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Advantest (Europe) GmbH
Munich

**Financial Statements and
Management Report
March 31, 2007**

COURTESY TRANSLATION

This English language report is a courtesy translation
of the original German report. For the interpretation
of the report the German text shall prevail.

 **ERNST & YOUNG**

WEDNESDAY



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COMPANIES HOUSE

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

AUDIT OPINION

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Advantest (Europe) GmbH, Munich, for the fiscal year from April 1, 2006 to March 31, 2007. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law 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 German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (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 expectations as to 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, based on the findings of our audit, the annual financial statements comply with the legal requirements and 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. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, May 11, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Marxer
Wirtschaftsprüfer
[German Public Auditor]

Christ
Wirtschaftsprüfer
[German Public Auditor]

Advantest (Europe) GmbH, Munich
Balance Sheet as of March 31, 2007

ASSETS		EUR	EUR	March 31, 2006 EUR k
A FIXED ASSETS				
I. Intangible assets				
Software and licenses		59,804 38		100
II. Property, plant and equipment				
1 Land, land rights and buildings including buildings on third party land		2,626,967 67		2,699
2 Other equipment, furniture and fixtures		1,118,438 36		1,276
		3,745,406 03		3,975
			3,805,210 41	4,075
B. CURRENT ASSETS				
I. Inventories				
Finished goods and merchandise		1,100,182 99		1,551
II Receivables and other assets				
1 Trade receivables		29,252,926 71		32,625
2 Receivables from affiliated companies thereof from shareholders EUR 499,730 75 (prior year EUR 879 k)		617,863 21		1,036
3 Other assets		4,620,713 14		950
		34,491,503 06		34,611
III Cash on hand and bank balances		65,948,466 47		53,698
			101,540,152 52	89,860
C PREPAID EXPENSES				
		335,177 35		611
		105,680,540 28		94,546

EQUITY AND LIABILITIES

	EUR	EUR	March 31, 2006 EUR k
A. EQUITY			
I Subscribed capital	10,792,650 00		10,793
II Profit carryforward	59,542,355 84		50,526
III. Net income for the year	<u>11,986,455 21</u>		9,016
		82,321,461 05	70,335
B ACCRUALS			
1 Accruals for pensions and similar obligations	421,735 00		391
2 Tax accruals	4,971,674 76		2,946
3 Other accruals	<u>4,470,586 56</u>		5,869
		9,863,996 32	9,206
C. LIABILITIES			
1 Trade payables	607,999 10		974
2 Liabilities to affiliated companies thereof to shareholders	12,454,659 98		13,661
EUR 10,425,579 00 (prior year EUR 10,832 k)			
3 Other liabilities	432,423 83		370
thereof from taxes EUR 173,542 58 (prior year EUR 136 k)			
thereof for social security EUR 29,784 25 (prior year EUR 25 k)	<u></u>		
		13,495,082 91	15,005
		<u>105,680,540 28</u>	<u>94,546</u>

Advantest (Europe) GmbH, Munich
Income Statement for the Fiscal Year
from April 1, 2006 to March 31, 2007

	EUR	EUR	Prior year EUR
1 Sales	124,237,870 34		142,148,745 84
2 Other operating income	<u>4,417,638 04</u>		<u>3,540,233 74</u>
		128,655,508 38	145,688,979 58
3 Cost of materials			
a) Cost of raw materials, consumables and supplies and of purchased merchandise	94,184,177 98		108,674,713 45
b) Cost of purchased services	2,405,638 42		3,130,674 58
4 Personnel expenses			
a) Wages and salaries	8,174,726 96		8,210,290 67
b) Social security, pension and other benefit costs thereof for old age pensions EUR 277,574 83 (prior year EUR 265,855 70)	1,555,469 11		1,622,349 96
5 Amortization of intangible assets and depreciation of property, plant and equipment	668,519 43		795,338 47
6 Other operating expenses	<u>9,378,865 08</u>		8,815,015 80
		116,367,396 98	131,248,382 93
7 Other interest and similar income	1,942,677 37		1,006,113 70
8 Interest and similar expenses	<u>73 11</u>		177 95
		<u>1,942,604 26</u>	<u>1,005,935 75</u>
9 Result from ordinary activities		14,230,715 66	15,446,532 40
10 Income taxes	2,241,973 63		6,428,064 10
11 Other taxes	<u>2,286 82</u>		2,829 44
		<u>2,244,260 45</u>	<u>6,430,893 54</u>
12 Net income for the year		<u><u>11,986,455 21</u></u>	<u><u>9,015,638 86</u></u>

Advantest (Europe) GmbH, Munich

Notes to the Financial Statements for Fiscal Year 2006/2007

General and Accounting and Valuation Methods

1. General

The financial statements as of March 31, 2007 of Advantest (Europe) GmbH, Munich, have been prepared in accordance with the HGB ["Handelsgesetzbuch" German Commercial Code] and the GmbHG ["Gesetz betreffend die Gesellschaften mit beschränkter Haftung" German Limited Liability Companies Act]

The Company meets the criteria for large corporations as defined by Sec 267 (3) HGB. In accordance with Sec 286 (4) HGB, the Company has elected not to disclose total remuneration of management in the financial statements.

The classification of the balance sheet pursuant to Sec 266 HGB and use of the cost summary method for the income statement pursuant to Sec 275 (2) HGB are unchanged.

2. Accounting and Valuation Methods

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

Intangible assets are capitalized at acquisition cost less systematic amortization. A useful life of three years is generally assumed.

Property, plant and equipment are capitalized at acquisition cost less systematic depreciation. Additions to moveable fixed assets since January 1, 2001 are depreciated using the straight line method only. Additions to moveable fixed assets prior to that date were depreciated using either the straight line method or the declining balance method. 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 fully expensed in the year of acquisition.

Income and book values of demo systems carried under fixed assets which have been sold 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 by valuation allowances.

Translation From the German Language

Pension accruals are carried at the carrying amounts as defined by Sec 6a EStG ["Einkommensteuergesetz" German Income Tax Act]

Other accruals cover 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, liabilities, and cash and cash equivalents in **foreign currency** were 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 amortization and depreciation for the fiscal year, is shown in the statement of changes in fixed assets (Exhibit 3/6).

2. Receivables and Other Assets

Receivables from affiliated companies are primarily due to trade between Advantest (Europe) GmbH, Munich, and other companies in the Advantest Group.

Receivables and other assets are all due within one year, with the exception of items included under other assets regarding the reinsurance claim of EUR 422 k (prior year EUR 391 k) and the discounted receivables amounting to EUR 3,507 k (prior year EUR 0 k) from the creditable corporate income tax credit.

Other assets contain receivables due from the tax office of EUR 304 k (prior year EUR 308 k) from VAT payables.

3. Other Accruals

Other accruals contain a significant amount for warranties (EUR 2,549 k, prior year EUR 3,637 k), personnel obligations (EUR 1,428 k, prior year EUR 1,502 k) and outstanding invoices and legal and consulting fees (EUR 397 k, prior year EUR 643 k).

Translation From the German Language

4. Liabilities

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

(in EUR k) Type of liability	March 31, 2007		Total	March 31, 2006	
	up to 1 year	Due in more than 5 years		Due in up to 1 year	Total
1 Trade payables	608	0	608	974	974
2 Liabilities to affiliated companies	12,455	0	12,455	13,661	13,661
3 Other liabilities	432	0	432	370	370
thereof for taxes	174	0	174	136	136
thereof for social security	30	0	30	25	25

Liabilities to affiliated companies are primarily due to trade between Advantest (Europe) GmbH, Munich, and other companies in the Advantest Group.

5. Derivative Financial Instruments

To secure the receivables and liabilities in JPY as of the balance sheet date, forward exchange contracts were concluded on a sufficient scale.

The fair value and the corresponding nominal value of each contract concluded on the balance sheet date are as follows:

Type/category	March 31, 2007		March 31, 2006	
	Nominal value EUR k	Fair value EUR k	Nominal value EUR k	Fair value EUR k
Forwards/currency transactions (sale of foreign currencies)	25,293	24,892	32,036	31,391
Forwards/currency transactions (purchase of foreign currencies)	9,321	9,247	12,909	12,663

The terms for the forward exchange contracts are between two and six months.

The nominal values refer to the sum of all purchase and sale amounts which the business transactions are based on. The market values refer to the redemption values of the forward transactions 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 taken into account here.

Translation From the German Language

The carrying value of the derivative financial instruments used as currency hedges, which is EUR 327 k (prior year EUR 399 k), was capitalized as trade receivables due to the formation of a valuation unit with the hedged underlying transactions

6. Contingent Liabilities

There were no contingent liabilities as of the balance sheet date which are not disclosed in the balance sheet or the notes to the financial statements or which the Company is required to disclose in the balance sheet or the accompanying notes

Notes to the Income Statement

1. Sales

The Company generated its sales exclusively by selling test systems for semiconductor products and related services. Sales can be classified by business activity and geographical market as follows

	<u>Trading sales</u>	<u>Services</u>	<u>Total</u>
	EUR k	EUR k	EUR k
Other countries	100,130	7,612	107,742
Germany	<u>14,963</u>	<u>1,533</u>	<u>16,496</u>
	<u>115,093</u>	<u>9,145</u>	<u>124,238</u>

2. Other Operating Income and Expenses

Other operating income essentially contains income from the reversal of accruals (EUR 159 k, prior year EUR 140 k) and from exchange rate gains (EUR 3,748 k, prior year EUR 2,837 k). Other operating expenses mainly consist of expenses from exchange rate losses (EUR 3,512 k, prior year EUR 2,559 k), expenses for premises (EUR 796 k, prior year EUR 670 k), vehicle costs (EUR 730 k, prior year EUR 762 k), travel expenses (EUR 1,570 k, prior year EUR 1,579 k), legal and consulting fees (EUR 868 k, prior year EUR 825 k) and non wage labor costs (EUR 641 k, prior year EUR 624 k).

3. Extraordinary Write-Downs

There were no extraordinary write downs in the current fiscal year

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 registered office of the parent company

2. Members of Management

The following were general managers holding sole power of representation in the fiscal year 2006/2007

Josef Schratzenstaller, Pfaffenhofen, Germany, Managing Director of Advantest (Europe) GmbH
Hiroji Agata, Tokyo, Japan, Sales and Marketing Director of Advantest Corporation

3. Headcount

The Company employed an annual average of 113 employees (prior year 111)

4. Other Financial Obligations

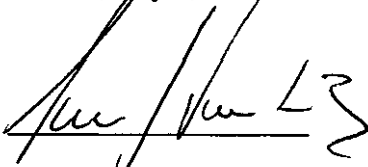
Obligations for rental agreements and leases are due as follows in the fiscal years

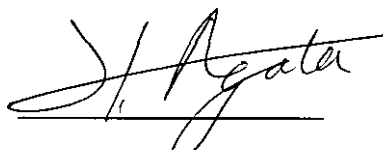
	EUR k
2007/08	992
2008/09	694
2009/10	419
2010/11	<u>4</u>
	<u>2,109</u>

5. Pension Accruals for Former Board Members

The pension accrual of EUR 422 k (prior year EUR 391 k) includes EUR 33 k (prior year EUR 32 k) for former members of management

Munich, May 4, 2007


Josef Schratzenstaller
General Manager


Hiroji Agata
General Manager

Statement of Changes in Fixed Assets 2006/2007

		Acquisition and production costs			
		April 1, 2006	Additions	Disposals	M
		EUR	EUR	EUR	
I. Intangible assets					
	Software and licenses	1,915,765 72	45,221 01	156,435 92	
II. Property, plant and equipment					
1	Land, land rights and buildings including buildings on third party land	6,909,678 32	9,550 86	9,979 11	
2	Other equipment, furniture and fixtures	6,267,584 16	266,232 07	325,946 15	
3	Low value assets	0 00	77,465 99	77,465 99	
		13,177,262 48	353,248 92	413,391 25	1
		15,093,028 20	398,469 93	569,827 17	1

March 31, 2007	Accumulated amortization, depreciation and write downs				Net book values	
	April 1, 2006	Additions	Disposals	March 31, 2007	March 31, 2007	March 31, 2006
EUR	EUR	EUR	EUR	EUR	EUR	EUR k
1,804,550 81	1,815,462 30	85,701 36	156,417 23	1,744,746 43	59,804 38	100
1,909,250 07	4,210,993 58	81,267 93	9,979 11	4,282,282 40	2,626,967 67	2,699
1,207,870 08	4,991,293 72	424,084 15	325,946 15	5,089,431 72	1,118,438 36	1,276
0 00	0 00	77,465 99	77,465 99	0 00	0 00	0
1,117,120 15	9,202,287 30	582,818 07	413,391 25	9,371,714 12	3,745,406 03	3,975
1,921,670 96	11,017,749 60	668,519 43	569,808 48	11,116,460 55	3,805,210 41	4,075

Advantest (Europe) GmbH

Management Report as of March 31, 2007

Economic Environment

As already indicated in the management report of the prior year, the semi conductor market continued to develop positively in the past fiscal year. This primarily applies to fields such as LCD panels, game consoles and standard system on chip (SoC) applications. However, the rise in unit sales was associated with a massive drop in prices, particularly for semiconductor storage devices (and flash memories especially so), which led to the IDM's affected scaling back the capital expenditures they had planned for the year.

This was partly compensated by investments related to the expansion of the 300mm assembly lines (DRAM). The announced launch of the new Microsoft operating system also had a positive impact.

On a consolidated basis, the Advantest Group posted a 6.4% fall in its incoming orders and a 7.4% fall in sales revenues.

The situation of Advantest Europe (GmbH) is similar. The incoming order decreased by 5.8% and sales volume by 12.6%.

In the past fiscal year, the main customers of Advantest (Europe) GmbH were Qimonda (IDM/memory), EEMS (testhouse) and STM.

Due to the structural changes it has announced, STM has reduced the investments it had planned in the field of NAND/NOR memories to a minimum. This has had a particular impact on our business plan for flash memory testers.

Capacity at Qimonda is currently being expanded, mostly at its branches in Portugal and China. These locations will remain a central priority for Advantest (Europe) GmbH.

The activities commenced in the reporting period in relation to entering new markets in the automotive sector are not expected to show any positive signs until subsequent periods. Corresponding benchmarks have already been initiated and have been given a high priority.

The device interface segment continued to focus its cost saving initiatives in the field of production, further supporting the positive trend in this field.

Business Development

The Company continued to pay careful attention to budgeting and controlling its operating expenses. The increase on the prior year is mainly a result of exchange rate losses.

Sales in the fiscal year decreased largely due to the fall in the JPY.

In terms of local currency, the Company's sales were approximately at the same level as in the prior year.

In spite of growing demands for bulk rebates, "end of lifetime pricing" for certain lines of testers, higher procurement costs due to fluctuations in exchange rates and changes in transfer prices, the Company's margin improved slightly on the prior year due to relatively higher sales of services.

The financial result was further improved due to intensive management of receivables and cash.

Results of Operations

Sales decreased by 12.6% from EUR 142,149 k to EUR 124,238 k.

The order backlog as of March 31, 2007 came to EUR 32.8 million.

Other operating income of EUR 4,418 k (prior year EUR 3,540 k) primarily relates to exchange rate gains of EUR 3,748 k (prior year EUR 2,837 k) and the reversal of accruals of EUR 159 k (prior year EUR 140 k).

Other operating expenses of EUR 9,379 k (prior year EUR 8,815 k) primarily comprise exchange rate losses of EUR 3,512 k (prior year EUR 2,559 k), travel expenses of EUR 1,570 k (prior year EUR 1,579 k), non wage labor costs of EUR 641 k (prior EUR 624 k), rent of EUR 796 k (prior year EUR 670 k) and other expenses.

The interest result amounts to EUR 1,943 k (prior year EUR 1,006 k).

Tax expenses include expenses of EUR 19 k relating to prior years (prior year EUR 249 k). Above and beyond this, the discounted corporate income tax credit of EUR 3,507 k was offset against the tax expense.

At EUR 11,986 k, earnings after tax are significantly higher than the prior year level of EUR 9,016 k.

Net Assets

Capital expenditures on fixed assets totaled EUR 398 k (prior year EUR 1,276 k)

In comparison to the prior year, accounts receivable decreased by EUR 3,374 k

Inventories of EUR 1,110 k decreased by EUR 451 k compared to prior year

Tax accruals amount to EUR 4,972 k (prior year EUR 2,946 k)

Other accruals decreased by EUR 1,398 k This is particularly due to a reduction in accruals for warranties

The drop in liabilities to affiliated companies of EUR 1,206 k is essentially due to the fact that, as in the prior year, relatively few systems were delivered shortly before the balance sheet date

The net income brought forward from the prior year was added to the profit carry forward The equity ratio is thus unchanged at 78%

Financial Position

The Company generated a cash inflow from operating activities of EUR 12,648 k during fiscal year 2006/2007

Cash and cash equivalents of EUR 397 k were used for investing activities

In comparison to the prior year, cash and cash equivalents increased by 22.8% to EUR 65,948 k

Economic Situation of the Company

In sum, the net assets, financial position and results of operations of the Company are very stable Cash and cash equivalents easily cover liabilities

The sales, results of operations and forecasts of these items for the coming fiscal year are very positive

Branches

The Company has branches in the U K , Italy, France, Portugal, Ireland and Israel

Opportunities and Risks

Risks Relating to Future Development

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

Procedures have been defined for the main business processes, risk matrices have been prepared and internal controls defined accordingly

System purchases and sales are generally transacted in the same currency in order to avoid foreign exchange exposures

The Company has concluded insurance policies which are regularly reviewed and, if necessary, adjusted to cover potential cases of damage and liability risks

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

Opportunities Relating to Future Development

We expect the market to move sideways in the coming reporting year Investments will be made in DRAM in the wake of the high demand expected from various sectors of consumer electronics

Qimonda has already announced that it will set up an additional wafer fab and the STM/INTEL joint venture will also make investments

Due to further developments in the device interface segment, design in activities and improvement and expansion of the services offered, primarily at our foreign branches, the Company believes it has a good chance of defending its market share of the European market against the competition

Financial Instruments (Risk Management Objectives and Methods)

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

Strategy and Outlook

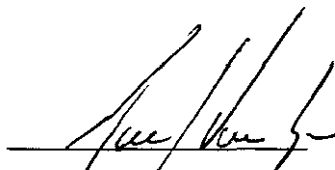
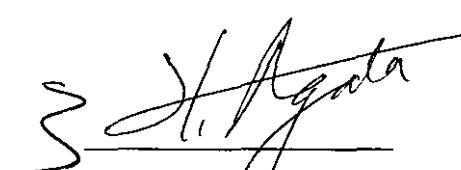
We see new potential for SoC ICs, both for micro controller applications and for the consumer market. Applications in the radio frequency (RF) field will gain an importance in future. We are also expecting the technology integrated in the T2000 model to enjoy its first successes there.

Our activities in automotive applications (system selection has already commenced) will be completed in the course of 2008 and will open up new sales opportunities for us.

In conjunction with the Open Architecture Initiative, Advantest (Europe) GmbH has initiated several programs which will help to expand the scope of our business activities in future.

The Company expects sales in the coming year to remain stable and profits to be as healthy as they were in the reporting year.

Munich, May 4, 2007

	
Josef Schratzenstaller General Manager	Hiroji Agata General Manager