

(English translation and a part of summary of the Quarterly Report for the fiscal second quarter ended September 30, 2018, pursuant to the Japanese Financial Instrument and Exchange Law.)

Quarterly Financial Report

For the fiscal second quarter ended September 30, 2018

Advantest Corporation

1. Condensed Consolidated Financial Statements

(1) Condensed Consolidated Statements of Financial Position

		Millions of Yen	
	Note	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	10	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
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables		43,258	43,979
Bonds	6, 10	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		87,197	66,423
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		42,752	44,189
Total liabilities		129,949	110,612
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		124,610	180,035
Total equity		124,610	180,035
Total liabilities and equity		254,559	290,647

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

Condensed Consolidated Statements of Profit or Loss

		Millions of Yen	
	Note	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	5, 8	88,412	143,577
Cost of sales		(42,956)	(66,472)
Gross profit		45,456	77,105
Selling, general and administrative expenses		(38,588)	(44,396)
Other income		580	1,109
Other expenses		(36)	(55)
Operating income	5	7,412	33,763
Financial income		561	1,392
Financial expenses		(1,601)	(58)
Income before income taxes		6,372	35,097
Income taxes		(1,446)	(4,948)
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:	9		Yen
Basic		27.80	165.35
Diluted		25.42	151.81

		Millions of Yen	
	Note	Three months ended September 30, 2017	Three months ended September 30, 2018
Net sales	5	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	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		<u>3,935</u>	<u>16,257</u>
Net income attributable to:			
Owners of the parent		3,935	16,257
Earnings per share:	9		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 values 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

	Note	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, net of tax						644	644	644
Total comprehensive income for the period		—	—	—	4,926	644	5,570	5,570
Purchase of treasury shares				(1)		(1)	(1)	(1)
Disposal of treasury shares			(250)	2,328	(1,147)	931	931	931
Dividends	7				(2,122)	(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

	Note	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	3				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, net of tax						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)	(737)
Disposal of treasury shares			(74)	776	(417)	285	285	285
Conversion of convertible bonds	6		(575)	56,032	(31,433)	24,024	24,024	24,024
Dividends	7				(4,118)	(4,118)	(4,118)	(4,118)
Share-based payments			175			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

	Note	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	7	(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

Notes to the Condensed Consolidated Financial Statements

1. Reporting Entity

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

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

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

2. Basis of Preparation

(1) Compliance with IFRS

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

As the condensed consolidated financial statements do not contain all the information required in annual consolidated financial statements, it should be read in combination with the consolidated financial statements for the fiscal year ended March 31, 2018.

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

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

3. Significant Accounting Policies

The condensed consolidated financial statements are prepared based on the same accounting policies as those applied in the Advantest’s consolidated financial statements for the fiscal year ended March 31, 2018, except for the followings:

(1) 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.

(1) Classification and measurement of financial instruments

Equity instruments, which were previously classified as available-for-sale under IAS 39, are classified as financial assets measured at fair value through other comprehensive income (FVTOCI) and debt instruments are classified as financial assets measured at fair value through profit or loss (FVTPL). Advantest chose not to restate its prior period comparatives.

Changes in fair value of financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income and the cumulative gain or loss previously recognized in other comprehensive income is reclassified to retained earnings when the financial assets are derecognized.

(2) Impairment of financial instruments

Effective from April 1, 2018, Advantest changed the method for measurement of impairment of financial assets from the IAS 39 incurred credit loss model to the IFRS 9 expected credit loss model. Advantest measures a loss allowance based on an expected credit loss model without restatement of prior periods in accordance with the transition requirement of IFRS 9.

(2) 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. The new standard replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts'.

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 six months ended September 30, 2018 increased (Y) 1,076 million.

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 six months ended September 30, 2018 decreased (Y) 288 million.

As a result of adopting IFRS 15, trade and other receivables, inventories and other current liabilities increased by (Y) 416 million, (Y) 323 million and (Y) 946 million, respectively, and deferred tax assets and retained earnings decreased by (Y) 298 million and (Y) 508 million, respectively in the condensed consolidated statements of financial position as of September 30, 2018. Additionally, net sales, operating income and net income decreased by (Y) 3,352 million, (Y) 1,600 million and (Y) 1,336 million, respectively in the condensed consolidated statement of profit or loss for the six months ended September 30, 2018.

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

The estimates and assumptions that could have a material effect on the amounts recognized in its condensed consolidated financial statements are equivalent to those estimates and assumptions in Advantest's consolidated financial statements for the fiscal year ended March 31, 2018.

5. Segment Information

(1) Overview of Reporting Segments

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

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

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

The services, support and others segment consists of comprehensive customer solutions provided in connection with the above segments, test solutions of system level testing for such as SSD, support services, sales of used products, equipment lease business and others.

(2) Information of Reporting Segments

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

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

Share-based compensation expense represents expenses for stock options and performance-based stock remuneration expense.

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

Inter-segment sales are based on market prices.

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)

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

Advantest adopted IFRS 15 Revenue from Contracts with Customers from the first quarter of the fiscal year ending March 31, 2019 as described in “3. Significant Accounting Policies”. Since the cumulative effect of the initial adoption is recognized as adjustment of retained earnings at the beginning of the first quarter according to the traditional option, the amount for the second quarter (six months and three months) ended September 30, 2017 is not restated.

6. Bonds

Due to the conversion of Zero Coupon Convertible Bonds due 2019, convertible bonds decreased by (Y) 23,966 million and 14,807,512 shares of treasury shares were reissued during the six months ended September 30, 2018. As a result, retained earnings, share premium and treasury shares decreased by (Y) 31,433 million, (Y) 575 million and (Y) 56,032 million, respectively.

7. Dividends

(1) Dividends Paid

Six months ended September 30, 2017

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

Six months ended September 30, 2018

Resolution	Class of shares	Amount of dividend (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 22, 2018	Ordinary shares	4,118	23	March 31, 2018	June 4, 2018

(2) Dividends Whose Record Date is in the Second Quarter but Whose Effective Date is in the Following Quarter

Resolution	Class of shares	Amount of dividend (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on October 30, 2018	Ordinary shares	9,702	50	September 30, 2018	December 3, 2018

(Note) Dividend of (Y) 14 million to treasury shares for the BIP Trust and the ESOP Trust is included in the above amount of dividend.

8. Revenue

Advantest sells test system products of semiconductor and mechatronics-related products such as test handlers that handling semiconductor devices. When control of such products is transferred to customers, the performance obligation is satisfied and revenue is recognized.

Additionally, Advantest has performance obligation towards customers on the service contracts. Revenue from such service contracts is recognized over the contract term on the straight-line basis. Net sales disaggregated by region and segment were as follows:

Six months ended September 30, 2018

Millions of Yen

	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Consolidated
Main regions				
Japan	3,614	1,668	2,319	7,601
Americas	1,703	1,033	2,353	5,089
Europe	2,278	165	1,041	3,484
Asia	97,534	18,890	10,979	127,403
Total	105,129	21,756	16,692	143,577

The breakdown of semiconductor and component test system business was as follows:

Six months ended September 30, 2018

Millions of Yen

	SoC	Memory	Total
Semiconductor and Component Test System Business	66,298	38,831	105,129

9. Earnings per Share

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

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net income attributable to owners of the parent (Millions of Yen)	4,926	30,149
Net income not attributable to owners of the parent (Millions of Yen)	—	—
Net income to calculate basic earnings per share (Millions of Yen)	4,926	30,149
Dilutive effect of exercise of convertible bonds (Millions of Yen)	64	57
Net income to calculate diluted earnings per share (Millions of Yen)	4,990	30,206
Weighted average number of ordinary shares—basic	177,199,310	182,341,468
Dilutive effect of exercise of share options	762,178	499,823
Dilutive effect of exercise of convertible bonds	18,304,961	16,131,665
Dilutive effect of exercise of performance-based stock remuneration	—	1,225
Weighted average number of ordinary shares—diluted	196,266,449	198,974,181
Basic earnings per share (Yen)	27.80	165.35
Diluted earnings per share (Yen)	25.42	151.81
Financial Instruments not included in the calculation of diluted earnings per share because they have anti-dilutive effect	—	Certain share options

	Three months ended September 30, 2017	Three months ended September 30, 2018
Net income attributable to owners of the parent (Millions of Yen)	3,935	16,257
Net income not attributable to owners of the parent (Millions of Yen)	—	—
Net income to calculate basic earnings per share (Millions of Yen)	3,935	16,257
Dilutive effect of exercise of convertible bonds (Millions of Yen)	32	25
Net income to calculate diluted earnings per share (Millions of Yen)	3,967	16,282
Weighted average number of ordinary shares—basic	177,383,789	184,224,184
Dilutive effect of exercise of share options	663,124	474,191
Dilutive effect of exercise of convertible bonds	18,304,961	14,803,415
Dilutive effect of exercise of performance-based stock remuneration	—	2,451
Weighted average number of ordinary shares—diluted	196,351,874	199,504,241
Basic earnings per share (Yen)	22.18	88.25
Diluted earnings per share (Yen)	20.20	81.61
Financial Instruments not included in the calculation of diluted earnings per share because they have anti- dilutive effect	—————	Certain share options

10. Financial Instruments

(1) Carrying Amounts and Fair Value of Financial Instruments

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

Millions of Yen

	As of March 31, 2018		As of September 30, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost				
Bonds ^(Note)	29,872	29,969	5,906	5,918

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

(Bonds)

The bonds consist of only convertible bonds, and the fair values of convertible bonds are calculated based on resembling bonds without the option to convert to shares.

(Other)

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

(2) Fair Value Hierarchy of Financial Instruments

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

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

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

Level 3: Fair value measured by significant unobservable inputs

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

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

There were no transfers of financial instruments between Level 1 and Level 2 during the year ended March 31, 2018 and the six months ended September 30, 2018.

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

As of March 31, 2018

Millions of Yen

	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	—	—	698	698
Total	—	—	698	698

As of September 30, 2018

Millions of Yen

	Level 1	Level 2	Level 3	Total
Financial assets that are measured at fair value through profit or loss				
Debt instruments	—	—	225	225
Financial assets that are measured at fair value through other comprehensive income				
Equity instruments	—	—	535	535
Total	—	—	760	760

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

Millions of Yen

	Six months ended September 30, 2017	Six months ended September 30, 2018
Balance at beginning of period	399	698
Gains or losses		
Other comprehensive income ^(Note)	7	52
Purchase	216	—
Other	2	10
Balance at end of period	624	760

^(Note) Gains or losses recognized in other comprehensive income that were presented in net change in fair values of available-for-sale financial assets of the condensed consolidated statements of comprehensive income in the corresponding period of the previous fiscal year, are now presented in net change in fair values measurement of financial assets at fair value through other comprehensive income of the condensed consolidated statements of comprehensive income in the six months ended September 30, 2018.

11. Subsequent Event

The Company and its domestic subsidiaries have a defined benefit corporate pension plan covering substantially all employees. The Company shifted a part of defined benefit corporate pension plan to defined contribution plan on October 1, 2018.

The shift will result in a gain of approximately (Y) 2.5 billion in other income during three months ending December 31, 2018.