Advantest (Europe) GmbH
Munich

Financial Statements and
Management Report
March 31, 2005

Translation of the German Report

ERNST & YOUNG

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

AUDIT OPINION

We have audited the annual financial statements, together with the bookkeeping system, and the management report of Advantest (Europe) GmbH, Munich, for the fiscal year from April 1, 2004 to March 31, 2005. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [in Deutschland] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. On the whole, the management report provides a suitable understanding of the Company's position and suitably presents the risks to future development.

Munich, July 20, 2005

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

[signed]	*[signed]*
Marxer	Freytag
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

645/2005

Advantest (Europe) GmbH, Munich
Balance Sheet as of March 31, 2005

ASSETS	EUR	EUR	Mar. 31, 2004 EUR k
A. FIXED ASSETS			
I. Intangible assets			
Software and licenses		148,116.39	171
II. Property, plant and equipment			
1 Land, land rights and buildings including buildings on third-party land	2,618,877.91		2,687
2 Other equipment, furniture and fixtures	975,794.44		2,206
		3,594,672.35	4,893
		3,742,788.74	5,064
B. CURRENT ASSETS			
I. Inventories			
Finished goods and merchandise		1,271,355.84	4,782
II. Receivables and other assets			
1 Trade receivables	25,169,643.55		43,323
2 Receivables from affiliated companies thereof to shareholders: EUR 227,502.88 (prior year: EUR 288 k)	282,162.72		436
3 Other assets	2,125,135.28		1,027
		27,576,941.55	44,786
III. Cash on hand and bank balances		54,612,720.64	41,931
		83,461,018.03	91,499
C. PREPAID EXPENSES		180,724.39	255
		87,384,531.16	96,818

EQUITY AND LIABILITIES	EUR	EUR	Mar. 31, 2004 EUR k
A. EQUITY			
I. Subscribed capital	10,792,650.00		10,793
II. Profit carryforward	43,149,515.51		34,162
III. Net income for the year	7,377,201.49		8,987
		61,319,367.00	53,942
B. ACCRUALS			
1 Accruals for pensions and similar obligations	360,222.00		329
2 Tax accruals thereof for deferred tax liabilities EUR 136,233.46 (prior year: EUR 0 k)	2,641,975.72		5,822
3 Other accruals	5,327,278.01		6,947
		8,329,475.73	13,098
C. LIABILITIES			
1 Trade payables	663,417.67		728
2 Liabilities to affiliated companies thereof due to shareholders EUR 16,560,602.33 (prior year: EUR 24,885 k)	16,562,098.15		28,596
3 Other liabilities thereof for taxes: EUR 163,159.74 (prior year: EUR 131 k) thereof for social security EUR 159,981.86 (prior year: EUR 151 k)	510,172.61		454
		17,735,688.43	29,778
		87,384,531.16	96,818

Advantest (Europe) GmbH, Munich
Income Statement for the period from April 1, 2004 to March 31, 2005

		EUR	2004/2005 EUR	2003/ 2004 EUR k
1	Sales	118,925,220.63		115,308
2	Other operating income	3,882,267.00		4,140
			122,807,487.63	119,448
3	Cost of materials			
	a) Cost of raw materials, consumables and supplies and of purchased merchandise	-88,807,632.22		-81,636
	b) Cost of purchased services	-3,046,324.05		-2,319
			-91,853,956.27	
4	Personnel expenses			
	a) Wages and salaries	-7,679,061.69		-7,778
	b) Social security, pension, and other benefit costs	-1,514,942.74		-1,563
	thereof for old-age pensions EUR 142,856.47 (prior year: EUR 247,471.48)			
			-9,194,004.43	
5	Amortization and depreciation on intangible assets and property, plant and equipment		-1,581,030.42	-1,537
6	Other operating expenses		-8,638,454.12	-9,159
			11,540,042.39	-103,992
7	Other interest and similar income	859,185.47		644
8	Interest and similar expenses	-9,892.60		-307
			849,292.87	337
9	Result from ordinary activities		12,389,335.26	15,793
10	Income taxes	-5,004,751.24		-6,799
11	Other taxes	-7,382.53		-7
			-5,012,133.77	-6,806
12	Net income for the year		7,377,201.49	8,987

Advantest (Europe) GmbH, Munich
Notes to the Financial Statements
for the Fiscal Year from April 1, 2004 to March 31, 2005

Accounting and Valuation Methods

1. General

The financial statements as of March 31, 2005 of Advantest (Europe), GmbH Munich, have been prepared in accordance with Secs. 242 et seq. and Secs. 264 et seq. HGB ["Handelsgesetzbuch": German Commercial Code] as well as in accordance with the relevant provisions of GmbHG ["GmbH-Gesetz": German Limited Liability Companies Act].

The Company meets the criteria for large companies within the meaning of Sec. 267 HGB (3). In accordance with Sec. 286 (4) HGB, the Company has elected not to disclose total management board remuneration when preparing the financial statements.

The structure of the balance sheet pursuant to Sec. 266 HGB as well as the income statement have been prepared using the cost-summary method pursuant to Sec. 275 (2) HGB.

2. Accounting and Valuation Methods

The accounting and valuation methods have essentially remained unchanged in comparison to the prior year.

Intangible assets are stated at acquisition cost less scheduled and straight-line amortization. A useful life of three years is generally assumed.

Property, plant and equipment is valued at acquisition cost less scheduled depreciation. Depreciation on movable assets is subject to the declining method; partially also subject to the straight-line method. Assets acquired since January 1, 2001 are exclusively subject to straight-line depreciation. Buildings are depreciated by the straight-line method over the customary useful life of 40 years. Permanent impairment is provided for by extraordinary depreciation. Low value assets are written off in full in the year of acquisition.

Income and book values of demo systems which have been sold and which are carried under assets are disclosed as sales and cost of materials.

With respect to **inventories**, systems and spare parts are valued at acquisition cost less allowances for reduced salability as of the balance sheet date. Acquisition costs are recognized at the invoiced amounts for each asset, plus appropriate mark-ups for freight and customs.

Receivables and other assets are stated at their nominal value. Risks are accounted for with valuation allowances.

The **pension commitments** are carried at fair value in accordance with Sec. 6a EStG ["Einkommensteuergesetz" German Income Tax Act].

Accruals take account of all recognizable risks and contingent obligations. They are recorded at the amounts required according to prudent business judgment.

Liabilities are recorded at the amount repayable.

As in the prior year, receivables and liabilities in **foreign currency** are valued at the exchange rate valid on the date of the transaction. Losses due to exchange rate fluctuations are taken into account in the course of the year. Foreign currencies were translated at the closing rate. Forward exchange contracts have been concluded to hedge currency positions in JPY.

Notes to the Balance Sheet

1. Fixed Assets

The development of the individual fixed asset items, including depreciation for the fiscal year, is shown in the analysis of fixed assets (page 7/7).

2. Receivables and Other Assets

Receivables and other assets are all due within one year, with the exception of the reinsurance claim of EUR 360 k. The other receivables item contains receivables due from the tax office of EUR 314 k from VAT refund claims.

3. Other Accruals

Other accruals essentially include accruals for warranties (EUR 3,270 k, prior year: EUR 2,929 k), personnel obligations (EUR 1,346 k, prior year: EUR 1,643 k), potential losses from pending transactions (EUR 78 k, prior year: EUR 984 k), outstanding invoices (EUR 349 k, prior year: 837 k) and costs for financial statements, litigation and consulting (EUR 94 k prior year: EUR 104 k).

4. Liabilities

As in the prior year, all other liabilities are due within a year. No collateral has been provided.

5. Contingent Liabilities

As of the balance sheet date, there were neither contingent liabilities to be disclosed in the balance sheet or the notes nor liabilities apparent from the balance sheet or the accompanying notes.

6. Other Financial Obligations

Obligations for rental agreements and leases are due as follows in the fiscal years:

	EUR k
2005/06	1,104
2006/07	377
2007/08	189
	1,670

7. Derivative Financial Instruments

Forward exchange contracts have been concluded to hedge currency positions.

	Mar. 31, 2005 EUR k	Mar. 31, 2004 EUR k
Nominal values	37,160	43,005
Market values	37,195	42,192

The terms for the forward exchange contracts are between one and five months.

The nominal values pertain to the sum of all purchase and sales amounts which the business transactions are based on. The market values relate to the cash surrender values of the forward rates as of the balance sheet date. They are assessed on the basis of quoted prices. Counter-developments in value to the underlying transactions are not accounted for here.

Notes to the Income Statement

1. Sales

The Company realized its sales exclusively by selling test systems for semi-conductor products and services and related services. Sales can be classified by business activities and geographical markets as follows:

	Trading sales EUR k	Services EUR k	Total EUR k
International	96,508	2,515	99,023
Germany	16,208	3,694	19,902
	112,716	6,209	118,925

2. Income and Expenses Related to Other Periods

Other operating income essentially contains income from the reversal of accruals (EUR 115 k), from the reversal of valuation allowances (EUR 187 k), from exchange gains (EUR 2,831 k) and Other (EUR 748 k). Other operating expenses mainly consist of expenses from exchange losses (EUR 2,512 k) as well as expenses relating to other periods from write-offs of receivables (EUR 3 k) and other expenses relating to other periods (EUR 85 k).

3. Impairment Losses

Extraordinary depreciation on demo systems of EUR 477 k was recorded in the fiscal period (prior year: EUR 0 k).

Other Notes

1. Consolidated Financial Statements

The financial statements of Advantest (Europe) GmbH, Munich, are included in the consolidated financial statements of Advantest Corporation, Tokyo, Japan, which can be obtained from the parent company.

2. Members of Management

The following were managing directors authorized to represent the Company during the fiscal year 2004/2005:

Josef Schrätzenstaller, Dipl.-Ingenieur, Pfaffenhofen

Hiroji Agata, Dipl.-Ingenieur, Tokio, Japan

3. Headcount

The Company employed an annual average of 114 employees.

Munich, April 2005

Josef Schrätzenstaller

Hiroji Agata

Analysis of Fixed Assets for the Fiscal Year 2004/05

		Acquisition and production cost			
		Apr. 1, 2004 EUR	Additions EUR	Disposals EUR	Mar. 3
I.	**Intangible assets**				
	Software and licenses	1,989,010.09	100,981.57	214,877.95	1,87
II.	**Property, plant and equipment**				
1	Land, land rights and buildings including buildings on third-party land	6,748,040.96	7,000.00	1,654.44	6,75
2	Other equipment, furniture and fixtures	8,679,851.83	293,042.44	1,447,323.48	7,52
3	Low-value assets	0.00	23,581.16	23,581.16	
		15,427,892.79	323,623.60	1,472,559.08	14,27
		17,416,902.88	424,605.17	1,687,437.03	16,15

	Accumulated amortization/depreciation				Net book values	
2005	Apr. 1, 2004	Additions	Disposals	Mar. 31, 2005	Mar. 31, 2005	Mar. 31, 2004
EUR	EUR	EUR	EUR	EUR	EUR	EUR k
3.71	1,817,969.68	123,719.86	214,692.22	1,726,997.32	148,116.39	171
66.52	4,061,714.94	73,455.27	661.60	4,134,508.61	2,618,877.91	2,687
70.79	6,473,639.00	1,360,274.13	1,284,136.78	6,549,776.35	975,794.44	2,206
0.00	0.00	23,581.16	23,581.16	0.00	0.00	0
57.31	10,535,353.94	1,457,310.56	1,308,379.54	10,684,284.96	3,594,672.35	4,893
71.02	12,353,323.62	1,581,030.42	1,523,071.76	12,411,282.28	3,742,788.74	5,064

Advantest (Europe) GmbH, Munich
Management Report for the Fiscal Year from April 1, 2004 to March 31, 2005

Economic Environment

As already indicated in the last management report (fiscal year 2003/2004), it is possible to speak of a worldwide recovery of the semiconductor market.
This recovery was significant both for the semiconductor-components area and particularly for the equipment industry. On a consolidated basis, this positive development will cause an 8.9% increase for incoming orders and a 37.4% increase in sales for the Group.

Incoming orders were very positive for the past fiscal year, amounting to EUR 117,579 k. An increase of 3.13% from EUR 115,308 k to EUR 118,925 k was realized for sales volume.

The most important customers of Advantest (Europe) GmbH, Munich, during the past fiscal year - Infineon, STMicroelectronics and EEMS - have made significant investments in diverse segments. This pertains particularly to the areas Standard DRAM, Flash Memory and also other Logic & Mixed Signal products.

This development is due to significant increases in the area of consumer products and also mobile communication and computer applications. The turnaround in the semiconductor industry that was already expected last year has continued with investments that are contingent upon technology and capacities.

The flash memory segment that was expanded at Infineon has undergone a positive development, while Advantest (Europe) GmbH, Munich, managed to occupy a leading position with the T5571 System.

Furthermore, technologically decisive preliminary decisions in the area of high speed memory/ graphics device tests were made which have already led to incoming orders and which will point up the fact that Advantest (Europe) GmbH, Munich is the market leader for memory tests.

However, due to strategic restructuring at STMicroelectronics, the planned investments were not made to the extent expected. Having said that, it can be assumed that the situation will improve during the course of fiscal year 2005/06 and thus that further potential for growth can also be achieved for this strategically important customer.

The strong position Advantest (Europe) GmbH, Munich has at STMicroelectronics for flash back end tests was further stabilized and the flash front end test and logic handler business segments were expanded as additional activities.

In the area of new customer acquisitions, there were a number of significant successes which, although more minor in terms of volume, offered interesting prospects. In particular, the results at Dialog Semiconductor and AMI should be mentioned.

Business Development

The Company continued its consolidation course in the area of operating expenses during this fiscal year. The financial result was further improved due to intensive management of receivables and cash.

The margin achieved decreased on the prior year. This is primarily due to volume-dependent sales deductions, "End of lifetime pricing" of specific test series, increased acquisition costs due to exchange rate fluctuations and changes in the transfer price structure.

Sales developed very positively once again. This is essentially due to the recovery and revival of the semiconductor market and the acquisition of new customers.

Results of Operations

Sales rose by 3.13% from EUR 115,308 k to EUR 118,925 k. The order backlog as of March 31, 2005 was EUR 23.2 million.

Other operating income of EUR 3,882 k (prior year: EUR 4,410 k) primarily relates to exchange rate gains of EUR 2,831 k (prior year: EUR 2,221 k) and the reversal of accruals of EUR 115 k (prior year: EUR 498 k).

Other operating expenses of EUR 8,638 k (prior year: EUR 9,159 k) primarily comprise exchange rate losses of EUR 2,512 k (prior year: EUR 3,109 k), travel expenses of EUR 1,584 k (prior year: EUR 1,319 k), incidental personnel expenses of EUR 552 k (prior EUR 378 k), rent of EUR 971 k (prior year: EUR 1,101 k) and other expenses.

The interest result amounts to EUR 849 k (prior year: EUR 337 k). The interest income of EUR 859 k is counterbalanced by interest expenses for prior years of EUR 10 k.

At EUR 7,377 k, earnings after tax are significantly lower than the prior year level of EUR 8,987 k. Tax expenses contain tax income for prior years of EUR 196 k (prior year: EUR 253 k) and tax expenses of EUR 125 k (prior year: EUR 294 k) which pertain to prior years.

Net Assets

Investments for fixed assets amounted to a total of EUR 425 k.

In comparison to the prior year, accounts receivable fell by EUR 18,307 k.

As the inventory of goods in transit as of year end was reduced considerably by year-end, inventories dropped from EUR 3,511 k to EUR 1,271 k.

Due to appropriate tax prepayments and payments of assessed taxes, the tax accrual dropped by EUR 3,180 k.

Other accruals decreased by EUR 1,619 k. This is particularly due to a fall in potential losses.

The drop in liabilities to affiliated companies of EUR 12,034 k is essentially due to the fact that, compared to the prior year, relatively few systems were delivered before the balance sheet day.

The prior-year net profit was added to the profit carryforward. The equity ratio is thus unchanged at 70.2%.

Financial Position

The Company achieved a positive cash flow from operating activities of EUR 12,942 k during fiscal year 2004/2005.

Due to intensive receivables management, cost savings and increased sales, the cash and cash equivalents of the Company have continued to improve.

In the reporting year, interest income totaled EUR 859 k.

Branches

The Company has branches in the U.K., Italy, France, Ireland and Israel. The registration of the subsidiary in Portugal was completed as of April 13, 2004.

Risk Report

As a company with independent operations, Advantest (Europe) GmbH, Munich, is subject to a large number of risks. Risk management is therefore necessarily an integral part of all decisions and business processes.

In order to respond to potential risks due to diverse regulations and laws which pertain to taxes, competition, patents and environment, the Company bases its decisions and the design of its business processes on comprehensive legal counsel, both by its own experts and by qualified external professionals. Management has specified an appropriate approval procedure and signature rule to guarantee internal monitoring of business transactions.

System acquisitions and system sales are generally transacted in the same currency to order to avoid currency exchange risks.

The parent company supports Advantest (Europe) GmbH, Munich, by granting credit terms that are congruent with payment deadlines and also by a sensible transfer price policy.

The Company has concluded insurance policies which are constantly monitored and, if necessary, are adjusted to cover potential cases of damage and liability.

The Company is positioned on a market with a relatively limited customer group. In order to avoid becoming dependent on individual large customers, Advantest (Europe) GmbH, Munich, is constantly expanding its customer base and its market segment in other product groups.

Financial Instruments (Risk Management Objectives and Methods)

In the course of business operations, Advantest (Europe) GmbH, Munich, is subject to exchange rate fluctuations and currency risks. Effects due to exchange rate fluctuations and currency risks can particularly result from sales to customers who are not part of the euro currency area and from liabilities from affiliated companies and various terms for receivables and liabilities. The Company counters these risks by actively managing receivables, currency and cash. Open foreign currency positions in JPY are secured by forward transactions.

Strategy and Outlook

After the recovery during the past year, stagnation in the area of capital investments can be expected for the coming fiscal year.

However, important benchmarks to evaluate systems are being carried out in a number of new business areas (automotive electronics; mixed signal applications, etc.) which are already contributing initial results in the course of this year but which will not contribute volume until the following fiscal year.

In principle, a trend that has been noticeable for several years has continued and gained in significance. All relevant European semiconductor manufacturers are increasingly shifting their production locations to Asia. In particular, the focus is on China, Taiwan and Malaysia.

In this context, the established key account system has proven to be the efficient platform to secure the activities of Advantest (Europe) GmbH, Munich, on a long-term basis.

In order to account for changed market conditions, Advantest (Europe) GmbH, Munich, has initiated a far-reaching improvement project. It incorporates an analysis of the present service and support functions to guarantee support that has a wider range and faster reaction.

Munich, April 2005

Josef Schrätzenstaller

Hiroji Agata