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

Quarterly Financial Report

For the fiscal first quarter ended June 30, 2018

Advantest Corporation

1. Condensed Consolidated Financial Statements

(1) Condensed Consolidated Statements of Financial Position

Millions of Yen

	Note	As of March 31, 2018	As of June 30, 2018
Assets			
Current assets			
Cash and cash equivalents		103,973	106,444
Trade and other receivables		37,929	49,514
Inventories		49,627	51,452
Other current assets		4,784	5,305
Subtotal		196,313	212,715
Assets held for sale		830	830
Total current assets		197,143	213,545
Non-current assets			
Property, plant and equipment, net		29,232	29,115
Goodwill and intangible assets, net		15,287	15,765
Other financial assets	10	2,414	2,494
Deferred tax assets		10,127	10,335
Other non-current assets		356	539
Total non-current assets		57,416	58,248
Total assets		254,559	271,793
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables		43,258	42,246
Bonds	6, 10	29,872	24,701
Income tax payables		4,247	4,476
Provisions		3,042	3,387
Other financial liabilities		554	2,945
Other current liabilities		6,224	8,268
Total current liabilities		87,197	86,023
Non-current liabilities			
Retirement benefit liabilities		40,353	40,403
Deferred tax liabilities		1,099	1,517
Other non-current liabilities		1,300	1,314
Total non-current liabilities		42,752	43,234
Total liabilities		129,949	129,257
Equity			
Share capital		32,363	32,363
Share premium		43,466	43,348
Treasury shares		(77,724)	(64,984)
Retained earnings		125,204	128,628
Other components of equity		1,301	3,181
Total equity attributable to owners of the parent		124,610	142,536
Total equity		124,610	142,536
Total liabilities and equity		254,559	271,793

(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	Three months ended June 30, 2017	Three months ended June 30, 2018
Net sales	5, 8	40,697	70,931
Cost of sales		(20,117)	(32,733)
Gross profit		20,580	38,198
Selling, general and administrative expenses		(18,415)	(22,450)
Other income		81	93
Other expenses		(20)	(23)
Operating income	5	2,226	15,818
Financial income		454	752
Financial expenses		(1,113)	(33)
Income before income taxes		1,567	16,537
Income taxes		(576)	(2,645)
Net income		991	13,892
Net income attributable to:			
Owners of the parent		991	13,892
Earnings per share:	9		Yen
Basic		5.60	76.99
Diluted		5.21	70.17

Condensed Consolidated Statements of Comprehensive Income

Millions of Yen

	Three months ended June 30, 2017	Three months ended June 30, 2018
Net income	991	13,892
Other comprehensive income (loss), net of tax		
Items that will not be reclassified to profit or loss		
Net change in fair values measurements of financial assets at fair value through other comprehensive income	—	37
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	698	1,843
Net change in fair values of available-for-sale financial assets	(572)	—
Total other comprehensive income (loss)	126	1,880
Total comprehensive income for the period	1,117	15,772
Comprehensive income attributable to:		
Owners of the parent	1,117	15,772

(3) Condensed Consolidated Statements of Changes in Equity

Three months ended June 30, 2017

Millions of Yen

	Note	Equity attributable to owners of the parent						Total Equity
		Share capital	Share premium	Treasury shares	Retained earnings	Other components of equity	Total	
Balance at April 1, 2017		32,363	44,319	(86,039)	113,676	5,198	109,517	109,517
Net income					991		991	991
Other comprehensive income, net of tax						126	126	126
Total comprehensive income for the period		—	—	—	991	126	1,117	1,117
Purchase of treasury shares				(1)			(1)	(1)
Disposal of treasury shares			(216)	2,033	(1,011)		806	806
Dividends	7				(2,122)		(2,122)	(2,122)
Total transactions with the owners		—	(216)	2,032	(3,133)	—	(1,317)	(1,317)
Balance at June 30, 2017		32,363	44,103	(84,007)	111,534	5,324	109,317	109,317

Three months ended June 30, 2018

Millions of Yen

	Note	Equity attributable to owners of the parent						Total Equity
		Share capital	Share premium	Treasury shares	Retained earnings	Other components of equity	Total	
Balance at April 1, 2018		32,363	43,466	(77,724)	125,204	1,301	124,610	124,610
Impact of change in accounting policy	3				788		788	788
Beginning balance after retrospective restatement		32,363	43,466	(77,724)	125,992	1,301	125,398	125,398
Net income					13,892		13,892	13,892
Other comprehensive income, net of tax						1,880	1,880	1,880
Total comprehensive income for the period		—	—	—	13,892	1,880	15,772	15,772
Purchase of treasury shares				(0)			(0)	(0)
Disposal of treasury shares			(57)	594	(320)		217	217
Conversion of convertible bonds	6		(125)	12,146	(6,818)		5,203	5,203
Dividends	7				(4,118)		(4,118)	(4,118)
Share-based payments			64				64	64
Total transactions with the owners		—	(118)	12,740	(11,256)	—	1,366	1,366
Balance at June 30, 2018		32,363	43,348	(64,984)	128,628	3,181	142,536	142,536

(4) Condensed Consolidated Statements of Cash Flows

Millions of Yen

	Note	Three months ended June 30, 2017	Three months ended June 30, 2018
Cash flows from operating activities:			
Income before income taxes		1,567	16,537
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization		1,166	1,232
Gain on sales of available-for-sale financial assets		(349)	—
Changes in assets and liabilities:			
Trade and other receivables		2,314	(11,574)
Inventories		(192)	(1,855)
Trade and other payables		(2,145)	(853)
Warranty provisions		(18)	346
Deposits received		1,102	1,868
Advance receipt		872	2,040
Retirement benefit liabilities		581	437
Other		(1,098)	602
Subtotal		3,800	8,780
Interest and dividends received		110	187
Interest paid		(48)	(2)
Income taxes paid		(800)	(2,497)
Net cash provided by (used in) operating activities		3,062	6,468
Cash flows from investing activities:			
Proceeds from sale of available-for-sale financial assets		851	—
Purchases of property, plant and equipment		(556)	(1,399)
Purchases of intangible assets		(106)	(59)
Other		53	9
Net cash provided by (used in) investing activities		242	(1,449)
Cash flows from financing activities:			
Proceeds from disposal of treasury shares		811	217
Redemption of bonds		(15,000)	—
Dividends paid	7	(1,977)	(3,943)
Other		(4)	0
Net cash provided by (used in) financing activities		(16,170)	(3,726)
Net effect of exchange rate changes on cash and cash equivalents		389	1,178
Net change in cash and cash equivalents		(12,477)	2,471
Cash and cash equivalents at beginning of period		95,324	103,973
Cash and cash equivalents at end of period		82,847	106,444

Notes to the Condensed Consolidated Financial Statements

1. Reporting Entity

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

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

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

2. Basis of Preparation

(1) Compliance with IFRS

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

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

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

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

3. Significant Accounting Policies

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

(1) IFRS 9: Financial Instruments

Advantest adopted IFRS 9 Financial Instruments from this quarter. This new standard is the replacement of IAS 39 Financial Instruments: Recognition and Measurement. This standard addresses the classification and measurement (including impairment) of financial instruments and introduces new rules for hedge accounting.

The adoption of the standard did not have an impact on Advantest consolidated results of operations and financial condition.

(1) Classification and measurement of financial instruments

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

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

(2) Impairment of financial instruments

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

(2) IFRS 15: Revenue from Contracts with Customers

Advantest adopted IFRS 15 Revenue from Contracts with Customers from this quarter. The new standard replaces IAS 18 ‘Revenue’ and IAS 11 ‘Construction Contracts.’

To apply IFRS 15, Advantest used the cumulative effect transition method which is recognizing the cumulative effect of applying the new standard at the beginning of the year of initial application.

In accordance with the adoption of IFRS 15, Advantest recognizes revenue based on the five-step model.

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations (accounting treatment for goods or services separately)
Step 3: Determine the transaction price (amount of consideration)
Step 4: Allocate the transaction price to the performance obligations
Step 5: Recognize revenue when the entity satisfies a performance obligation

As a result of identifying the contracts with customers and the performance obligations in the contracts and calculating the value of the transactions based on the five-step model indicated above, revenue is recognized upon satisfaction of each performance obligation for those which product and installation are identified as a separate performance obligation compared to the revenue which had been recognized upon installation for the products which require installation based on the previous accounting standard. Consequently, the beginning balance of retained earnings for this quarter increased (Y) 1,076 million.

Additionally, there is a difference in identifying a performance obligation for services in accordance with the new standard compared with the previous accounting standard. As a result, the beginning balance of retained earnings for this quarter decreased (Y) 288 million.

As a result of adopting IFRS 15, trade and other receivables, other current liabilities and retained earnings increased by (Y) 2,022 million, (Y) 902 million and (Y) 375 million, respectively, and inventories and deferred tax assets decreased by (Y) 471 million and (Y) 271 million, respectively in the condensed consolidated statements of financial position as of June 30, 2018. Additionally, net sales, operating income and net income decreased by (Y) 1,658 million, (Y) 565 million and (Y) 453 million, respectively in the condensed consolidated statement of profit or loss for the three months ended June 30, 2018.

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

5. Segment Information

(1) Overview of Reporting Segments

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

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

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

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

(2) Information of Reporting Segments

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

Advantest uses the operating income (loss) before share 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.

Three months ended June 30, 2017 Millions of Yen

	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Consolidated
Net sales					
Net sales to unaffiliated customers	26,657	7,188	6,852	—	40,697
Inter-segment sales	—	—	—	—	—
Total	26,657	7,188	6,852	—	40,697
Segment income (loss) (operating income (loss) before share option compensation expense)	2,558	(80)	704	(956)	2,226
Adjustment: Share option compensation expense	—	—	—	—	—
Operating income	—	—	—	—	2,226
Financial income	—	—	—	—	454
Financial expenses	—	—	—	—	(1,113)
Income before income taxes	—	—	—	—	1,567

Three months ended June 30, 2018 Millions of Yen

	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Consolidated
Net sales					
Net sales to unaffiliated customers	50,979	11,078	8,874	—	70,931
Inter-segment sales	—	—	—	—	—
Total	50,979	11,078	8,874	—	70,931
Segment income (loss) (operating income (loss) before share option compensation expense)	15,497	441	1,902	(1,958)	15,882
Adjustment: Share option compensation expense	—	—	—	—	(64)
Operating income	—	—	—	—	15,818
Financial income	—	—	—	—	752
Financial expenses	—	—	—	—	(33)
Income before income taxes	—	—	—	—	16,537

(Notes)

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

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

6. Bonds

Due to the conversion of Zero Coupon Convertible Bonds due 2019, convertible bonds decreased by (Y) 5,203 million and 3,209,935 shares of treasury shares were reissued during the three months ended June 30, 2018. As a result, retained earnings, share premium and treasury shares decreased by (Y) 6,818 million, (Y) 125 million and (Y) 12,146 million, respectively.

7. Dividends

Dividends Paid

Three months ended June 30, 2017

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

Three months ended June 30, 2018

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

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 at the straight-line basis. Net sales disaggregated by region and segment were as follows:

Three months ended June 30, 2018 Millions of Yen

	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Consolidated
Main regions				
Japan	1,977	1,267	1,334	4,578
Americas	991	543	1,164	2,698
Europe	1,307	90	505	1,902
Asia	46,704	9,178	5,871	61,753
Total	50,979	11,078	8,874	70,931

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

Three months ended June 30, 2018 Millions of Yen

	SoC	Memory	Total
Semiconductor and Component Test System Business	31,606	19,373	50,979

9. Earnings per Share

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

	Three months ended June 30, 2017	Three months ended June 30, 2018
Net income attributable to owners of the parent (Millions of Yen)	991	13,892
Net income not attributable to owners of the parent (Millions of Yen)	—	—
Net income to calculate basic earnings per share (Millions of Yen)	991	13,892
Dilutive effect of exercise of convertible bonds (Millions of Yen)	32	32
Net income to calculate diluted earnings per share (Millions of Yen)	1,023	13,924
Weighted average number of ordinary shares—basic	177,012,805	180,438,062
Dilutive effect of exercise of share options	860,117	525,414
Dilutive effect of exercise of convertible bonds	18,304,961	17,459,925
Weighted average number of ordinary shares—diluted	196,177,883	198,423,401
Basic earnings per share (Yen)	5.60	76.99
Diluted earnings per share (Yen)	5.21	70.17
Financial Instruments not included in the calculation of diluted earnings per share because they have anti-dilutive effect	―――	Certain share options

10. Financial Instruments

(1) Carrying Amounts and Fair Value of Financial Instruments

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

Millions of Yen

	As of March 31, 2018		As of June 30, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost				
Bonds(Note)	29,872	29,969	24,701	24,768

(Note)Bonds include balances redeemable within one year.

(Bonds)

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

(Other)

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

(2) Fair Value Hierarchy of Financial Instruments

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

Level 1: Fair value measured at quoted prices for identical assets or liabilities in active markets
Level 2: Fair value measured by direct or indirect observable inputs other than Level 1
Level 3: Fair value measured by significant unobservable inputs

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

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

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

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

As of March 31, 2018 Millions of Yen

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

As of June 30, 2018 Millions of Yen

	Level 1	Level 2	Level 3	Total
Financial assets that are measured at fair value through profit or loss				
Debt instruments	−	−	216	216
Financial assets that are measured at fair value through other comprehensive income				
Equity instruments	−	−	533	533
Total	−	−	749	749

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

Millions of Yen

	Three months ended June 30, 2017	Three months ended June 30, 2018
Balance at beginning of period	399	698
Gains or losses		
Other comprehensive income(Note)	8	52
Other	0	(1)
Balance at end of period	407	749

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

11. Subsequent Event

The Company and its domestic subsidiaries have a defined benefit corporate pension plan covering substantially all employees. On July 24, 2018, the Company determined to transfer a part of defined benefit corporate pension plan to defined contribution plan from October 1, 2018.

The impact to consolidated financial results for fiscal year ending March 31, 2019 due to the transfer is currently evaluated.