

(English translation and a part of summary of the Quarterly Report for the fiscal third quarter ended December 31, 2019, pursuant to the Japanese Financial Instrument and Exchange Law.)

Quarterly Financial Report

For the fiscal third quarter ended December 31, 2019

Advantest Corporation

1. Condensed Consolidated Financial Statements

(1) Condensed Consolidated Statement of Financial Position

		Millions of Yen	
	Note	As of March 31, 2019	As of December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		119,943	149,789
Trade and other receivables		51,786	40,548
Inventories		57,099	55,244
Other current assets		4,423	4,608
Subtotal		233,251	250,189
Assets held for sale		—	199
Total current assets		233,251	250,388
Non-current assets			
Property, plant and equipment, net		30,786	31,030
Right-of-use assets	3	—	8,873
Goodwill and intangible assets, net	12	26,119	25,211
Other financial assets	11	2,861	3,134
Deferred tax assets		11,209	11,035
Other non-current assets		354	169
Total non-current assets		71,329	79,452
Total assets		304,580	329,840
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables		43,942	37,314
Income tax payables		8,650	6,520
Provisions		2,886	2,900
Lease liabilities	3	—	2,019
Other financial liabilities		905	2,655
Other current liabilities		6,465	8,353
Total current liabilities		62,848	59,761
Non-current liabilities			
Lease liabilities	3	—	6,927
Retirement benefit liabilities		37,528	38,290
Deferred tax liabilities		1,680	1,216
Other non-current liabilities		3,793	3,380
Total non-current liabilities		43,001	49,813
Total liabilities		105,849	109,574
Equity			
Share capital		32,363	32,363
Share premium		43,018	43,241
Treasury shares		(6,262)	(4,340)
Retained earnings		125,927	147,195
Other components of equity		3,685	1,807
Total equity attributable to owners of the parent		198,731	220,266
Total equity		198,731	220,266
Total liabilities and equity		304,580	329,840

(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, 2018	Nine months ended December 31, 2019		
Net sales	5, 8	218,497	207,668		
Cost of sales		(98,869)	(87,889)		
Gross profit		119,628	119,779		
Selling, general and administrative expenses		(68,841)	(72,509)		
Other income	9	3,757	224		
Other expenses		(78)	(363)		
Operating income	5	54,466	47,131		
Financial income		1,317	743		
Financial expenses		(67)	(117)		
Income before income taxes		55,716	47,757		
Income taxes		(7,665)	(9,045)		
Net income		<u>48,051</u>	<u>38,712</u>		
Net income attributable to:					
Owners of the parent		48,051	38,712		
Earnings per share:					
Basic	10		Yen		
Diluted		258.10	195.40		
		242.20	194.62		

				Millions of Yen	
	Note	Three months ended December 31, 2018	Three months ended December 31, 2019		
Net sales	5	74,920	69,917		
Cost of sales		(32,397)	(30,509)		
Gross profit		42,523	39,408		
Selling, general and administrative expenses		(24,445)	(24,940)		
Other income		2,648	120		
Other expenses		(23)	(335)		
Operating income	5	20,703	14,253		
Financial income		271	267		
Financial expenses		(355)	(42)		
Income before income taxes		20,619	14,478		
Income taxes		(2,717)	(2,538)		
Net income		<u>17,902</u>	<u>11,940</u>		
Net income attributable to:					
Owners of the parent		17,902	11,940		
Earnings per share:					
Basic	10		Yen	Yen	
Diluted		92.37	60.21		
		90.51	59.92		

Condensed Consolidated Statement of Comprehensive Income

	Millions of Yen	
	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net income	48,051	38,712
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 value measurements of equity instruments at fair value through other comprehensive income	37	(17)
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	2,359	(1,750)
Total other comprehensive income (loss)	4,489	(1,767)
Total comprehensive income for the period	<u>52,540</u>	<u>36,945</u>
Comprehensive income attributable to:		
Owners of the parent	52,540	36,945

	Millions of Yen	
	Three months ended December 31, 2018	Three months ended December 31, 2019
Net income	17,902	11,940
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 value measurements of equity instruments at fair value through other comprehensive income	—	0
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	(2,463)	2,422
Total other comprehensive income (loss)	(370)	2,422
Total comprehensive income for the period	<u>17,532</u>	<u>14,362</u>
Comprehensive income attributable to:		
Owners of the parent	17,532	14,362

(3) Condensed Consolidated Statement of Changes in Equity

Nine months ended December 31, 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					788		788	788
Beginning balance as of April 1, 2018 (restated)		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	7				(13,806)		(13,806)	(13,806)
Share-based payments			318				318	318
Transfer from other components of equity to retained earnings					2,093	(2,093)	—	—
Total transactions with the owners		—	(357)	56,375	(43,723)	(2,093)	10,202	10,202
Balance as of December 31, 2018		<u>32,363</u>	<u>43,109</u>	<u>(21,349)</u>	<u>130,320</u>	<u>3,697</u>	<u>188,140</u>	<u>188,140</u>

Nine months ended December 31, 2019

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, 2019		32,363	43,018	(6,262)	125,927	3,685	198,731	198,731
Net income					38,712		38,712	38,712
Other comprehensive income, net of tax						(1,767)	(1,767)	(1,767)
Total comprehensive income for the period		—	—	—	38,712	(1,767)	36,945	36,945
Purchase of treasury shares				(1,122)			(1,122)	(1,122)
Disposal of treasury shares			(299)	3,044	(1,116)		1,629	1,629
Dividends	7				(16,439)		(16,439)	(16,439)
Share-based payments			522				522	522
Transfer from other components of equity to retained earnings					111	(111)	—	—
Total transactions with the owners		—	223	1,922	(17,444)	(111)	(15,410)	(15,410)
Balance as of December 31, 2019		<u>32,363</u>	<u>43,241</u>	<u>(4,340)</u>	<u>147,195</u>	<u>1,807</u>	<u>220,266</u>	<u>220,266</u>

(4) Condensed Consolidated Statement of Cash Flows

Millions of Yen

	Note	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Cash flows from operating activities:			
Income before income taxes		55,716	47,757
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization		3,696	6,729
Changes in assets and liabilities:			
Trade and other receivables		(11,494)	10,906
Inventories		(7,014)	1,520
Trade and other payables		(301)	(6,323)
Warranty provisions		(469)	18
Deposits received		1,914	1,705
Advance receipt		1,045	1,739
Retirement benefit liabilities		(5,352)	1,129
Other		2,868	(879)
Subtotal		40,609	64,301
Interest and dividends received		758	703
Interest paid		(3)	(118)
Income taxes paid		(5,506)	(11,007)
Net cash provided by (used in) operating activities		35,858	53,879
Cash flows from investing activities:			
Proceeds from sale of equity instruments		—	111
Purchases of equity instruments		(384)	—
Purchases of debt instruments		—	(548)
Proceeds from sale of property, plant and equipment		1,921	68
Purchases of property, plant and equipment		(3,839)	(4,903)
Purchases of intangible assets		(261)	(295)
Other		20	30
Net cash provided by (used in) investing activities		(2,543)	(5,537)
Cash flows from financing activities:			
Proceeds from disposal of treasury shares		377	1,630
Purchases of treasury shares		(737)	(1,122)
Dividends paid	7	(13,451)	(16,217)
Payments for lease liabilities		—	(1,549)
Other		(3)	—
Net cash provided by (used in) financing activities		(13,814)	(17,258)
Net effect of exchange rate changes on cash and cash equivalents		1,304	(1,238)
Net change in cash and cash equivalents		20,805	29,846
Cash and cash equivalents at the beginning of period		103,973	119,943
Cash and cash equivalents at the end of period		124,778	149,789

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, 2019.

The condensed consolidated financial statements were approved on February 13, 2020 by Yoshiaki Yoshida, Representative Director, President and CEO 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 instruments 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, 2019, except for the followings:

(1) IFRS 16: Leases

Advantest has adopted IFRS 16 “Leases” from the first quarter of the fiscal year ending March 31, 2020.

To apply IFRS 16, 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.

Advantest recognizes right-of-use asset and lease liability at the inception of a lease contract. At the commencement date, a right-of-use asset is measured based on the amount of the initial measurement of the lease liability and depreciated on a straight-line basis over the lease term. The lease term is determined as the non-cancellable period of a lease, together with periods covered by an option to extend the lease if it is reasonably certain to be exercised and periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

A lease liability is recognized and measured at the present value of the lease payments that are not paid at the commencement date, discounted using the lessee’s incremental borrowing rate. After the commencement date, the lease liability is measured by increasing or reducing the carrying amount to reflect interest on the lease liability and the lease payments made and re-measuring the carrying amount as necessary to reflect lease modifications.

Advantest has elected not to recognize right-of-use assets and lease liabilities for short term leases and

leases of low-value assets.

In transitioning to IFRS16, Advantest has chosen the practical expedient detailed in paragraph C3 of IFRS 16 and grandfathered its assessments of whether contracts contain leases under IAS 17 “Leases” and IFRIC 4 “Determining whether an Arrangement contains a Lease.”

Reconciliation of operating lease commitments disclosed applying IAS 17 at the end of the annual reporting period immediately preceding the date of initial application and lease liabilities recognized in the consolidated statement of financial position at the date of application is as follows.

Lease liabilities are presented as “Lease liabilities” of current liabilities and “Lease liabilities” of non-current liabilities. The weighted average incremental borrowing rate applied to lease liabilities recognized at the date of initial application is 1.40%.

Millions of Yen

(a) Operating lease commitments disclosed on March 31, 2019	3,444
Discounted (a) operating lease commitments disclosed on March 31, 2019	3,347
Finance lease liabilities recognized on March 31, 2019	18
Recognized lease liabilities, mainly due to reassessment of the lease term under IFRS16	6,979
(b) Recognized lease liabilities in the Condensed Consolidated Statement of Financial Position at the date of initial application	10,344

Right-of-use assets recognized at the date of initial application in the condensed consolidated statement of financial position amount to (Y) 10,344 million.

The following practical expedients are used in the application of IFRS 16.

- Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application.

(2) IFRIC23: Uncertainty over Income Tax Treatments

Advantest has adopted International Financial Reporting Interpretations Committee Interpretation 23 “Uncertainty over Income Tax Treatments” from the first quarter of the fiscal year ending March 31, 2020. The impact of this application on the consolidated financial statements is immaterial.

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, 2019.

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 semiconductor and modules, 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, 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

Nine months ended December 31, 2019

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	152,208	26,070	29,390	—	207,668
Inter-segment sales	10	—	9	(19)	—
Total	152,218	26,070	29,399	(19)	207,668
Segment income (loss) (operating income (loss) before share-based compensation expense)	52,056	(1,581)	3,732	(6,438)	47,769
Adjustment: Share-based compensation expense	—	—	—	—	(638)
Operating income	—	—	—	—	47,131
Financial income	—	—	—	—	743
Financial expenses	—	—	—	—	(117)
Income before income taxes	—	—	—	—	47,757

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

Three months ended December 31, 2019

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	49,292	10,084	10,541	—	69,917
Inter-segment sales	—	—	8	(8)	—
Total	49,292	10,084	10,549	(8)	69,917
Segment income (loss) (operating income (loss) before share-based compensation expense)	15,700	(28)	1,615	(2,795)	14,492
Adjustment: Share-based compensation expense	—	—	—	—	(239)
Operating income	—	—	—	—	14,253
Financial income	—	—	—	—	267
Financial expenses	—	—	—	—	(42)
Income before income taxes	—	—	—	—	14,478

(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.

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.

All of the stock acquisition rights incorporated in the Zero Coupon Convertible Bonds due 2019 have been exercised by February 28, 2019 and no bonds remain outstanding.

7. Dividends

Dividends Paid

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.

Nine months ended December 31, 2019

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, 2019	Ordinary shares	8,320	42	March 31, 2019	June 4, 2019
Board of Directors' meeting held on October 30, 2019	Ordinary shares	8,151	41	September 30, 2019	December 2, 2019

^(Note) 1. Dividend of (Y) 11 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 May 22, 2019.
2. Dividend of (Y) 22 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, 2019.

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:

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
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

Nine months ended December 31, 2019					Millions of Yen
	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Consolidated
Main regions					
Japan	4,279	2,858	3,372	(19)	10,490
Americas	4,659	2,192	6,935	—	13,786
Europe	2,378	289	1,583	—	4,250
Asia and others	140,902	20,731	17,509	—	179,142
Total	152,218	26,070	29,399	(19)	207,668

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

Nine months ended December 31, 2019			Millions of Yen
	SoC	Memory	Total
Semiconductor and Component Test System Business	124,553	27,665	152,218

9. Other Income

The breakdown of other income was as follows:

	Millions of Yen	
	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Gain on the revision of post-employment benefits plan	2,530	—
Gain on sale of property, plant and equipment	969	—
Others	258	224
Total	3,757	224

- (Note) 1. Gain on the revision of post-employment benefits plan comes from the shift of a part of defined benefit corporate pension plan of the Company and its domestic subsidiaries to defined contribution plan on October 1, 2018.
2. Gain on sale of property, plant and equipment includes gain on sale of assets held for sale.

10. 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, 2018	Nine months ended December 31, 2019
Net income attributable to owners of the parent (Millions of Yen)	48,051	38,712
Net income not attributable to owners of the parent (Millions of Yen)	—	—
Net income to calculate basic earnings per share (Millions of Yen)	48,051	38,712
Dilutive effect of convertible bonds (Millions of Yen)	65	—
Net income to calculate diluted earnings per share (Millions of Yen)	48,116	38,712
Weighted average number of ordinary shares—basic	186,175,205	198,111,619
Dilutive effect of stock options	464,069	733,561
Dilutive effect of convertible bonds	12,016,674	—
Dilutive effect of performance-based stock remuneration	3,230	63,629
Weighted average number of ordinary shares—diluted	198,659,178	198,908,809
Basic earnings per share (Yen)	258.10	195.40
Diluted earnings per share (Yen)	242.20	194.62
Financial instruments not included in the calculation of diluted earnings per share because they have anti- dilutive effect	Certain share options	—————

	Three months ended December 31, 2018	Three months ended December 31, 2019
Net income attributable to owners of the parent (Millions of Yen)	17,902	11,940
Net income not attributable to owners of the parent (Millions of Yen)	—	—
Net income to calculate basic earnings per share (Millions of Yen)	17,902	11,940
Dilutive effect of convertible bonds (Millions of Yen)	8	—
Net income to calculate diluted earnings per share (Millions of Yen)	17,910	11,940
Weighted average number of ordinary shares—basic	193,801,009	198,308,521
Dilutive effect of stock options	388,190	851,250
Dilutive effect of convertible bonds	3,686,387	—
Dilutive effect of performance-based stock remuneration	2,502	81,872
Weighted average number of ordinary shares—diluted	197,878,088	199,241,643
Basic earnings per share (Yen)	92.37	60.21
Diluted earnings per share (Yen)	90.51	59.92
Financial instruments not included in the calculation of diluted earnings per share because they have anti- dilutive effect	Certain share options	—————

11. Financial Instruments

(1) Carrying Amounts and Fair Value of Financial Instruments

Financial instruments 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 during the year ended March 31, 2019 and the nine months ended December 31, 2019.

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

As of March 31, 2019

Millions of Yen

	Level 1	Level 2	Level 3	Total
Financial assets that are measured at fair value through profit or loss				
Debt instruments	—	—	215	215
Financial assets that are measured at fair value through other comprehensive income ^(Note)				
Equity instruments	—	—	1,072	1,072
Total	—	—	1,287	1,287

As of December 31, 2019

Millions of Yen

	Level 1	Level 2	Level 3	Total
Financial assets that are measured at fair value through profit or loss				
Debt instruments	—	—	775	775
Financial assets that are measured at fair value through other comprehensive income ^(Note)				
Equity instruments	—	—	914	914
Total financial assets	—	—	1,689	1,689
Financial liabilities that are measured at fair value through profit or loss	—	—	477	477
Total financial liabilities	—	—	477	477

^(Note) The Company holds equity investments to accomplish expansion of revenue base by maintaining and enforcing relationships with investees. These equity investments are designated as financial assets measured at fair value through other comprehensive income (“FVTOCI”). The fair value of each financial assets measured at FVTOCI as of March 31, 2019 and December 31, 2019 was immaterial.

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, 2018	Nine months ended December 31, 2019
Balance at beginning of period	698	1,287
Gains or losses		
Other comprehensive income ^(Note)	52	(25)
Purchase	384	548
Sales	—	(111)
Other	(4)	(10)
Balance at end of period	1,130	1,689

^(Note) Gains or losses recognized in other comprehensive income are presented in net change in fair value measurements of equity instruments at FVTOCI of the condensed consolidated statement of comprehensive income.

12. Business Combinations

Nine months ended December 31, 2018

Not applicable.

Nine months ended December 31, 2019

(Business combination through acquisition)

Advantest purchased commercial Semiconductor System Level Test business (“Test Systems”) from Astronics Corporation. Test Systems is now a fully owned subsidiary of Advantest’s U.S. subsidiary, Advantest America, Inc., and is now operating under a newly created entity, Advantest Test Solutions, Inc.

The assets acquired and fair value of the consideration paid as of the acquisition date were provisional as of March 31, 2019, but they were revised because the purchase price allocation was completed during the second quarter of the fiscal year ending March 31, 2020.

	Provisional fair value	Revision	Revised fair value
Fair value of assets acquired			
Inventories	641	—	641
Property, plant and equipment	377	—	377
Intangible assets	—	3,808	3,808
Fair value of assets acquired	1,018	3,808	4,826
Goodwill	10,080	(3,325)	6,755
Total	11,098	483	11,581
Fair value of consideration paid ^(Note)	11,098	483	11,581

^(Note) The consideration paid includes the contingent consideration which represents an earn-out payment of up to USD35 million based on certain performance milestones. The fair value of the contingent consideration was calculated considering the future sales forecast and the probability of its achievement.

13. Subsequent Event

Advantest America, Inc., Advantest’s U.S. subsidiary, acquired all outstanding ordinary shares of U.S. company Essai, Inc. (“Essai”) on January 29, 2020, and Essai became a wholly owned subsidiary of Advantest America, Inc.

Essai is the leading supplier of semiconductor final-test, system-level test sockets and thermal control units. Essai possesses excellent design capabilities and highly automated manufacturing capabilities that enable it to rapidly deliver products to customers, and its solutions are highly regarded in the industry. In combination with Advantest’s final-test equipment and system-level testers, these resources will provide enhanced end-to-end test solutions in the form of test cells including sockets-accuracy assurance, further adding value to the Company’s product portfolio.

Disclosure of details on accounting procedures was omitted because the initial accounting for the business combination was incomplete at the date of submission of the quarterly financial report for the fiscal third quarter ended December 31, 2019.