

FY2019 Third Quarter Consolidated Financial Results

(Advantest's consolidated financial statements are prepared in accordance with IFRS)
(Period ended December 31, 2019)

January 29, 2020

Company Name : **Advantest Corporation**
(URL <https://www.advantest.com/investors>)

Stock Exchange on which shares are listed : First section of the Tokyo Stock Exchange

Stock Code Number : 6857

Company Representative : Yoshiaki Yoshida, Representative Director, President and CEO

Contact Person : Atsushi Fujita, Director and Managing Executive Officer
Executive Vice President, Corporate Administration Group
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Quarterly Report Filing Date (as planned) : February 13, 2020

Dividend Payable Date (as planned) : —

Quarterly Results Supplemental Materials : Yes

Quarterly Results Presentation Meeting : Yes

(Rounded to the nearest million yen)

1. Consolidated Results of FY2019 Q3 (April 1, 2019 through December 31, 2019)

(1) Consolidated Financial Results (Accumulated)

(% changes as compared to the corresponding period of the previous fiscal year)

| | Net sales | | Operating income | | Income before income taxes | | Net income | | Net income attributable to owners of the parent | | Total comprehensive income for the period | |
|------------------|----------------|-----------------------|------------------|-----------------------|----------------------------|-----------------------|---------------|-----------------------|---|-----------------------|---|-----------------------|
| | Million yen | % increase (decrease) | Million yen | % increase (decrease) | Million yen | % increase (decrease) | Million yen | % increase (decrease) | Million yen | % increase (decrease) | Million yen | % increase (decrease) |
| FY2019 Q3 | 207,668 | (5.0) | 47,131 | (13.5) | 47,757 | (14.3) | 38,712 | (19.4) | 38,712 | (19.4) | 36,945 | (29.7) |
| FY2018 Q3 | 218,497 | 56.9 | 54,466 | 411.7 | 55,716 | 470.2 | 48,051 | 543.0 | 48,051 | 543.0 | 52,540 | 432.7 |

| | Basic earnings per share | Diluted earnings per share |
|------------------|--------------------------|----------------------------|
| | Yen | Yen |
| FY2019 Q3 | 195.40 | 194.62 |
| FY2018 Q3 | 258.10 | 242.20 |

(2) Consolidated Financial Position

| | Total assets | Total equity | Equity attributable to owners of the parent | Ratio of equity attributable to owners of the parent |
|------------------|----------------|----------------|---|--|
| | Million yen | Million yen | Million yen | % |
| FY2019 Q3 | 329,840 | 220,266 | 220,266 | 66.8 |
| FY2018 | 304,580 | 198,731 | 198,731 | 65.2 |

2. Dividends

| | Dividend per share | | | | |
|-------------------|--------------------|--------------------|-------------------|----------|--------------|
| | First quarter end | Second quarter end | Third quarter end | Year end | Annual total |
| | Yen | Yen | Yen | Yen | Yen |
| FY2018 | — | 50.00 | — | 42.00 | 92.00 |
| FY2019 | — | 41.00 | — | N/A | N/A |
| FY2019 (forecast) | N/A | N/A | N/A | 34.00 | 75.00 |

(Note) Revision of dividends forecast for this period: **Yes**

3. Projected Results for FY2019 (April 1, 2019 through March 31, 2020)

(% changes as compared to the previous fiscal year)

| | Net sales | | Operating income | | Income before income taxes | | Net income | | Net income attributable to owners of the parent | |
|--------|-------------|-----------------------|------------------|-----------------------|----------------------------|-----------------------|-------------|-----------------------|---|-----------------------|
| | Million yen | % increase (decrease) | Million yen | % increase (decrease) | Million yen | % increase (decrease) | Million yen | % increase (decrease) | Million yen | % increase (decrease) |
| FY2019 | 270,000 | (4.4) | 56,000 | (13.4) | 56,700 | (14.4) | 49,000 | (14.0) | 49,000 | (14.0) |

(Note) Revision of earnings forecast for this period: **Yes**

For details, please refer to the (4) Near-term Prospects, page 5.

4. Others

(1) Material changes in subsidiaries during this period (changes in scope of consolidation resulting from changes in subsidiaries): None

(2) Changes in accounting policies and accounting estimates

1) Changes in accounting policies required by IFRS: Yes

2) Changes arising from factors other than 1: None

3) Changes in accounting estimates: None

For details, please refer to the (5) Notes to the Condensed Consolidated Financial Statements (Changes in Accounting Policies), page 13.

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

1) Number of issued and outstanding share at the end of each fiscal period (including treasury share):

FY2019 Q3 199,566,770 shares; FY2018 199,566,770 shares.

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

FY2019 Q3 1,194,725 shares; FY2018 1,732,515 shares.

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

FY2019 Q3 198,111,619 shares; FY2018 Q3 186,175,205 shares.

(Note) Advantest's share (FY2019 Q3 537,830 shares, FY2018 272,446 shares), which is being kept as performance share option compensation in trust account, is included in the number of treasury share at the end of each fiscal period. Moreover, the Advantest's share that mentioned above is also included in the treasury share which is deducted during the calculation of average number of outstanding share for each period.

Status of Quarterly Review Procedures

This quarterly financial results report is not subject to quarterly review procedures by independent auditors.

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

This document contains "forward-looking statements" that are based on Advantest's current expectations, estimates and projections. These statements include, among other things, the discussion of Advantest's business strategy, outlook and expectations as to market and business developments, production and capacity plans. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipate," "believe," "estimate," "expect," "intend," "project," "should" and similar expressions. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause Advantest's actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements.

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1. Overview of Business Results

(1) Overview of Business Results

Consolidated Financial Results of FY2019 Q3 (April 1, 2019 through December 31, 2019)

(in billion yen)

| | Nine months ended December 31, 2018 | Nine months ended December 31, 2019 | As compared to the corresponding period of the previous fiscal year increase (decrease) |
|----------------------------|--|--|---|
| Orders received | 209.5 | 197.1 | (5.9%) |
| Net sales | 218.5 | 207.7 | (5.0%) |
| Operating income | 54.5 | 47.1 | (13.5%) |
| Income before income taxes | 55.7 | 47.8 | (14.3%) |
| Net income | 48.1 | 38.7 | (19.4%) |

During Advantest's nine-month period ended December 31, 2019, the upward trend of the lack of visibility in the global economy continued due to prolonged trade frictions against the backdrop of protectionist trade policies.

Amidst this economic uncertainty, end-product demand and capital investment in a wide range of industries including electronics, automobiles, and industrial equipment slumped, and semiconductor demand suffered the impact of these declines. The 2019 semiconductor market shrank, in an about-turn from the strong growth of 2018. As a result, many semiconductor manufacturers, especially in the memory sector, which has become more sensitive to inventory excesses, have been making production adjustments and reviewing their capital investment plans.

On the other hand, demand for semiconductor test equipment is influenced by not only device production volumes but also semiconductor technological evolution trends. As advanced processes enable the integration of more circuits on semiconductors, the performance of chips is improving and the importance of semiconductor reliability is increasing. As a result, semiconductor test time and the complexity of functional test are also increasing, and stimulating test equipment demand. During the nine-month period ended December 31, 2019, the accelerated movement towards development and volume production of 5G semiconductors utilizing advanced processes spurred demand for test equipment for these applications, compensating for the decline in orders and sales from other sectors that has resulted from the stagnation in the semiconductor market.

As a result, orders received were (Y) 197.1 billion (5.9% decrease in comparison to the corresponding period in the previous fiscal year) and sales were (Y) 207.7 billion (5.0% decrease in comparison to the corresponding period in the previous fiscal year). Profit also declined, mainly due to the decrease in sales: operating income was (Y) 47.1 billion (13.5% decrease in comparison to the corresponding period in the previous fiscal year), income before income taxes was (Y) 47.8 billion (14.3% decrease in comparison to the corresponding period in the previous fiscal year), and net income was (Y) 38.7 billion (19.4% decrease in comparison to the corresponding period in the previous fiscal year). Operating income in the corresponding period of the previous fiscal year included a one-time profit of approximately (Y) 3.5 billion due to the sale of fixed assets and the transition of a part of Advantest's pension system to a defined contribution pension plan.

Average currency exchange rates in the period were 1 USD to 109 JPY (110 JPY in the corresponding period of the previous fiscal year) and 1 EUR to 122 JPY (130 JPY in the corresponding period of the previous fiscal year). The percentage of net sales to overseas customers was 94.9% (95.0% in the corresponding period in the previous fiscal year).

Conditions of business segments are described below.

<Semiconductor and Component Test System Segment>

(in billion yen)

| | Nine months ended December 31, 2018 | Nine months ended December 31, 2019 | As compared to the corresponding period of the previous fiscal year increase (decrease) |
|-----------------|--|--|---|
| Orders received | 160.7 | 140.4 | (12.7%) |
| Net sales | 161.9 | 152.2 | (6.0%) |
| Segment income | 51.1 | 52.1 | 1.9% |

In this segment, demand for new test equipment declined across many sectors, particularly memory, amid widespread declines in end-product demand. On the other hand, major manufacturers of application processors and baseband processors, which are core semiconductors for smartphones, have been actively developing next-generation products for 5G and preparing for their volume production. Demand for test equipment for high-end SoCs was higher than in the corresponding period of the previous year. The increased sales composition ratio of high-end SoC testers also improved profitability.

As a result of the above, orders received were (Y) 140.4 billion (12.7% decrease in comparison to the corresponding period in the previous fiscal year), net sales were (Y) 152.2 billion (6.0% decrease in comparison to the corresponding period in the previous fiscal year), and segment income was (Y) 52.1 billion (1.9% increase in comparison to the corresponding period in the previous fiscal year).

< Mechatronics System Segment >

(in billion yen)

| | Nine months ended December 31, 2018 | Nine months ended December 31, 2019 | As compared to the corresponding period of the previous fiscal year increase (decrease) |
|-----------------------|--|--|---|
| Orders received | 28.5 | 23.6 | (17.2%) |
| Net sales | 32.4 | 26.1 | (19.5%) |
| Segment income (loss) | 1.1 | (1.6) | — |

In this segment, due to the impact of the deteriorating memory semiconductor market, overall demand for peripheral devices such as device interface products, which are highly correlated with memory test, lacked energy.

As a result of the above, orders received were (Y) 23.6 billion (17.2% decrease in comparison to the corresponding period in the previous fiscal year), net sales were (Y) 26.1 billion (19.5% decrease in comparison to the corresponding period in the previous fiscal year), and segment loss was (Y) 1.6 billion ((Y) 2.7 billion declines in comparison to the corresponding period in the previous fiscal year).

<Services, Support and Others Segment>

(in billion yen)

| | Nine months ended December 31, 2018 | Nine months ended December 31, 2019 | As compared to the corresponding period of the previous fiscal year increase (decrease) |
|-----------------|--|--|---|
| Orders received | 20.3 | 33.1 | 63.3% |
| Net sales | 24.2 | 29.4 | 21.3% |
| Segment income | 4.4 | 3.7 | (15.9%) |

In this segment, orders increased due to the consolidated contribution of Astronics' system-level test business, which Advantest acquired in February 2019, and synergies stemming from the Q3 growth in customer demand for this business's core products. As solid-state drives (SSDs) have become more widely used, the demand for SSD test systems has also grown. On the other hand, amortization of intangible assets increased in the form of a one-time expense associated with the transfer of the said system-level test business.

As a result of the above, orders received were (Y) 33.1 billion (63.3% increase in comparison to the corresponding period in the previous fiscal year), net sales were (Y) 29.4 billion (21.3% increase in comparison to the corresponding period in the previous fiscal year), and segment income was (Y) 3.7 billion (15.9% decrease in comparison to the corresponding period in the previous fiscal year).

(2) Overview of Financial Condition

Total assets at December 31, 2019 were (Y) 329.8 billion, an increase of (Y) 25.3 billion compared to the fiscal year ended March 31, 2019, primarily due to an increase of (Y) 29.8 billion in cash and cash equivalents, and (Y) 8.9 billion in right-of-use assets, offsetting by a decrease of (Y) 11.2 billion in trade and other receivables, and (Y) 1.9 billion in inventories. The amount of total liabilities was (Y) 109.6 billion, an increase of (Y) 3.7 billion compared to the fiscal year ended March 31, 2019, primarily due to an increase of (Y) 8.9 billion in lease liabilities, and (Y) 1.9 billion in other current liabilities primarily due to an increase of advance receipt, offsetting by a decrease of (Y) 6.6 billion in trade and other payables. Total equity was (Y) 220.3 billion. Ratio of equity attributable to owners of the parent was 66.8%, an increase of 1.6 percentage points from March 31, 2019.

(3) Overview of Cash Flows

Cash and cash equivalents held at December 31, 2019 were (Y) 149.8 billion, an increase of (Y) 29.8 billion from March 31, 2019. Significant cash flows during the nine-month period of this fiscal year and details are described below.

Net cash provided by operating activities was (Y) 53.9 billion (net cash inflow of (Y) 35.9 billion in the corresponding period of the previous fiscal year). This amount was primarily attributable to a decrease of (Y) 10.9 billion in trade and other receivables, a decrease of (Y) 6.3 billion in trade and other payables and adjustments of non-cash items such as depreciation and amortization in addition to the income before income taxes of (Y) 47.8 billion.

Net cash used in investing activities was (Y) 5.5 billion (net cash outflow of (Y) 2.5 billion in the corresponding period of the previous fiscal year). This amount was primarily attributable to purchases of property, plant and equipment in the amount of (Y) 4.9 billion.

Net cash used in financing activities was (Y) 17.3 billion (net cash outflow of (Y) 13.8 billion in the corresponding period of the previous fiscal year). This amount was primarily attributable to dividends paid of (Y) 16.2 billion.

(4) Near-term Prospects

In SoC test equipment, which has been the key driver of Advantest's business results in the current fiscal year, Advantest expects that the current robust market conditions will continue, but nevertheless there may be a reaction to the previous acceleration of customer investment. On the other hand, the market for memory test equipment, which has continued to lag, may be poised for recovery against the background of improvement in the device market and advances in memory semiconductor performance.

Based on these industry trends and our business results so far, Advantest is revising its full-year consolidated business forecast for the current fiscal year as follows. Orders received (Y) 270.0 billion (formerly (Y) 235.0 billion in our forecast announced in October 2019); sales (Y) 270.0 billion (formerly (Y) 247.0 billion); operating income (Y) 56.0 billion (formerly (Y) 45.0 billion); income before income taxes (Y) 56.7 billion (formerly (Y) 45.8 billion); net income (Y) 49.0 billion (formerly (Y) 36.5 billion). The above net income forecast includes the anticipated posting of deferred tax assets based on an expected future reduction in tax expenses. Our forecast for the fourth quarter of this fiscal year assumes exchange rates of 1 USD to 105 JPY and 1 EUR to 120 JPY.

Looking ahead to Advantest's business environment in the next fiscal year and beyond, the progress of the digital transformation led by 5G will stimulate the development of semiconductors with higher performance, lower power consumption, and better reliability. With the evolution of semiconductor technologies such as device miniaturization, the importance of semiconductor test will continue to increase.

Based on this outlook, in January 2020, Advantest completed the acquisition of Essai, Inc., which develops and manufactures high-performance IC sockets. The acquisition will reinforce Advantest's business base in high-precision test, which is expected to become more important in the future, and will contribute to diversifying and stabilizing its earnings base by strengthening Advantest's recurring business.

Advantest will continue to seek to realize its corporate Vision Statement of "adding customer value in an evolving semiconductor value chain" and maintain a foundation for growth, improve periodic profitability, and use capital efficiently, to achieve the targets set forth in the mid-to-long term management plan launched in FY2018.

2. Condensed Consolidated Financial Statements

(1) Condensed Consolidated Statement of Financial Position

| | Millions of Yen | |
|-------------------------------------|-------------------------|----------------------------|
| | 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 | — | 8,873 |
| Goodwill and intangible assets, net | 26,119 | 25,211 |
| Other financial assets | 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 |

| | Millions of Yen | |
|---|-------------------------|----------------------------|
| | As of March 31, 2019 | As of December 31, 2019 |
| 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 | — | 2,019 |
| Other financial liabilities | 905 | 2,655 |
| Other current liabilities | 6,465 | 8,353 |
| Total current liabilities | <u>62,848</u> | <u>59,761</u> |
| Non-current liabilities | | |
| Lease liabilities | — | 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 | <u>43,001</u> | <u>49,813</u> |
| Total liabilities | <u>105,849</u> | <u>109,574</u> |
| 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 | <u>198,731</u> | <u>220,266</u> |
| Total equity | <u>198,731</u> | <u>220,266</u> |
| Total liabilities and equity | <u><u>304,580</u></u> | <u><u>329,840</u></u> |

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

Millions of Yen

| | Three months ended December 31, 2018 | Three months ended December 31, 2019 |
|---|---|---|
| Net sales | 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 | 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 | 17,902 | 11,940 |
| Net income attributable to: | | |
| Owners of the parent | 17,902 | 11,940 |
| Earnings per share: | | Yen |
| Basic | 92.37 | 60.21 |
| Diluted | 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 | | | | | | |
|---|---|---------------|-----------------|-------------------|----------------------------|----------|--------------|
| | 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 | | (576) | 56,079 | (31,453) | | 24,050 | 24,050 |
| Dividends | | | | (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 |

Nine months ended December 31, 2019

| | Millions of Yen | | | | | | |
|---|---|---------------|-----------------|-------------------|----------------------------|----------|--------------|
| | Equity attributable to owners of the parent | | | | | Total | Total Equity |
| | Share capital | Share premium | Treasury shares | Retained earnings | Other components of equity | | |
| Balance as of April 1, 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 | | | | (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 | 32,363 | 43,241 | (4,340) | 147,195 | 1,807 | 220,266 | 220,266 |

(4) Condensed Consolidated Statement of Cash Flows

| | Millions of Yen | |
|--|--|--|
| | 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 | (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 |

(5) Notes to the Condensed Consolidated Financial Statements

(Notes on Going Concern): None

(Changes in Accounting Policies)

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.

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.”

Advantest, as a lessee, recognized right-of-use assets and lease liabilities at the date of initial application for leases previously classified as an operation leases applying IAS 17. These lease liabilities have been measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the date of initial application.

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.

(Segment Information)

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)

1. Advantest uses the operating income (loss) before share-based compensation expense for management's analysis of business segment results.
2. Share-based compensation expense represents expenses for stock options and performance-based stock remuneration expense.
3. Segment income (loss) is presented on the basis of operating income (loss) before share-based compensation expense.
4. Inter-segment sales are based on market prices.
5. Adjustments to segment income (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.

FY2019 Third Quarter Consolidated Financial Results Overview

1. Orders received • Backlog

(in billion yen)

| | FY2018 | FY2019 | | | | | | FY2019 Forecast | |
|-----------------|--------------|-------------|-------------|-------------|---|-----------------------------|--|-----------------------|--------------------------------------|
| | | 1Q | 2Q | 3Q | vs. FY2019 2Q increase (decrease) | FY2019 9 months total | vs. FY2018 9 months total increase (decrease) | Annual total | vs. FY2018 increase (decrease) |
| Orders received | 275.2 | 65.9 | 58.3 | 72.9 | 25.1% | 197.1 | (5.9%) | 235.0 270.0 | (1.9%) |
| Backlog | 74.9 | 74.6 | 61.3 | 64.3 | 4.9% | 64.3 | (9.2%) | 62.9 74.9 | 0.0% |

Upper data is the forecast amount released on Oct 30, 2019.

2. Profit or Loss

(in billion yen)

| | FY2018 | FY2019 | | | | | | FY2019 Forecast | |
|---|--------------|-------------|-------------|-------------|---|-----------------------------|--|-----------------------|--------------------------------------|
| | | 1Q | 2Q | 3Q | vs. FY2019 2Q increase (decrease) | FY2019 9 months total | vs. FY2018 9 months total increase (decrease) | Annual total | vs. FY2018 increase (decrease) |
| Net sales | 282.5 | 66.2 | 71.6 | 69.9 | (2.3%) | 207.7 | (5.0%) | 247.0 270.0 | (4.4%) |
| Cost of sales | (128.5) | (26.8) | (30.6) | (30.5) | (0.2%) | (87.9) | (11.1%) | - | - |
| Selling, general and administrative expenses | (93.0) | (24.2) | (23.4) | (25.0) | 6.8% | (72.6) | 5.3% | - | - |
| Other income - expenses | 3.7 | 0.0 | 0.1 | (0.2) | - | (0.1) | - | - | - |
| Operating income | 64.7 | 15.2 | 17.7 | 14.2 | (19.6%) | 47.1 | (13.5%) | 45.0 56.0 | (13.4%) |
| Sales ratio | 22.9% | 22.9% | 24.8% | 20.4% | | 22.7% | | 20.7% | |
| Financial income - expenses | 1.5 | (0.3) | 0.7 | 0.3 | (63.2%) | 0.7 | (49.9%) | - | - |
| Income before income taxes | 66.2 | 14.9 | 18.4 | 14.5 | (21.0%) | 47.8 | (14.3%) | 45.8 56.7 | (14.4%) |
| Sales ratio | 23.4% | 22.6% | 25.6% | 20.7% | | 23.0% | | 21.0% | |
| Income taxes | (9.2) | (2.8) | (3.7) | (2.6) | (30.3%) | (9.1) | 18.0% | - | - |
| Net income | 57.0 | 12.1 | 14.7 | 11.9 | (18.7%) | 38.7 | (19.4%) | 36.5 49.0 | (14.0%) |
| Sales ratio | 20.2% | 18.3% | 20.5% | 17.1% | | 18.6% | | 18.1% | |

Upper data is the forecast amount released on Oct 30, 2019.

3. Financial Condition

(in billion yen)

| | FY2018 | FY2019 | | | | vs. FY2019 2Q increase (decrease) |
|---|--------------|--------------|--------------|--------------|-------------|---|
| | | 4Q End | 1Q End | 2Q End | 3Q End | |
| Total assets | 304.6 | 310.8 | 323.6 | 329.8 | 1.9% | |
| Equity attributable to owners of the parent | 198.7 | 199.4 | 213.6 | 220.3 | 3.1% | |
| Ratio of equity attributable to owners of the parent | 65.2% | 64.2% | 66.0% | 66.8% | - | |

4. Dividends

(in yen)

| (Record Date) | FY2018 | | | FY2019 | | |
|--------------------|--------------|--------------|--------------|--------------|------------------------|----------------------------|
| | Interim | Year end | Annual total | Interim | Year end (Forecast) | Annual total (Forecast) |
| Dividend per share | 50.00 | 42.00 | 92.00 | 41.00 | 34.00 | 75.00 |

Dividend payouts are based on semi-annual business performance with a target semi-annual payout ratio of 30%.