

FY2018 Third Quarter Consolidated Financial Results

(Advantest's consolidated financial statements are prepared in accordance with IFRS)
(Period ended December 31, 2018)

January 30, 2019

Company Name : **Advantest Corporation**
 (URL <https://www.advantest.com/investors>)
 Stock Exchange on which shares are listed : First section of the Tokyo Stock Exchange
 Stock Code Number : 6857
 Company Representative : Yoshiaki Yoshida, Representative Director, President and CEO
 Contact Person : Atsushi Fujita, Managing Executive Officer and Executive Vice President, Corporate Administration Group
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 Quarterly Report Filing Date (as planned) : February 13, 2019
 Dividend Payable Date (as planned) : —
 Quarterly Results Supplemental Materials : Yes
 Quarterly Results Presentation Meeting : Yes

(Rounded to the nearest million yen)

1. Consolidated Results of FY2018 Q3 (April 1, 2018 through December 31, 2018)

(1) Consolidated Financial Results (Accumulated)

(% changes as compared to the corresponding period of the previous fiscal year)

	Net sales		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent		Total comprehensive income for the period	
	Million yen	% increase (decrease)	Million yen	% increase (decrease)	Million yen	% increase (decrease)	Million yen	% increase (decrease)	Million yen	% increase (decrease)	Million yen	% increase (decrease)
FY2018 Q3	218,497	56.9	54,466	411.7	55,716	470.2	48,051	543.0	48,051	543.0	52,540	432.7
FY2017 Q3	139,288	29.5	10,645	14.6	9,771	0.2	7,473	1.4	7,473	1.4	9,862	3.0

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY2018 Q3	258.10	242.20
FY2017 Q3	42.13	38.52

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent
	Million yen	Million yen	Million yen	%
FY2018 Q3	296,594	188,140	188,140	63.4
FY2017	254,559	124,610	124,610	49.0

2. Dividends

	Dividend per share				
	First quarter end	Second quarter end	Third quarter end	Year end	Annual total
	Yen	Yen	Yen	Yen	Yen
FY2017	—	9.00	—	23.00	32.00
FY2018	—	50.00	—	N/A	N/A
FY2018 (forecast)	N/A	N/A	N/A	38.00	88.00

(Note) Revision of dividends forecast for this period: **Yes**

3. Projected Results for FY2018 (April 1, 2018 through March 31, 2019)

(% changes as compared to the previous fiscal year)

	Net sales		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2018	278,000	34.2	63,000	157.3	64,000	163.6	54,500	201.1	54,500	201.1

(Note) Revision of dividends forecast for this period: **Yes**

For details, please refer to the (4) Near-term Prospects, page 5

4. Others

(1) Material changes in subsidiaries during this period (changes in scope of consolidation resulting from changes in subsidiaries): None

(2) Changes in accounting policies and accounting estimates

1) Changes in accounting policies required by IFRS: Yes

2) Changes arising from factors other than 1: None

3) Changes in accounting estimates: None

For details, please refer to the (5) Notes to the Condensed Consolidated Financial Statements (Changes in Accounting Policies), page 13.

(3) Number of issued and outstanding share (ordinary share):

1) Number of issued and outstanding share at the end of each fiscal period (including treasury share):

FY2018 Q3 199,566,770 shares; FY2017 199,566,770 shares.

2) Number of treasury share at the end of each fiscal period:

FY2018 Q3 5,719,311 shares; FY2017 20,539,246 shares.

3) Average number of outstanding share for each period (cumulative term):

FY2018 Q3 186,175,205 shares; FY2017 Q3 177,360,795 shares.

(Note) Advantest's share (FY2018 Q3 272,600 shares, FY2017 — shares), which is being kept as performance share option compensation in trust account, is included in the number of treasury share at the end of each fiscal period. Moreover, the Advantest's share that mentioned above is also included in the treasury share which is deducted during the calculation of average number of outstanding share for each period.

Status of Quarterly Review Procedures

This quarterly financial results report is not subject to quarterly review procedures by independent auditors.

Explanation on the Appropriate Use of Future Earnings Projections and Other Special Instructions

This document contains “forward-looking statements” that are based on Advantest's current expectations, estimates and projections. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause Advantest's actual results, levels of activities, 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 timely develop products that meet the changing needs of semiconductor manufacturers, communications network equipment and components 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.

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1. Overview of Business Results

(1) Overview of Business Results

Consolidated Financial Results of FY2018 Q3 (April 1, 2018 through December 31, 2018)

(in billion yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018	As compared to the corresponding period of the previous fiscal year increase (decrease)
Orders received	162.4	209.5	29.0%
Net sales	139.3	218.5	56.9%
Operating income	10.6	54.5	5.1 times
Income before income taxes	9.8	55.7	5.7 times
Net income	7.5	48.1	6.4 times

For the nine-month period ended December 31, 2018, the global economy continued to grow at a moderate pace, driven by steady economic growth in the US. Nevertheless, uncertainty about the economic outlook has continued to increase quarter after quarter due to factors such as the spread of protectionist trade policies and declining consumption in some emerging economies.

Amidst these macroeconomic trends, the slowdown in data center-focused investment and in the smartphone market, the sectors which have buoyed growth in semiconductors and related industries for the last few years noticeably intensified in the second half of 2018. As a result, major semiconductor manufacturers have become increasingly cautious about making new capital investments, and inventory adjustments are spreading across the entire semiconductor market. On the other hand, the performance capabilities of data centers and electronics including smartphones, displays, and car electronics have improved even further, meaning that they incorporate more advanced semiconductors in even greater quantities. Reflecting these needs, semiconductor manufacturers have actively worked to strengthen their testing capabilities for the semiconductors which directly enable the improved performance of these end products so that they can handle more complex testing and enhance reliability. As a result, the market for semiconductor testing equipment grew more than we originally expected, and demand remained robust.

In this business environment, Advantest expanded our market share by exploiting the strength of our rich product portfolio and capturing broader demand from our customer.

As a result, orders received were (Y) 209.5 billion (29.0 % increase in comparison to the corresponding period in the previous fiscal year). Net sales were (Y) 218.5 billion (56.9% increase in comparison to the corresponding period in the previous fiscal year). Operating income was (Y) 54.5 billion (5.1 times increase in comparison to the corresponding period in the previous fiscal year), income before income taxes was (Y) 55.7 billion (5.7 times increase in comparison to the corresponding period in the previous fiscal year), and net income was (Y) 48.1 billion (6.4 times increase in comparison to the corresponding period in the previous fiscal year), for an overall substantial increase in profit compared to the corresponding period of the previous fiscal year. Average currency exchange rates in the period were 1 USD to 110 JPY (112 JPY in the corresponding period of the previous fiscal year) and 1 EUR to 130 JPY (127 JPY in the corresponding period of the previous fiscal year). The percentage of net sales to overseas customers was 95.0% (92.4% in the corresponding period in the previous fiscal year). Third quarter operating income includes a profit of (Y) 2.5 billion associated with the transfer of a portion of the corporate pension plan for Advantest Corporation employees in Japan to a defined contribution pension plan.

Conditions of business segments are described below.

<Semiconductor and Component Test System Segment>

(in billion yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018	As compared to the corresponding period of the previous fiscal year increase (decrease)
Orders received	109.5	160.7	46.7%
Net sales	91.4	161.9	77.1%
Segment income	14.1	51.1	3.6 times

Demand for SoC test systems remained at a high level contributes to performance improvement of application processors, which are key components for smartphones. Touch sensor integration and other improvements in the functionality of display driver ICs also drove demand for enhanced test capabilities in this segment. In our memory test system business, although memory semiconductor manufacturers were increasingly cautious about making capital investments, sales remained strong due to the continued expansion of memory semiconductor device capacity.

As a result of the above, orders received were (Y) 160.7 billion (46.7% increase in comparison to the corresponding period in the previous fiscal year), net sales were (Y) 161.9 billion (77.1% increase in comparison to the corresponding period in the previous fiscal year), and segment income was (Y) 51.1 billion (3.6 times increase in comparison to the corresponding period in the previous fiscal year).

< Mechatronics System Segment >

(in billion yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018	As compared to the corresponding period of the previous fiscal year increase (decrease)
Orders received	29.9	28.5	(4.6%)
Net sales	25.9	32.4	25.1%
Segment income	(2.6)	1.1	—

In this segment, sales of device interface products, which are highly correlated to our memory test business, remained steady due to the continued high level of demand for memory semiconductor testers. Orders for nanotechnology products, however, were not strong due to the lumpiness among customers' miniaturization schedules.

As a result of the above, orders received were (Y) 28.5 billion (4.6% decrease in comparison to the corresponding period in the previous fiscal year), net sales were (Y) 32.4 billion (25.1% increase in comparison to the corresponding period in the previous fiscal year), and segment income was (Y) 1.1 billion ((Y) 3.7 billion improvement in comparison to the corresponding period in the previous fiscal year).

<Services, Support and Others Segment>

(in billion yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018	As compared to the corresponding period of the previous fiscal year increase (decrease)
Orders received	23.0	20.3	(11.7%)
Net sales	22.0	24.2	10.2%
Segment income	2.9	4.4	51.3%

Although there are concerns about a future slowdown in the semiconductor market, semiconductor production remained at high levels, so there was solid demand for our maintenance services. On the other hand, our SSD test system business saw a slow-down in orders due to the stagnation of data center investment.

As a result of the above, orders received were (Y) 20.3 billion (11.7% decrease in comparison to the corresponding period in the previous fiscal year), net sales were (Y) 24.2 billion (10.2% increase in comparison to the corresponding period in the previous fiscal year), and segment income was (Y) 4.4 billion (51.3% increase in comparison to the corresponding period in the previous fiscal year).

(2) Overview of Financial Condition

Total assets at December 31, 2018 were (Y) 296.6 billion, an increase of (Y) 42.0 billion compared to the fiscal year ended March 31, 2018, primarily due to an increase of (Y) 20.8 billion in cash and cash equivalents, (Y) 11.5 billion in trade and other receivables and (Y) 7.0 billion in inventories. The total liabilities were (Y) 108.5 billion, a decrease of (Y) 21.5 billion compared to the fiscal year ended March 31, 2018, primarily due to a decrease of (Y) 24.0 billion in corporate bonds upon conversion to shares and (Y) 7.9 billion in retirement benefit liabilities. Total equity was (Y) 188.1 billion. Ratio of equity attributable to owners of the parent was 63.4%, an increase of 14.4 percentage points from March 31, 2018, primarily due to a decrease of (Y) 56.1 billion in treasury shares upon conversion of corporate bonds.

(3) Overview of Cash Flows

Cash and cash equivalents held at December 31, 2018 were (Y) 124.8 billion, an increase of (Y) 20.8 billion from March 31, 2018. Significant cash flows during the nine-month period of this fiscal year and details are described below.

Net cash provided by operating activities was (Y) 35.9 billion (net cash inflow of (Y) 13.1 billion in the corresponding period of the previous fiscal year). This amount was primarily attributable to an increase of (Y) 11.5 billion in trade and other receivables, an increase of (Y) 7.0 billion in inventories and adjustments of non-cash items such as depreciation and amortization in addition to the income before income taxes of (Y) 55.7 billion.

Net cash used in investing activities was (Y) 2.5 billion (net cash outflow of (Y) 0.5 billion in the corresponding period of the previous fiscal year). This amount was primarily attributable to purchases of property, plant and equipment in the amount of (Y) 3.8 billion and proceeds from sale of property, plant and equipment in the amount of (Y) 1.9 billion.

Net cash used in financing activities was (Y) 13.8 billion (net cash outflow of (Y) 17.1 billion in the corresponding period of the previous fiscal year). This amount was primarily attributable to dividends paid of (Y) 13.5 billion.

(4) Near-term Prospects

There is growing uncertainty about the outlook for the global economy. Concerns are arising about weaker demand for end products, waning enthusiasm for corporate capital investment and protracted semiconductor inventory adjustments.

Regarding the outlook for our principal businesses for the fourth quarter of this fiscal year, we expect our memory test business to experience weaker demand as memory semiconductor manufacturers increasingly move to reduce inventories and postpone investments. In the SoC test business, we expect demand for test equipment for application processors and display driver ICs to remain solid.

Based on the latest business forecasts and our results for the fiscal year to date, Advantest's full-year consolidated results forecast for the current fiscal year has been revised upward from the figures published in October 2018. Our new forecast calls for orders received of (Y) 265.0 billion (formerly (Y) 255.0 billion), net sales of (Y) 278.0 billion (formerly (Y) 265.0 billion), operating income of (Y) 63.0 billion (formerly (Y) 53.0 billion), and net income of (Y) 54.5 billion (formerly (Y) 46.0 billion). Based on this revised forecast and our dividend policy, which uses semiannual dividend payout ratio of 30%, we have also raised the year-end dividend forecast from (Y) 25 per share ((Y) 75 annual dividend) to (Y) 38 per share ((Y) 88 annual dividend). Our forecast for the fourth quarter of this fiscal year assumes exchange rates of 1 USD to 110 JPY and 1 EUR to 130 JPY.

Looking ahead at the business environment we expect to encounter next fiscal year and beyond, amid the high level of global economic uncertainty, we currently expect that semiconductor manufacturers will continue to adjust inventories for the time being, and as a result, the market for semiconductor test equipment will likely be smaller in 2019 than the prior year. Nevertheless, this short-term slowdown is still in line with our own long-term market forecast, in which we predict that as the semiconductor market expands the market for semiconductor test equipment will grow over the medium to long term, even though there will be repeated short-term fluctuations in demand. Furthermore, semiconductor test is becoming increasingly important in boosting the performance and reliability of semiconductors, so it does not appear to be any change in the structure of the semiconductor test market. In view of this, Advantest will continue to strive to achieve the goals that we laid out in the Mid-Term Management Plan that we published in April 2018.

2. Condensed Consolidated Financial Statements

(1) Condensed Consolidated Statement of Financial Position

	Millions of Yen	
	As of March 31, 2018	As of December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	103,973	124,778
Trade and other receivables	37,929	49,478
Inventories	49,627	56,635
Other current assets	4,784	6,432
Subtotal	196,313	237,323
Assets held for sale	830	—
Total current assets	197,143	237,323
Non-current assets		
Property, plant and equipment, net	29,232	29,364
Goodwill and intangible assets, net	15,287	15,893
Other financial assets	2,414	2,746
Deferred tax assets	10,127	10,840
Other non-current assets	356	428
Total non-current assets	57,416	59,271
Total assets	254,559	296,594

	As of March 31, 2018	As of December 31, 2018
Liabilities and Equity		
Liabilities		
Current liabilities		
Trade and other payables	43,258	42,830
Bonds	29,872	5,888
Income tax payables	4,247	9,027
Provisions	3,042	2,574
Other financial liabilities	554	3,108
Other current liabilities	6,224	7,493
Total current liabilities	<u>87,197</u>	<u>70,920</u>
Non-current liabilities		
Other financial liabilities	—	12
Retirement benefit liabilities	40,353	32,488
Deferred tax liabilities	1,099	1,612
Other non-current liabilities	1,300	3,422
Total non-current liabilities	<u>42,752</u>	<u>37,534</u>
Total liabilities	<u>129,949</u>	<u>108,454</u>
Equity		
Share capital	32,363	32,363
Share premium	43,466	43,109
Treasury shares	(77,724)	(21,349)
Retained earnings	125,204	130,320
Other components of equity	1,301	3,697
Total equity attributable to owners of the parent	<u>124,610</u>	<u>188,140</u>
Total equity	<u>124,610</u>	<u>188,140</u>
Total liabilities and equity	<u><u>254,559</u></u>	<u><u>296,594</u></u>

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

Condensed Consolidated Statement of Profit or Loss

	Millions of Yen	
	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net sales	139,288	218,497
Cost of sales	<u>(70,540)</u>	<u>(98,869)</u>
Gross profit	68,748	119,628
Selling, general and administrative expenses	(58,736)	(68,841)
Other income	686	3,757
Other expenses	<u>(53)</u>	<u>(78)</u>
Operating income	10,645	54,466
Financial income	684	1,317
Financial expenses	<u>(1,558)</u>	<u>(67)</u>
Income before income taxes	9,771	55,716
Income taxes	<u>(2,298)</u>	<u>(7,665)</u>
Net income	<u>7,473</u>	<u>48,051</u>
Net income attributable to:		
Owners of the parent	7,473	48,051
Earnings per share:		Yen
Basic	<u>42.13</u>	258.10
Diluted	<u>38.52</u>	242.20

Millions of Yen

	Three months ended December 31, 2017	Three months ended December 31, 2018
Net sales	50,876	74,920
Cost of sales	(27,584)	(32,397)
Gross profit	23,292	42,523
Selling, general and administrative expenses	(20,148)	(24,445)
Other income	108	2,648
Other expenses	(19)	(23)
Operating income	3,233	20,703
Financial income	198	271
Financial expenses	(32)	(355)
Income before income taxes	3,399	20,619
Income taxes	(852)	(2,717)
Net income	2,547	17,902
Net income attributable to:		
Owners of the parent	2,547	17,902
Earnings per share:		Yen
Basic	14.33	92.37
Diluted	13.09	90.51

Condensed Consolidated Statement of Comprehensive Income

	Millions of Yen	
	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net income	7,473	48,051
Other comprehensive income (loss), net of tax		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit pension plans	—	2,093
Net change in fair value measurements of financial assets at fair value through other comprehensive income	—	37
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	2,933	2,359
Net change in fair values of available-for-sale financial assets	(544)	—
Total other comprehensive income (loss)	<u>2,389</u>	<u>4,489</u>
Total comprehensive income for the period	<u><u>9,862</u></u>	<u><u>52,540</u></u>
Comprehensive income attributable to:		
Owners of the parent	9,862	52,540

	Millions of Yen	
	Three months ended December 31, 2017	Three months ended December 31, 2018
Net income	2,547	17,902
Other comprehensive income (loss), net of tax		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit pension plans	—	2,093
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	1,731	(2,463)
Net change in fair values of available-for-sale financial assets	14	—
Total other comprehensive income (loss)	<u>1,745</u>	<u>(370)</u>
Total comprehensive income for the period	<u><u>4,292</u></u>	<u><u>17,532</u></u>
Comprehensive income attributable to:		
Owners of the parent	4,292	17,532

(3) Condensed Consolidated Statement of Changes in Equity

Nine months ended December 31, 2017

	Millions of Yen						
	Equity attributable to owners of the parent					Total	Total Equity
	Share capital	Share premium	Treasury shares	Retained earnings	Other components of equity		
Balance as of 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				(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 as of December 31, 2017	<u>32,363</u>	<u>43,925</u>	<u>(82,230)</u>	<u>115,573</u>	<u>7,587</u>	<u>117,218</u>	<u>117,218</u>

Nine months ended December 31, 2018

	Millions of Yen						
	Equity attributable to owners of the parent					Total	Total Equity
	Share capital	Share premium	Treasury shares	Retained earnings	Other components of equity		
Balance as of April 1, 2018	32,363	43,466	(77,724)	125,204	1,301	124,610	124,610
Impact of change in accounting policy				788		788	788
Beginning balance after retrospective restatement	32,363	43,466	(77,724)	125,992	1,301	125,398	125,398
Net income				48,051		48,051	48,051
Other comprehensive income					4,489	4,489	4,489
Total comprehensive income for the period	—	—	—	48,051	4,489	52,540	52,540
Purchase of treasury shares			(737)			(737)	(737)
Disposal of treasury shares		(99)	1,033	(557)		377	377
Conversion of convertible bonds		(576)	56,079	(31,453)		24,050	24,050
Dividends				(13,806)		(13,806)	(13,806)
Share-based payments		318				318	318
Transfer from other components of equity to retained earnings				2,093	(2,093)	—	—
Total transactions with the owners	—	(357)	56,375	(43,723)	(2,093)	10,202	10,202
Balance as of December 31, 2018	<u>32,363</u>	<u>43,109</u>	<u>(21,349)</u>	<u>130,320</u>	<u>3,697</u>	<u>188,140</u>	<u>188,140</u>

(4) Condensed Consolidated Statement of Cash Flows

	Millions of Yen	
	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Cash flows from operating activities:		
Income before income taxes	9,771	55,716
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,601	3,696
Gain on sales of available-for-sale financial assets	(353)	—
Changes in assets and liabilities:		
Trade and other receivables	2,279	(11,494)
Inventories	(5,279)	(7,014)
Trade and other payables	928	(301)
Warranty provisions	822	(469)
Deposits received	858	1,914
Advance receipt	2,927	1,045
Retirement benefit liabilities	1,617	(5,352)
Other	(996)	2,868
Subtotal	<u>16,175</u>	<u>40,609</u>
Interest and dividends received	381	758
Interest paid	(48)	(3)
Income taxes paid	<u>(3,406)</u>	<u>(5,506)</u>
Net cash provided by (used in) operating activities	<u>13,102</u>	<u>35,858</u>
Cash flows from investing activities:		
Proceeds from sale of available-for-sale financial assets	879	—
Purchases of available-for-sale financial assets	(216)	—
Purchases of equity instruments	—	(384)
Proceeds from sale of property, plant and equipment	1,866	1,921
Purchases of property, plant and equipment	(2,281)	(3,839)
Purchases of intangible assets	(557)	(261)
Other	(158)	20
Net cash provided by (used in) investing activities	<u>(467)</u>	<u>(2,543)</u>
Cash flows from financing activities:		
Proceeds from disposal of treasury shares	1,545	377
Purchases of treasury shares	(2)	(737)
Redemption of bonds	(15,000)	—
Dividends paid	(3,636)	(13,451)
Other	(8)	(3)
Net cash provided by (used in) financing activities	<u>(17,101)</u>	<u>(13,814)</u>
Net effect of exchange rate changes on cash and cash equivalents	<u>1,215</u>	<u>1,304</u>
Net change in cash and cash equivalents	<u>(3,251)</u>	<u>20,805</u>
Cash and cash equivalents at the beginning of period	<u>95,324</u>	<u>103,973</u>
Cash and cash equivalents at the end of period	<u>92,073</u>	<u>124,778</u>

(5) Notes to the Condensed Consolidated Financial Statements

(Notes on Going Concern): None

(Changes in Accounting Policies)

IFRS 9: Financial Instruments

Advantest adopted IFRS 9 Financial Instruments from the first quarter of the fiscal year ending March 31, 2019. This new standard is the replacement of IAS 39 Financial Instruments: Recognition and Measurement. This standard addresses the classification and measurement (including impairment) of financial instruments and introduces new rules for hedge accounting.

The adoption of the standard did not have an impact on Advantest consolidated results of operations and financial condition for the nine months ended December 31, 2018.

IFRS 15: Revenue from Contracts with Customers

Advantest adopted IFRS 15 Revenue from Contracts with Customers from the first quarter of the fiscal year ending March 31, 2019.

To apply IFRS 15, Advantest used the cumulative effect transition method which is recognizing the cumulative effect of applying the new standard at the beginning of the year of initial application.

In accordance with the adoption of IFRS 15, Advantest recognizes revenue based on the five-step model.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations (accounting treatment for goods or services separately)

Step 3: Determine the transaction price (amount of consideration)

Step 4: Allocate the transaction price to the performance obligations

Step 5: Recognize revenue when the entity satisfies a performance obligation

As a result of identifying the contracts with customers and the performance obligations in the contracts and calculating the value of the transactions based on the five-step model indicated above, revenue is recognized upon satisfaction of each performance obligation for those which product and installation are identified as a separate performance obligation compared to the revenue which had been recognized upon installation for the products which require installation based on the previous accounting standard. Consequently, the beginning balance of retained earnings for the fiscal year ending March 31, 2019 increased (Y) 1.1 billion.

Additionally, there is a difference in identifying a performance obligation for services in accordance with the new standard compared with the previous accounting standard. As a result, the beginning balance of retained earnings for the fiscal year ending March 31, 2019 decreased (Y) 0.3 billion.

Moreover, in the Condensed Consolidated Statement of Profit or Loss for the nine months ended December 31, 2018, net sales decreased approximately (Y) 3.1 billion.

(Segment Information)

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-based compensation expense)	14,097	(2,585)	2,933	(3,779)	10,666
Adjustment:					
Share-based compensation expense	—	—	—	—	(21)
Operating income	—	—	—	—	10,645
Financial income	—	—	—	—	684
Financial expenses	—	—	—	—	(1,558)
Income before income taxes	—	—	—	—	9,771

Nine months ended December 31, 2018					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	161,852	32,399	24,246	—	218,497
Inter-segment sales	—	—	—	—	—
Total	161,852	32,399	24,246	—	218,497
Segment income (loss) (operating income (loss) before share-based compensation expense)	51,074	1,074	4,438	(1,794)	54,792
Adjustment:					
Share-based compensation expense	—	—	—	—	(326)
Operating income	—	—	—	—	54,466
Financial income	—	—	—	—	1,317
Financial expenses	—	—	—	—	(67)
Income before income taxes	—	—	—	—	55,716

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-based compensation expense)	6,410	(3,236)	1,800	(1,720)	3,254
Adjustment:					
Share-based compensation expense	—	—	—	—	(21)
Operating income	—	—	—	—	3,233
Financial income	—	—	—	—	198
Financial expenses	—	—	—	—	(32)
Income before income taxes	—	—	—	—	3,399

Three months ended December 31, 2018					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	56,723	10,643	7,554	—	74,920
Inter-segment sales	—	—	—	—	—
Total	56,723	10,643	7,554	—	74,920
Segment income (loss) (operating income (loss) before share-based compensation expense)	18,826	528	791	706	20,851
Adjustment:					
Share-based compensation expense	—	—	—	—	(148)
Operating income	—	—	—	—	20,703
Financial income	—	—	—	—	271
Financial expenses	—	—	—	—	(355)
Income before income taxes	—	—	—	—	20,619

(Notes)

1. Advantest uses the operating income before share-based compensation expense for management's analysis of business segment results.
2. Share-based compensation expense represents expenses for stock options and performance-based stock remuneration expense.
3. Segment income (loss) is presented on the basis of operating income (loss) before share-based compensation expense.
4. Inter-segment sales are based on market prices.
5. Adjustments to segment income 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. Moreover, due to the revision of post-employment benefits plan, (Y) 2.5 billion income is included for the nine and three months ended December 31, 2018, respectively.

FY2018 Third Quarter Consolidated Financial Results Overview

1. Orders received・Backlog

(in billion yen)

	FY2017	FY2018						FY2018 Forecast	
		1Q	2Q	3Q	vs. FY2018 2Q increase (decrease)	FY2018 9 months total	vs. FY2017 9 months total increase (decrease)	Annual total	vs. FY2017 increase (decrease)
Orders received	247.8	70.6	76.2	62.7	(17.6%)	209.5	29.0%	255.0 265.0	7.0%
Backlog	82.8	(3.0) 79.5	83.0	70.8	(14.7%)	(3.0) 70.8	8.4%	69.8 66.8	(19.3%)

1. Upper data is the forecast amount released on Oct 30, 2018.

2. Due to the adoption of IFRS 15, backlog at the beginning of FY2018 was adjusted with a negative amount of 3.0 billion yen.

2. Profit or Loss

(in billion yen)

	FY2017	FY2018						FY2018 Forecast	
		1Q	2Q	3Q	vs. FY2018 2Q increase (decrease)	FY2018 9 months total	vs. FY2017 9 months total increase (decrease)	Annual total	vs. FY2017 increase (decrease)
Net sales	207.2	70.9	72.7	74.9	3.1%	218.5	56.9%	265.0 278.0	34.2%
Cost of sales	(100.6)	(32.7)	(33.8)	(32.4)	(4.0%)	(98.9)	40.2%	-	-
Selling, general and administrative expenses	(82.6)	(22.5)	(21.9)	(24.4)	11.4%	(68.8)	17.2%	-	-
Other income	0.6	0.1	1.0	2.7	160.6%	3.8	5.5 times	-	-
Other expenses	(0.1)	(0.0)	(0.0)	(0.1)	(28.1%)	(0.1)	47.2%	-	-
Operating income	24.5	15.8	18.0	20.7	15.4%	54.5	5.1 times	53.0 63.0	2.6 times
Sales ratio	11.8%	22.3%	24.7%	27.6%		24.9%		22.7%	
Financial income - expenses	(0.2)	0.7	0.6	(0.1)	-	1.2	-	-	-
Income before income taxes	24.3	16.5	18.6	20.6	11.1%	55.7	5.7 times	54.5 64.0	2.6 times
Sales ratio	11.7%	23.3%	25.5%	27.5%		25.5%		23.0%	
Income taxes	(6.2)	(2.6)	(2.4)	(2.7)	18.0%	(7.6)	3.3 times	-	-
Net income	18.1	13.9	16.2	17.9	10.1%	48.1	6.4 times	46.0 54.5	3.0 times
Sales ratio	8.7%	19.6%	22.4%	23.9%		22.0%		19.6%	

Upper data is the forecast amount released on Oct 30, 2018.

3. Financial Condition

(in billion yen)

	FY2017	FY2018				vs. FY2018 2Q increase (decrease)
		4Q End	1Q End	2Q End	3Q End	
Total assets	254.6	271.8	290.6	296.6	2.0%	
Equity attributable to owners of the parent	124.6	142.5	180.0	188.1	4.5%	
Ratio of equity attributable to owners of the parent	49.0%	52.4%	61.9%	63.4%	-	

4. Dividends

(in yen)

(Record Date)	FY2017			FY2018		
	Interim	Year end	Annual total	Interim	Year end (Forecast)	Annual total (Forecast)
Dividend per share	9.00	23.00	32.00	50.00	38.00	88.00