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# Financial Results for 3rd Quarter Fiscal 2006

*(Mr. Owada, Director and Managing Executive Officer)*

I am Hitoshi Owada.

Thank you for attending this informational meeting.  
Today, we'll present our financial results for the third quarter  
of fiscal 2006.

## Summary of Achievements

ADVANTEST

(In Billions of Yen)

	FY2005				FY2006						
	1Q	2Q	3Q	1Q-3Q Total	1Q	2Q	3Q		1Q-3Q Total		
							Y o Y %	Q o Q %	Y o Y %		
Orders	60.8	60.8	75.7	197.3	64.9	50.3	57.9	-23.5	+15.1	173.1	-12.2
Sales	52.0	55.1	67.8	174.9	59.9	60.6	45.7	-32.6	-24.6	166.2	-5.0
Operating Income	11.8	10.9	17.8	40.5	16.3	15.9	7.9	-55.6	-50.2	40.1	-0.9
Income Before Tax	12.1	12.4	18.6	43.1	17.2	16.8	9.4	-49.6	-44.1	43.3	+0.6
Net Income	7.8	6.8	11.3	25.9	11.5	10.7	5.6	-50.7	-47.9	27.8	+7.1
Backlog	48.4	54.0	61.9	—	50.1	39.8	52.0	—	—	—	—

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First, I will present a summary of our results.

In the third quarter of fiscal 2006,

- Orders reached 57.9 billion yen, a 15.1% increase from the second quarter. However, this was still a drop of 23.5% from the third quarter of last year, where orders were extremely strong.
- Sales were 45.7 billion yen, a drop of 32.6% from the same quarter last year.
- Operating income was 7.9 billion yen, a drop of 55.6% from the same quarter last year.
- Net income was 5.6 billion yen, a drop of 50.7% from the same quarter last year.

Therefore, both sales and income showed weak results this quarter.

In our nine-month cumulative results from April to December, we see that

- Orders fell by 12.2% from the same term last year to 173.1 billion yen.
- Sales fell by 5% from the same term last year to 166.2 billion yen.



This is a summary of our business in the third quarter.

As shown here, in anticipation of the release of the new PC operating system “Windows Vista™,” sales of the T5500 series for DRAM back-end processes were extremely strong, particularly in South Korea and Taiwan, as efforts are made to respond to higher demand for DDR2 DRAM.

Also, the T5300 series for DRAM front-end processes, which enjoyed strong results in the fiscal first half, experienced a slight slowdown in demand for flash memory, but continued to show strong results in South Korea, Taiwan, and other countries primarily for testing of DRAM for PCs.

On the other hand, the T2000, which had especially strong results last year, began to slow down at the beginning of this year, and it still did not show a recovery in this third quarter.

Financial Forecast		ADVANTEST®		
		(In Billions of Yen)		
	FY2005 (Results)	FY2006 (Forecast)		FY2006 Previous Forecast
			Y o Y - %	
Orders	259.4	245.0	-5.6	245.0
Sales	253.9	240.0	-5.5	255.0
Operating Income	64.5	61.0	-5.4	65.0
Income Before Tax	67.5	64.0	-5.1	68.0
Net Income	41.4	41.0	-0.9	43.0
Backlog	45.1	50.1	—	35.1

Next, in our financial forecasts for this fiscal year,

- We expect orders to reach 245 billion yen, which is unchanged from our previous forecast.
- For sales, however, we have lowered our forecast by 15 billion yen to 240 billion yen due primarily to the slow pace of recovery in non-memory test systems.
- As a result, we have revised our forecast for operating income to 61 billion yen, a reduction of 4 billion yen from before, and our forecast for net income to 41 billion yen, a reduction of 2 billion yen from before.

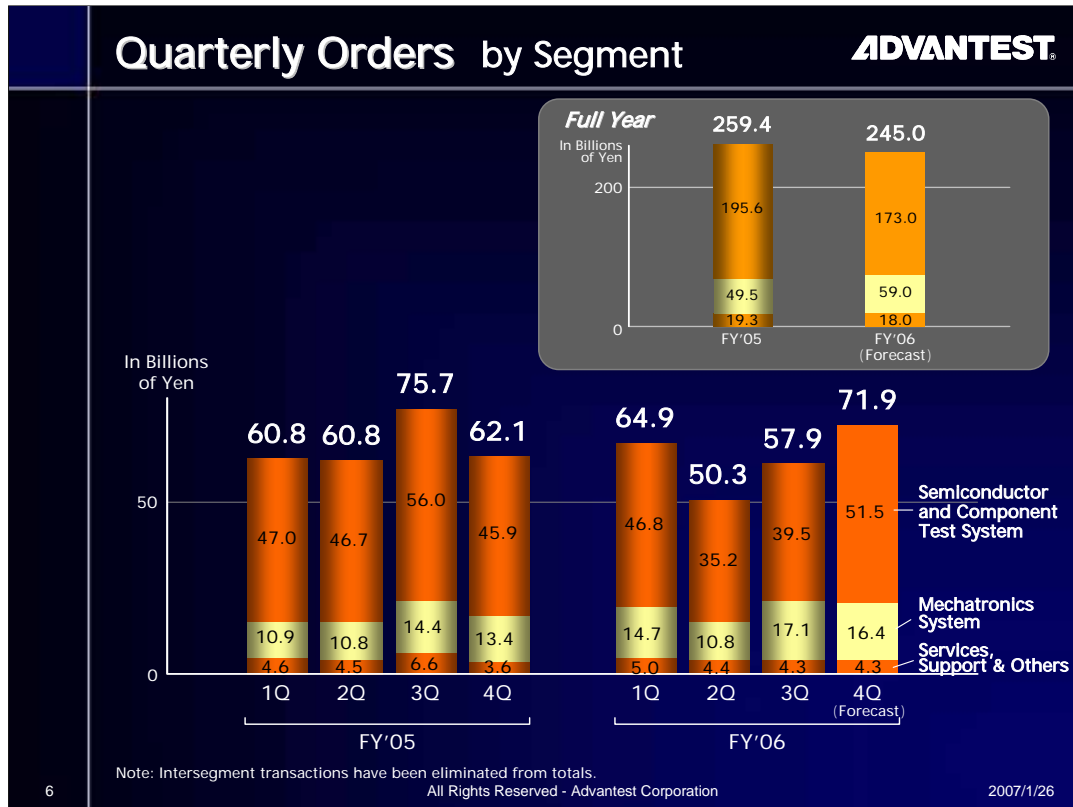
I will talk about the factors behind this revised forecast in “Forecast for Future Growth” in the second half of this talk.



This graph shows the trends in quarterly orders.

In the third quarter, although orders for the T2000 for data processing were below expectations, orders picked up for DRAM back-end test systems for meeting higher DDR2 production. This resulted in an increase of 15.1% in orders to 57.9 billion yen compared to the second quarter.

We expect orders for DRAM back-end test systems to continue their strong growth through the fourth quarter.

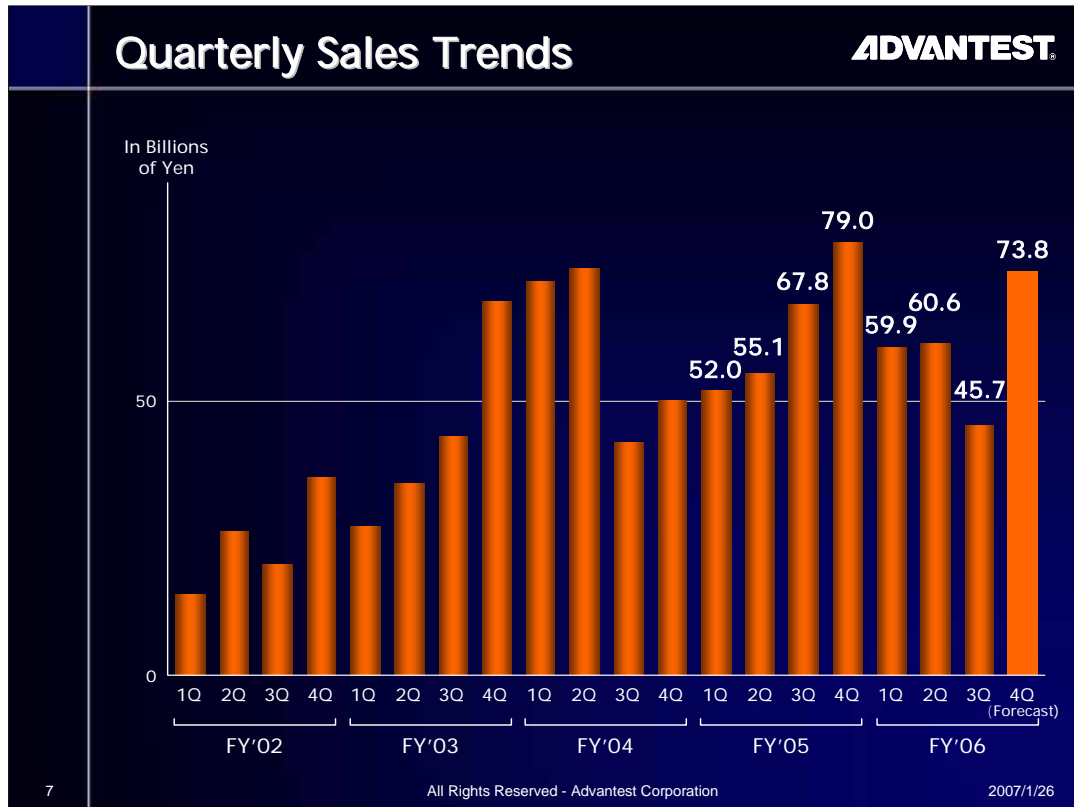


Looking at orders by business segment in the fiscal third quarter,

- Orders for Semiconductor and Component Test System were 39.5 billion yen, a drop of 29.4% from the same quarter last year.
- Orders for Mechatronics System were 17.1 billion yen, an increase of 19.1%.
- Orders for Services, Support and Others were 4.3 billion yen, a drop of 34.6%.

For the full year,

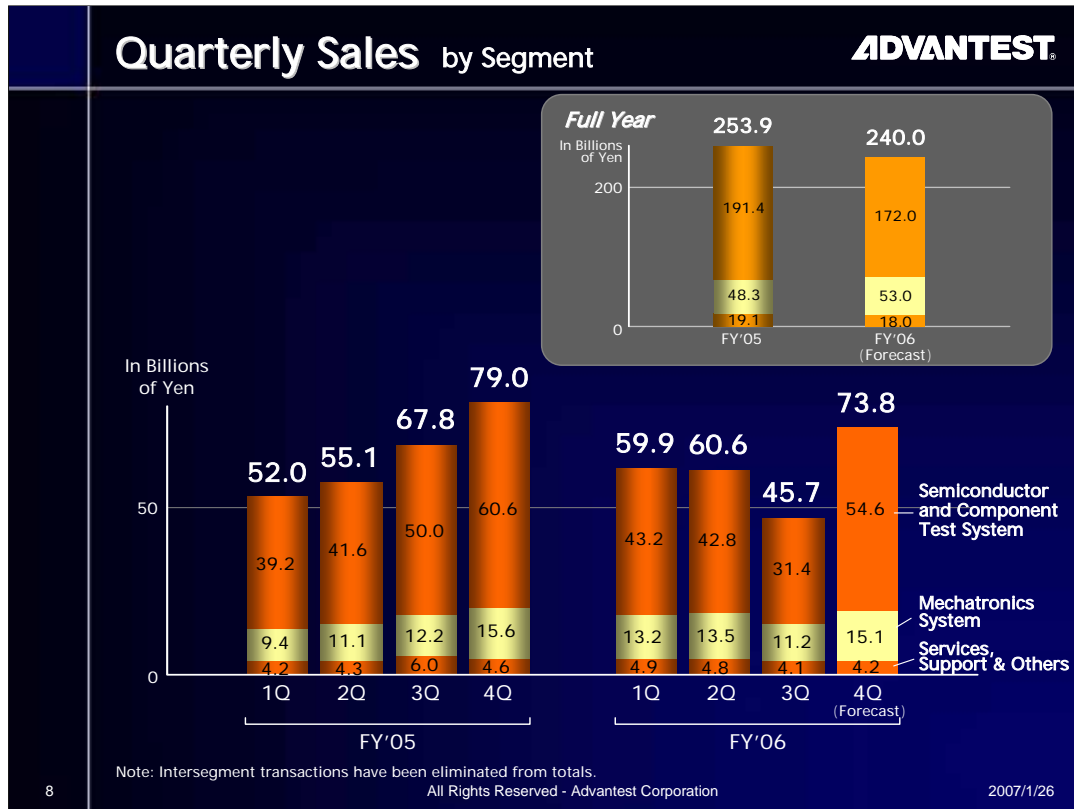
- Orders for Semiconductor and Component Test System are expected to be 173 billion yen for the entire year, a drop of 11.5% from the previous year.
- Orders for Mechatronics System are expected to be 59.0 billion yen, an increase of 19.2%.
- Orders for Services, Support and Others are expected to be 18.0 billion yen, a drop of 6.5%.



Next, this graph shows the sales trends by quarter.

In the third quarter, the weak sales figure of 45.7 billion yen was due to the slowdown in sales of the T2000 and non-memory test systems for LCD driver ICs and the slower investment to DRAM back-end test systems compared to our original forecast.

In the fourth quarter, sales of DRAM back-end test systems are expected to increase again in the same way as orders, and this is expected to contribute to a significant recovery in sales and reach 73.8 billion yen, an increase of 61.3% from the third quarter.

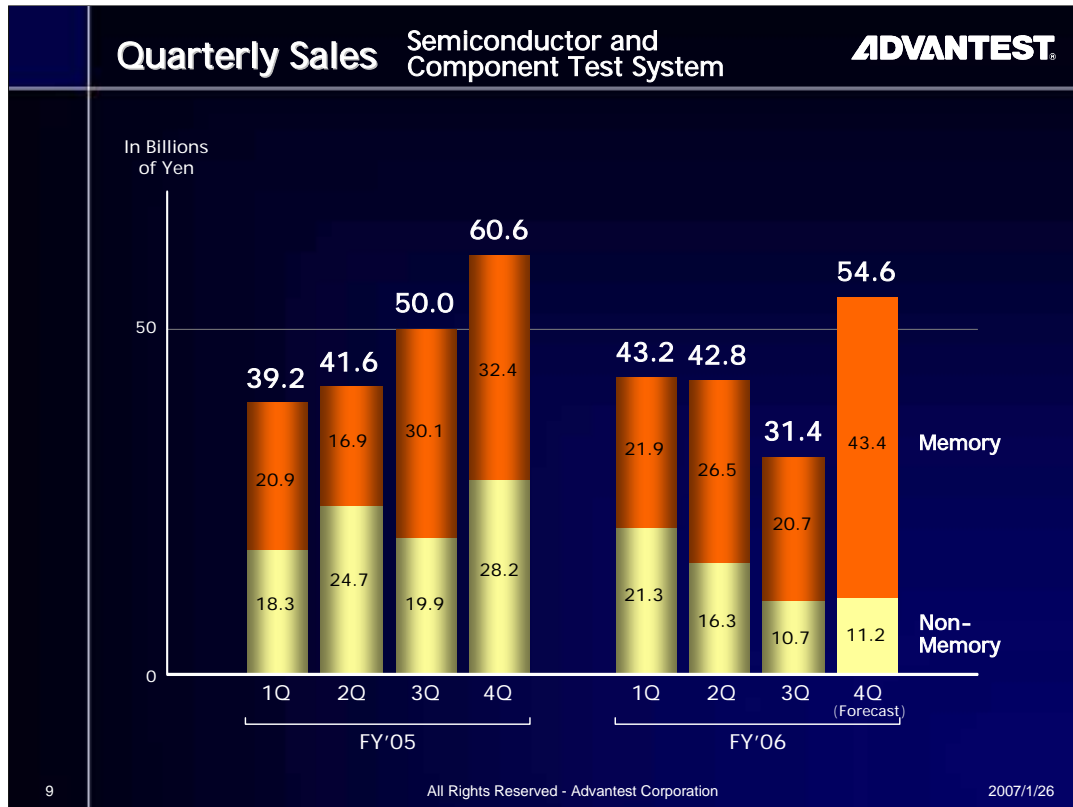


Looking at the sales by business segment in the third quarter of fiscal 2006,

- Sales for Semiconductor and Component Test System were 31.4 billion yen, a 37.2% decrease from the same quarter last year.
- Sales for Mechatronics System were 11.2 billion yen, a 7.6% decrease from the same quarter last year.
- Sales for Services, Support and Others were 4.1 billion yen, a 31.3% decrease from the same quarter last year.

For the entire fiscal year,

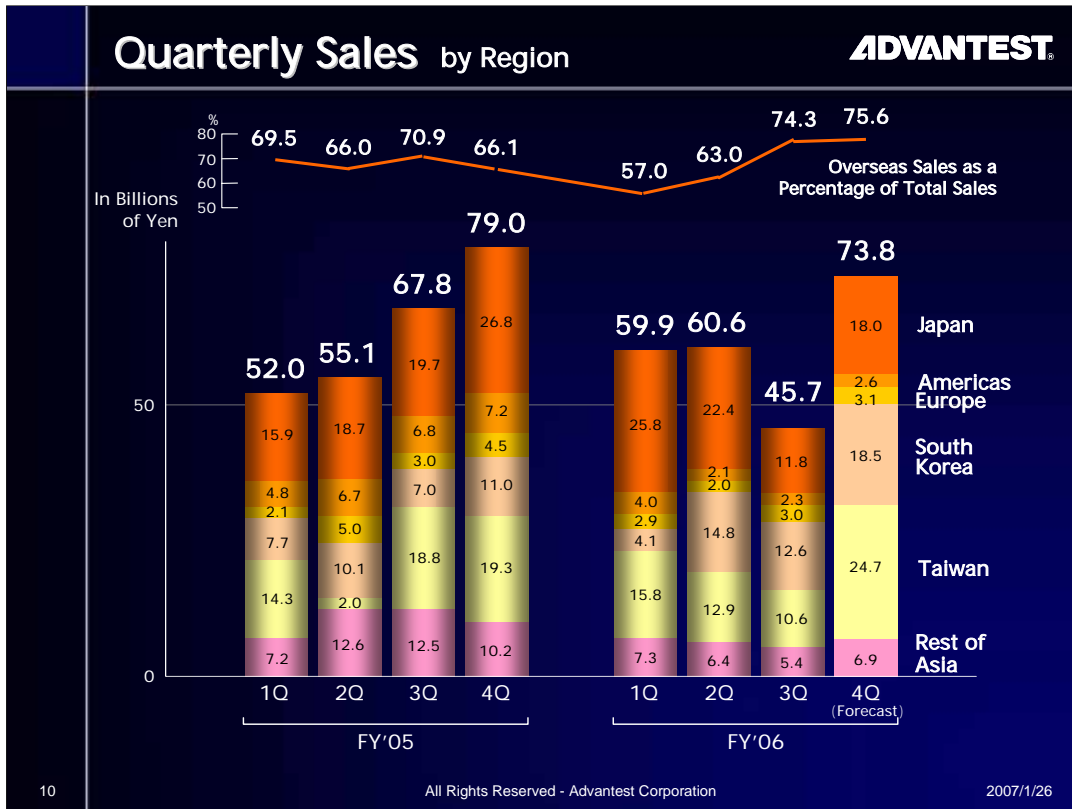
- We expect sales for Semiconductor and Component Test System to be 172 billion yen, a drop of 10.1% from the previous fiscal year.
- Sales for Mechatronics System to be 53 billion yen, an increase of 9.8%.
- Sales for Services, Support and Others to be 18 billion yen, a drop of 5.6%.



Next, taking a look at the trends in a breakdown of quarterly sales for Semiconductor and Component Test System segment,

Sales of memory test systems in the third quarter dropped by 31.2% from the same quarter last year to 20.7 billion yen. This was due to the limited investment into test systems for flash memory despite the strong results for DRAM back-end test systems overall.

Sales of non-memory test systems were 10.7 billion yen, a drop of 46.3% from the same quarter last year. This was the result of not only sales of the T2000 and test systems for LCD driver ICs falling below expectations, but also failing to reach our sales forecasts for the T6500 series for digital consumer product ICs.



This graph shows our quarterly sales by geographic region.

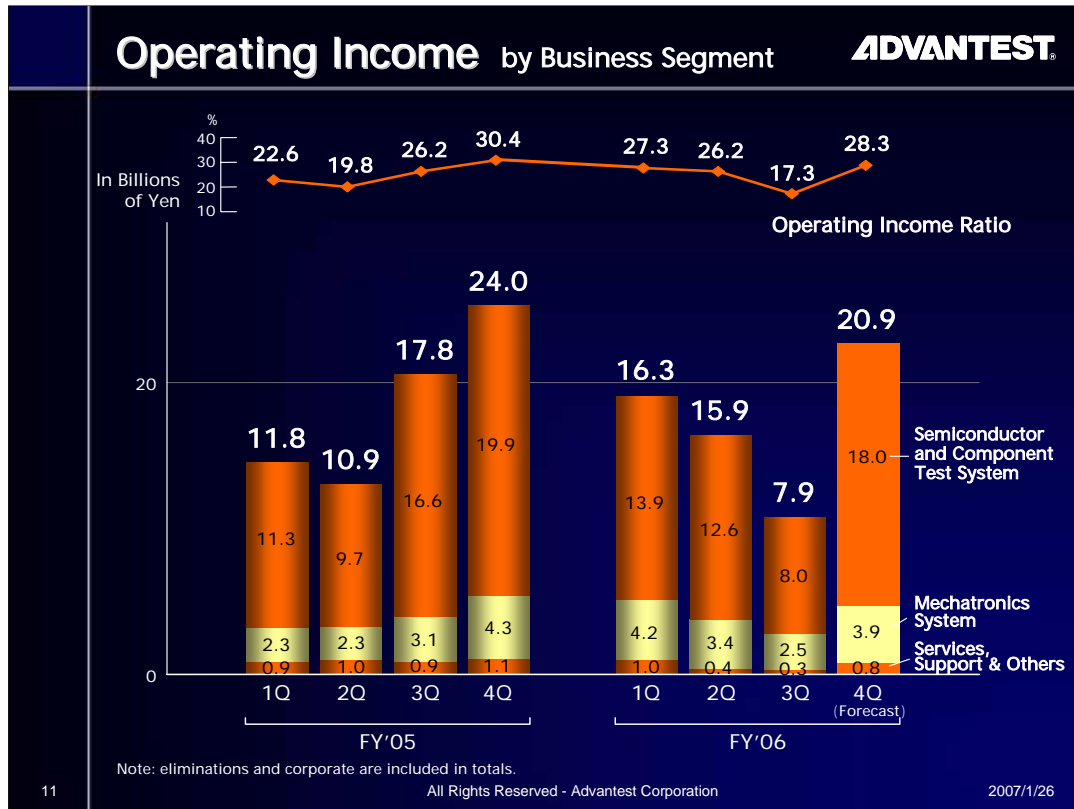
For the third quarter,

- Sales in Japan were sluggish for both memory test systems and non-memory test systems and fell below expectations at 11.8 billion yen, a drop of 40.3% from the same quarter last year.

As a result, our overseas sales ratio increased to 74.3%.

For the fourth quarter,

- Higher demand for DRAM test systems is expected to bring higher sales, particularly in Taiwan and South Korea.



This graph shows the operating income by business segment.

For the third quarter, in Semiconductor and Component Test System, the significant drop in sales compared to the second quarter resulted in an operating income of 8 billion yen.

Also, the operating income for Mechatronics System was 2.5 billion yen and for Services, Support and Others was 0.3 billion yen.

For the fourth quarter, a substantial increase in sales compared to the third quarter, particularly for DRAM back-end test systems, is expected to push the operating income for Semiconductor and Component Test Systems to 18 billion yen.

<b>Balance Sheet</b>		<b>ADVANTEST®</b>		
				(In Billions of Yen)
	Mar. 31, '06	Sep. 30, '06	Dec. 31, '06	Variance
<b>Current Assets</b>	<b>275.7</b>	<b>273.1</b>	<b>275.8</b>	<b>+2.7</b>
<i>Cash &amp; Cash Equivalent</i>	<i>157.9</i>	<i>163.6</i>	<i>178.0</i>	<i>+14.4</i>
<i>Accounts Receivable</i>	<i>69.6</i>	<i>67.3</i>	<i>45.3</i>	<i>-22.0</i>
<i>Inventories</i>	<i>29.9</i>	<i>27.0</i>	<i>35.8</i>	<i>+8.8</i>
Fixed Assets	75.1	74.0	72.5	-1.5
<b>Total Assets</b>	<b>350.8</b>	<b>347.1</b>	<b>348.3</b>	<b>+1.2</b>
Current Liabilities	76.7	53.4	50.3	-3.1
Fixed Liabilities	16.1	15.0	14.8	-0.2
Equity	257.9	278.7	283.2	+4.5
<i>Equity-to-Assets Ratio</i>	<i>73.5%</i>	<i>80.3%</i>	<i>81.3%</i>	
<b>Liabilities &amp; Equity</b>	<b>350.8</b>	<b>347.1</b>	<b>348.3</b>	<b>+1.2</b>

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This shows our balance sheet as of December 31, 2006.

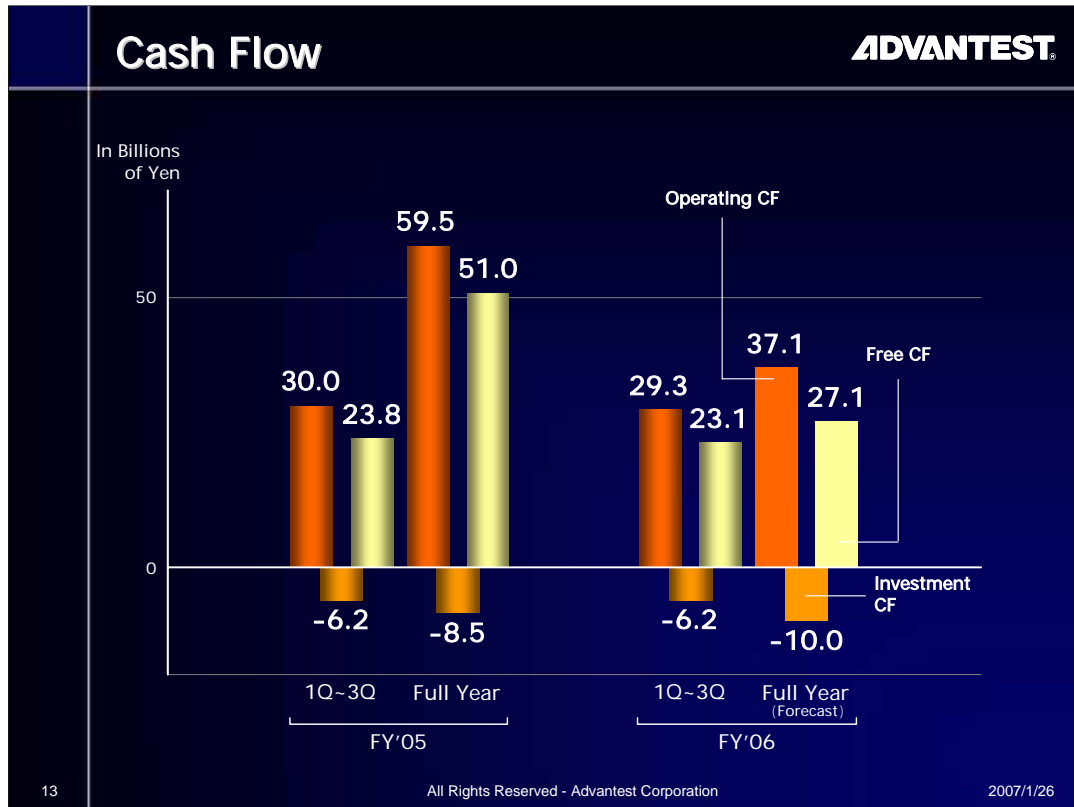
Cash and cash equivalents increased by 14.4 billion yen from the end of September 2006 to reach 178 billion yen.

Accounts receivable dropped by 22 billion yen from the end of September 2006 to 45.3 billion yen due to the fall in sales compared to the second quarter.

The increase in orders also led to higher inventories, increasing by 8.8 billion yen from the end of the September to 35.8 billion yen.

As a result, total assets increased by about 1.2 billion yen from the end of September to 348.3 billion yen.

Also, the equity –to– assets ratio increased by one point from the end of September to 81.3%.

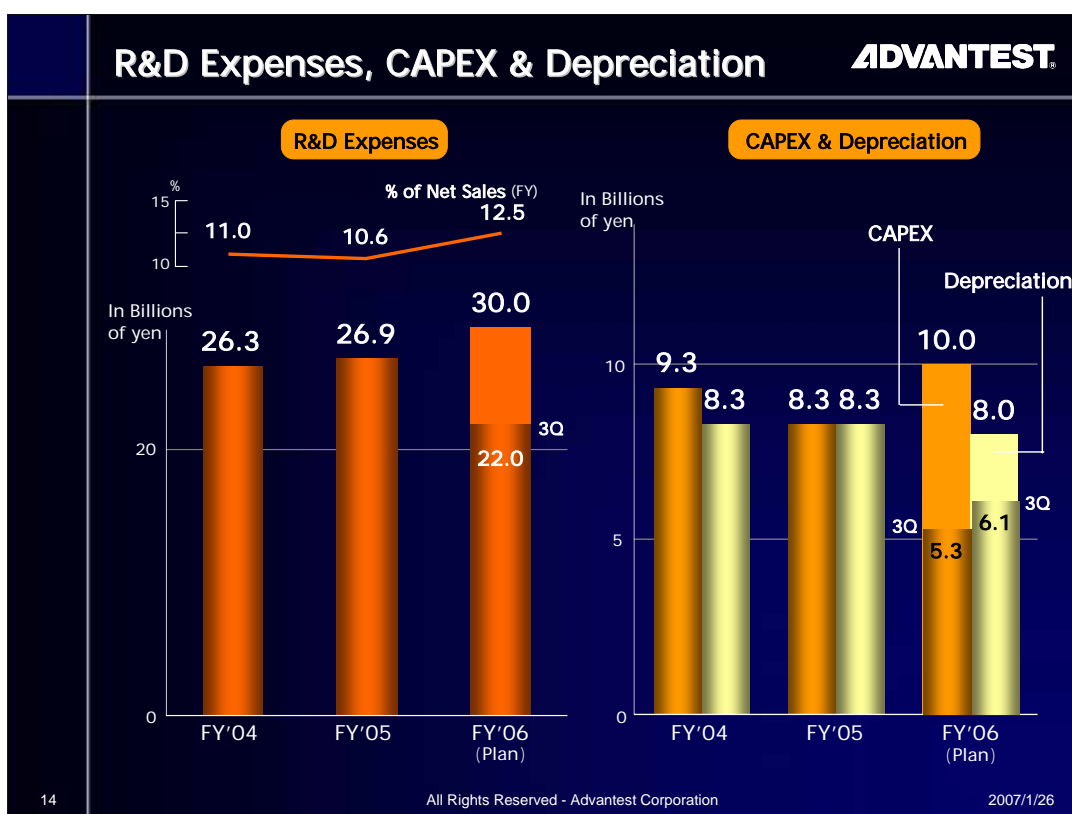


Next, this graph shows our cash flow.

Cash flow from our sales activities in the nine-month period ending with the third quarter resulted in an income of 29.3 billion yen.

Cash flow from investment activities resulted in expenditures of 6.2 billion yen, and as a result, the free cash flow was plus 23.1 billion yen.

In our forecast for the full year, we expect an operating cash flow of 37.1 billion yen and a free cash flow of 27.1 billion yen.



This shows the status of our R&D expenses. In the nine-month period ending in the third quarter, our R&D expenses were 22 billion yen.

For the full year, we plan to spend 30 billion yen on R&D, which is in line with our original plan.

We estimate an R&D percentage of net sales of 12.5%.

Also, our capital expenditures in the nine-month period ending in the third quarter totaled 5.3 billion yen, and depreciation costs were 6.1 billion yen.

In our plan for the entire fiscal year,

We have 10 billion yen allotted for capital expenditures, and we have 8 billion yen planned for depreciation costs.

This completes my talk on our financial results.

# Forecast for Future Growth

Next, I'd like to present the factors leading to the revision in our results forecast for this term and our forecast for future growth.

**Downward Revision to Yearly Forecast** **ADVANTEST**

*Factor* *Low investment in test systems for data processing*

*Factor* *Low investment in test systems due to fall in flash memory prices*

*Factor* *Low investment by some digital consumer product IC makers*

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As I mentioned before,  
We downwardly revised our forecasts for the entire year.  
As shown here, there were three major factors for this.

First, investment in test systems for data processing was weak, primarily in Americas and Asia, and sales of the T2000 fell substantially below expectations.

Second, the significant drop in prices for flash memory resulted in less additional investment in test systems.

Third, investment in test systems for digital consumer product ICs was weak in some sectors, especially in Japan, and even though we had some good inquiries, the results did not reach our expected figures.

In the end, although orders for DRAM are strong, these factors have made it difficult for us to achieve the sales forecast that we set before. Therefore, we have downwardly revised our sales forecast for the entire year by 15 billion yen to 240 billion yen.

**Factors Driving Future Growth** **ADVANTEST**

- Higher **DRAM** demand with launch of new OS*
- Construction and improvements to 300mm wafer plants, particularly for **memory***
- Recovery in demand for test systems for **digital consumer products** and **automotive ICs***





















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Although we have lowered our results forecast for the reasons I just explained, the three factors shown here are expected to drive future growth.

First, as I explained at the outset, the launch of Windows Vista™ is expected to lead to a dramatic increase in DDR2 demand, and so additional investment in test systems is expected for meeting this increase in production.

Next, current construction of new 300mm wafer fabrication plants for DRAM and flash memory, primarily in the Asian region, and active investment for higher production capability including back-end processes are expected to lead to further increases in demand for test systems.

Also, demand for non-memory test systems is expected to recover due to continuing growth in demand for digital consumer product ICs and stronger demand for automotive ICs due to the incorporation of more electronics into automobiles.

Forecasts by Product Type		ADVANTEST®		
		1H	FY 2006 3Q	4Q
Memory	DRAM <i>T5300 /T5500 Series</i> 			
	Flash Memory <i>T5300 /T5700 Series</i> 			
Non-Memory	Data Processing <i>T2000</i> 			
	LCD Driver IC <i>T6300 Series</i> 			
	ICs for Digital Consumer Products, Automobiles <i>T6500 /T7700 Series</i> 			

Taking a look at the results by product type when taking these factors into account,

In the fourth quarter, although the T2000 and test systems for LCD driver ICs are expected to remain weak,

Demand for test systems for higher DDR2 production, particularly DRAM back-end test systems, are projected to be even stronger, and this is expected to contribute heavily to higher sales in the fourth quarter.

Also, demand for DRAM front-end test systems and test systems for digital consumer product ICs are expected to show a recovery in the fourth quarter.



Finally, I'd like to explain our slogan for 2007.

Currently, we have been moving forward with "Activate21", our company-wide campaign lasting about three and a half years from October 2005 to March 2009.

As the halfway point of this campaign, for 2007, we are taking "Re-engineer Your Workplace!" as our slogan to spur not only the production divisions, but all divisions encompassing development, sales, and administration to keep in mind the manufacturing process in their work and to strive for "work transparency" for achieving further innovations in product manufacturing.

This completes my presentation.

Thank you very much for your kind attention.

## NOTE

## • Prepared in accordance with US GAAP

## • Cautionary Statement with Respect to Forward-Looking Statements

This presentation contains "forward-looking statements" that are based on Advantest's current expectations, estimates and projections. These statements include, among other things, a discussion of Advantest's business strategy, outlook and expectations as to market and business developments, production and capacity plans. These forward-looking statements can be identified by use of forward-looking terminology 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 develop in a timely fashion products that meet the changing needs of semiconductor manufacturers and communications network equipment and component 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.

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