Commission

Advantest Corporation began listing on the New York Stock Exchange on September 17, 2001 (local time) by means of an issuance of American Depository Shares, and is registered with the U.S. Securities and Exchange Commission on Form 20-F (equivalent to the Annual Securities Report in Japan) since FY2001. In connection with the registration on Form 20-F, Advantest prepares consolidated financial statements in accordance with U.S. GAAP.

#### (c) Scope of Consolidation and Application of the Equity Method

Advantest’s interim consolidated financial statements include financial statements of Advantest Corporation and its majority-owned subsidiaries. All significant transactions, credit and debt between consolidated companies have been eliminated.

The following table sets forth the number of consolidated subsidiaries and equity method affiliates of Advantest:

		FY2004 interim (As of September 30, 2004)	FY2003 (As of March 31, 2004)	Increase (decrease)
	Domestic	22	23	(1)
	Overseas	17	17	0
	Consolidated subsidiaries	39	40	(1)
	Equity method affiliates	0	0	0
	Total	39	40	(1)

#### Changes in the scope of consolidation:

Newly included (1):	Advantest Costa Rica, Sociedad Anonima *1
Excluded (2):	Advanmicrotec Co., Ltd. *2
	Advantest America Measuring Solutions, Inc. *3

\*1 Advantest Costa Rica, Sociedad Anonima was established on September 30, 2004 as an engineering service company of Advantest’s products.

\*2 Advanmicrotec Co., Ltd. was merged into Advantest Manufacturing, Inc. on April 1, 2004 to consolidate Advantest’s manufacturing operations.

\*3 Advantest America Measuring Solutions, Inc. was merged into Advantest America, Inc. on September 30, 2004 with a view to streamline management.

(Note 2) Summary of Significant Accounting Policies and Practices

There was no change in accounting practices.

Advantest and certain of its consolidated domestic subsidiaries received approval from the Minister of Health and Labor to be exempted from obligation for benefits related to future employee service on August 1, 2003 and received approval to be exempted from obligation for benefits related to prior employee service on October 1, 2004 under the substitutional portion of its Employees' Pension Fund plans as part of the transfer of its Employees' Pension Fund plans to the Japanese government pursuant to the Defined Benefit Corporate Pension Law. Advantest and certain of its consolidated domestic subsidiaries expect to recognize, upon completion of the transfer to the government of the substitutional portion, any loss or gains resulting therefrom in accordance with EITF Issue No. 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities." Accordingly, there has been no effect on Advantest's interim consolidated financial statements for the 6 month period ended September 30, 2004.

(Note 3) Reclassifications

Certain reclassifications have been made to the consolidated financial statements for FY2003 interim and FY2003 to conform to presentation used for FY2004 interim.

(Note 4) Investment Securities

Marketable securities consist of equity securities. The aggregate fair value of available-for-sale marketable equity securities were ¥2,938 million, ¥4,287 million and ¥4,311 million, gross unrealized holding gains were ¥1,099 million, ¥1,440 million and ¥2,093 million, gross unrealized holding losses were ¥7 million, ¥319 million and ¥1 million, and the aggregate cost were ¥1,846 million, ¥3,177 million and ¥2,238 million each as of September 30, 2003 and September 30, 2004 and March 31, 2004, respectively.

Gross realized gains on available-for-sale marketable equity securities were ¥174 million, ¥629 million and ¥178 million in FY2003 interim, FY2004 interim and FY2003, respectively. Gross realized loss was ¥2 million in FY2003. Gross realized gains and losses are included in "other income (expense)" in the interim consolidated statement of income and the consolidated statement of income, and "other" in net cash provided by operating activities in the interim consolidated statements of cash flows and the consolidated statements of cash flows.

Advantest holds other long-term investment securities in nonpublic companies, which are stated at cost and included in "investment securities", and are reviewed periodically for impairment.

(Note 5) Basic and diluted net income per share

Basic and diluted net income per share was computed as follows:

	<u>FY2003 interim</u>
Numerator:	
Net income	<u>2,453</u> million
Denominator:	
Basic weighted average shares	98,245,709 shares
Dilutive effect of exercise of stock option and warrants	<u>101,630</u> shares
Diluted weighted average shares	<u>98,347,339</u> shares
	<u>FY2004 interim</u>
Numerator:	
Net income	<u>28,573</u> million
Denominator:	
Basic weighted average shares	98,295,932 shares
Dilutive effect of exercise of stock option and warrants	<u>206,598</u> shares
Diluted weighted average shares	<u>98,502,530</u> shares
	<u>FY2003</u>
Numerator:	
Net income	<u>17,329</u> million
Denominator:	
Basic weighted average shares	98,250,830 shares
Dilutive effect of exercise of stock option and warrants	<u>195,306</u> shares
Diluted weighted average shares	<u>98,446,136</u> shares

At September 30, 2003, September 30, 2004 and March 31, 2004, Advantest had outstanding stock options and warrants exercisable into 1,133,800 shares, 1,799,500 shares and 329,500 shares of common stock, respectively, which could potentially dilute net income per share in future periods.

## 1. Business Segment Information

		FY2003 interim (April 1, 2003 through September 30, 2003)		FY2004 interim (April 1, 2004 through September 30, 2004)		FY2003 (April 1, 2003 through March 31, 2004)	
		Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)
Semiconductor and component test system	Sales to unaffiliated customers	39,272	95.9	107,920	95.4	119,765	97.0
	Intersegment sales	1,689	4.1	5,252	4.6	3,724	3.0
	Net sales	40,961	100.0	113,172	100.0	123,489	100.0
	Operating expenses	37,360	91.2	75,382	66.6	94,799	76.8
	Operating income (loss)	3,601	8.8	37,790	33.4	28,690	23.2
Mechatronics system	Sales to unaffiliated customers	13,065	98.5	27,794	98.9	33,988	99.3
	Intersegment sales	196	1.5	306	1.1	237	0.7
	Net sales	13,261	100.0	28,100	100.0	34,225	100.0
	Operating expenses	10,067	75.9	18,150	64.6	22,992	67.2
	Operating income (loss)	3,194	24.1	9,950	35.4	11,233	32.8
Services, support and others	Sales to unaffiliated customers	9,949	100.0	10,875	100.0	20,465	100.0
	Intersegment sales	-	-	-	-	-	-
	Net sales	9,949	100.0	10,875	100.0	20,465	100.0
	Operating expenses	9,374	94.2	10,110	93.0	23,052	112.6
	Operating income (loss)	575	5.8	765	7.0	(2,587)	(12.6)
Elimination and corporate	Sales to unaffiliated customers	-	-	-	-	-	-
	Intersegment sales	(1,885)	100.0	(5,558)	100.0	(3,961)	100.0
	Net sales	(1,885)	100.0	(5,558)	100.0	(3,961)	100.0
	Operating expenses	1,046	-	(2,473)	-	2,415	-
	Operating income (loss)	(2,931)	-	(3,085)	-	(6,376)	-
Consolidated	Sales to unaffiliated customers	62,286	100.0	146,589	100.0	174,218	100.0
	Intersegment sales	-	-	-	-	-	-
	Net sales	62,286	100.0	146,589	100.0	174,218	100.0
	Operating expenses	57,847	92.9	101,169	69.0	143,258	82.2
	Operating income (loss)	4,439	7.1	45,420	31.0	30,960	17.8

(Notes) 1. Advantest regrouped its two business segments – “Automated Test Equipment” and “Measuring Instruments” – into three business segments – “Semiconductor and Component Test System”, “Mechatronics System” and “Services, Support and Others”. Certain reclassifications have been made to the business segment information for FY2003 interim and FY2003 to conform presentation used for FY2004 interim.

2. 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.

## 2. Geographic Segment Information (Based on Location of Customers)

		FY2003 interim (April 1, 2003 through September 30, 2003)		FY2004 interim (April 1, 2004 through September 30, 2004)		FY2003 (April 1, 2003 through March 31, 2004)	
		Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)
	Americas	3,879	6.2	13,494	9.2	16,264	9.3
	Europe	4,514	7.2	7,557	5.2	10,401	6.0
	Asia	29,074	46.8	87,869	59.9	89,563	51.4
	Overseas total	37,467	60.2	108,920	74.3	116,228	66.7
	Japan	24,819	39.8	37,669	25.7	57,990	33.3
Consolidated		62,286	100.0	146,589	100.0	174,218	100.0

**Supplemental Information to the FY2004 Interim Earnings Digest**

\*All consolidated figures were prepared in accordance with U.S. GAAP.

## 1. Summary of FY2004 Interim Results (April 1, 2004 through September 30, 2004)

(Consolidated)	(In billion yen; truncated after the hundred million)			
	FY2003 interim	FY2004 interim	Percentage change (%)	FY2003
Net sales	62.2	146.5	135.3	174.2
Operating income	4.4	45.4	923.2	30.9
Income before income taxes	3.7	46.8	—	28.8
Net income	2.4	28.5	—	17.3
Total assets	287.0	349.9	21.9	330.8
Stockholders' equity	210.3	249.9	18.8	221.7
Net income per share (basic) (in yen)	24.96	290.68	—	176.37
Net income per share (diluted) (in yen)	24.94	290.07	—	176.02
Stockholders' equity per share (in yen)	2,140.61	2,542.41	18.8	2,256.59
Net interest payment	(0.0)	(0.0)	—	(0.1)
ROE(%)	—	—	—	8.0

(Unconsolidated) (Japanese GAAP)	(In billion yen; truncated after the hundred million)			
	FY2003 interim	FY2004 interim	Percentage change (%)	FY2003
Net sales	50.8	121.0	138.1	150.5
Operating income	1.5	28.3	—	23.7
Ordinary income	2.4	30.1	—	24.0
Net income	1.8	18.6	926.7	11.9
Total assets	241.1	286.7	18.9	277.0
Stockholders' equity	179.5	204.7	14.0	188.8
Net income per share (in yen)	18.52	190.09	926.4	119.97
Stockholders' equity per share (in yen)	1,827.98	2,082.83	13.9	1,920.33
Dividends per share (in yen)	15.00	25.00	66.7	40.00

 2. Consolidated Net Sales by Business and Geographic Segment (In billion yen; truncated after the hundred million)

By Business Segment		FY2003 interim	FY2004 interim	Percentage change (%)	FY2003
	Semiconductor and component test system	40.9	113.1	176.3	123.4
	Mechatronics system	13.2	28.1	111.9	34.2
	Services, support and others	9.9	10.8	9.3	20.4
	Elimination of intersegment sales	(1.8)	(5.5)	—	(3.9)
	<b>Total net sales</b>	<b>62.2</b>	<b>146.5</b>	<b>135.3</b>	<b>174.2</b>

  

By Geographic Segment		FY2003 interim	FY2004 interim	Percentage change (%)	FY2003
	Japan	24.8	37.6	51.8	57.9
	Americas	3.8	13.4	247.9	16.2
	Europe	4.5	7.5	67.4	10.4
	Asia	29.0	87.8	202.2	89.5
	<b>Total overseas</b>	<b>37.4</b>	<b>108.9</b>	<b>190.7</b>	<b>116.2</b>

## 3. Consolidated Volume of Order and Orders backlog by Business Segment (In billion yen; truncated after the hundred million)

Volume of order	FY2003 interim	FY2004 interim	Percentage change (%)	FY2003
Semiconductor and component test system	56.3	96.1	70.7	154.0
Mechatronics system	16.2	24.6	51.8	39.4
Services, support and others	9.6	10.0	3.6	20.1
Elimination of intersegment sales	(1.9)	(5.5)	—	(4.6)
Total volume of orders	80.2	125.2	56.0	208.9

Orders backlog	FY2003 interim	FY2004 interim	Percentage change (%)	FY2003
Semiconductor and component test system	26.4	24.6	(6.9)	41.6
Mechatronics system	6.9	5.7	(17.2)	9.2
Services, support and others	1.4	0.5	(61.4)	1.4
Elimination of intersegment sales	(0.1)	(0.8)	—	(0.7)
Total orders backlog	34.7	30.1	(13.2)	51.4

(Note) The amount of incoming orders for any given period consists of the sum of the revenues for such period and the amount of backlog at the end of such period less the backlog at the end of the previous fiscal year. Incoming orders are recorded as such once a written customer order is received.

## 4. Consolidated Cash Flows (In billion yen; truncated after the hundred million)

	FY2003 interim	FY2004 interim	Percentage change (%)	FY2003
Operating activities	13.3	44.5	233.4	28.2
Investing activities	(2.2)	(5.3)	—	(5.0)
(Free cash flows)	11.0	39.2	253.6	23.1
Financing activities	(2.6)	(2.2)	—	(6.3)
Total cash flows	8.4	36.9	336.6	16.7
Cash and cash equivalents at end of period	94.6	139.9	47.9	101.1

## 5. Consolidated Outstanding Interest-bearing liabilities (In billion yen; truncated after the hundred million)

	FY2003 interim	FY2004 interim	Percentage change (%)	FY2003
Bonds and warrant bonds	26.7	24.5	(8.2)	24.5
Loans and lease obligations	0.2	0.1	(38.3)	0.1
Total interest-bearing liabilities	26.9	24.6	(8.5)	24.6

## 6. Consolidated Capital Expenditure, Depreciation and Amortization and Research and Development Expenses

(In billion yen; truncated after the hundred million)

	FY2003 interim	FY2004 interim	Percentage change (%)	FY2003
Capital expenditures	2.1	5.1	138.0	5.6
Depreciation and amortization	4.8	4.0	(16.9)	9.3
Research and development expenses	10.7	12.0	12.5	21.6

## 7. Number of Employees (Advantest Corporation and Consolidated Subsidiaries) (Persons)

	FY2003 interim	FY2004 interim	Percentage change (%)	FY2003
Unconsolidated	1,446	1,450	0.3	1,450
Domestic affiliates	1,401	1,355	(3.3)	1,370
Overseas affiliates	732	770	5.2	724
Affiliates total	2,133	2,125	(0.4)	2,094
Consolidated full-time employee total	3,579	3,575	(0.1)	3,544

## 8. Supplemental Segment Information

## Geographic Segment Information (Based on Location of Advantest and its Affiliates)

(Rounded to the nearest million yen)

		FY2003 interim		FY2004 interim		FY2003	
		(April 1, 2003 through September 30, 2003)	Percentage (%)	(April 1, 2004 through September 30, 2004)	Percentage (%)	(April 1, 2003 through March 31, 2004)	Percentage (%)
Japan	Sales to unaffiliated customers	36,269	-	60,205	-	91,860	-
	Intersegment sales	18,682	-	64,367	-	68,143	-
	Net sales	54,951	100.0	124,572	100.0	160,003	100.0
	Operating expenses	50,005	91.0	89,910	72.2	128,421	80.3
	Operating income	4,946	9.0	34,662	27.8	31,582	19.7
Americas	Sales to unaffiliated customers	10,140	-	38,685	-	29,641	-
	Intersegment sales	1,120	-	1,224	-	2,134	-
	Net sales	11,260	100.0	39,909	100.0	31,775	100.0
	Operating expenses	10,988	97.6	34,380	86.1	29,593	93.1
	Operating income	272	2.4	5,529	13.9	2,182	6.9
Europe	Sales to unaffiliated customers	5,855	-	8,754	-	15,322	-
	Intersegment sales	301	-	449	-	728	-
	Net sales	6,156	100.0	9,203	100.0	16,050	100.0
	Operating expenses	5,259	85.4	7,634	83.0	13,945	86.9
	Operating income	897	14.6	1,569	17.0	2,105	13.1
Asia	Sales to unaffiliated customers	10,022	-	38,945	-	37,395	-
	Intersegment sales	1,808	-	3,843	-	4,051	-
	Net sales	11,830	100.0	42,788	100.0	41,446	100.0
	Operating expenses	10,960	92.6	36,934	86.3	36,443	87.9
	Operating income	870	7.4	5,854	13.7	5,003	12.1
Elimination and corporate	Sales to unaffiliated customers	-	-	-	-	-	-
	Intersegment sales	(21,911)	-	(69,883)	-	(75,056)	-
	Net sales	(21,911)	-	(69,883)	-	(75,056)	-
	Operating expenses	(19,365)	-	(67,689)	-	(65,144)	-
	Operating income (loss)	(2,546)	-	(2,194)	-	(9,912)	-
Consolidated	Sales to unaffiliated customers	62,286	-	146,589	-	174,218	-
	Intersegment sales	-	-	-	-	-	-
	Net sales	62,286	100.0	146,589	100.0	174,218	100.0
	Operating expenses	57,847	92.9	101,169	69.0	143,258	82.2
	Operating income	4,439	7.1	45,420	31.0	30,960	17.8

(Note) 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.