

(English translation and a part of summary of the Quarterly Report for the fiscal third quarter ended December 31, 2017, pursuant to the Japanese Financial Instrument and Exchange Law.)

Quarterly Financial Report

For the fiscal third quarter ended December 31, 2017

Advantest Corporation

1. Condensed Consolidated Financial Statements

(1) Condensed Consolidated Statements of Financial Position

		Millions of Yen	
	Note	As of March 31, 2017	As of December 31, 2017
Assets			
Current assets			
Cash and cash equivalents		95,324	92,073
Trade and other receivables		32,451	30,806
Inventories		39,093	44,984
Other current assets		2,976	5,315
Subtotal		169,844	173,178
Assets held for sale		1,295	851
Total current assets		171,139	174,029
Non-current assets			
Property, plant and equipment, net		29,915	29,002
Goodwill and intangible assets		16,479	16,801
Other financial assets	8	3,625	2,708
Deferred tax assets		10,282	11,443
Other non-current assets		163	425
Total non-current assets		60,464	60,379
Total assets		231,603	234,408
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables		28,489	29,872
Bonds	8	15,000	—
Income tax payables		1,927	2,829
Provisions		1,643	2,470
Other financial liabilities		626	1,492
Other current liabilities		3,749	6,853
Total current liabilities		51,434	43,516
Non-current liabilities			
Bonds	8	29,745	29,840
Other financial liabilities		39	6
Retirement benefit liabilities		38,865	42,226
Deferred tax liabilities		420	335
Other non-current liabilities		1,583	1,267
Total non-current liabilities		70,652	73,674
Total liabilities		122,086	117,190
Equity			
Share capital		32,363	32,363
Share premium		44,319	43,925
Treasury shares		(86,039)	(82,230)
Retained earnings		113,676	115,573
Other components of equity		5,198	7,587
Total equity attributable to owners of the parent		109,517	117,218
Total equity		109,517	117,218
Total liabilities and equity		231,603	234,408

(2) Condensed Consolidated Statements of Profit or Loss and Condensed Consolidated Statements of Comprehensive Income

Condensed Consolidated Statements of Profit or Loss

Millions of Yen

	Note	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net sales	5	107,571	139,288
Cost of sales		(43,167)	(70,540)
Gross profit		64,404	68,748
Selling, general and administrative expenses		(55,275)	(58,736)
Other income		306	686
Other expenses		(144)	(53)
Operating income	5	9,291	10,645
Financial income		621	684
Financial expenses		(166)	(1,558)
Income before income taxes		9,746	9,771
Income taxes		(2,373)	(2,298)
Net income		7,373	7,473
Net income attributable to: Owners of the parent		7,373	7,473
Earnings per share:	7		Yen
Basic		42.16	42.13
Diluted		38.66	38.52

Millions of Yen

	Note	Three months ended December 31, 2016	Three months ended December 31, 2017
Net sales	5	31,376	50,876
Cost of sales		(13,317)	(27,584)
Gross profit		18,059	23,292
Selling, general and administrative expenses		(17,147)	(20,148)
Other income		75	108
Other expenses		(14)	(19)
Operating income	5	973	3,233
Financial income		79	198
Financial expenses		(421)	(32)
Income before income taxes		631	3,399
Income taxes		(519)	(852)
Net income		112	2,547
Net income attributable to: Owners of the parent		112	2,547
Earnings per share:	7		Yen
Basic		0.64	14.33
Diluted		0.64	13.09

Condensed Consolidated Statements of Comprehensive Income

		Millions of Yen	
	Note	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net income		7,373	7,473
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign operations		2,113	2,933
Net change in fair values of available-for-sale financial assets		84	(544)
Total other comprehensive income		<u>2,197</u>	<u>2,389</u>
Total comprehensive income for the period		<u><u>9,570</u></u>	<u><u>9,862</u></u>
Comprehensive income attributable to:			
Owners of the parent		9,570	9,862

		Millions of Yen	
	Note	Three months ended December 31, 2016	Three months ended December 31, 2017
Net income		112	2,547
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign operations		12,126	1,731
Net change in fair values of available-for-sale financial assets		271	14
Total other comprehensive income		<u>12,397</u>	<u>1,745</u>
Total comprehensive income for the period		<u><u>12,509</u></u>	<u><u>4,292</u></u>
Comprehensive income attributable to:			
Owners of the parent		12,509	4,292

(3) Condensed Consolidated Statements of Changes in Equity

Nine months ended December 31, 2016

Millions of Yen

	Equity attributable to owners of the parent						Total	Total Equity
	Note	Share capital	Share premium	Treasury shares	Retained earnings	Other components of equity		
Balance at April 1, 2016		32,363	44,478	(94,585)	105,190	6,173	93,619	93,619
Net income					7,373		7,373	7,373
Other comprehensive income						2,197	2,197	2,197
Total comprehensive income for the period		—	—	—	7,373	2,197	9,570	9,570
Purchase of treasury shares				(1)			(1)	(1)
Disposal of treasury shares			(275)	2,989	(1,762)		952	952
Dividends	6				(4,022)		(4,022)	(4,022)
Share-based payments			437				437	437
Total transactions with the owners		—	162	2,988	(5,784)	—	(2,634)	(2,634)
Balance at December 31, 2016		32,363	44,640	(91,597)	106,779	8,370	100,555	100,555

Nine months ended December 31, 2017

Millions of Yen

	Equity attributable to owners of the parent						Total	Total Equity
	Note	Share capital	Share premium	Treasury shares	Retained earnings	Other components of equity		
Balance at April 1, 2017		32,363	44,319	(86,039)	113,676	5,198	109,517	109,517
Net income					7,473		7,473	7,473
Other comprehensive income						2,389	2,389	2,389
Total comprehensive income for the period		—	—	—	7,473	2,389	9,862	9,862
Purchase of treasury shares				(2)			(2)	(2)
Disposal of treasury shares			(415)	3,811	(1,857)		1,539	1,539
Dividends	6				(3,719)		(3,719)	(3,719)
Share-based payments			21				21	21
Total transactions with the owners		—	(394)	3,809	(5,576)	—	(2,161)	(2,161)
Balance at December 31, 2017		32,363	43,925	(82,230)	115,573	7,587	117,218	117,218

(4) Condensed Consolidated Statements of Cash Flows

Millions of Yen

	Note	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Cash flows from operating activities:			
Income before income taxes		9,746	9,771
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization		3,507	3,601
Gain on sales of available-for-sale financial assets		(226)	(353)
Changes in assets and liabilities:			
Trade and other receivables		4,638	2,279
Inventories		(6,816)	(5,279)
Trade and other payables		(956)	928
Warranty provisions		(102)	822
Retirement benefit liabilities		1,550	1,617
Other		3,382	2,789
Subtotal		14,723	16,175
Interest and dividends received		243	381
Interest paid		(95)	(48)
Income taxes paid		(2,841)	(3,406)
Net cash provided by (used in) operating activities		12,030	13,102
Cash flows from investing activities:			
Proceeds from sale of available-for-sale financial assets		626	879
Purchases of available-for-sale financial assets		—	(216)
Proceeds from sale of property, plant and equipment		83	1,866
Purchases of property, plant and equipment		(2,927)	(2,281)
Purchases of intangible assets		(266)	(557)
Other		47	(158)
Net cash provided by (used in) investing activities		(2,437)	(467)
Cash flows from financing activities:			
Proceeds from disposal of treasury shares		946	1,545
Redemption of bonds		—	(15,000)
Dividends paid	6	(3,863)	(3,636)
Other		(43)	(10)
Net cash provided by (used in) financing activities		(2,960)	(17,101)
Net effect of exchange rate changes on cash and cash equivalents		603	1,215
Net change in cash and cash equivalents		7,236	(3,251)
Cash and cash equivalents at beginning of period		85,430	95,324
Cash and cash equivalents at end of period		92,666	92,073

Notes to the Condensed Consolidated Financial Statements

1. Reporting Entity

Advantest Corporation (the “Company”) is a public company located in Japan.

The Company’s condensed consolidated financial statements consist of the Company and its subsidiaries (collectively, “Advantest”).

Advantest manufactures and sells semiconductor and component test system products and mechatronics-related products such as test handlers and device interfaces. Advantest also engages in research and development activities and provides maintenance and support services associated with these products.

2. Basis of Preparation

(1) Compliance with IFRS

As the Company meets the requirements of a “Specified Companies applying Designated IFRS” pursuant to Article 1-2 of the “Ordinance on Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements”, Advantest prepares the condensed consolidated financial statements in accordance with IAS 34 under Article 93 of the same ordinance.

As the condensed consolidated financial statements do not contain all the information required in annual consolidated financial statements, it should be read in combination with the consolidated financial statements for the fiscal year ended March 31, 2017.

The condensed consolidated financial statements were approved on February 13, 2018 by Representative Director, Yoshiaki Yoshida, and Chief Financial Officer, Atsushi Fujita, of the Company.

(2) Basis of Measurement

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities measured at their fair values.

(3) Functional Currency and Presentation Currency

The condensed consolidated financial statements are presented in Japanese Yen, which is the Company’s functional currency.

3. Significant Accounting Policies

The condensed consolidated financial statements are prepared based on the same accounting policies as those applied in the Advantest’s consolidated financial statements for the fiscal year ended March 31, 2017.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the condensed consolidated financial statements requires Advantest to make judgments, accounting estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and assumptions are based on the best judgment of management in light of historical experience and various factors deemed to be reasonable according to the situation. However, given their nature, actual results may differ from those estimates and assumptions.

The estimates and underlying assumptions are continuously reviewed. The effects of a change in these estimates and assumptions are recognized in the period of the change and subsequent periods.

The estimates and assumptions that could have a material effect on the amounts recognized in its condensed consolidated financial statements are equivalent to those estimates and assumptions in Advantest’s consolidated financial statements for the fiscal year ended March 31, 2017.

5. Segment Information

(1) Overview of Reporting Segments

Advantest manufactures and sells semiconductor and component test system products and mechatronics-related products such as test handlers and device interfaces. Advantest also engages in research and development activities and provides maintenance and support services associated with these products. Advantest's organizational structure consists of three reportable operating segments, which are the design, manufacturing, and sale of semiconductor and component test systems, mechatronics systems and services, support and others. These reportable operating segments are determined based on the nature of the products and the markets. Segment information is prepared on the same basis that management reviews financial information for operational decision making purposes.

The semiconductor and component test system segment provides customers with test system products for the semiconductor industry and the electronic parts industry. Product lines provided in the semiconductor and component test system segment include test systems for SoC semiconductors for non-memory semiconductor devices and test systems for memory semiconductors for memory semiconductor devices.

The mechatronics system segment provides product lines such as test handlers, mechatronic-applied products, for handling semiconductor devices, device interfaces that serve as interfaces with the devices that are measured and operations related to nano-technology products.

The services, support and others segment consists of comprehensive customer solutions provided in connection with the above segments, support services, equipment lease business and others.

(2) Information of Reporting Segments

Accounting treatment applied to operating segments is the same as in the note "3. Significant Accounting Policies."

Advantest uses the operating income (loss) before share option compensation expense for management's analysis of operating segment results.

Segment income (loss) is presented on the basis of operating income (loss) before share option compensation expense.

Inter-segment sales are based on market prices.

Nine months ended December 31, 2016

Millions of Yen

	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Consolidated
Net sales					
Net sales to unaffiliated customers	70,122	16,171	21,278	—	107,571
Inter-segment sales	4	34	—	(38)	—
Total	70,126	16,205	21,278	(38)	107,571
Segment income (loss) (operating income (loss) before share option compensation expense)	12,248	(2,190)	3,742	(4,072)	9,728
Adjustment: Share option compensation expense	—	—	—	—	(437)
Operating income	—	—	—	—	9,291
Financial income	—	—	—	—	621
Financial expenses	—	—	—	—	(166)
Income before income taxes	—	—	—	—	9,746

Nine months ended December 31, 2017

Millions of Yen

	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Consolidated
Net sales					
Net sales to unaffiliated customers	91,377	25,908	22,003	—	139,288
Inter-segment sales	26	—	—	(26)	—
Total	91,403	25,908	22,003	(26)	139,288
Segment income (loss) (operating income (loss) before share option compensation expense)	14,097	(2,585)	2,933	(3,779)	10,666
Adjustment: Share option compensation expense	—	—	—	—	(21)
Operating income	—	—	—	—	10,645
Financial income	—	—	—	—	684
Financial expenses	—	—	—	—	(1,558)
Income before income taxes	—	—	—	—	9,771

Three months ended December 31, 2016

Millions of Yen

	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Consolidated
Net sales					
Net sales to unaffiliated customers	18,788	5,314	7,274	—	31,376
Inter-segment sales	—	—	—	—	—
Total	18,788	5,314	7,274	—	31,376
Segment income (loss) (operating income (loss) before share option compensation expense)	741	(780)	2,148	(874)	1,235
Adjustment: Share option compensation expense	—	—	—	—	(262)
Operating income	—	—	—	—	973
Financial income	—	—	—	—	79
Financial expenses	—	—	—	—	(421)
Income before income taxes	—	—	—	—	631

Three months ended December 31, 2017

Millions of Yen

	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Consolidated
Net sales					
Net sales to unaffiliated customers	33,741	9,063	8,072	—	50,876
Inter-segment sales	—	—	—	—	—
Total	33,741	9,063	8,072	—	50,876
Segment income (loss) (operating income (loss) before share option compensation expense)	6,410	(3,236)	1,800	(1,720)	3,254
Adjustment: Share option compensation expense	—	—	—	—	(21)
Operating income	—	—	—	—	3,233
Financial income	—	—	—	—	198
Financial expenses	—	—	—	—	(32)
Income before income taxes	—	—	—	—	3,399

(Notes)

Adjustments to segment income (loss) in Corporate principally represent corporate general and administrative expenses and research and development expenses related to fundamental research activities that are not allocated to operating segments.

6. Dividends

(1) Dividends Paid

Nine months ended December 31, 2016

Resolution	Class of shares	Amount of dividend (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 25, 2016	Ordinary shares	1,746	10	March 31, 2016	June 2, 2016
Board of Directors' meeting held on October 26, 2016	Ordinary shares	2,277	13	September 30, 2016	December 1, 2016

Nine months ended December 31, 2017

Resolution	Class of shares	Amount of dividend (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 22, 2017	Ordinary shares	2,122	12	March 31, 2017	June 2, 2017
Board of Directors' meeting held on October 25, 2017	Ordinary shares	1,597	9	September 30, 2017	December 1, 2017

7. Earnings per Share

The basis of calculation of basic earnings per share and diluted earnings per share were as follows:

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net income attributable to owners of the parent (Millions of Yen)	7,373	7,473
Net income not attributable to owners of the parent (Millions of Yen)	—	—
Net income to calculate basic earnings per share (Millions of Yen)	7,373	7,473
Dilutive effect of exercise of convertible bonds (Millions of Yen)	95	95
Net income to calculate diluted earnings per share (Millions of Yen)	7,468	7,568
Weighted average number of ordinary shares—basic	174,864,691	177,360,795
Dilutive effect of exercise of share options	87,461	824,277
Dilutive effect of exercise of convertible bonds	18,213,830	18,304,961
Weighted average number of ordinary shares—diluted	193,165,982	196,490,033
Basic earnings per share (Yen)	42.16	42.13
Diluted earnings per share (Yen)	38.66	38.52
Financial Instruments not included in the calculation of diluted earnings per share because they have anti-dilutive effect	Certain share options	Certain share options

	Three months ended December 31, 2016	Three months ended December 31, 2017
Net income attributable to owners of the parent (Millions of Yen)	112	2,547
Net income not attributable to owners of the parent (Millions of Yen)	—	—
Net income to calculate basic earnings per share (Millions of Yen)	112	2,547
Dilutive effect of exercise of convertible bonds (Millions of Yen)	—	31
Net income to calculate diluted earnings per share (Millions of Yen)	112	2,578
Weighted average number of ordinary shares—basic	175,207,911	177,682,010
Dilutive effect of exercise of share options	227,345	919,678
Dilutive effect of exercise of convertible bonds	—	18,304,961
Weighted average number of ordinary shares—diluted	175,435,256	196,906,649
Basic earnings per share (Yen)	0.64	14.33
Diluted earnings per share (Yen)	0.64	13.09
Financial Instruments not included in the calculation of diluted earnings per share because they have anti- dilutive effect	Certain share options Convertible bonds	Certain share options

8. Financial Instruments

(1) Carrying Amounts and Fair Value of Financial Instruments

The carrying amounts and the fair values of the financial instruments were as follows:

Millions of Yen

	As of March 31, 2017		As of December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost				
Bonds ^(Note)	44,745	44,965	29,840	29,961

^(Note)Bonds include balances redeemable or repayable within one year.

(Bonds)

Fair values of corporate bonds are calculated based on market prices. Fair values of convertible bonds are calculated based on resembling bonds without the option to convert to shares.

(Other)

Financial instruments other than above mentioned are settled mainly on a short-term basis, and their fair values approximate their carrying amounts.

(2) Fair Value Hierarchy of Financial Instruments

Financial instruments measured at fair value on a recurring basis after the initial recognition are classified into three levels of the fair value hierarchy based on the measurement inputs' observability and materiality as follows:

Level 1: Fair value measured at quoted prices for identical assets or liabilities in active markets

Level 2: Fair value measured by direct or indirect observable inputs other than Level 1

Level 3: Fair value measured by significant unobservable inputs

When several inputs are used for a fair value measurement, the level is determined based on the input with the lowest level in the fair value measurement as a whole.

The transfers between levels in the fair value hierarchy are deemed at the beginning of each quarter period.

Transfer from Level 2 to Level 1 during the year ended March 31, 2017 was the result of a conversion of preferred shares into ordinary shares measured at fair value by market prices, and all the shares transferred were sold during the year ended March 31, 2017. There were no transfers of financial instruments between Level 1 and Level 2 for the nine months ended December 31, 2017.

The assets measured at fair value on a recurring basis were classified by hierarchy as follows:

As of March 31, 2017

Millions of Yen

	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	1,416	—	399	1,815
Total	1,416	—	399	1,815

As of December 31, 2017

Millions of Yen

	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	239	—	707	946
Total	239	—	707	946

The movement of financial instruments categorized within Level 3 of the fair value hierarchy was as follows:

Millions of Yen

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Balance at beginning of period	367	399
Gains (losses) recognized in other comprehensive income	(9)	27
Purchase	—	281
Balance at end of period	358	707

Gains or losses recognized in other comprehensive income are presented in net change in fair values of available-for-sale financial assets of the condensed consolidated statements of comprehensive income.