

FY2018 Second Quarter Consolidated Financial Results

(Advantest's consolidated financial statements are prepared in accordance with IFRS)
(Period ended September 30, 2018)

October 30, 2018

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
 (03) 3214-7500
 Quarterly Report Filing Date (as planned) : November 13, 2018
 Dividend Payable Date (as planned) : December 3, 2018
 Quarterly Results Supplemental Materials : Yes
 Quarterly Results Presentation Meeting : Yes

(Rounded to the nearest million yen)

1. Consolidated Results of FY2018 Q2 (April 1, 2018 through September 30, 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 Q2	143,577	62.4	33,763	355.5	35,097	450.8	30,149	512.0	30,149	512.0	35,008	528.4
FY2017 Q2	88,412	16.0	7,412	(10.9)	6,372	(30.1)	4,926	(32.2)	4,926	(32.2)	5,570	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY2018 Q2	165.35	151.81
FY2017 Q2	27.80	25.42

(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 Q2	290,647	180,035	180,035	61.9
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	N/A
FY2018 (forecast)	N/A	N/A	—	25.00	75.00

(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	265,000	27.9	53,000	116.4	54,500	124.4	46,000	154.1	46,000	154.1

(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 Q2 199,566,770 shares; FY2017 199,566,770 shares.

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

FY2018 Q2 5,799,593 shares; FY2017 20,539,246 shares.

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

FY2018 Q2 182,341,468 shares; FY2017 Q2 177,199,310 shares.

(Note) Advantest's share (FY2018 Q2 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 Q2 (April 1, 2018 through September 30, 2018)

(in billion yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018	As compared to the corresponding period of the previous fiscal year increase (decrease)
Orders received	105.6	146.8	39.0%
Net sales	88.4	143.6	62.4%
Operating income	7.4	33.8	4.6 times
Income before income taxes	6.4	35.1	5.5 times
Net income	4.9	30.1	6.1 times

In Advantest's first half of fiscal year 2018, the global economy continued to grow steadily as a whole, despite intensified trade friction triggered by the spread of protectionist trade policies and currency depreciation in emerging economies. In some emerging economies such as China, signs of economic slowdown were seen, but strong economic growth continued in the US, and even in Europe and Japan, a gradual growth trajectory was sustained.

In semiconductor-related markets, overall growth continued. Investments for increasing performance of data centers supported robust demand for high-performance memory, and suppliers of SoC semiconductors actively expanded development of smaller process nodes and greater functionality devices for high-performance smartphones. Encouraged by these semiconductor market trends, major semiconductor manufacturers actively invested in test systems for mass production of higher-performance semiconductors.

In this favorable business environment, we leveraged our rich product portfolio and broad customer base to capture expanding product demand and improve market share. In addition, as customer interest in our products continued to increase, we strove to further boost production capacity.

The average exchange rate for this period was 1 USD to 109 JPY (111 JPY in the corresponding period of the previous fiscal year) and 1 EUR to 130 JPY (124 JPY in the corresponding period of the previous fiscal year).

As a result of the above, orders received rose 39.0% to (Y) 146.8 billion year-on-year, and sales grew 62.4% to (Y) 143.6 billion, both substantially up from the same period of the previous year. Due to this increase in sales, operating income was (Y) 33.8 billion (4.6 times increase in comparison to the corresponding period in the previous fiscal year), income before income taxes was (Y) 35.1 billion (5.5 times increase in comparison to the corresponding period in the previous fiscal year), and net income was (Y) 30.1 billion (6.1 times increase in comparison to the corresponding period in the previous fiscal year), all up dramatically year-on-year. Our overseas sales ratio in the period was 94.7% (92.3% 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)

	Six months ended September 30, 2017	Six months ended September 30, 2018	As compared to the corresponding period of the previous fiscal year increase (decrease)
Orders received	70.4	111.9	59.0%
Net sales	57.7	105.1	82.3%
Segment income	7.7	32.2	4.2 times

In this segment, demand for SoC test systems increased significantly as the performance of application processors, which are key components of smartphones, has improved. Test demand for high-end logic ICs used in AI and other applications also increased. Touch sensor integration and other improvements to the functionality of display driver ICs also drove demand for enhanced test capabilities in this sector. In addition, demand for DRAM testers increased thanks to growth in memory demand for data centers, and demand for testers for non-volatile memory chips also remained strong in response to the growth of 3D NAND flash memory with more layers.

As a result of the above, orders received were (Y) 111.9 billion (59.0% increase in comparison to the corresponding period in the previous fiscal year), net sales were (Y) 105.1 billion (82.3% increase in comparison to the corresponding period in the previous fiscal year), and segment income was (Y) 32.2 billion (4.2 times increase in comparison to the corresponding period in the previous fiscal year).

< Mechatronics System Segment >

(in billion yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018	As compared to the corresponding period of the previous fiscal year increase (decrease)
Orders received	22.0	21.7	(1.2%)
Net sales	16.8	21.8	29.2%
Segment income	0.7	0.5	(16.1%)

In this segment, although sales of device interface products and test handler products, which are highly correlated to our memory test business, increased, an increasing cost of goods sold ratio turned out to be a major factor in segment profit and loss. Demand for nanotechnology products also failed to grow due to the balance among schedules of customers' investment in miniaturization.

As a result of the above, orders received were (Y) 21.7 billion (1.2% decrease in comparison to the corresponding period in the previous fiscal year), net sales were (Y) 21.8 billion (29.2% increase in comparison to the corresponding period in the previous fiscal year), and segment income was (Y) 0.5 billion (16.1% decrease in comparison to the corresponding period in the previous fiscal year).

<Services, Support and Others Segment>

(in billion yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018	As compared to the corresponding period of the previous fiscal year increase (decrease)
Orders received	13.2	13.2	(0.6%)
Net sales	13.9	16.7	19.8%
Segment income	1.1	3.6	3.2 times

In this segment, as the semiconductor market as a whole was booming, we saw a drop-off in our second-hand business due to a shortage of second-hand testers. However, demand for test system maintenance services held steady amidst favorable business circumstances.

As a result of the above, orders received were (Y) 13.2 billion (0.6% decrease in comparison to the corresponding period in the previous fiscal year), net sales were (Y) 16.7 billion (19.8% increase in comparison to the corresponding period in the previous fiscal year), and segment income was (Y) 3.6 billion (3.2 times increase in comparison to the corresponding period in the previous fiscal year).

(2) Overview of Financial Condition

Total assets at September 30, 2018 amounted to (Y) 290.6 billion, an increase of (Y) 36.1 billion compared to the fiscal year ended March 31, 2018, primarily due to an increase of (Y) 17.0 billion in cash and cash equivalents and (Y) 13.8 billion in trade and other receivables, respectively. The amount of total liabilities was (Y) 110.6 billion, a decrease of (Y) 19.3 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, offset by an increase of (Y) 2.3 billion in income tax payables. Total equity was (Y) 180.0 billion. Ratio of equity attributable to owners of the parent was 61.9%, an increase of 12.9 percentage points from March 31, 2018, primarily due to a decrease of (Y) 56.0 billion in treasury shares upon conversion of corporate bonds.

(3) Overview of Cash Flows

Cash and cash equivalents held at September 30, 2018 were (Y) 121.0 billion, an increase of (Y) 17.0 billion from March 31, 2018. Significant cash flows during the six-month period of this fiscal year and details are described below.

Net cash provided by operating activities was (Y) 19.2 billion (net cash inflow of (Y) 11.0 billion in the corresponding period of the previous fiscal year). This amount was primarily attributable to an increase of (Y) 12.8 billion in trade and other receivables, an increase of (Y) 3.0 billion in inventories and adjustments of non-cash items such as depreciation and amortization in addition to the income before income taxes of (Y) 35.1 billion.

Net cash used in investing activities was (Y) 1.1 billion (net cash inflow of (Y) 0.8 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) 2.7 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) 4.6 billion (net cash outflow of (Y) 16.2 billion in the corresponding period of the previous fiscal year). This amount was primarily attributable to dividends paid of (Y) 4.1 billion.

(4) Near-term Prospects

The spread of protectionist trade policies has increased uncertainty over the outlook for the global economy. There is also concern about a potential decline in capital investment linked to the slowdown of the global economy and semiconductor demand adjustments. We will keep an eye on the possible impact of these risk factors on our business going forward.

On the other hand, we foresee a steady outlook in the semiconductor test equipment market, which is our primary profit base. In the SoC test system market, as smartphone performance advances, semiconductor manufacturers continue to invest aggressively in test systems for application processors, which are key components of smartphones. Robust demand is also expected to continue for test systems for display driver ICs, which are similarly advancing in functionality. With the spread of new technologies such as AI and 5G, demand for test systems for high-end logic ICs is also expected to be solid. In the memory test system market as well, demand for test systems is expected to continue amidst increased production of higher-speed, large-capacity memory devices.

As a result of the above, we have revised our full-year consolidated results forecast for the current fiscal year upwards from our forecast published in July 2018. Our new forecast calls for orders received of (Y) 255.0 billion (formerly (Y) 220.0 billion in July 2018), sales of (Y) 265.0 billion (formerly (Y) 230.0 billion), operating income of (Y) 53.0 billion (formerly (Y) 34.5 billion), income before income tax of (Y) 54.5 billion (formerly (Y) 34.8 billion), and net income of (Y) 46.0 billion (formerly (Y) 27.8 billion). This forecast is predicated on exchange rate assumptions for the second half of the fiscal year of 1 USD to 110 JPY and 1 EUR to 135 JPY. The USD exchange rate has been revised upwards by 5 JPY while the EUR exchange rate remains unchanged from our July's forecast. Moreover, due to a revision to our retirement benefit plan in Japan, we forecast approximately (Y) 2.5 billion of additional profit in the third quarter of this fiscal year, which is included in the latest financial forecast mentioned above. This transferred a part of the defined benefit corporate pension plan, which covers substantially all employees in Advantest Corporation and its domestic subsidiaries, to a defined contribution plan.

In response to medium- to long-term trends in the semiconductor test market, we globally integrated the organization of our semiconductor test system business in June 2018. This reorganization is intended to build the foundation for Advantest to become the No. 1 provider of test and measurement solutions, a goal set out in the 10-year "Grand Design" that we announced in April 2018. It will support our efforts to further increase market share and improve results by developing and providing solutions that are highly competitive and valuable to our customers.

2. Condensed Consolidated Financial Statements

(1) Condensed Consolidated Statements of Financial Position

	Millions of Yen	
	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and cash equivalents	103,973	120,988
Trade and other receivables	37,929	51,707
Inventories	49,627	52,958
Other current assets	4,784	4,874
Subtotal	196,313	230,527
Assets held for sale	830	—
Total current assets	197,143	230,527
Non-current assets		
Property, plant and equipment, net	29,232	29,899
Goodwill and intangible assets, net	15,287	16,269
Other financial assets	2,414	2,501
Deferred tax assets	10,127	10,972
Other non-current assets	356	479
Total non-current assets	57,416	60,120
Total assets	254,559	290,647

	Millions of Yen	
	As of March 31, 2018	As of September 30, 2018
Liabilities and Equity		
Liabilities		
Current liabilities		
Trade and other payables	43,258	43,979
Bonds	29,872	5,906
Income tax payables	4,247	6,564
Provisions	3,042	2,594
Other financial liabilities	554	986
Other current liabilities	6,224	6,394
Total current liabilities	<u>87,197</u>	<u>66,423</u>
Non-current liabilities		
Retirement benefit liabilities	40,353	41,427
Deferred tax liabilities	1,099	1,396
Other non-current liabilities	1,300	1,366
Total non-current liabilities	<u>42,752</u>	<u>44,189</u>
Total liabilities	<u>129,949</u>	<u>110,612</u>
Equity		
Share capital	32,363	32,363
Share premium	43,466	42,992
Treasury shares	(77,724)	(21,653)
Retained earnings	125,204	120,173
Other components of equity	1,301	6,160
Total equity attributable to owners of the parent	<u>124,610</u>	<u>180,035</u>
Total equity	<u>124,610</u>	<u>180,035</u>
Total liabilities and equity	<u><u>254,559</u></u>	<u><u>290,647</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	
	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	88,412	143,577
Cost of sales	<u>(42,956)</u>	<u>(66,472)</u>
Gross profit	45,456	77,105
Selling, general and administrative expenses	(38,588)	(44,396)
Other income	580	1,109
Other expenses	<u>(36)</u>	<u>(55)</u>
Operating income	7,412	33,763
Financial income	561	1,392
Financial expenses	<u>(1,601)</u>	<u>(58)</u>
Income before income taxes	6,372	35,097
Income taxes	<u>(1,446)</u>	<u>(4,948)</u>
Net income	<u>4,926</u>	<u>30,149</u>
Net income attributable to:		
Owners of the parent	4,926	30,149
Earnings per share:		Yen
Basic	<u>27.80</u>	165.35
Diluted	25.42	151.81

Millions of Yen

	Three months ended September 30, 2017	Three months ended September 30, 2018
Net sales	47,715	72,646
Cost of sales	(22,839)	(33,739)
Gross profit	24,876	38,907
Selling, general and administrative expenses	(20,173)	(21,946)
Other income	499	1,016
Other expenses	(16)	(32)
Operating income	5,186	17,945
Financial income	107	640
Financial expenses	(488)	(25)
Income before income taxes	4,805	18,560
Income taxes	(870)	(2,303)
Net income	3,935	16,257
Net income attributable to:		
Owners of the parent	3,935	16,257
Earnings per share:		Yen
Basic	22.18	88.25
Diluted	20.20	81.61

Condensed Consolidated Statements of Comprehensive Income

	Millions of Yen	
	Six months ended September 30, 2017	Six months ended September 30, 2018
Net income	4,926	30,149
Other comprehensive income (loss), net of tax		
Items that will not be reclassified to profit or loss		
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	1,202	4,822
Net change in fair values of available-for-sale financial assets	(558)	—
Total other comprehensive income (loss)	644	4,859
Total comprehensive income for the period	<u>5,570</u>	<u>35,008</u>
Comprehensive income attributable to:		
Owners of the parent	5,570	35,008

	Millions of Yen	
	Three months ended September 30, 2017	Three months ended September 30, 2018
Net income	3,935	16,257
Other comprehensive income (loss), net of tax		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	504	2,979
Net change in fair values of available-for-sale financial assets	14	—
Total other comprehensive income (loss)	518	2,979
Total comprehensive income for the period	<u>4,453</u>	<u>19,236</u>
Comprehensive income attributable to:		
Owners of the parent	4,453	19,236

(3) Condensed Consolidated Statements of Changes in Equity

Six months ended September 30, 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				4,926		4,926	4,926
Other comprehensive income					644	644	644
Total comprehensive income for the period	—	—	—	4,926	644	5,570	5,570
Purchase of treasury shares			(1)			(1)	(1)
Disposal of treasury shares		(250)	2,328	(1,147)		931	931
Dividends				(2,122)		(2,122)	(2,122)
Total transactions with the owners	—	(250)	2,327	(3,269)	—	(1,192)	(1,192)
Balance as of September 30, 2017	<u>32,363</u>	<u>44,069</u>	<u>(83,712)</u>	<u>115,333</u>	<u>5,842</u>	<u>113,895</u>	<u>113,895</u>

Six months ended September 30, 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				30,149		30,149	30,149
Other comprehensive income					4,859	4,859	4,859
Total comprehensive income for the period	—	—	—	30,149	4,859	35,008	35,008
Purchase of treasury shares			(737)			(737)	(737)
Disposal of treasury shares		(74)	776	(417)		285	285
Conversion of convertible bonds		(575)	56,032	(31,433)		24,024	24,024
Dividends				(4,118)		(4,118)	(4,118)
Share-based payments		175				175	175
Total transactions with the owners	—	(474)	56,071	(35,968)	—	19,629	19,629
Balance as of September 30, 2018	<u>32,363</u>	<u>42,992</u>	<u>(21,653)</u>	<u>120,173</u>	<u>6,160</u>	<u>180,035</u>	<u>180,035</u>

(4) Condensed Consolidated Statements of Cash Flows

	Millions of Yen	
	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities:		
Income before income taxes	6,372	35,097
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,373	2,457
Gain on sales of available-for-sale financial assets	(349)	—
Changes in assets and liabilities:		
Trade and other receivables	2,525	(12,840)
Inventories	(3,395)	(3,037)
Trade and other payables	3,083	526
Warranty provisions	87	(452)
Retirement benefit liabilities	983	863
Other	844	(142)
Subtotal	12,523	22,472
Interest and dividends received	245	445
Interest paid	(48)	(3)
Income taxes paid	(1,691)	(3,716)
Net cash provided by (used in) operating activities	11,029	19,198
Cash flows from investing activities:		
Proceeds from sale of available-for-sale financial assets	851	—
Purchases of available-for-sale financial assets	(216)	—
Proceeds from sale of property, plant and equipment	1,819	1,855
Purchases of property, plant and equipment	(1,289)	(2,718)
Purchases of intangible assets	(401)	(182)
Other	39	(6)
Net cash provided by (used in) investing activities	803	(1,051)
Cash flows from financing activities:		
Proceeds from disposal of treasury shares	936	283
Purchases of treasury shares	(1)	(737)
Redemption of bonds	(15,000)	—
Dividends paid	(2,121)	(4,111)
Other	(7)	(0)
Net cash provided by (used in) financing activities	(16,193)	(4,565)
Net effect of exchange rate changes on cash and cash equivalents	784	3,433
Net change in cash and cash equivalents	(3,577)	17,015
Cash and cash equivalents at the beginning of period	95,324	103,973
Cash and cash equivalents at the end of period	91,747	120,988

(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 six months ended September 30, 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 Statements of Profit or Loss for the six months ended September 30, 2018, net sales decreased approximately (Y) 3.4 billion.

(Segment Information)

Six months ended September 30, 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	57,636	16,845	13,931	—	88,412
Inter-segment sales	26	—	—	(26)	—
Total	57,662	16,845	13,931	(26)	88,412
Segment income (loss) (operating income (loss) before share-based compensation expense)	7,687	651	1,133	(2,059)	7,412
Adjustment:					
Share-based compensation expense	—	—	—	—	—
Operating income	—	—	—	—	7,412
Financial income	—	—	—	—	561
Financial expenses	—	—	—	—	(1,601)
Income before income taxes	—	—	—	—	6,372

Six months ended September 30, 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	105,129	21,756	16,692	—	143,577
Inter-segment sales	—	—	—	—	—
Total	105,129	21,756	16,692	—	143,577
Segment income (loss) (operating income (loss) before share-based compensation expense)	32,248	546	3,647	(2,500)	33,941
Adjustment:					
Share-based compensation expense	—	—	—	—	(178)
Operating income	—	—	—	—	33,763
Financial income	—	—	—	—	1,392
Financial expenses	—	—	—	—	(58)
Income before income taxes	—	—	—	—	35,097

Three months ended September 30, 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	30,979	9,657	7,079	—	47,715
Inter-segment sales	26	—	—	(26)	—
Total	31,005	9,657	7,079	(26)	47,715
Segment income (loss) (operating income (loss) before share-based compensation expense)	5,129	731	429	(1,103)	5,186
Adjustment:					
Share-based compensation expense	—	—	—	—	—
Operating income	—	—	—	—	5,186
Financial income	—	—	—	—	107
Financial expenses	—	—	—	—	(488)
Income before income taxes	—	—	—	—	4,805

Three months ended September 30, 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	54,150	10,678	7,818	—	72,646
Inter-segment sales	—	—	—	—	—
Total	54,150	10,678	7,818	—	72,646
Segment income (loss) (operating income (loss) before share-based compensation expense)	16,751	105	1,745	(542)	18,059
Adjustment:					
Share-based compensation expense	—	—	—	—	(114)
Operating income	—	—	—	—	17,945
Financial income	—	—	—	—	640
Financial expenses	—	—	—	—	(25)
Income before income taxes	—	—	—	—	18,560

(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.

FY2018 Second Quarter Consolidated Financial Results Overview

1. Orders received • Backlog

(in billion yen)

	FY2017	FY2018				
		1Q	2Q	vs. FY2018 1Q increase (decrease)	1H	vs. FY2017 1H increase (decrease)
Orders received	247.8	70.6	76.2	7.8%	146.8	39.0%
Backlog	82.8	^(3.0) 79.5	83.0	4.4%	^(3.0) 83.0	39.7%

FY2018 Forecast	
Annual total	vs. FY2017 increase (decrease)
^{220.0} 255.0	2.9%
^{69.8} 69.8	(15.7%)

1. Upper data is the forecast amount released on Jul 25, 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				
		1Q	2Q	vs. FY2018 1Q increase (decrease)	1H	vs. FY2017 1H increase (decrease)
Net sales	207.2	70.9	72.7	2.4%	143.6	62.4%
Cost of sales	(100.6)	(32.7)	(33.8)	3.1%	(66.5)	54.7%
Selling, general and administrative expenses	(82.6)	(22.5)	(21.9)	(2.2%)	(44.4)	15.1%
Other income	0.6	0.1	1.0	10.9 times	1.1	91.2%
Other expenses	(0.1)	(0.0)	(0.0)	39.1%	(0.0)	52.8%
Operating income	24.5	15.8	18.0	13.4%	33.8	4.6 times
Sales ratio	11.8%	22.3%	24.7%		23.5%	
Financial income - expenses	(0.2)	0.7	0.6	(14.5%)	1.3	-
Income before income taxes	24.3	16.5	18.6	12.2%	35.1	5.5 times
Sales ratio	11.7%	23.3%	25.5%		24.4%	
Income taxes	(6.2)	(2.6)	(2.4)	(12.9%)	(5.0)	3.4 times
Net income	18.1	13.9	16.2	17.0%	30.1	6.1 times
Sales ratio	8.7%	19.6%	22.4%		21.0%	

FY2018 Forecast	
Annual total	vs. FY2017 increase (decrease)
^{230.0} 265.0	27.9%
-	-
-	-
-	-
^{34.5} 53.0	2.2 times
20.0%	
-	-
^{34.8} 54.5	2.2 times
20.6%	
-	-
^{27.8} 46.0	2.5 times
17.4%	

Upper data is the forecast amount released on Jul 25, 2018.

3. Financial Condition

(in billion yen)

	FY2017	FY2018		
		4Q End	1Q End	2Q End
Total assets	254.6	271.8	290.6	6.9%
Equity attributable to owners of the parent	124.6	142.5	180.0	26.3%
Ratio of equity attributable to owners of the parent	49.0%	52.4%	61.9%	-

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	25.00	75.00

The dividends forecast for FY2018 Year end hasn't been decided. We will disclose promptly after considering the results based on the business performance.