

FY2016 First Quarter Consolidated Financial Results

(Advantest's consolidated financial statements are prepared in accordance with IFRS)
(Period ended June 30, 2016)

July 27, 2016

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 : Shinichiro Kuroe, Representative Director, President and CEO

Contact person : Hiroshi Nakamura, Director, Managing Executive Officer and Executive Vice President, Corporate Administration Group
(03) 3214-7500

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Quarterly Results Supplemental Materials : Yes

Quarterly Results Presentation Meeting : Yes

(Rounded to the nearest million yen)

1. Consolidated Results of FY2016 Q1 (April 1, 2016 through June 30, 2016)

(1) Consolidated Financial Results (Accumulated)

(% changes as compared with 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)
FY2016 Q1	40,669	1.3	5,738	131.8	6,179	144.2	4,975	183.5	4,975	183.5	(4,039)	—
FY2015 Q1	40,166	—	2,475	—	2,530	—	1,755	—	1,755	—	4,715	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY2016 Q1	28.50	25.97
FY2015 Q1	10.05	9.26

(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	%
FY2016 Q1	205,651	87,834	87,834	42.7
FY2015 Q1	210,451	93,619	93,619	44.5

2. Dividends

(Record Date)	Dividend per share				
	First quarter end	Second quarter end	Third quarter end	Year end	Annual total
	yen	yen	yen	yen	yen
FY2015	—	10.00	—	10.00	20.00
FY2016	—	N/A	N/A	N/A	N/A
FY2016 (forecast)	N/A	—	—	—	—

(Note) Revision of dividends forecast for this period: No

3. Projected Results for FY2016 (April 1, 2016 through March 31, 2017)

(% changes as compared with 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		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	
FY2016	156,000	(3.8)	11,000	(12.7)	11,500	(2.3)	8,500	27.0	8,500	27.0	Yen 48.69

(Note) Revision of projected results for this period: Yes

Please see "(3) Prospects for the Current Fiscal Year" on page 7 for details.

4. Others

(1) Material changes in subsidiaries during this period (changes in scope of consolidation resulting from changes in subsidiaries): No

(2) Changes in accounting policies and accounting estimates

- 1) Changes in accounting policies required by IFRS: None
- 2) Changes arising from factors other than 1: None
- 3) Changes in accounting estimates: None

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

- 1) Number of issued and outstanding share at the end of each fiscal period (including treasury share):
FY2016 Q1 199,566,770 shares; FY2015 199,566,770 shares.
- 2) Number of treasury share at the end of each fiscal period:
FY2016 Q1 24,994,280 shares; FY2015 24,994,162 shares.
- 3) Average number of outstanding share for each period (cumulative term):
FY2016 Q1 174,572,523 shares; FY2015 Q1 174,557,956 shares.

Status of Quarterly Review Procedures

This quarterly financial results report is not subject to quarterly review procedures by independent auditors under Japan's Financial Instruments and Exchange Law. At the time of release of this report, such quarterly review procedures under the Financial Instruments and Exchange Law have not been completed.

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

Advantest Corporation adopted International Financial Reporting Standards ("IFRS") for the consolidated financial statements starting with its annual securities report with respect to the fiscal year ended March 31, 2016. Accordingly, the consolidated financial statements for the three months ended June 30, 2015 in this document are also presented in accordance with IFRS.

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. Business Results

(1) Analysis of Business Results

Consolidated Financial Results of FY2016 Q1 (April 1, 2016 through June 30, 2016)

(in billion yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016	As compared to the corresponding period of the previous fiscal year increase (decrease)
Orders received	44.0	43.8	(0.6%)
Net sales	40.2	40.7	1.3%
Operating income	2.5	5.7	131.8%
Income before income taxes	2.5	6.2	144.2%
Net income	1.8	5.0	183.5%

In Advantest's first quarter, the world economy sustained an overall gradual growth trend. The United States and other developed countries saw an improvement in economic conditions, while emerging economies also continued a steady trajectory towards stronger growth as a whole. However, the United Kingdom's vote for Brexit at the end of the quarter sparked sharp yen appreciation, and triggered other strong fluctuations in the global financial and currency markets, heightening the lack of visibility in the world economy going forward.

Semiconductor-related markets benefited from continuing improvements in the functionality of mid-range and low-priced smartphones, and from stronger sales of such smartphones worldwide. These market factors have driven a boom in production of non-memory semiconductor devices, including logic semiconductors for smartphones, and semiconductor manufacturers have increased their capital expenditure for production capacity expansion. On the other hand, the prices of memory semiconductors have continued to drop, and although signs of improvement in the demand environment have been visible, this has not yet led to full-scale capital investment.

Average exchange rates for this first quarter were 1 USD to 111 JPY (120 JPY in the corresponding period of the previous fiscal year) and 1 Euro to 124 JPY (131 JPY in the corresponding period of the previous fiscal year).

Amidst this business environment, Advantest sought to capture a larger share of the test demand generated by logic semiconductors for smartphones. We also made steady progress with measures to expand the profitability of our semiconductor test equipment peripherals and other businesses.

As a result, for the quarter ended June 30, 2016, orders received were (Y) 43.8 billion (0.6% decrease in comparison to the corresponding period in the previous fiscal year) and net sales were (Y) 40.7 billion (1.3% increase in comparison to the corresponding period in the previous fiscal year)—approximately the same level with the corresponding period in the previous fiscal year, despite the impact of sharply deteriorating currency exchange rates. Operating income was (Y) 5.7 billion (131.8% increase in comparison to the corresponding period in the previous fiscal year), reflecting the fact that the increased profitability of our product mix compensated for the negative effects of yen appreciation. Income before income taxes was (Y) 6.2 billion (144.2% increase in comparison to the corresponding period in the previous fiscal year) and net income was (Y) 5.0 billion (183.5% increase in comparison to the corresponding period in the previous fiscal year). The percentage of net sales to overseas customers was 93.4% (94.3% in the corresponding period in the previous fiscal year).

Conditions of business segments are described below.

<Semiconductor and Component Test System Segment>

(in billion yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016	As compared to the corresponding period of the previous fiscal year increase (decrease)
Orders received	26.9	29.8	10.9%
Net sales	24.7	28.7	16.3%
Segment income	1.4	8.0	459.8%

The Semiconductor and Component Test System Segment saw increased demand for non-memory test systems as customers stepped up their production of logic semiconductors for mid-range and low-priced smartphones. As a result, sales grew significantly, even amid the negative effects of yen appreciation. However, the ongoing slowdown in the PC market contributed to lower demand for test systems for non-memory chips for PCs. Demand for LCD display driver IC test systems also stagnated. Meanwhile, the prolonged fall in memory device prices suppressed customer investment in test systems, causing a drop in orders that reversed the vigorous trend of the previous fiscal year.

As a result of the above, orders received were (Y) 29.8 billion (10.9% increase in comparison to the corresponding period in the previous fiscal year), net sales were (Y) 28.7 billion (16.3% increase in comparison to the corresponding period in the previous fiscal year), and segment income were (Y) 8.0 billion (459.8% increase in comparison to the corresponding period in the previous fiscal year).

< Mechatronics System Segment >

(in billion yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016	As compared to the corresponding period of the previous fiscal year increase (decrease)
Orders received	9.1	6.2	(31.7%)
Net sales	8.7	5.2	(40.7%)
Segment income	1.6	(1.0)	—

The Mechatronics System Segment saw sales of device interfaces, which strongly correlate with memory test system demand, fall as chipmakers, particularly DRAM suppliers, lowered their investments in capacity expansions compared to the corresponding period in the previous fiscal year. Nanotechnology sales also contracted year-over-year owing to the timing of major customers' process shrink schedules.

As a result of the above, orders received were (Y) 6.2 billion (31.7% decrease in comparison to the corresponding period in the previous fiscal year), net sales were (Y) 5.2 billion (40.7% decrease in comparison to the corresponding period in the previous fiscal year), and segment loss were (Y) 1.0 billion ((Y) 2.6 billion decline in comparison to the corresponding period in the previous fiscal year).

<Services, Support and Others Segment>

(in billion yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016	As compared to the corresponding period of the previous fiscal year increase (decrease)
Orders received	8.0	7.7	(3.2%)
Net sales	6.8	6.9	0.9%
Segment income	0.8	0.6	(19.3%)

The Services, Support and Others Segment was also impacted by yen appreciation. However, our field services business, the mainstay of this segment, posted solid sales figures as our chipmaker customers sustained high production rates.

As a result of the above, orders received were (Y) 7.7 billion (3.2% decrease in comparison to the corresponding period in the previous fiscal year), net sales were (Y) 6.9 billion (0.9% increase in comparison to the corresponding period in the previous fiscal year), and segment income were (Y) 0.6 billion (19.3% decrease in comparison to the corresponding period in the previous fiscal year).

(2) Analysis of Financial Condition

Total assets at June 30, 2016 amounted to (Y) 205.7 billion, a decrease of (Y) 4.8 billion compared to March 31, 2016, primarily due to a decrease of (Y) 2.8 billion in trade and other receivables. The amount of total liabilities was (Y) 117.8 billion, an increase of (Y) 1.0 billion compared to March 31, 2016, primarily due to an increase of (Y) 1.0 billion in deposits received in other financial liabilities. Total Equity was (Y) 87.8 billion. Ratio of equity attributable to owners of the parent was 42.7%, a decrease of 1.8 percentage points from March 31, 2016.

(Cash Flow Condition)

Cash and cash equivalents held at June 30, 2016 were (Y) 85.1 billion, a decrease of (Y) 0.3 billion from March 31, 2016. Significant cash flows during the three-month period of this fiscal year and their causes are described below.

Net cash provided by operating activities was (Y) 7.7 billion (net cash inflow of (Y) 4.2 billion in the corresponding period of the previous fiscal year). This amount was primarily attributable to a decrease of (Y) 1.8 billion in trade and other receivables, an increase of (Y) 1.8 billion in inventories and adjustments of non cash items such as depreciation and amortization in addition to the income before income taxes of (Y) 6.2 billion.

Net cash used in investing activities was (Y) 1.2 billion (net cash outflow of (Y) 0.4 billion in the corresponding period of the previous fiscal year). This amount was primarily attributable to payments for acquisition of property, plant and equipment in the amount of (Y) 1.2 billion.

Net cash used in financing activities was (Y) 1.6 billion (net cash outflow of (Y) 11.6 billion in the corresponding period of the previous fiscal year). This amount was primarily attributable to dividends paid of (Y) 1.6 billion.

(3) Prospects for the Current Fiscal Year

The expansion of high-speed wireless networks, the ongoing adoption of smartphones worldwide and the evolution of their performance, as well as Advanced Driver Assistance Systems, or ADAS, in the automotive industry, argue that heightened social emphasis on safety and comfort will drive continued growth in the semiconductor industry and its related markets to come.

The outlook for the semiconductor test equipment market, which is Advantest's primary profit base, predicts solid overall demand from non-memory test system customers, against a background of smartphone market growth and high-speed communications infrastructure buildout in China and other emerging economies, regardless of quarterly fluctuations in demand for non-memory test systems.

Moreover, the increasing adoption of higher-speed, higher-capacity DRAM and NAND flash memory devices supports expectations that demand for our memory test systems and SSD test systems will grow.

Based on this outlook, Advantest will endeavor to expand our share of the semiconductor test equipment market, to reinforce our semiconductor test equipment peripherals business and new businesses, and to cut costs, with the goal of boosting profits.

As a result, Advantest has partly revised its consolidated results forecast for FY2016. We expect sales of (Y) 156.0 billion, unchanged from our forecast previously announced. However, we now expect operating income of (Y) 11.0 billion (formerly (Y) 10.0 billion), income before income taxes of (Y) 11.5 billion (formerly (Y) 10.0 billion), and net income of (Y) 8.5 billion (formerly (Y) 7.5 billion). These forecasts are based on foreign exchange rates of 100 JPY to 1 USD and 110 JPY to 1 Euro.

2. Condensed Consolidated Financial Statements

(1) Condensed Consolidated Statements of Financial Position

	Millions of Yen	
	As of March 31, 2016	As of June 30, 2016
Assets		
Current assets		
Cash and cash equivalents	85,430	85,144
Trade and other receivables	28,005	25,177
Inventories	33,912	34,900
Other current assets	3,049	3,340
Total current assets	<u>150,396</u>	<u>148,561</u>
Non-current assets		
Property, plant and equipment, net	31,451	30,455
Goodwill and intangible assets	16,726	15,246
Other financial assets	3,542	3,320
Deferred tax assets	8,038	7,721
Other non-current assets	298	348
Total non-current assets	<u>60,055</u>	<u>57,090</u>
Total assets	<u><u>210,451</u></u>	<u><u>205,651</u></u>

	Millions of Yen	
	As of March 31, 2016	As of June 30, 2016
Liabilities and Equity		
Liabilities		
Current liabilities		
Trade and other payables	22,101	22,245
Bonds	—	15,000
Income tax payables	1,548	2,093
Provisions	1,709	1,747
Other financial liabilities	487	1,545
Other current liabilities	3,589	3,664
Total current liabilities	<u>29,434</u>	<u>46,294</u>
Non-current liabilities		
Bonds	44,618	29,650
Other financial liabilities	65	52
Retirement benefit liabilities	41,076	40,152
Deferred tax liabilities	358	480
Other non-current liabilities	1,281	1,189
Total non-current liabilities	<u>87,398</u>	<u>71,523</u>
Total liabilities	<u>116,832</u>	<u>117,817</u>
Equity		
Share capital	32,363	32,363
Share premium	44,478	44,478
Treasury shares	(94,585)	(94,585)
Retained earnings	105,190	108,419
Other components of equity	6,173	(2,841)
Total equity attributable to owners of the parent	<u>93,619</u>	<u>87,834</u>
Total equity	<u>93,619</u>	<u>87,834</u>
Total liabilities and equity	<u><u>210,451</u></u>	<u><u>205,651</u></u>

(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	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Net sales	40,166	40,669
Cost of sales	(18,028)	(15,391)
Gross profit	22,138	25,278
Selling, general and administrative expenses	(19,666)	(19,597)
Other income	104	138
Other expenses	(101)	(81)
Operating income	2,475	5,738
Financial income	114	497
Financial expenses	(59)	(56)
Income before income taxes	2,530	6,179
Income taxes	(775)	(1,204)
Net income	1,755	4,975
Net income attributable to: Owners of the parent	1,755	4,975

	Yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Earnings per share:		
Basic	10.05	28.50
Diluted	9.26	25.97

Condensed Consolidated Statements of Comprehensive Income

	Millions of Yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Net income	1,755	4,975
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	2,622	(8,902)
Net change in fair values of available-for-sale financial assets	338	(112)
Total other comprehensive income	<u>2,960</u>	<u>(9,014)</u>
Total comprehensive income for the period	<u>4,715</u>	<u>(4,039)</u>
Comprehensive income attributable to:		
Owners of the parent	4,715	(4,039)

(3) Condensed Consolidated Statements of Changes in Equity

Three months ended June 30, 2015

	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 at April 1,2015	32,363	44,487	(94,686)	106,916	12,730	101,810	101,810
Net income				1,755		1,755	1,755
Other comprehensive income					2,960	2,960	2,960
Total comprehensive income for the period	—	—	—	1,755	2,960	4,715	4,715
Purchase of treasury shares			0			0	0
Disposal of treasury shares		(9)	101	(61)		31	31
Dividends				(1,745)		(1,745)	(1,745)
Total transactions with the owners	—	(9)	101	(1,806)	—	(1,714)	(1,714)
Balance at June 30,2015	<u>32,363</u>	<u>44,478</u>	<u>(94,585)</u>	<u>106,865</u>	<u>15,690</u>	<u>104,811</u>	<u>104,811</u>

Three months ended June 30, 2016

	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 at April 1,2016	32,363	44,478	(94,585)	105,190	6,173	93,619	93,619
Net income				4,975		4,975	4,975
Other comprehensive income					(9,014)	(9,014)	(9,014)
Total comprehensive income for the period	—	—	—	4,975	(9,014)	(4,039)	(4,039)
Purchase of treasury shares			0			0	0
Disposal of treasury shares				(1,746)		(1,746)	(1,746)
Dividends				(1,746)		(1,746)	(1,746)
Total transactions with the owners	—	—	0	(1,746)	—	(1,746)	(1,746)
Balance at June 30,2016	<u>32,363</u>	<u>44,478</u>	<u>(94,585)</u>	<u>108,419</u>	<u>(2,841)</u>	<u>87,834</u>	<u>87,834</u>

(4) Condensed Consolidated Statements of Cash Flows

	Millions of Yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Cash flows from operating activities:		
Income before income taxes	2,530	6,179
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,302	1,036
Changes in assets and liabilities:		
Trade and other receivables	4,747	1,837
Inventories	(3,718)	(1,761)
Trade and other payables	(2,013)	321
Warranty provisions	55	44
Retirement benefit liabilities	689	835
Other	1,895	343
Subtotal	<u>5,487</u>	<u>8,834</u>
Interest and dividends received	93	97
Interest paid	(69)	(80)
Income taxes paid	<u>(1,319)</u>	<u>(1,120)</u>
Net cash provided by (used in) operating activities	<u>4,192</u>	<u>7,731</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(279)	(1,214)
Purchases of intangible assets	(194)	(30)
Other	69	33
Net cash provided by (used in) investing activities	<u>(404)</u>	<u>(1,211)</u>
Cash flows from financing activities:		
Redemption of bonds	(10,000)	—
Dividends paid	(1,587)	(1,601)
Other	15	(18)
Net cash provided by (used in) financing activities	<u>(11,572)</u>	<u>(1,619)</u>
Net effect of exchange rate changes on cash and cash equivalents	<u>2,388</u>	<u>(5,187)</u>
Net change in cash and cash equivalents	<u>(5,396)</u>	<u>(286)</u>
Cash and cash equivalents at beginning of period	<u>97,574</u>	<u>85,430</u>
Cash and cash equivalents at end of period	<u><u>92,178</u></u>	<u><u>85,144</u></u>

(5) Notes to the Condensed Consolidated Financial Statements

(Notes on Going Concern): None

(Segment Information)

Three months ended June 30, 2015

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	24,662	8,701	6,803	—	40,166
Inter-segment sales	6	—	—	(6)	—
Total	24,668	8,701	6,803	(6)	40,166
Segment income	1,436	1,568	786	(1,315)	2,475
Financial income	—	—	—	—	114
Financial expenses	—	—	—	—	(59)
Income before income taxes	—	—	—	—	2,530

Three months ended June 30, 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	28,683	5,123	6,863	—	40,669
Inter-segment sales	4	34	—	(38)	—
Total	28,687	5,157	6,863	(38)	40,669
Segment income	8,039	(985)	634	(1,950)	5,738
Financial income	—	—	—	—	497
Financial expenses	—	—	—	—	(56)
Income before income taxes	—	—	—	—	6,179

(Notes)

1. Advantest uses the operating income (loss) before share option compensation expense for management's analysis of business segment results.
2. Segment income (loss) is presented on the basis of operating income (loss) before share option compensation expense.
3. Inter-segment sales are based on market prices.
4. 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.