

FY2005 Interim Consolidated Financial Results
(Prepared in accordance with U.S. GAAP)
(Six months ended September 30, 2005)

October 26, 2005

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 and CEO
Contact person : Hiroshi Nakamura, Manager, Accounting Department
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Date of Board meeting to approve the interim financial results : October 26, 2005
Adoption of U.S. GAAP : Yes

1. Consolidated Results of FY2005 Interim (April 1, 2005 through September 30, 2005)

(1) Consolidated Financial Results

	Net sales		Operating income		Income before income taxes	
	Million yen		Million yen		Million yen	
FY2005 interim	107,099	(26.9%)	22,660	(49.3%)	24,502	(46.8%)
FY2004 interim	146,589	135.3%	44,661	10.1 times	46,085	12.4 times
FY2004	239,439		60,719		61,808	

	Net income		Net income per share (basic)		Net income per share (diluted)	
	Million yen		Yen		Yen	
FY2005 interim	14,614	(47.5%)	158.06		157.51	
FY2004 interim	27,814	11.3 times	282.96		282.37	
FY2004	38,078		389.54		388.51	

Note 1: There were no investments in affiliates that have been accounted for under the equity method in FY2005 interim, FY2004 interim and FY2004, respectively.

Note 2: Average number of shares outstanding on a consolidated basis was 92,458,229 shares during FY2005 interim, 98,295,932 shares during FY2004 interim and 97,750,345 shares during FY2004, respectively.

Note 3: No change in accounting policies during FY2005 interim.

Note 4: The percentages shown in the above items including net sales and operating income are changes in comparison to the corresponding period of the previous fiscal year. The multiples shown for operating income, income before income taxes and net income are changes in comparison to the corresponding 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
FY2005 interim	320,069	222,602	69.5	2,405.62
FY2004 interim	349,951	249,928	71.4	2,542.41
FY2004	296,769	206,749	69.7	2,236.97

Note: Outstanding number of shares on a consolidated basis at the end of each period was 92,534,082 in FY2005 interim, 98,303,393 in FY2004 interim and 92,423,615 shares in FY2004, 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
FY2005 interim	16,798	(2,818)	(1,531)	135,226
FY2004 interim	44,545	(5,308)	(2,255)	139,911
FY2004	90,327	(8,250)	(63,036)	120,986

- (4) Scope of Consolidation and Equity Method
 Number of consolidated subsidiaries: 40 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) none
 Affiliates accounted for under the equity method
 (Newly included) none
 (Excluded) none

2. Projected Results for FY2005 (April 1, 2005 through March 31, 2006)

	Net sales	Income before income taxes	Net income
	Million yen	Million yen	Million yen
FY2005	240,000	61,000	37,000

(Reference) Projected net income per share for the fiscal year: ¥399.85

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 philosophy of management 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

While maintaining “Measurements” as our core competence, Advantest intends to improve its corporate value by establishing an operation and finance structure that responds timely to changes in the global market, and also aims to increase market share by introducing fine products that will inspire the market demands of the next generation. 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 and support system in the U.S., Europe and Asia.

Further, Advantest seeks to increase the level of customer satisfaction by maximizing the functions of our test systems by providing them with a solution for businesses to improve business efficiency.

On October 1, 2005, Advantest launched a company-wide initiative called “Activate 21”. Not only does this initiative, which is set to end with FY2008, continue with the improvements and reforms initiated with “Initiative 21”, which ended with the previous fiscal year, but also implements reforms that emphasizes cost and efficiency from a global perspective.

Target Financial Index

Advantest applies the “AVA” (Advantest Value Added), a financial index incorporating the concept of EVA[®] (Economic Value Added) *1, as a significant performance indicator, along with profit margin, ROE and cash flows, to measure its business performance. Specifically, 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 increase corporate value and shareholder value.

*1“EVA[®]” is a registered trademark of Stern Stewart & 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.

With respect to the distribution of profits, Advantest has adopted a policy of maintaining consistent dividend payouts after taking into consideration of business performance and financial condition.

Retained profits are research and development, streamlining efforts, overseas expansion and investing in new businesses to enable the strengthening of its business position and creation of corporate value.

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 1,000 to 100 shares.

As Advantest considers the current 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; Status of Implementation of Corporate Governance

[Advantest's Basic View on Corporate Governance]

Advantest intends to strengthen its global competitiveness by enhancing information disclosure to all stakeholders, including its investors (shareholders) and customers.

[Status of Implementation of Corporate Governance]

(1) Functions of the Company's Organization

In order to ensure timely response to rapid changes in the business environment and to strengthen corporate governance, Advantest implemented the executive officer's structure and separates its decision-making functions and operational function.

As the decision making body of the operation, the board of directors set the group's business policies and purpose, monitor and manage the operation of business, and delegate significant authority for executing operations speedily and efficiently.

Advantest adopts a Board of Corporate Auditors system, and the Board of Corporate Auditors is comprised of 4 auditors (of which 2 are external auditors). Each auditor, based on the policies and plans adopted by the Board of Corporate Auditors, audit the board's fulfillment of its duties by attending significant meetings such as the Board of Directors meeting and investigating the company's business and finance.

(2) Status of the Internal Controls System, Risk Management System and Corporate Audit

In order to strengthen the corporate structure for Corporate Social Responsibility, Advantest has implemented the "CSR (Corporate Social Responsibility) Committee" and placed under it the "Disclosure Committee", "Internal Controls Committee", "Environmental Policy Supervisory Committee", "Information Security Committee", "Human Rights Committee", "Human Resource Complaints Processing Committee", and "Behavior Norms Committee" that are expanding its activities. In particular, the "Internal Controls Committee" that was implemented in order to strengthen the Internal Controls process and risk management structure is taking measures to establish the three objectives of internal controls that are "Reliability of Financial Reports", "Compliance with the Law" and "Business Effectiveness and Efficiency". Also, the Auditing Group with an internal audit responsibility monitors the internal controls procedures and its application on a daily basis and identifies comments and advises improvement as part of operational audit. Furthermore, the Auditing Group, Board of Corporate Auditors and outside audit firm coordinate amongst each other, exchange information regarding audit schedule, audit status and internal controls, and conduct meetings periodically and whenever necessary.

Advantest's basic principle is to conduct business with high ethical standards, integrity and social justice. As such, Advantest has developed the "Advantest Behavior Norms" and in the "Code of Ethics for Officers", Advantest clarified that the officers will act with integrity and ethically. In April 2005, in response to applicable regulations and to achieve a higher level of consciousness about

ethical value, the “Advantest Behavior of Norms” was revised, and the “Corporate Ethics Helpline” was established to handle comments, reports and to advise regarding accounting, internal controls, and audit. Also the “Behavior Norms Committee” was established to strengthen compliance.

Matters Relating to Parent Companies

Advantest does not have a parent company as of the end of this interim period.

2. Business Results and Financial Condition

(1) Business Results

Interim Fiscal Period Results

During this interim fiscal period, although inventory control in the IT related industries continued during the first half of this interim period, Advantest’s operating environment was favorable, as stimulated by the strong demand for consumer digital products and personal computers, particularly notebooks computers, and due to the trend towards recovery in capital expenditures by the semiconductor industry. In particular, the increased demand for portable audio players worldwide and the spread of flat screen television led to an increase in semiconductor sale. In addition, the trend forwards a weaker yen in currency exchange was a positive factor.

Under this environment, Advantest made concentrated efforts to increase orders input received and expand sales through the timely introduction of new products that meet customers’ demands. Advantest continued to make efforts to improve productivity and profitability through reorganization of its manufacturing operations, as well as by implementing measures to further reduce lead-time and to reduce costs.

As a result of the above, as compared to the corresponding interim period of the previous fiscal year, during which Advantest achieved the highest net sales of any interim period, orders input received decreased by 2.9% to (Y)121.6 billion, net sales decreased by 26.9% to (Y)107.1 billion, net income before income taxes decreased by 46.8% to (Y)24.5 billion, and interim net income decreased by 47.5% to (Y)14.6 billion. As compared to the second half of the previous fiscal year, however, Advantest returned to an increase in profit and an increase in income as orders input received increased by 18.9%, net sales increased by 15.3%, net income before income taxes increased by 55.8%, and interim net income increased by 42.4% indicating a recovery trend. Overseas sales as a percentage of total sales were 67.7%, as compared with 74.3% in the corresponding interim period of the previous fiscal year.

< Condition of Business by Segment >

(Semiconductor and Component Test System Segment)

In this segment, as inventory adjustment by IT related industries approached completion, and demand for new test systems increased as a result of increased production of semiconductors.

In the memory test system market, due to increased production of NAND type flash memory used in products such as portable audio players, sales in flash memory test systems remained strong domestically and overseas. With respect to DRAM test systems, sales remained strong due to respective sales in high-speed memory semiconductor test system for DDR2, a high-speed, high-efficiency and memory test systems for DRAM for consumer digital products in certain geographic areas.

In the market of non-memory semiconductor test system, stimulated by strong sales in personal computers, sales of the T2000, a test system compatible with OPENSTAR^{®*2}, was very strong. In addition, sales in SoC semiconductor test system for game devices and devices used in consumer digital products and sales of test systems for LCD driver IC remained positive domestically and in Taiwan. With respect to other test systems, sales of test systems for CCD, used in digital cameras, and the test systems for semiconductors related to automobiles remained steady.

As a result of the above, orders input received was (Y)93.7 billion (2.5% decrease in comparison to the corresponding interim period of the previous fiscal year), sales was (Y)80.8 billion (28.6% decrease) and operating income was (Y)21.0 billion (44.4% decrease).

(Mechatronics System Segment)

Stimulated by the positive sales of the T2000 and non-memory test systems for digital consumer products, sales in non-memory semiconductor test handlers remained steady. Sales of memory test handlers was weaker due to a lag in the sales of DRAM test systems. On the other hand, sales of device interface products was steady, due to the increased demand for flash memory semiconductor and semiconductor for SoC.

As a result, orders input received was (Y)21.7 billion (12.1% decrease in comparison with the corresponding interim period of the previous fiscal year), sales was (Y)20.5 billion (27.1% decrease) and operating income was (Y)4.6 billion (53.9% decrease).

(Services, Support and Others Segment)

In this segment, orders input received was (Y)9.1 billion (9.7% decrease in comparison with the corresponding interim period of the previous fiscal year), sales was (Y)8.5 billion (21.5% decrease) and operating income was (Y)1.9 billion (154.9% increase).

*2OPENSTAR[®]: The name of an open architecture standard published by the STC (Semiconductor Testing Consortium, Inc.). OPENSTAR[®] is a registered trademark or a trademark of STC in the United States, Japan and other countries.

< Distribution of Profits >

As described above, sales in this interim fiscal period indicate a trend towards recovery. Due to potential uncertainties affecting its operating environment, however, Advantest decided, based on its profit distribution policy described above to distribute an interim dividend of (Y)25 per share.

Prospects for the Fiscal Year

Regarding its operating environment in the upcoming fiscal year, Advantest expects to see expanded volume and application of flash memory used for digital cameras or portable audio players, and a continuing increase in the demand for non-memory semiconductors for consumer digital products. With respect to DRAM, Advantest expects a rapid shift to DDR2 for servers and high-tech personal computers. Furthermore, continued active capital expenditures relating to 300mm wafers by the semiconductor manufactures and foundries are expected.

On the other hand, restrained capital expenditures as a result of poor supply and demand balance, an issue unique to the semiconductor market, increased prices of raw materials such as oil,

currency risk attributable to a strong yen, and strengthened downward pressure on prices as a result of the above-mentioned factors may affect our results.

In order to respond to these conditions, Advantest plans to continue its efforts to increase orders input received and expand sales through the timely introduction of new products that meets customers' needs by strengthening marketing and development structure. To further strengthen its cost competitiveness, Advantest will make continued efforts to improve profitability by reviewing its operational process company wide and improving manufacturing efficiency.

As a result of the above, Advantest's current estimates for the full year are as follows:

(Consolidated)	(million yen)		
	Net Sales	Income before income taxes	Net Income
Previous forecast (A) (as of April 26, 2005)	240,000	60,000	37,000
Revised forecast (B)	240,000	61,000	37,000
Increase / decrease (B-A)	0	1,000	0

(Non-Consolidated) (Parent Company only)	(million yen)		
	Net Sales	Ordinary income	Net Income
Previous forecast (A) (as of April 26, 2005)	205,000	44,000	28,000
Revised forecast (B)	210,000	48,000	31,000
Increase / decrease (B-A)	5,000	4,000	3,000

< Profit Distribution Forecast >

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

(2) Financial Condition

Cash and cash equivalents held at September 30, 2005 were (Y)135.2 billion, an increase of (Y)14.2 billion from March 31, 2005. Significant cash flows during this interim fiscal period and their causes are described below.

Net cash provided by operating activities was an inflow of (Y)16.8 billion. This amount was primarily attributable to net income of (Y)14.6 billion.

Net cash used in investing activities were an outflow of (Y)2.8 billion. This amount was primarily attributable to capital expenditures of (Y)4.0 billion, purchase of investment securities of (Y)1.9 billion and proceeds from sale of investment securities of (Y)3.0 billion.

Net cash used in financing activities was an outflow of (Y)1.5 billion. This amount was primarily attributable to the payment of dividends ((Y)2.3 billion) and proceeds from sale of treasury stock of (Y)0.8 billion.

Interim Consolidated Financial Statements and other information

Interim Consolidated Balance Sheets

	Notes	FY2004 interim (As of September 30, 2004)		FY2005 interim (As of September 30, 2005)		Summarized balance sheet of FY2004 (As of March 31, 2005)	
		Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)
(Assets)							
Cash and cash equivalents		139,911		135,226		120,986	
Trade accounts receivable, less allowance for doubtful accounts	*1	86,222		59,038		56,702	
Inventories		32,687		34,471		29,585	
Deferred tax assets		12,411		15,329		13,673	
Other current assets		2,504		4,156		2,985	
Total current assets		273,735	78.2	248,220	77.6	223,931	75.5
Investment securities	Note 4	6,882	2.0	7,687	2.4	7,772	2.6
Property, plant and equipment, net	*2 *3	51,938	14.8	51,423	16.1	51,364	17.3
Deferred tax assets		11,781	3.4	7,629	2.4	8,438	2.9
Intangible assets, at cost, less accumulated amortization		3,334	1.0	2,930	0.9	3,090	1.0
Other assets		2,281	0.6	2,180	0.6	2,174	0.7
Total assets		349,951	100.0	320,069	100.0	296,769	100.0

	Notes	FY2004 interim (As of September 30, 2004)		FY2005 interim (As of September 30, 2005)		Summarized balance sheet of FY2004 (As of March 31, 2005)	
		Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)
(Liabilities)							
Current portion of long-term debt	*3	4,543		20,047		20,043	
Trade accounts payable		24,985		29,577		23,196	
Income taxes payable		5,025		9,110		7,278	
Accrued expenses		8,809		11,039		13,865	
Accrued warranty expenses		4,746		4,180		4,090	
Deferred revenue		4,252		4,654		2,220	
Other current liabilities		5,109		2,923		3,302	
Total current liabilities		57,469	16.4	81,530	25.5	73,994	24.9
Long-term debt, excluding current portion	*3	20,062	5.7	15	0.0	40	0.0
Accrued pension and severance cost		18,866	5.4	12,361	3.9	12,605	4.3
Other liabilities		3,512	1.1	3,561	1.1	3,381	1.1
Total liabilities		99,909	28.6	97,467	30.5	90,020	30.3
(Minority interests)							
Minority interests		114	0.0	-	-	-	-
(Stockholders' equity)							
Common stock		32,363	9.3	32,363	10.1	32,363	10.9
Capital surplus	Note 3	33,732	9.6	36,018	11.3	35,263	11.9
Retained earnings	Note 3	202,661	57.9	222,213	69.4	210,121	70.8
Accumulated other comprehensive income (loss)	*4	(6,157)	(1.8)	(2,865)	(0.9)	(4,878)	(1.6)
Treasury stock		(12,671)	(3.6)	(65,127)	(20.4)	(66,120)	(22.3)
Total stockholders' equity		249,928	71.4	222,602	69.5	206,749	69.7
Total liabilities and stockholders' equity		349,951	100.0	320,069	100.0	296,769	100.0

(Notes)

	FY2004 interim (As of September 30, 2004)	FY2005 interim (As of September 30, 2005)	FY2004 (As of March 31, 2005)
	Amount (in million yen)	Amount (in million yen)	Amount (in million yen)
*1. Allowance for doubtful accounts	2,472	2,164	2,174
*2. Accumulated depreciation on property, plant and equipment	66,602	71,264	67,914
*3. Collateralized assets and secured obligations			
Property, plant and equipment	398	388	393
Obligations secured by the above	31	17	24
*4. Accumulated other comprehensive income (loss)			
Foreign currency translation adjustments	(5,720)	(4,393)	(6,452)
Net unrealized gain (loss) on available-for-sale securities	746	1,528	1,574
Minimum pension liability adjustments	(1,183)	-	-
5. Net assets per share (in yen)	2,542.41	2,405.62	2,236.97

Interim Consolidated Statements of Income

	Notes	FY2004 interim (April 1, 2004 through September 30, 2004)		FY2005 interim (April 1, 2005 through September 30, 2005)		Summarized statement of income of FY2004 (April 1, 2004 through March 31, 2005)	
		Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)
Net sales		146,589	100.0	107,099	100.0	239,439	100.0
Cost of sales		68,238	46.6	51,714	48.3	115,994	48.4
Gross profit		78,351	53.4	55,385	51.7	123,445	51.6
Research and development expenses		12,087	8.2	12,877	12.0	26,280	11.0
Selling, general and administrative expenses	Note 3	21,603	14.8	19,848	18.5	36,446	15.2
Operating income (loss)	Note 3	44,661	30.4	22,660	21.2	60,719	25.4
Other income (expense):							
Interest and dividend income		212		715		597	
Interest expense		(225)		(205)		(441)	
Minority interests (loss)		(85)		-		(84)	
Other		1,522	1.0	1,332	1.7	1,017	0.4
Income (loss) before income taxes	Note 3	46,085	31.4	24,502	22.9	61,808	25.8
Income Taxes		18,271	12.4	9,888	9.3	23,730	9.9
Net income (loss)	Note 3	27,814	19.0	14,614	13.6	38,078	15.9

	Notes	FY2004 interim (April 1, 2004 through September 30, 2004)	FY2005 interim (April 1, 2005 through September 30, 2005)	FY2004 (April 1, 2004 through March 31, 2005)
		Amount (in yen)	Amount (in yen)	Amount (in yen)
Net income per share				
Basic	Note 3	282.96	158.06	389.54
Diluted	Note 3	282.37	157.51	388.51

Interim Consolidated Statements of Stockholders' Equity

		FY2004 interim (April 1, 2004 through September 30, 2004)	FY2005 interim (April 1, 2005 through September 30, 2005)	Statement of stockholders' equity of FY2004 (April 1, 2004 through March 31, 2005)
	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 :	Note 3			
Balance at beginning of period		32,973	35,263	32,973
Stock option compensation expense		759	755	2,290
Balance at end of period		33,732	36,018	35,263
Retained earnings :	Note 3			
Balance at beginning of period		177,404	210,121	177,404
Net income (loss)		27,814	14,614	38,078
Cash dividends		(2,458)	(2,311)	(4,915)
Loss on disposal of treasury stock		(99)	(211)	(446)
Balance at end of period		202,661	222,213	210,121
Accumulated other comprehensive income (loss) :				
Balance at beginning of period		(8,061)	(4,878)	(8,061)
Other comprehensive income (loss), net of tax		1,904	2,013	3,183
Balance at end of period		(6,157)	(2,865)	(4,878)
Treasury stock :				
Balance at beginning of period		(12,911)	(66,120)	(12,911)
Treasury stock purchased		(11)	(14)	(54,513)
Exercise of stock options		249	1,006	1,302
Treasury stock sold		2	1	2
Balance at end of period		(12,671)	(65,127)	(66,120)
Total stockholders' equity		249,928	222,602	206,749
Disclosure of comprehensive income (loss):	Note 3			
Net income (loss)		27,814	14,614	38,078
Other comprehensive income (loss), net of tax		1,904	2,013	3,183
Total comprehensive income (loss)		29,718	16,627	41,261

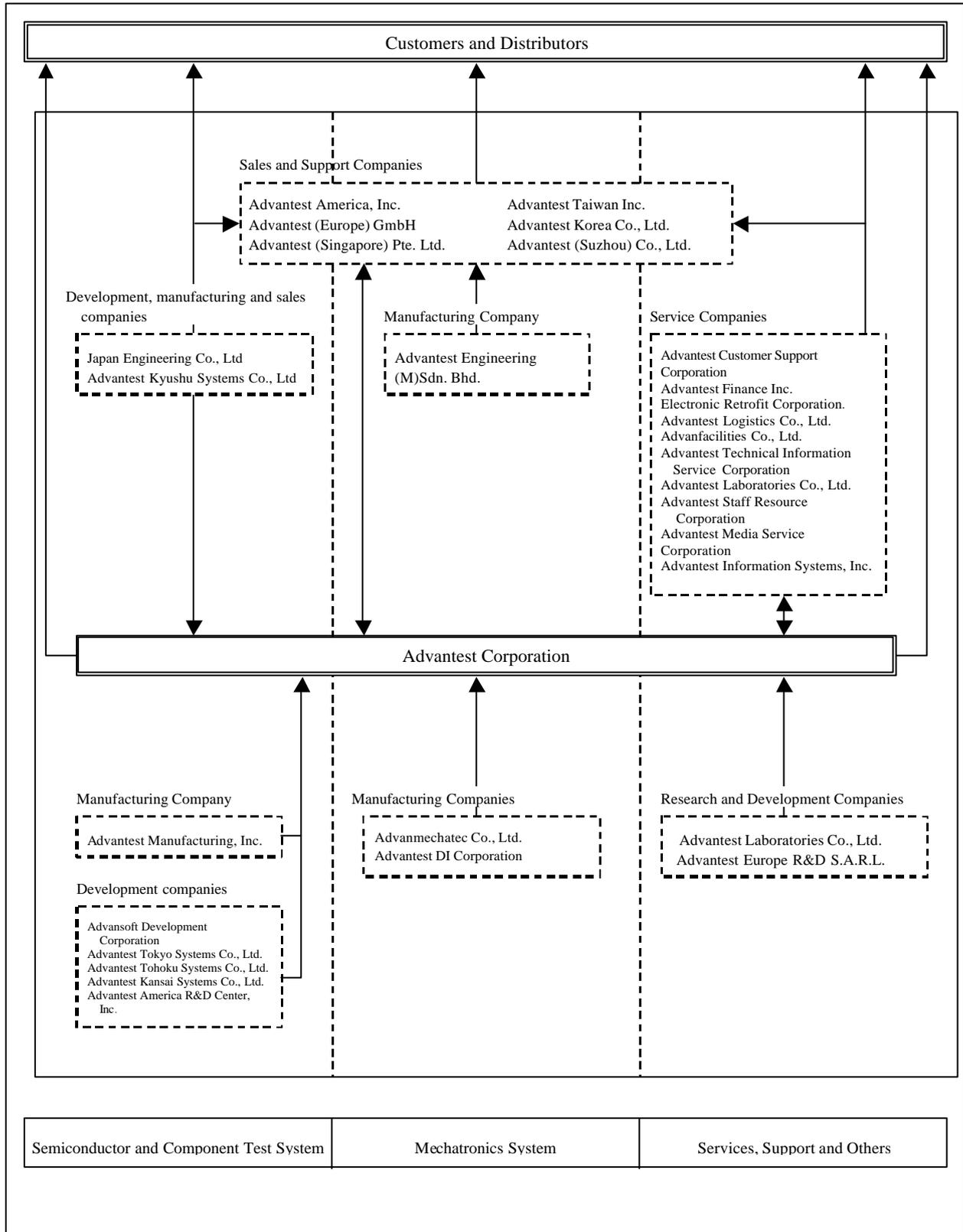
Interim Consolidated Statements of Cash Flows

	FY2004 interim (April 1, 2004 through September 30, 2004)	FY2005 interim (April 1, 2005 through September 30, 2005)	Summarized statement of cash flows of FY2004 (April 1, 2004 through March 31, 2005)
	Amount (in million yen)	Amount (in million yen)	Amount (in million yen)
I Cash flows from operating activities:			
Net income (loss)	27,814	14,614	38,078
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	4,035	3,962	8,285
Deferred income taxes	13,081	(679)	13,540
Stock option compensation expense	759	755	2,290
Decrease (increase) in trade accounts receivable	(8,544)	(1,826)	20,953
Decrease (increase) in inventories	17,171	(4,670)	20,218
Increase (decrease) in trade accounts payable	(14,455)	5,805	(16,375)
Increase (decrease) in income taxes payable	1,074	1,792	3,311
Increase (decrease) in accrued expenses	(196)	(2,864)	4,445
Increase (decrease) in accrued warranty expenses	1,625	50	969
Increase (decrease) in deferred revenue	(514)	2,268	(2,456)
Increase (decrease) in accrued pension and severance cost	876	(243)	(3,409)
Other	1,819	(2,166)	478
Net cash provided by operating activities	44,545	16,798	90,327

	FY2004 interim (April 1, 2004 through September 30, 2004)	FY2005 interim (April 1, 2005 through September 30, 2005)	Summarized statement of cash flows of FY2004 (April 1, 2004 through March 31, 2005)
	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	634	2,964	1,428
Proceeds from sale of non-marketable securities	45	-	50
Purchases of non-marketable securities	-	(1,900)	-
Proceeds from sale of property, plant and equipment	31	190	132
Purchases of intangible assets	(204)	(238)	(470)
Purchases of property, plant and equipment	(4,818)	(3,776)	(8,738)
Other	(996)	(58)	(652)
Net cash used in investing activities	(5,308)	(2,818)	(8,250)
III Cash flows from financing activities:			
Principal payments on long-term debt	(21)	(21)	(4,543)
Proceeds from sale of treasury stock	-	796	939
Payments to acquire treasury stock	(7)	(12)	(54,511)
Dividends paid	(2,453)	(2,307)	(4,907)
Other	226	13	(14)
Net cash used in financing activities	(2,255)	(1,531)	(63,036)
IV Net effect of exchange rate changes on cash and cash equivalents	1,783	1,791	799
V Net change in cash and cash equivalents	38,765	14,240	19,840
VI Cash and cash equivalents at beginning of period	101,146	120,986	101,146
VII Cash and cash equivalents at end of period	139,911	135,226	120,986

Organization of the Advantest Group

The following diagram shows the business relationships among the major affiliated companies of the Advantest Group.



There are 11 other consolidated subsidiaries in addition to those mentioned in the above diagram.

Consolidated subsidiaries (23 domestic; 17 overseas; 40 total)

← : Main flow of products and services

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 (collectively "U.S. GAAP"). However, Advantest Corporation and its consolidated subsidiaries prepare their unconsolidated financial statements in accordance with accounting principles generally accepted in the country of their domicile. Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to present them in conformity with accounting principles generally accepted in the U.S.

(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 its 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 intercompany balances and transactions have been eliminated in consolidation.

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

	FY 2005 Interim (As of September 30, 2005)	FY 2004 (As of March 31, 2005)	Increase (decrease)
Domestic	23	22	1
Overseas	17	17	0
Consolidated subsidiaries	40	39	1
Equity method affiliates	-	-	-
Total	40	39	1

Changes in the scope of consolidation:

Newly included (1): Advantest Technology Solutions Corporation *1

*1 Advantest Technology Solutions Corporation was established on July 1, 2005 as a subsidiary to conduct semiconductor design validation system business.

(Note 2) Summary of Significant Accounting Policies and Practices

There was no change in accounting policies and practices.

(Note 3) Restatement of the Interim Consolidated Financial Statements for the Previous Interim Period

Advantest measures its stock-based compensation cost based on the fair value method as defined in SFAS No. 123 (revised 2004) (“No. 123R”) Share-Based Payment, and recognized such cost as an expense in the statements of income. Advantest has retrospectively applied this accounting method effective April 1, 2004 by using the “modified retrospective” approach prescribed by the said statement in the fiscal year ended March 2005.

The SFAS No. 123R Share-Based Payment was released after Advantest filed its interim report. For this reason, until the previous interim consolidated period, Advantest accounted for its stock-based compensation cost based on the intrinsic value method prescribed by Accounting Principle Board Opinion No.25, “Accounting for Stock Issued to Employees” and related interpretations as allowed under the SFAS No.123 “Accounting for Stock-Based Compensation”. Advantest had not recognized its stock-based compensation cost in the statements of income for the previous interim fiscal period. As such, in connection with the retrospective application of the SFAS No.123R Share- Based Payment effective April 1, 2004, the interim consolidated financial statements for the previous interim period have been restated.

Due to the restatement made to the interim consolidated financial statements for the previous interim period, selling, general and administrative expense increased by (Y)759 million. Operating income, net income before income taxes and interim net income for the previous decreased by the same amount. Basic interim net income per share decreased by (Y)7.72, and diluted net income per share decreased by (Y)7.70. Capital surplus increased and retained earnings decreased by (Y)759 million in the interim consolidated balance sheet at the end of the previous interim. Comprehensive income for the previous interim period decreased by the some amount accordingly. Due to a decrease of (Y)759 million in interim net income, the interim consolidated cash flow statement for the previous interim period has been restated as well.

The impacts on the segment information have been discussed in the notes to the segment information.

A fair value for stock options is calculated based on the Black-Scholes Option Pricing Model.

Stock-based compensation expenses recognized are (Y)2, 290 million in FY 2004, and (Y)755 million in FY 2005 Interim.

A weighted average fair value per share for stock options that were granted in FY 2004 Interim and FY 2005 Interim were (Y)2,991 and (Y)2,930, respectively. These figures were calculated based on the Black-Scholes Option Pricing Model by using the following weighted average estimates.

	<u>FY 2004 Interim</u>	<u>FY 2005 Interim</u>
Expected dividend yield	0.6%	0.5%
Risk free interest rate	0.6%	0.7%
Volatility	56.6%	51.1%
Expected life	4 years	4 years

(Note 4) Investment Securities

Investment securities consist of equity securities. As of September 30, 2004, September 30, 2005 and March 31, 2005, with respect to marketable securities, aggregate fair value is (Y)4,287 million, (Y)4,344 million and (Y)6,328 million, cost of (Y)3,177 million, (Y)1,784 million and (Y)3,803 million, gross unrealized gains, which are based on the specific-identification method, is (Y)1,440 million, (Y)2,560 million and (Y)2,516 million, gross unrealized losses as of September 30, 2004 is (Y)319 million yen.

For FY 2004 interim, FY 2005 interim and FY 2004, gross realized gains were (Y)629 million, (Y)934 million and (Y)934 million. Gross realized gains and losses are principally included in "Other Income (expense)" in the interim consolidated statements of income and consolidated statements of income, as well as "other" of cash flows from operating activities in the interim consolidated statements of cash flows and the consolidated statements of cash flows.

Advantest maintains long-term investment securities, included in marketable securities and other investments, issued by nonpublic companies, which are recorded at cost and periodically assess for impairment.

(Note 5) Basic and diluted net income (loss) per share

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

	<u>FY 2004 Interim</u>
Numerator	
Net Income	<u>27,814</u> million yen
Denominator	
Basic weighted average shares	98,295,932 shares
Dilutive effect of exercise of stock options and warrants	<u>206,598</u> shares
Diluted weighted average shares	<u>98,502,530</u> shares
	<u>FY 2005 Interim</u>
Numerator	
Net Income	<u>14,614</u> million yen
Denominator	
Basic weighted average shares	92,458,229 shares
Dilutive effect of exercise of stock options	<u>320,756</u> shares
Diluted weighted average shares	<u>92,778,985</u> shares
	<u>FY 2004</u>
Numerator	
Net Income	<u>38,078</u> million yen
Denominator	
Basic weighted average shares	97,750,345 shares
Dilutive effect of exercise of stock options and warrants	<u>260,394</u> shares
Diluted weighted average shares	<u>98,010,739</u> shares

At September 30, 2004, September 30, 2005 and March 31, 2005, stock options and warrants representing, upon exercise, 1,799,500 shares, 7,000 shares and 7,000 shares, respectively, were outstanding but were not included in the computation for the interim net income per share (diluted) because the foregoing did not have any dilutive effect.

1. Business Segment Information

		FY2004 interim (April 1, 2004 through September 30, 2004)		FY2005 interim (April 1, 2005 through September 30, 2005)		FY2004 (April 1, 2004 through March 31, 2005)	
		Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)
Semiconductor and Component Test System	Sales to unaffiliated customers	107,920	95.4	78,244	96.8	173,938	96.3
	Intersegment sales	5,252	4.6	2,588	3.2	6,747	3.7
	Net sales	113,172	100.0	80,832	100.0	180,685	100.0
	Operating expenses	75,382	66.6	59,829	74.0	130,061	72.0
	Operating income (loss)	37,790	33.4	21,003	26.0	50,624	28.0
Mechatronics System	Sales to unaffiliated customers	27,794	98.9	20,320	99.2	45,821	98.8
	Intersegment sales	306	1.1	161	0.8	574	1.2
	Net sales	28,100	100.0	20,481	100.0	46,395	100.0
	Operating expenses	18,150	64.6	15,890	77.6	32,733	70.6
	Operating income (loss)	9,950	35.4	4,591	22.4	13,662	29.4
Services, Support and Others	Sales to unaffiliated customers	10,875	100.0	8,535	100.0	19,680	100.0
	Intersegment sales	-	-	-	-	-	-
	Net sales	10,875	100.0	8,535	100.0	19,680	100.0
	Operating expenses	10,110	93.0	6,585	77.2	16,278	82.7
	Operating income (loss)	765	7.0	1,950	22.8	3,402	17.3
Elimination and Corporate	Sales to unaffiliated customers	-	-	-	-	-	-
	Intersegment sales	(5,558)	100.0	(2,749)	100.0	(7,321)	100.0
	Net sales	(5,558)	100.0	(2,749)	100.0	(7,321)	100.0
	Operating expenses	(2,473)	-	1,380	-	675	-
	Operating income (loss)	(3,085)	-	(4,129)	-	(7,996)	-
Consolidated	Sales to unaffiliated customers	146,589	100.0	107,099	100.0	239,439	100.0
	Intersegment sales	-	-	-	-	-	-
	Net sales	146,589	100.0	107,099	100.0	239,439	100.0
	Operating expenses	101,169	69.0	83,684	78.1	179,747	75.1
	Operating income (loss)	45,420	31.0	23,415	21.9	59,692	24.9

(Notes) 1 Adjustments to operating income (loss) included in Corporate mainly consist of research and development expenses for basic research activities, which are not allocated to corporate general administrative expenses and segment by business sector.

2 Stock option compensation expense of (Y)759 million and (Y)755 million in FY 2004 interim and FY2005 interim, respectively are not included in operating income in the business segment information. Operating income in the business segment information for FY 2004 does not include the temporary profit of (Y)3,317 million which arose from a return of the substitutional portion of its Employee's Pension Fund Plans and the stock option compensation expense of (Y)2,290 million. Therefore these operating income do not match with the operating income in the consolidated statements of income and the interim consolidated statements of income. Such exclusion was made since such items are not included in the performance review of each business segment by management.

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

Net sales to unaffiliated customers

		FY2004 interim (April 1, 2004 through September 30, 2004)		FY2005 interim (April 1, 2005 through September 30, 2005)		FY2004 (April 1, 2004 through March 31, 2005)	
		Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)	Amount (in million yen)	Percentage (%)
Americas	Americas	13,494	9.2	11,452	10.7	23,024	9.6
	Europe	7,557	5.2	7,117	6.6	12,270	5.1
	Asia	87,869	59.9	53,923	50.4	144,120	60.2
	Total Overseas	108,920	74.3	72,492	67.7	179,414	74.9
	Japan	37,669	25.7	34,607	32.3	60,025	25.1
Consolidated	146,589	100.0	107,099	100.0	239,439	100.0	

Supplemental Information to the FY2005 Interim Earnings Digest

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

1. Summary of FY2005 Interim Results (April 1, 2005 through September 30, 2005)

(Consolidated)	(Rounded to the nearest million yen)			
	FY2004 interim	FY2005 interim	Percentage change (%)	FY2004
Net sales	146,589	107,099	(26.9)	239,439
Operating income (loss)	44,661	22,660	(49.3)	60,719
Income (loss) before income taxes	46,085	24,502	(46.8)	61,808
Net income (loss)	27,814	14,614	(47.5)	38,078
Total assets	349,951	320,069	(8.5)	296,769
Stockholders' equity	249,928	222,602	(10.9)	206,749
Net income (loss) per share (basic) (in yen)	282.96	158.06	(44.1)	389.54
Net income (loss) per share (diluted) (in yen)	282.37	157.51	(44.2)	388.51
Stockholders' equity per share (in yen)	2,542.41	2,405.62	(5.4)	2,236.97
Net interest expense	(13)	510	-	156
ROE(%)	-	-	-	17.8

(Non-Consolidated) (Parent Company only, Japanese GAAP)	(Truncated after the million yen)			
	FY2004 interim	FY2005 interim	Percentage change (%)	FY2004
Net sales	121,065	101,484	(16.2)	203,315
Operating income (loss)	28,346	21,161	(25.3)	41,910
Income (loss) before income taxes	30,185	24,589	(18.5)	43,365
Net income (loss)	18,684	16,524	(11.6)	28,421
Total assets	286,780	255,783	(10.8)	238,109
Stockholders' equity	204,749	173,999	(15.0)	159,074
Net income (loss) per share (in yen)	190.09	178.72	(6.0)	288.68
Stockholders' equity per share (in yen)	2,082.83	1,880.38	(9.7)	1,718.95
Dividends per share (in yen)	25.00	25.00	-	50.00

2. Consolidated Net Sales by Business and Geographic Segment

		(Rounded to the nearest million yen)			
By Business Segment		FY2004 interim	FY2005 interim	Percentage change (%)	FY2004
	Semiconductor and Component Test System	113,172	80,832	(28.6)	180,685
	Mechatronics System	28,100	20,481	(27.1)	46,395
	Services, Support and Others	10,875	8,535	(21.5)	19,680
	Intercompany transactions elimination	(5,558)	(2,749)	-	(7,321)
Total net sales		146,589	107,099	(26.9)	239,439
By Geographic Segment		FY2004 interim	FY2005 interim	Percentage change (%)	FY2004
Japan		37,669	34,607	(8.1)	60,025
	Americas	13,494	11,452	(15.1)	23,024
	Europe	7,557	7,117	(5.8)	12,270
	Asia	87,869	53,923	(38.6)	144,120
Total overseas		108,920	72,492	(33.4)	179,414

3. Consolidated Orders input received and Orders backlog by Business Segment (Rounded to the nearest million yen)

Orders input received	FY2004 interim	FY2005 interim	Percentage change (%)	FY2004
Semiconductor and Component Test System	96,156	93,732	(2.5)	171,079
Mechatronics System	24,631	21,652	(12.1)	43,833
Services, Support and Others	10,026	9,051	(9.7)	19,117
Intercompany transactions elimination	(5,569)	(2,849)	-	(6,547)
Total orders input received	125,244	121,586	(2.9)	227,482

Orders backlog	FY2004 interim	FY2005 interim	Percentage change (%)	FY2004
Semiconductor and Component Test System	24,636	44,946	82.4	32,046
Mechatronics System	5,753	7,831	36.1	6,660
Services, Support and Others	563	1,364	142.3	848
Intercompany transactions elimination	(801)	(116)	-	(16)
Total orders backlog	30,151	54,025	79.2	39,538

(Note) The amount of orders input received 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 beginning of such period. Orders input received are recorded upon receipt of a written customer order.

 4. Consolidated Cash Flows (Rounded to the nearest million yen)

	FY2004 interim	FY2005 interim	Percentage change (%)	FY2004
Operating activities	44,545	16,798	(62.3)	90,327
Investing activities	(5,308)	(2,818)	-	(8,250)
(Free cash flows)	39,237	13,980	(64.4)	82,077
Financing activities	(2,255)	(1,531)	-	(63,036)
Total cash flows	36,982	12,449	(66.3)	19,041
Cash and cash equivalents at end of period	139,911	135,226	(3.3)	120,986

 5. Consolidated Outstanding Interest-bearing liabilities (Rounded to the nearest million yen)

	FY2004 interim	FY2005 interim	Percentage change (%)	FY2004
Bonds and warrant bonds	24,500	20,000	(18.4)	20,000
Loans and lease obligations	126	89	(29.2)	97
Total interest-bearing liabilities	24,626	20,089	(18.4)	20,097

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

(Rounded to the nearest million yen)

	FY2004 interim	FY2005 interim	Percentage change (%)	FY2004
Capital expenditures	5,194	3,701	(28.7)	9,348
Depreciation and amortization	4,035	3,962	(1.8)	8,285
Research and development expenses	12,087	12,877	6.5	26,280

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

	FY2004 interim	FY2005 interim	Percentage change (%)	FY2004
Non-Consolidated (Parent Company only)	1,450	1,455	0.3	1,433
Domestic	1,355	1,347	(0.6)	1,350
Overseas	770	785	1.9	782
Consolidated Subsidiaries total	2,125	2,132	0.3	2,132
Consolidated full-time employee total	3,575	3,587	0.3	3,565

8. Supplemental Segment Information

Segment Information by geographic area (Based on Location of Advantest and its Subsidiaries)

(Rounded to the nearest million yen)

		FY2004 interim		FY2005 interim		FY2004	
		(April 1, 2004 through September 30, 2004)	Percentage (%)	(April 1, 2005 through September 30, 2005)	Percentage (%)	(April 1, 2004 through March 31, 2005)	Percentage (%)
Japan	Sales to unaffiliated customers	60,205	-	54,121	-	110,095	-
	Intersegment sales	64,367	-	53,079	-	101,609	-
	Net sales	124,572	100.0	107,200	100.0	211,704	100.0
	Operating expenses	89,910	72.2	79,295	74.0	160,283	75.7
	Operating income (loss)	34,662	27.8	27,905	26.0	51,421	24.3
Americas	Sales to unaffiliated customers	38,685	-	28,257	-	55,877	-
	Intersegment sales	1,224	-	1,558	-	2,601	-
	Net sales	39,909	100.0	29,815	100.0	58,478	100.0
	Operating expenses	34,380	86.1	28,071	94.2	54,388	93.0
	Operating income (loss)	5,529	13.9	1,744	5.8	4,090	7.0
Europe	Sales to unaffiliated customers	8,754	-	6,982	-	16,307	-
	Intersegment sales	449	-	665	-	934	-
	Net sales	9,203	100.0	7,647	100.0	17,241	100.0
	Operating expenses	7,634	83.0	7,007	91.6	15,333	88.9
	Operating income (loss)	1,569	17.0	640	8.4	1,908	11.1
Asia	Sales to unaffiliated customers	38,945	-	17,739	-	57,160	-
	Intersegment sales	3,843	-	3,552	-	7,523	-
	Net sales	42,788	100.0	21,291	100.0	64,683	100.0
	Operating expenses	36,934	86.3	19,402	91.1	56,621	87.5
	Operating income (loss)	5,854	13.7	1,889	8.9	8,062	12.5
Elimination and Corporate	Sales to unaffiliated customers	-	-	-	-	-	-
	Intersegment sales	(69,883)	-	(58,854)	-	(112,667)	-
	Net sales	(69,883)	-	(58,854)	-	(112,667)	-
	Operating expenses	(66,930)	-	(49,336)	-	(107,905)	-
	Operating income (loss)	(2,953)	-	(9,518)	-	(4,762)	-
Consolidated	Sales to unaffiliated customers	146,589	-	107,099	-	239,439	-
	Intersegment sales	-	-	-	-	-	-
	Net sales	146,589	100.0	107,099	100.0	239,439	100.0
	Operating expenses	101,928	69.5	84,439	78.8	178,720	74.6
	Operating income (loss)	44,661	30.5	22,660	21.2	60,719	25.4

(Note) Adjustments to operating income (loss) included in Corporate mainly consist of research and development expenses for basic research activities, which are not allocated to corporate general administrative expenses and segment by geographic area. In addition, during this interim period, stock option compensation expense of (Y)59million and (Y)55 million in FY 2004 interim and FY2005 interim, respectively are included in Corporate operating expenses. For FY2004, Corporate operating expenses include the temporary profit of (Y)3,317 million which arose from a return of the substitutional portion of its Employee's Pension Fund Plans and the stock option compensation expense of (Y)2,290 million.