

(English translation and a part of summary of the Quarterly Report for the fiscal third quarter ended December 31, 2016, pursuant to the Japanese Financial Instrument and Exchange Law.)

Quarterly Financial Report

For the fiscal third quarter ended December 31, 2016

Advantest Corporation

1. Condensed Consolidated Financial Statements

(1) Condensed Consolidated Statements of Financial Position

		Millions of Yen	
	Note	As of March 31, 2016	As of December 31, 2016
Assets			
Current assets			
Cash and cash equivalents		85,430	92,666
Trade and other receivables		28,005	23,490
Inventories		33,912	40,782
Other current assets		3,049	3,828
Total current assets		<u>150,396</u>	<u>160,766</u>
Non-current assets			
Property, plant and equipment, net		31,451	31,313
Goodwill and intangible assets		16,726	17,117
Other financial assets	8	3,542	3,089
Deferred tax assets		8,038	8,084
Other non-current assets		298	228
Total non-current assets		<u>60,055</u>	<u>59,831</u>
Total assets		<u>210,451</u>	<u>220,597</u>
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables		22,101	21,250
Bonds	8	—	15,000
Income tax payables		1,548	2,409
Provisions		1,709	1,607
Other financial liabilities		487	1,753
Other current liabilities		3,589	4,326
Total current liabilities		<u>29,434</u>	<u>46,345</u>
Non-current liabilities			
Bonds	8	44,618	29,713
Other financial liabilities		65	39
Retirement benefit liabilities		41,076	42,203
Deferred tax liabilities		358	366
Other non-current liabilities		1,281	1,376
Total non-current liabilities		<u>87,398</u>	<u>73,697</u>
Total liabilities		<u>116,832</u>	<u>120,042</u>
Equity			
Share capital		32,363	32,363
Share premium		44,478	44,640
Treasury shares		(94,585)	(91,597)
Retained earnings		105,190	106,779
Other components of equity		6,173	8,370
Total equity attributable to owners of the parent		<u>93,619</u>	<u>100,555</u>
Total equity		<u>93,619</u>	<u>100,555</u>
Total liabilities and equity		<u>210,451</u>	<u>220,597</u>

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

Condensed Consolidated Statements of Profit or Loss

				Millions of Yen	
	Note	Nine months ended December 31, 2015	Nine months ended December 31, 2016		
Net sales	5	116,232	107,571		
Cost of sales		(51,946)	(43,167)		
Gross profit		64,286	64,404		
Selling, general and administrative expenses		(58,064)	(55,275)		
Other income		526	306		
Other expenses		(290)	(144)		
Operating income	5	6,458	9,291		
Financial income		267	621		
Financial expenses		(307)	(166)		
Income before income taxes		6,418	9,746		
Income taxes		(3,747)	(2,373)		
Net income		<u>2,671</u>	<u>7,373</u>		
Net income attributable to:					
Owners of the parent		2,671	7,373		
Earnings per share:	7		Yen		
Basic		15.30	42.16		
Diluted		14.35	38.66		

				Millions of Yen	
	Note	Three months ended December 31, 2015	Three months ended December 31, 2016		
Net sales	5	29,885	31,376		
Cost of sales		(11,907)	(13,317)		
Gross profit		17,978	18,059		
Selling, general and administrative expenses		(18,348)	(17,147)		
Other income		252	75		
Other expenses		(101)	(14)		
Operating income (loss)	5	(219)	973		
Financial income		611	79		
Financial expenses		(52)	(421)		
Income before income taxes		340	631		
Income taxes		(646)	(519)		
Net income (loss)		<u>(306)</u>	<u>112</u>		
Net income (loss) attributable to:					
Owners of the parent		(306)	112		
Earnings per share (loss):	7		Yen		
Basic		(1.75)	0.64		
Diluted		(1.75)	0.64		

Condensed Consolidated Statements of Comprehensive Income

		Millions of Yen	
	Note	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net income		2,671	7,373
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign operations		(20)	2,113
Net change in fair values of available-for-sale financial assets		128	84
Total other comprehensive income		<u>108</u>	<u>2,197</u>
Total comprehensive income for the period		<u><u>2,779</u></u>	<u><u>9,570</u></u>
Comprehensive income attributable to:			
Owners of the parent		2,779	9,570

		Millions of Yen	
	Note	Three months ended December 31, 2015	Three months ended December 31, 2016
Net income (loss)		(306)	112
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign operations		398	12,126
Net change in fair values of available-for-sale financial assets		208	271
Total other comprehensive income		<u>606</u>	<u>12,397</u>
Total comprehensive income for the period		<u><u>300</u></u>	<u><u>12,509</u></u>
Comprehensive income attributable to:			
Owners of the parent		300	12,509

(3) Condensed Consolidated Statements of Changes in Equity

Nine months ended December 31, 2015

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 at April 1, 2015		32,363	44,487	(94,686)	106,916	12,730	101,810	101,810
Net income					2,671		2,671	2,671
Other comprehensive income						108	108	108
Total comprehensive income for the period		—	—	—	2,671	108	2,779	2,779
Purchase of treasury shares				(1)			(1)	(1)
Disposal of treasury shares			(9)	102	(60)		33	33
Dividends	6				(3,491)		(3,491)	(3,491)
Total transactions with the owners		—	(9)	101	(3,551)	—	(3,459)	(3,459)
Balance at December 31, 2015		<u>32,363</u>	<u>44,478</u>	<u>(94,585)</u>	<u>106,036</u>	<u>12,838</u>	<u>101,130</u>	<u>101,130</u>

Nine months ended December 31, 2016

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 at April 1, 2016		32,363	44,478	(94,585)	105,190	6,173	93,619	93,619
Net income					7,373		7,373	7,373
Other comprehensive income						2,197	2,197	2,197
Total comprehensive income for the period		—	—	—	7,373	2,197	9,570	9,570
Purchase of treasury shares				(1)			(1)	(1)
Disposal of treasury shares			(275)	2,989	(1,762)		952	952
Dividends	6				(4,022)		(4,022)	(4,022)
Share-based payments			437				437	437
Total transactions with the owners		—	162	2,988	(5,784)	—	(2,634)	(2,634)
Balance at December 31, 2016		<u>32,363</u>	<u>44,640</u>	<u>(91,597)</u>	<u>106,779</u>	<u>8,370</u>	<u>100,555</u>	<u>100,555</u>

(4) Condensed Consolidated Statements of Cash Flows

Millions of Yen

	Note	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Cash flows from operating activities:			
Income before income taxes		6,418	9,746
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization		3,731	3,507
Gain on sales of available-for-sale financial assets		(22)	(226)
Changes in assets and liabilities:			
Trade and other receivables		3,709	4,638
Inventories		277	(6,816)
Trade and other payables		(13,050)	(956)
Warranty provisions		188	(102)
Retirement benefit liabilities		1,375	1,550
Other		(835)	3,382
Subtotal		1,791	14,723
Interest and dividends received		243	243
Interest paid		(116)	(95)
Income taxes paid		(4,054)	(2,841)
Net cash provided by (used in) operating activities		(2,136)	12,030
Cash flows from investing activities:			
Proceeds from sale of available-for-sale financial assets		54	626
Purchases of property, plant and equipment		(2,151)	(2,927)
Purchases of intangible assets		(292)	(266)
Other		458	130
Net cash provided by (used in) investing activities		(1,931)	(2,437)
Cash flows from financing activities:			
Proceeds from disposal of treasury shares		33	946
Redemption of bonds		(10,000)	—
Dividends paid	6	(3,339)	(3,863)
Other		(55)	(43)
Net cash provided by (used in) financing activities		(13,361)	(2,960)
Net effect of exchange rate changes on cash and cash equivalents		783	603
Net change in cash and cash equivalents		(16,645)	7,236
Cash and cash equivalents at beginning of period		97,574	85,430
Cash and cash equivalents at end of period		80,929	92,666

Notes to the Condensed Consolidated Financial Statements

1. Reporting Entity

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

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

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

2. Basis of Preparation

(1) Compliance with IFRS

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

As the condensed consolidated financial statements do not contain all the information required in annual consolidated financial statements, it should be read in combination with the consolidated financial statements for the fiscal year ended March 31, 2016.

The condensed consolidated financial statements were approved on February 13, 2017 by Representative Director, Yoshiaki Yoshida, and Chief Financial Officer, Hiroshi Nakamura, 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, 2016.

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, 2016.

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 semiconductors for non memory semiconductor devices and test systems for memory semiconductors 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, support services, 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 option compensation expense for management's analysis of operating segment results.

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

Inter-segment sales are based on market prices.

Nine months ended December 31, 2015

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	69,054	24,734	22,444	—	116,232
Inter-segment sales	40	—	—	(40)	—
Total	69,094	24,734	22,444	(40)	116,232
Segment income (loss) (operating income (loss) before share option compensation expense)	2,575	3,763	4,042	(3,922)	6,458
Adjustment:					
Share option compensation expense	—	—	—	—	—
Operating income	—	—	—	—	6,458
Financial income	—	—	—	—	267
Financial expenses	—	—	—	—	(307)
Income before income taxes	—	—	—	—	6,418

Nine months ended December 31, 2016

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	70,122	16,171	21,278	—	107,571
Inter-segment sales	4	34	—	(38)	—
Total	70,126	16,205	21,278	(38)	107,571
Segment income (loss) (operating income (loss) before share option compensation expense)	12,248	(2,190)	3,742	(4,072)	9,728
Adjustment:					
Share option compensation expense	—	—	—	—	(437)
Operating income	—	—	—	—	9,291
Financial income	—	—	—	—	621
Financial expenses	—	—	—	—	(166)
Income before income taxes	—	—	—	—	9,746

Three months ended December 31, 2015

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	18,106	4,576	7,203	—	29,885
Inter-segment sales	16	—	—	(16)	—
Total	18,122	4,576	7,203	(16)	29,885
Segment income (loss) (operating income (loss) before share option compensation expense)	(199)	(465)	1,626	(1,181)	(219)
Adjustment:					
Share option compensation expense	—	—	—	—	—
Operating income (loss)	—	—	—	—	(219)
Financial income	—	—	—	—	611
Financial expenses	—	—	—	—	(52)
Income before income taxes	—	—	—	—	340

Three months ended December 31, 2016

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	18,788	5,314	7,274	—	31,376
Inter-segment sales	—	—	—	—	—
Total	18,788	5,314	7,274	—	31,376
Segment income (loss) (operating income (loss) before share option compensation expense)	741	(780)	2,148	(874)	1,235
Adjustment:					
Share option compensation expense	—	—	—	—	(262)
Operating income	—	—	—	—	973
Financial income	—	—	—	—	79
Financial expenses	—	—	—	—	(421)
Income before income taxes	—	—	—	—	631

(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.

6. Dividends

Dividends Paid

Nine months ended December 31, 2015

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 27, 2015	Ordinary shares	1,745	10	March 31, 2015	June 2, 2015
Board of Directors' meeting held on October 26, 2015	Ordinary shares	1,746	10	September 30, 2015	December 1, 2015

Nine months ended December 31, 2016

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 25, 2016	Ordinary shares	1,746	10	March 31, 2016	June 2, 2016
Board of Directors' meeting held on October 26, 2016	Ordinary shares	2,277	13	September 30, 2016	December 1, 2016

7. 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, 2015	Nine months ended December 31, 2016
Net income attributable to owners of the parent (Millions of Yen)	2,671	7,373
Net income not attributable to owners of the parent (Millions of Yen)	—	—
Net income to calculate basic earnings per share (Millions of Yen)	2,671	7,373
Dilutive effect of exercise of convertible bonds (Millions of Yen)	95	95
Net income to calculate diluted earnings per share (Millions of Yen)	2,766	7,468
Weighted average number of ordinary shares—basic	174,568,038	174,864,691
Dilutive effect of exercise of share options	2,145	87,461
Dilutive effect of exercise of convertible bonds	18,126,888	18,213,830
Weighted average number of ordinary shares—diluted	192,697,071	193,165,982
Basic earnings per share (Yen)	15.30	42.16
Diluted earnings per share (Yen)	14.35	38.66

	Three months ended December 31, 2015	Three months ended December 31, 2016
Net income attributable to owners of the parent (loss) (Millions of Yen)	(306)	112
Net income not attributable to owners of the parent (Millions of Yen)	—	—
Net income to calculate basic earnings per share (loss) (Millions of Yen)	(306)	112
Dilutive effect of exercise of convertible bonds (Millions of Yen)	—	—
Net income to calculate diluted earnings per share (loss) (Millions of Yen)	(306)	112
Weighted average number of ordinary shares—basic	174,572,969	175,207,911
Dilutive effect of exercise of share options	—	227,345
Dilutive effect of exercise of convertible bonds	—	—
Weighted average number of ordinary shares—diluted	174,572,969	175,435,256
Basic earnings per share (loss) (Yen)	(1.75)	0.64
Diluted earnings per share (loss) (Yen)	(1.75)	0.64

8. 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, 2016		As of December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost				
Bonds ^(Note)	44,618	44,930	44,713	44,981

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

(Bonds)

Fair values of corporate bonds are calculated based on market prices. Fair values of convertible bonds are calculated based on resembling bonds without the option to convert to shares.

(Other)

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

(2) Fair Value Hierarchy of Financial Instruments

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

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

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

Level 3: Fair value measured by significant unobservable inputs

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

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

There were no transfers of financial instruments between Level 1 and Level 2 during the year ended March 31, 2016. Transfer from Level 2 to Level 1 for the three months ended June 30, 2016 was the result of a conversion of preferred shares into ordinary shares measured at fair value by market prices, and all the shares transferred were sold for the three months ended September 30, 2016.

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

As of March 31, 2016	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	819	591	367	1,777
Total	819	591	367	1,777

As of December 31, 2016	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	1,054	—	358	1,412
Total	1,054	—	358	1,412

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, 2015	Nine months ended December 31, 2016
Balance at beginning of period	352	367
Gains(losses) recognized in other comprehensive income	19	(9)
Balance at end of period	371	358

Gains or losses recognized in other comprehensive income are presented in net change in fair values of available-for-sale financial assets of the condensed consolidated statements of comprehensive income.