

Advantest's Business

As of the end of March 2007, the Advantest Group encompasses: Advantest Corp., 40 consolidated subsidiaries, and one company accounted for by the equity method. Our company is chiefly engaged in the development, manufacturing, and sale of semiconductor and component test systems and mechatronics-related products, and also in the maintenance and servicing of these products. Of our three reportable business segments — semiconductor and component test systems, mechatronics (test handlers, device interface products, EB lithography equipment), and services, support — the most significant is semiconductor and component test systems, which accounted for 71.4% of sales in fiscal 2006. This segment encompasses our memory test systems for memory semiconductor devices and non-memory test systems for semiconductors other than memory.

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**Bigger Puzzle?
Don't despair.**

**Complexity
growing?**



Don't give up.

To Our Stakeholders

Fiscal 2006 Business Results

In fiscal 2006, our business environment saw some semiconductor manufacturers reducing capital spending due in part to a decline in flash memory semiconductor prices, but the market generally held strong, buoyed by demand for digital consumer products such as mobile phones, flat-panel televisions, and game consoles. Also favorable, semiconductor manufacturers accelerated investments in 300-mm wafer manufacturing, and from the second half of the year, DRAM manufacturers increased capital spending, gearing up for the sale of personal computers with new operating systems.

Under these circumstances, our company worked to expand sales by providing total solutions of products and services to meet varied customer demands. We also further promoted production reforms through our just-in-time production system, introduced in August 2003, and took steps to improve quality and productivity and to reduce costs.

As a result, sales totaled 235.0 billion yen, down 7.4%, income before taxes totaled 61.1 billion yen, down 9.4%, and net income fell 14.1% to 35.6 billion yen, each compared to the previous fiscal year.

Forecast for Fiscal 2007

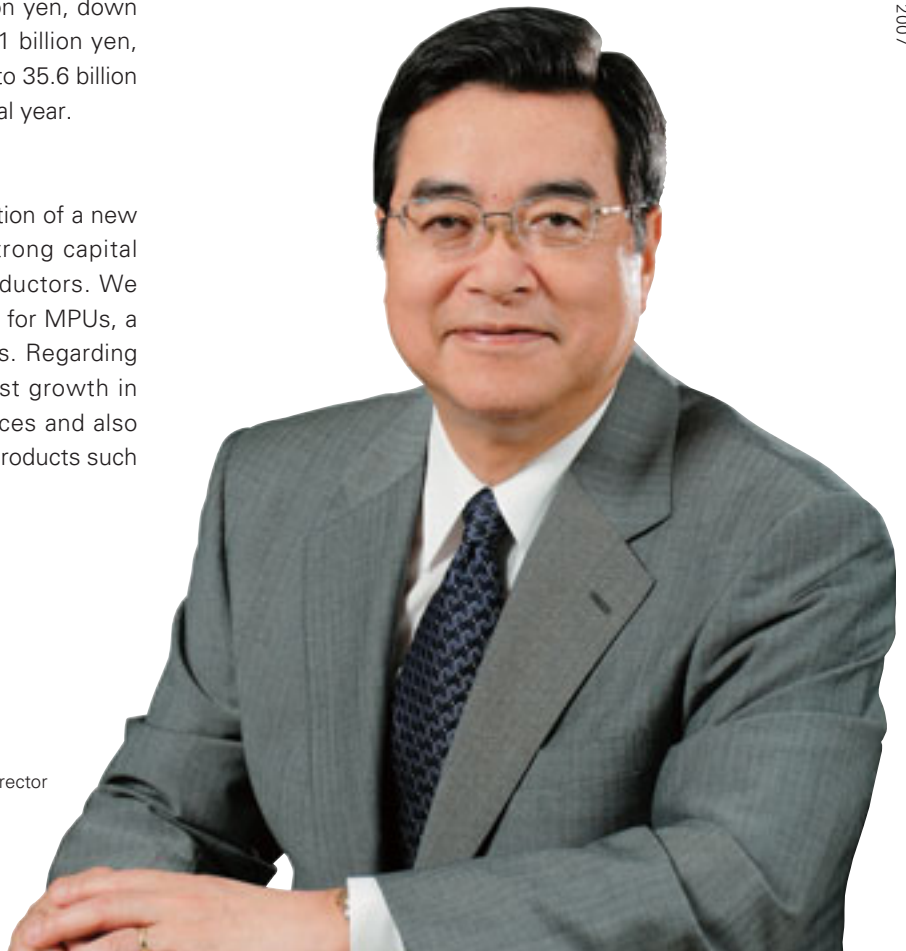
In fiscal 2007, we anticipate wider adoption of a new operating system in PCs, and thus strong capital investment for DDR2 DRAM semiconductors. We also expect a revival of capital spending for MPUs, a core component in personal computers. Regarding digital consumer products, we forecast growth in demand for multi-function mobile devices and also investment for increased production of products such

as flat-panel televisions in anticipation of the 2008 Beijing Olympics.

However, we have some concerns, including restrained capital spending due to an unpredictable balance of supply and demand in the semiconductor market, sharp rises in raw material prices, exchange-rate risks, and the accompanying downward pricing pressure.

Our company will deal with this by taking steps to further increase orders and sales by strengthening marketing and development systems and introducing appropriately timed new products that anticipate customer needs. To further increase cost competitiveness, through the company-wide Activate 21 initiative, we are revising business processes company-wide, improving production efficiency, and taking steps to further boost profitability.

Toshio Maruyama
Representative Board Director
President and CEO



A Year of Opportunities for Growth

The semiconductor market in 2006 was valued at about 250 billion dollars. The market for semiconductor test systems is around 5 billion dollars, representing only about 2% of the semiconductor market. To grow in this niche market, we must continue expanding market share, and fortunately, with the progress of end-user products, the business environment presents a wealth of opportunities for our company.

For example, with the introduction of a new PC operating system, a shift is taking place toward higher performance MPUs and faster and higher capacity memory. For next-generation MPUs, we anticipate growth in demand for our T2000 open-architecture SoC test system, and the price competition among MPU manufacturers and efforts toward cost reduction will be an opportunity to make the most of the superior cost effectiveness of the T2000. Furthermore, owing to our core competency and strength in memory test technology, we are ahead of the curve in responding to the industry's increasing memory speeds and have a distinguished product lineup of high-speed memory test systems on-board, including the T5588.

In addition, with the anticipated advances in applications for mobile devices, including mobile phones, LCD televisions, and automobiles, we expect higher demand for other semiconductor test systems, including the T5300 series memory test system, the new T6373 LCD driver IC test system, and the T6500 series SoC test system.

Expanding Market Share

To expand market share, we are working to strengthen our development and manufacturing systems.

Specifically, in addition to strengthening our engineer recruitment procedures, we have plans for a new clean-room building in the grounds of Advantest Laboratories Ltd. in Sendai, as well as for a new company, Advantest Component, Inc., to carry out integrated development and production of key devices such as MEMS switches used in semiconductor test systems and of other electronic parts.

In manufacturing, through the company-wide adoption of the just-in-time production system, we will strengthen systems for all departments, including the development, sales, and administrative divisions, to provide backup to the production departments. In addition, as part of our relocation activities, we will move production sites to improve efficiency in development, production, and distribution. Furthermore, we will strive to improve quality at a components and design level as well, not simply in manufacturing.

These efforts will contribute to our ability to create an environment capable of bringing high-quality products to market in a timely manner, seizing business opportunities, and expanding our market share.



T2000



**The best configuration
for you, we know it.**

Nothing puzzling
for us in
global markets.



Advantest's CSR Efforts

At the same time that our company strives for future growth, through our Corporate Social Responsibility (CSR) committee, we are also monitoring and supervising all corporate social responsibility activities, including the areas of environment, human rights, and disclosure, in order to fulfill our corporate social responsibilities to all our stakeholders.

In October 2006, we formulated our "CSR Policy," consisting of five categories: "Harmonizing with Society," "Respecting our Customers," "Respecting our Shareholders and Investors," "Respecting our Suppliers," and "Respecting our Employees." These guidelines were included in the "Advantest Code of Conduct," revised in April 2007, and redistributed to all our employees.

In the future too, we will continue to ensure that each and every employee holds an awareness of corporate citizenship, we will seriously consider environmental problems and their future course, and we will work towards sustainable corporate growth, so future generations can enjoy our precious natural environment.

Basic Policy on Profit Appropriation and Dividends

Based on the premise that long-term and continued growth in corporate value is fundamental to the creation of shareholder value, our company has considered the consistent distribution of profits to be the most important management priority and has maintained a policy to continue with constant dividend payouts. While aiming to make consistent distributions, because of the fluctuation of the market in which we operate, we make dividend payouts following a target payout ratio of 20% or more. Accordingly, in response to the consistent support we have received from our shareholders, we have, based on the above profit distribution policies, increased the year-end dividend per share by 15.0 yen, from the 17.5 yen of the previous forecast to 32.5 yen.

Furthermore, our company, through a resolution of the Board of Directors, repurchased its shares, up to a volume of 3.6 million shares or total value of 20 billion yen. By May 17, 2007, we had repurchased 3.6 million shares.

In the future as well, we will take the initiative in providing profit distributions based on our consolidated results.

Toshio Maruyama

Representative Board Director
President and CEO



Directors

The Board of Directors has the ultimate responsibility for the administration of the affairs of the Company. The Company's articles of incorporation limit the number of directors to ten. Directors are elected at a general meeting of shareholders, and the standard term of directors is one year. Directors may serve any number of consecutive terms. The Board of Directors elects one or more representative directors from among its members, each of whom has the authority individually to represent the Company. From among its members, the Board of Directors may elect the chairman and the vice chairman. None of the directors of the Company has a service contract with the Company that provides for benefits upon termination of service.

Pursuant to the Company Law and the Company's articles of incorporation, and to the extent permitted by the laws and regulations, the Company may, by resolution of the Board of Directors, exempt liabilities of its directors (including persons who have previously served as the Company's directors) for failing to perform their duties. The Company may enter into contracts with outside directors to limit their liabilities for a failure to perform their duties, provided that the maximum amount of liabilities under such contracts shall be the total of the amounts provided in each item of Article 425, Paragraph 1 of the Company Law.

Corporate Auditors

The Company's articles of incorporation provide for no more than five corporate auditors and the Company currently has two Corporate Standing Auditors and three outside corporate auditors (of the three outside corporate auditors, one is a Corporate Standing Auditor). Corporate auditors are elected at the general meeting of shareholders and the standard term of office of corporate auditors is four years. Under the Company law, at least half of the corporate auditors are required to be persons who have not been a director, accounting counselor (if an accounting counselor is a corporation, an employee of such corporation who executes its duties), executive officer, manager, or employee of the Company or any of its subsidiaries at any time in the past. Corporate auditors may not at the same time be directors, accounting counselors (if an

accounting counselor is a corporation, an employee who executes its duties), executive officers, managers, or employees of the Company or any of its subsidiaries. The Company increased the number of required outside corporate auditors from one to two, and again from two to three, at the general meetings of shareholders held in June 2003 and June 2007, respectively, in order to strengthen the auditing function of the board of corporate auditors. Corporate auditors are under a statutory duty to oversee the administration of the Company's affairs by its directors, to audit its financial statements to be submitted by its Board of Directors to the general meetings of the shareholders and to report their opinions thereon. They are also required to attend the meetings of the Board of Directors and to express their opinions, but are not entitled to vote.

Corporate auditors constitute the board of corporate auditors. The board of corporate auditors has a statutory duty to prepare and submit an audit report to the directors each year. A corporate auditor may note his or her opinion in the audit report if his or her opinion is different from the opinion expressed in the audit report. The board of corporate auditors is empowered to establish audit policy, methods to investigate the state of business operations and assets and other matters relating to the execution of duties by corporate auditors.

Pursuant to the Company Law and the Company's articles of incorporation, and to the extent permitted by the laws and regulations, the Company may, by resolution of the Board of Directors, exempt liabilities of its corporate auditors (including persons who have previously served as the Company's corporate auditors) for failing to perform their duties. The Company may enter into contracts with outside corporate auditors to limit their liabilities for a failure to perform their duties, provided that the maximum amount of liabilities under such contracts shall be the total of the amounts provided in each item of Article 425, Paragraph 1 of the Company Law.

Significant Differences in Corporate Governance Practices between the Company and U.S. Companies Listed on the New York Stock Exchange

Pursuant to home country practices exemptions granted by the New York Stock

Exchange, or the NYSE, the Company is permitted to follow certain corporate governance practices complying with Japanese laws, regulations and stock exchange rules in lieu of NYSE's listing standards. The United States Securities and Exchange Commission, or the SEC, approved changes to the NYSE's listing standards related to corporate governance practices of listed companies in November 2003, as further amended in November 2004. The Company is exempted from the approved changes, except for requirements that (a) the Company's audit committee satisfy the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934 as amended, or the Exchange Act, (b) the Company must disclose significant differences in the corporate governance practices followed by the Company as compared to those followed by domestic companies under the NYSE listing standards, (c) the Company's CEO must notify the NYSE of material non-compliance with (a) and (b), and (d) the Company must submit annual and interim written affirmations to the NYSE. The Company's corporate governance practices and those followed by domestic companies under the NYSE listing standards, or NYSE Corporate Governance, have the following significant differences:

1. Directors

The Company currently has two outside directors on its Board of Directors. Unlike NYSE Corporate Governance, the Company Law of Japan and related legislation (hereinafter in Item 6.C, the "Company Law"), do not require Japanese companies with boards of corporate auditors such as the Company to have any outside directors on its Board of Directors. While NYSE Corporate Governance requires that the non-management directors of each listed company meet at regularly scheduled executive sessions without management, the Company currently has no non-management director on its Board of Directors. Unlike NYSE Corporate Governance, the Company Law does not require, and accordingly the Company does not have, an internal corporate organ or committee comprised of only outside directors.

2. Committees

The Company has not established committees responsible for director nomination, cor-

porate governance and executive compensation as required by NYSE Corporate Governance, but it has adopted a system of corporate auditors based on the Company Law and integrated such system into the Company's corporate governance structure. In addition, in connection with such system of corporate auditors, the Company has elected to establish a nomination and compensation committee, which is an optional committee under the Company Law.

Pursuant to the Company Law, the Company's Board of Directors nominates and submits a proposal for appointment of directors for shareholder approval. The shareholders vote on such nomination at the Company's general meeting of shareholders. The Company Law requires that the respective total amount of remuneration, among others, (remuneration, bonus, and other consideration for services related to employment) to be paid to all directors and all corporate auditors must be determined by a resolution of the general meeting of shareholders, unless their remuneration is provided for in the articles of incorporation. The distribution of remuneration among directors is broadly delegated to the Company's Board of Directors and the distribution of remuneration among corporate auditors is determined by the board of corporate auditors.

3. Audit Committee

The Company avails itself of paragraph (c)(3) of Rule 10A-3 of the Exchange Act, which provides a general exemption from the audit committee requirements to a foreign private issuer with a board of corporate auditors, subject to certain requirements which continue to be applicable under Rule 10A-3.

Consistent with the requirements of the Company Law, the Company elects its corporate auditors through a resolution adopted at a general meeting of shareholders. The Company currently has four corporate auditors, which exceeds the minimum number of corporate auditors required pursuant to the Company Law.

Unlike NYSE Corporate Governance, the Company Law, among others, does not require corporate auditors to establish an expertise in accounting nor are they required to present other special knowledge and experience. Under the Company Law, the board of

corporate auditors may determine audit policy, methods to investigate the state of business operations and assets and other matters relating to the execution of duties by corporate auditors, prepare corporate auditors' reports and give consent to proposals of the nomination of corporate auditors and accounting auditors.

The Company currently has three corporate auditors who satisfy the requirements of "outside corporate auditor" under the Company Law. Unlike NYSE Corporate Governance, under the Company Law, at least one-half of the corporate auditors of the Company must be "outside corporate auditors," which is a person who was not a director, an accounting counselor (if an accounting counselor is a corporation, an employee of such corporation who carries out its duties), executive officer, general manager, or any other employee of the Company or any of its subsidiaries at any time in the past. Corporate auditors may not at the same time be directors, an accounting counselor (if an accounting counselor is a corporation, an employee who carries out its duties), executive officer, general manager, or any other employee of the Company or any of its subsidiaries.

4. Corporate Governance Guidelines

The Company is required to adopt or disclose corporate governance guidelines under Japanese laws and regulations, including the Company Law and the Securities and Exchange Law of Japan or stock exchange rules. Pursuant to the Company Law, the Company is required to decide to implement a structure as required by an ordinance of the Ministry of Justice (the "Internal Control System") in order to ensure directors' compliance with applicable laws and regulations and the Company's articles of incorporation while executing their duties and joint stock companies' proper business operation, and is required to disclose the decision to implement the Internal Control System, policies and the conditions of its corporate governance in its business report, annual securities report and certain other disclosure documents in accordance with the Company Law, the Securities and Exchange Law, and applicable Cabinet ordinances and stock exchange rules in respect of timely disclosure.

5. Code of Business Conduct and Ethics.

Unlike NYSE Corporate Governance, under Japanese law (including the Company Law and the Securities and Exchange Law of Japan), and stock exchange rules, the Company is not required to adopt a code of business conduct and ethics for directors, officers and employees. Accordingly, the Company is not required to adopt and disclose a code of business conduct and ethics for these individuals. However, in accordance with the Company Law, the Company has decided to implement the Internal Control System as a structure to ensure that director's execution of their duties at meetings of the Board of Directors complies with applicable laws and regulations and the Company's articles of incorporation. Furthermore, the Company has established a code of ethics consistent with Section 406 of the Sarbanes-Oxley Act.

6. Shareholder Approval of Equity Compensation Plans

Unlike NYSE Corporate Governance, in which material revisions to equity-compensation plans of the listed companies are subject to shareholder approval, pursuant to the Company Law, if a joint stock company desires to adopt an equity-compensation plan for directors as compensation to directors other than cash, such company is generally required to obtain shareholder approval by an "ordinary resolution." In addition to the above approval, when the Company previously desired to adopt an equity-compensation plan under which stock acquisition rights are granted on favorable terms to the recipient under the plan (except where such rights are granted to all of its shareholders on a pro-rata basis at the same time), then the Company has obtained shareholder approval by a "special resolution" of a general meeting of shareholders, where the quorum is one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting is required.



Jiro Haneda

Hitoshi Owada

Hiroshi Tsukahara

Hiroji Agata

Yasushige Hagio

Toshio Maruyama

Board of Directors

Shimpei Takeshita
Chairman of the Board

Toshio Maruyama
Representative Board Director

Naoyuki Akikusa
Director

Yasushige Hagio
Director

Junji Nishiura
Director

Hiroji Agata
Director

Takashi Tokuno
Director

Hiroshi Tsukahara
Director

Yuichi Kurita
Director

Corporate Auditors

Takashi Takaya
Corporate Standing Auditor

Hitoshi Owada
Corporate Standing Auditor

Megumi Yamamuro
Corporate Auditor

Jiro Haneda
Corporate Auditor

Corporate Executive Officers

Toshio Maruyama
President and CEO

Senior Executive Officers

Junji Nishiura
Technology and Production

Hiroji Agata
Sales and Marketing

Takashi Tokuno
Products



Shimpei Takeshita

Naoyuki Akikusa

Junji Nishiura

Takashi Tokuno

Yuichi Kurita

Takashi Takaya

Megumi Yamamuro

Managing Executive Officers

Hiroshi Tsukahara
Senior Vice President,
1st Test System Business Group

Yuichi Kurita
Senior Vice President,
Corporate Planning Group

Yuri Morita
Senior Vice President,
Corporate Affairs Group

Jiro Katoh
Senior Vice President,
Production Support Group

Takao Tadokoro
Senior Vice President,
Sales and Marketing Group

Hiroyasu Sawai
Senior Vice President,
SE Group

Yoshiro Yagi
Vice President,
Sales and Marketing Group

Executive Officers

Masao Shimizu
Senior Vice President,
DI Business Group

Masao Araki
President and CEO,
Advantest Customer Support Corporation

Hideaki Imada
Senior Vice President,
2nd Test System Business Group

Akira Hatakeyama
President,
Advantest Manufacturing, Inc.

Yasuhiro Kawata
Senior Vice President,
Cost Planning Group

Takashi Sugiura
Senior Vice President,
FA Business Group

Shinichiro Kuroe
Vice President,
Sales and Marketing Group

Takashi Sekino
Senior Vice President,
Technology Development Group

Hiroshi Nakamura
Senior Vice President,
Financial Group

Yoshiaki Yoshida
Vice President,
Corporate Planning Group

Minoru Morishita
Manager,
Nanotechnology 2nd Business Division

Financial Highlights

Advantest Corporation and Consolidated Subsidiaries

	2003	2004	2005	2006	2007	2007
Years ended March 31:	Yen (in millions, except per share and share data)					U.S. Dollars (in thousands, except per share and share data)
Consolidated Statement of Operations Data:						
Net sales	¥97,740	¥174,218	¥239,439	¥253,922	¥235,012	\$1,990,784
Operating income (loss)	(16,743)	30,960	60,719	64,458	56,792	481,084
Income (loss) before income taxes	(18,688)	28,878	61,808	67,454	61,090	517,493
Net income (loss)	(12,994)	17,329	38,078	41,374	35,556	301,194
Net income (loss) per share:						
Basic*	(66.00)	88.19	194.77	223.17	190.01	1.61
Basic weighted average shares outstanding*	196,890,222	196,501,660	195,500,690	185,389,026	187,128,842	187,128,842
As of March 31:						
Total assets	¥281,224	¥330,808	¥296,769	¥350,776	¥366,374	\$3,103,549
Total stockholders' equity	210,663	221,768	206,749	257,927	294,797	2,497,221

Note 1: The above financial data were prepared under U.S. GAAP.

Note 2: In this annual report, amounts reported in Japanese yen have been translated into U.S. dollars for the convenience of readers. The rate used for this translation was \$1.00=¥118.05, the approximate exchange rate in Japan on March 31, 2007.

*On October 1, 2006, the Company conducted a two for one stock split of shares of its common stock. Net income (loss) per share and average number of shares outstanding for each period presented have been restated to reflect the effects of the stock split.

