(English translation and a part of summary of the Quarterly Report for the fiscal third quarter ended December 31, 2018, pursuant to the Japanese Financial Instrument and Exchange Law.)

Quarterly Financial Report

For the fiscal third quarter ended December 31, 2018

Advantest Corporation

1. Condensed Consolidated Financial Statements

(1) Condensed Consolidated Statement of Financial Position

Millions of Yen

	Note	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	12	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
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables		43,258	42,830
Bonds	6, 12	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		87,197	70,920
Non-current liabilities			
Other financial liabilities		—	12
Retirement benefit liabilities	7	40,353	32,488
Deferred tax liabilities		1,099	1,612
Other non-current liabilities		1,300	3,422
Total non-current liabilities		42,752	37,534
Total liabilities		129,949	108,454
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		124,610	188,140
Total equity		124,610	188,140
Total liabilities and equity		254,559	296,594

(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

	Note	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net sales	5, 9	139,288	218,497
Cost of sales		(70,540)	(98,869)
Gross profit		68,748	119,628
Selling, general and administrative expenses		(58,736)	(68,841)
Other income	10	686	3,757
Other expenses		(53)	(78)
Operating income	5	10,645	54,466
Financial income		684	1,317
Financial expenses		(1,558)	(67)
Income before income taxes		9,771	55,716
Income taxes		(2,298)	(7,665)
Net income		7,473	48,051
Net income attributable to:			
Owners of the parent		7,473	48,051
Earnings per share:	11		Yen
Basic		42.13	258.10
Diluted		38.52	242.20

Millions of Yen

	Note	Three months ended December 31, 2017	Three months ended December 31, 2018
Net sales	5	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	5	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:	11		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 plan	—	2,093
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	2,933	2,359
Net change in fair values of available-for-sale financial assets	(544)	—
Total other comprehensive income (loss)	2,389	4,489
Total comprehensive income for the period	9,862	52,540
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 plan	—	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)	1,745	(370)
Total comprehensive income for the period	4,292	17,532
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

	Note	Equity attributable to owners of the parent						
		Share capital	Share premium	Treasury shares	Retained earnings	Other components of equity	Total	Total 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, net of tax						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	8				(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		32,363	43,925	(82,230)	115,573	7,587	117,218	117,218

Nine months ended December 31, 2018

Millions of Yen

	Note	Equity attributable to owners of the parent						
		Share capital	Share premium	Treasury shares	Retained earnings	Other components of equity	Total	Total 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					48,051		48,051	48,051
Other comprehensive income, net of tax						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	6		(576)	56,079	(31,453)		24,050	24,050
Dividends	8				(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		32,363	43,109	(21,349)	130,320	3,697	188,140	188,140

(4) Condensed Consolidated Statement of Cash Flows

Millions of Yen

	Note	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		16,175	40,609
Interest and dividends received		381	758
Interest paid		(48)	(3)
Income taxes paid		(3,406)	(5,506)
Net cash provided by (used in) operating activities		13,102	35,858
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		(467)	(2,543)
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	8	(3,636)	(13,451)
Other		(8)	(3)
Net cash provided by (used in) financing activities		(17,101)	(13,814)
Net effect of exchange rate changes on cash and cash equivalents		1,215	1,304
Net change in cash and cash equivalents		(3,251)	20,805
Cash and cash equivalents at the beginning of period		95,324	103,973
Cash and cash equivalents at the end of period		92,073	124,778

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, they 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 February 13, 2019 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 nine months ended December 31, 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 nine months ended December 31, 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 nine months ended December 31, 2018 decreased (Y) 288 million.

As a result of adopting IFRS 15, trade and other receivables, inventories and other current liabilities increased by (Y) 706 million, (Y) 353 million and (Y) 1,119 million, respectively, and deferred tax assets and retained earnings decreased by (Y) 329 million and (Y) 392 million, respectively in the condensed consolidated statement of financial position as of December 31, 2018. Additionally, net sales, operating income and net income decreased by (Y) 3,056 million, (Y) 1,455 million and (Y) 1,220 million, respectively in the condensed consolidated statement of profit or loss for the nine months ended December 31, 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.

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) 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. Moreover, due to the revision of post-employment benefits plan, (Y) 2,530 million income is included for the nine and three months ended December 31, 2018, respectively.

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 third quarter (nine months and three months) ended December 31, 2017 is not restated.

6. Bonds

Due to the conversion of Zero Coupon Convertible Bonds due 2019, convertible bonds decreased by (Y) 23,984 million and 14,819,980 shares of treasury shares were reissued during the nine months ended December 31, 2018. As a result, retained earnings, share premium and treasury shares decreased by (Y) 31,453 million, (Y) 576 million and (Y) 56,079 million, respectively.

7. Post-Employment Benefits

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 resulted in the gain on the revision of post-employment benefits plan during three months ended December 31, 2018.

The assets will be transitioned for four years. The assets to be transitioned are included in trade and other payables and other non-current liabilities, respectively in the condensed consolidated statement of financial position.

8. Dividends

Dividends Paid

Nine months ended December 31, 2017

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

Nine months ended December 31, 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
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 amount of dividend which was resolved at the Board of Directors’ meeting held on October 30, 2018.

9. 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:

Nine months ended December 31, 2018 Millions of Yen

	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Consolidated
Main regions				
Japan	5,330	2,089	3,458	10,877
Americas	3,267	2,342	3,684	9,293
Europe	3,593	254	1,521	5,368
Asia and others	149,662	27,714	15,583	192,959
Total	161,852	32,399	24,246	218,497

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

Nine months ended December 31, 2018 Millions of Yen

	SoC	Memory	Total
Semiconductor and Component Test System Business	105,709	56,143	161,852

10. Other Income

The breakdown of other income was as follows:

Millions of Yen

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Gain on the revision of post-employment benefits plan	—	2,530
Gain on sale of property, plant and equipment	444	969
Others	242	258
Total	686	3,757

(Note) 1. Content of gain on the revision of post-employment benefits plan is described in 7. Post-Employment Benefits.

2. Gain on sale of property, plant and equipment includes gain on sale of assets held for sale.

11. Earnings per Share

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

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net income attributable to owners of the parent (Millions of Yen)	7,473	48,051
Net income not attributable to owners of the parent (Millions of Yen)	—	—
Net income to calculate basic earnings per share (Millions of Yen)	7,473	48,051
Dilutive effect of exercise of convertible bonds (Millions of Yen)	95	65
Net income to calculate diluted earnings per share (Millions of Yen)	7,568	48,116
Weighted average number of ordinary shares—basic	177,360,795	186,175,205
Dilutive effect of exercise of share options	824,277	464,069
Dilutive effect of exercise of convertible bonds	18,304,961	12,016,674
Dilutive effect of exercise of performance-based stock remuneration	—	3,230
Weighted average number of ordinary shares—diluted	196,490,033	198,659,178
Basic earnings per share (Yen)	42.13	258.10
Diluted earnings per share (Yen)	38.52	242.20
Financial Instruments not included in the calculation of diluted earnings per share because they have anti-dilutive effect	Certain share options	Certain share options

	Three months ended December 31, 2017	Three months ended December 31, 2018
Net income attributable to owners of the parent (Millions of Yen)	2,547	17,902
Net income not attributable to owners of the parent (Millions of Yen)	—	—
Net income to calculate basic earnings per share (Millions of Yen)	2,547	17,902
Dilutive effect of exercise of convertible bonds (Millions of Yen)	31	8
Net income to calculate diluted earnings per share (Millions of Yen)	2,578	17,910
Weighted average number of ordinary shares—basic	177,682,010	193,801,009
Dilutive effect of exercise of share options	919,678	388,190
Dilutive effect of exercise of convertible bonds	18,304,961	3,686,387
Dilutive effect of exercise of performance-based stock remuneration	—	2,502
Weighted average number of ordinary shares—diluted	196,906,649	197,878,088
Basic earnings per share (Yen)	14.33	92.37
Diluted earnings per share (Yen)	13.09	90.51
Financial Instruments not included in the calculation of diluted earnings per share because they have anti-dilutive effect	Certain share options	Certain share options

12. 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 December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost				
Bonds	29,872	29,969	5,888	5,899

(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 fiscal year ended March 31, 2018 and the nine months ended December 31, 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 December 31, 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	—	—	219	219
Financial assets that are measured at fair value through other comprehensive income				
Equity instruments	—	—	911	911
Total	—	—	1,130	1,130

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

Millions of Yen

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Balance at beginning of period	399	698
Gains or losses		
Other comprehensive income(Note)	8	52
Purchase	281	384
Other	19	(4)
Balance at end of period	707	1,130

(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 statement 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 statement of comprehensive income in the nine months ended December 31, 2018.

13. Subsequent Event

Conversions of Convertible Bonds

Zero Coupon Convertible Bonds due 2019 were converted from January 1, 2019 until February 8, 2019. The details were as follows.

Decrease in amount of convertible bonds (Millions of Yen)		1,886
Decrease in amount of share premium (Millions of Yen)		45
Decrease in amount of treasury shares (Millions of Yen)		4,458
Decrease in amount of retained earnings (Millions of Yen)		2,527
Class of shares and the number of shares	Ordinary Shares	1,178,229