

FY2016 Second Quarter Consolidated Financial Results

(Advantest's consolidated financial statements are prepared in accordance with IFRS)
(Period ended September 30, 2016)

October 26, 2016

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 : Shinichiro Kuroe, Representative Director, President and CEO

Contact person : Hiroshi Nakamura, Director, Managing Executive Officer and Executive Vice President, Corporate Administration Group
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Quarterly Report Filing Date (as planned) : November 14, 2016

Dividend Payable Date (as planned) : December 1, 2016

Quarterly Results Supplemental Materials : Yes

Quarterly Results Presentation Meeting : Yes

(Rounded to the nearest million yen)

1. Consolidated Results of FY2016 Q2 (April 1, 2016 through September 30, 2016)

(1) Consolidated Financial Results (Accumulated)

(% changes as compared with 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)
FY2016 Q2	76,195	(11.8)	8,318	24.6	9,115	50.0	7,261	143.9	7,261	143.9	(2,939)	—
FY2015 Q2	86,347	—	6,677	—	6,078	—	2,977	—	2,977	—	2,479	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY2016 Q2	41.56	37.96
FY2015 Q2	17.05	15.77

(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	%
FY2016 Q2	207,016	89,784	89,784	43.4
FY2015	210,451	93,619	93,619	44.5

2. Dividends

(Record Date)	Dividend per share				
	First quarter end	Second quarter end	Third quarter end	Year end	Annual total
	yen	yen	yen	yen	yen
FY2015	—	10.00	—	10.00	20.00
FY2016	—	13.00	N/A	N/A	N/A
FY2016 (forecast)	N/A	N/A	—	9.00	22.00

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

3. Projected Results for FY2016 (April 1, 2016 through March 31, 2017)

(% changes as compared with 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		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	
FY2016	156,000	(3.8)	14,500	15.1	15,300	30.0	12,000	79.3	12,000	79.3	Yen 68.69

(Note) Revision of projected results for this period: Yes

Please see "(3) Prospects for the Current Fiscal Year" on page 7 for details.

4. Others

(1) Material changes in subsidiaries during this period (changes in scope of consolidation resulting from changes in subsidiaries): No

(2) Changes in accounting policies and accounting estimates

- 1) Changes in accounting policies required by IFRS: None
- 2) Changes arising from factors other than 1: None
- 3) Changes in accounting estimates: None

(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):
FY2016 Q2 199,566,770 shares; FY2015 199,566,770 shares.
- 2) Number of treasury share at the end of each fiscal period:
FY2016 Q2 24,434,460 shares; FY2015 24,994,162 shares.
- 3) Average number of outstanding share for each period (cumulative term):
FY2016 Q2 174,692,143 shares; FY2015 Q2 174,565,559 shares.

Status of Quarterly Review Procedures

This quarterly financial results report is not subject to quarterly review procedures by independent auditors under Japan's Financial Instruments and Exchange Law. At the time of release of this report, such quarterly review procedures under the Financial Instruments and Exchange Law have not been completed.

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

Advantest Corporation adopted International Financial Reporting Standards ("IFRS") for the consolidated financial statements starting with its annual securities report with respect to the fiscal year ended March 31, 2016. Accordingly, the consolidated financial statements for the corresponding period of the previous fiscal year in this document are also presented in accordance with IFRS.

This document contains "forward-looking statements" that are based on Advantest's current expectations, estimates and projections. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause Advantest's actual results, levels of activities, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. These factors include: (i) changes in demand for the products and services produced and offered by Advantest's customers, including semiconductors, communications services and electronic goods; (ii) circumstances relating to Advantest's investment in technology, including its ability to timely develop products that meet the changing needs of semiconductor manufacturers, communications network equipment and components makers and service providers; (iii) significant changes in the competitive environment in the major markets where Advantest purchases materials, components and supplies for the production of its products or where its products are produced, distributed or sold; and (iv) changes in economic conditions, currency exchange rates or political stability in the major markets where Advantest procures materials, components and supplies for the production of its principal products or where its products are produced, distributed or sold.

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1. Business Results

(1) Analysis of Business Results

Consolidated Financial Results of FY2016 Q2 (April 1, 2016 through September 30, 2016)

(in billion yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016	As compared to the corresponding period of the previous fiscal year increase (decrease)
Orders received	71.1	72.3	1.7%
Net sales	86.3	76.2	(11.8%)
Operating income	6.7	8.3	24.6%
Income before income taxes	6.1	9.1	50.0%
Net income	3.0	7.3	143.9%

The global economy continued to grow gradually overall in Advantest's first half of fiscal year 2016. Although Chinese economic growth decelerated, strong growth continued in Asia's emerging economies. However, in the developed economies, American economic growth was seen to slow, and even in Europe, where a recovery has been underway, the UK's impending Brexit added an element of uncertainty to the outlook.

Semiconductor-related markets saw increased demand for smartphone-related components, driven by the improving functionality of mid-range and low-end smartphones, increasing sales of the same, and the introduction of new high-end smartphones. As a result, non-memory semiconductor production lines were busy, and semiconductor manufacturers steadily invested in production capacity expansion. In the memory sector, likewise, demand of data centers and smartphones continued to grow, and semiconductor manufacturers stepped up their capital investments.

Average currency exchange rates in the period were 1 USD to 107 JPY (122 JPY in the corresponding period of the previous fiscal year) and 1 EUR to 120 JPY (134 JPY in the corresponding period of the previous fiscal year).

Under this business environment, Advantest sought to capture orders for logic semiconductor testers and other products currently enjoying strong demand. As a result, orders received were (Y)72.3 billion (1.7% increase in comparison to the corresponding period of the previous fiscal year), approximately the same level with the corresponding period of the previous fiscal year, despite the impact of deteriorating currency exchange rates. Net sales were (Y) 76.2 billion (11.8% decrease in comparison to the corresponding period of the previous fiscal year). Profits were also negatively affected by yen appreciation, but our product mix contained a greater proportion of highly profitable products than in the corresponding period of the previous fiscal year, resulting in operating income of (Y) 8.3 billion (24.6% increase in comparison to the corresponding period of the previous fiscal year), and income before income taxes of (Y) 9.1 billion (50.0% increase in comparison to the corresponding period of the previous fiscal year). Net income was (Y) 7.3 billion (143.9% increase in comparison to the corresponding period of the previous fiscal year). The percentage of net sales to overseas customers was 89.1% (94.2% in the corresponding period of the previous fiscal year).

Conditions of business segments are described below.

<Semiconductor and Component Test System Segment>

(in billion yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016	As compared to the corresponding period of the previous fiscal year increase (decrease)
Orders received	39.0	47.1	20.5%
Net sales	51.0	51.3	0.7%
Segment income	2.8	11.5	314.8%

The Semiconductor and Component Test System Segment saw increased demand for non-memory test systems as customers boosted their production of logic semiconductors for mid-range and low-end smartphones. As a result, sales grew significantly, even amid the negative effects of yen appreciation. However, the prolonged fall in memory device prices suppressed customer investment in the memory sector at the outset of the first half of the fiscal year, and sales of memory test systems were sluggish.

As a result of the above, orders received were (Y) 47.1 billion (20.5% increase in comparison to the corresponding period of the previous fiscal year), net sales were (Y) 51.3 billion (0.7% increase in comparison to the corresponding period of the previous fiscal year), and segment income was (Y) 11.5 billion (314.8% increase in comparison to the corresponding period of the previous fiscal year).

< Mechatronics System Segment >

(in billion yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016	As compared to the corresponding period of the previous fiscal year increase (decrease)
Orders received	17.8	11.4	(36.0%)
Net sales	20.2	10.9	(46.0%)
Segment income	4.2	(1.4)	—

The Mechatronics System Segment saw sales of device interfaces, which strongly correlate with memory test system demand, fall as DRAM semiconductor manufacturers shrunk the investment in the capacity expansions compared to the corresponding period of the previous fiscal year. Nanotechnology sales also contracted year-over-year owing to the timing of major customers' process shrink schedules.

As a result of the above, orders received were (Y) 11.4 billion (36.0% decrease in comparison to the corresponding period of the previous fiscal year), net sales were (Y) 10.9 billion (46.0% decrease in comparison to the corresponding period of the previous fiscal year), and segment loss was (Y) 1.4 billion ((Y) 5.6 billion decline in comparison to the corresponding period of the previous fiscal year).

<Services, Support and Others Segment>

(in billion yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016	As compared to the corresponding period of the previous fiscal year increase (decrease)
Orders received	14.2	13.8	(2.8%)
Net sales	15.2	14.0	(8.1%)
Segment income	2.4	1.6	(34.0%)

The Services, Support and Others Segment was also impacted by yen appreciation. However, field services demand remained solid amidst high utilization rates across customers' production lines.

As a result of the above, orders received were (Y) 13.8 billion (2.8% decrease in comparison to the corresponding period of the previous fiscal year), net sales were (Y) 14.0 billion (8.1% decrease in comparison to the corresponding period of the previous fiscal year), and segment income was (Y) 1.6 billion (34.0% decrease in comparison to the corresponding period of the previous fiscal year).

(2) Analysis of Financial Condition

Total assets at September 30, 2016 amounted to (Y) 207.0 billion, a decrease of (Y) 3.4 billion compared to March 31, 2016, primarily due to a decrease of (Y) 9.0 billion, (Y) 1.2 billion and (Y) 1.8 billion in trade and other receivables, property, plant and equipment, goodwill and intangible assets, respectively, offset by an increase of (Y) 9.7 billion in Cash and cash equivalents. The amount of total liabilities was (Y) 117.2 billion, an increase of (Y) 0.4 billion compared to March 31, 2016. Total Equity was (Y) 89.8 billion. Ratio of equity attributable to owners of the parent was 43.4%, a decrease of 1.1 percentage points from March 31, 2016.

(Cash Flow Condition)

Cash and cash equivalents held at September 30, 2016 were (Y) 95.1 billion, an increase of (Y) 9.7 billion from March 31, 2016. Significant cash flows during the first half of this fiscal year and their causes are described below.

Net cash provided by operating activities was (Y) 18.2 billion (net cash inflow of (Y) 1.5 billion in the corresponding period of the previous fiscal year). This amount was primarily attributable to a decrease of (Y) 8.0 billion in trade and other receivables, income taxes paid of (Y) 2.2 billion and adjustments of non cash items such as depreciation and amortization in addition to the income before income taxes of (Y) 9.1 billion.

Net cash used in investing activities was (Y) 1.4 billion (net cash outflow of (Y) 1.4 billion in the corresponding period of the previous fiscal year). This amount was primarily attributable to payments for acquisition of property, plant and equipment in the amount of (Y) 2.0 billion.

Net cash used in financing activities was (Y) 1.1 billion (net cash outflow of (Y) 11.7 billion in the corresponding period of the previous fiscal year). This amount was primarily attributable to dividends paid of (Y) 1.7 billion.

(3) Prospects for the Current Fiscal Year

The expansion of high-speed wireless networks, the ongoing adoption of smartphones worldwide and the evolution of their performance, and the spread of Advanced Driver Assistance Systems, or ADAS, in the automotive industry, argue that a growing social emphasis on safety and comfort will drive continued growth in the semiconductor industry and related markets.

The outlook for the semiconductor test equipment market, which is Advantest's primary profit base, predicts solid overall demand, against a background of smartphone market growth and high-speed communications infrastructure buildout in China and other emerging economies, regardless of quarterly fluctuations in demand for non-memory test systems. Moreover, the increasing adoption of higher-speed, higher-capacity DRAM and NAND flash memory devices supports expectations that demand for our memory test systems and SSD test systems will grow in the second half of FY2016.

Based on this outlook, Advantest will endeavor to expand our share of the semiconductor test equipment market, to reinforce our semiconductor test equipment peripherals business and new businesses, and to cut costs, with the goal of boosting profits.

As a result, Advantest's consolidated results forecast for FY2016, based on results from our cumulative second fiscal quarter and near-term outlook for each business segment, calls for sales of (Y) 156.0 billion, unchanged from our forecast published in July 2016. However, we now expect operating income of (Y) 14.5 billion (formerly (Y) 11.0 billion), income before income taxes of (Y) 15.3 billion (formerly (Y) 11.5 billion), and net income of (Y) 12.0 billion (formerly (Y) 8.5 billion). These forecasts are based on foreign exchange rates of 100 JPY to 1 USD and 110 JPY to 1 Euro, unchanged from the assumptions published in July 2016.

2. Condensed Consolidated Financial Statements
 (1) Condensed Consolidated Statements of Financial Position

	Millions of Yen	
	As of March 31, 2016	As of September 30, 2016
Assets		
Current assets		
Cash and cash equivalents	85,430	95,090
Trade and other receivables	28,005	18,990
Inventories	33,912	34,244
Other current assets	3,049	3,075
Total current assets	<u>150,396</u>	<u>151,399</u>
Non-current assets		
Property, plant and equipment, net	31,451	30,270
Goodwill and intangible assets	16,726	14,926
Other financial assets	3,542	2,726
Deferred tax assets	8,038	7,406
Other non-current assets	298	289
Total non-current assets	<u>60,055</u>	<u>55,617</u>
Total assets	<u><u>210,451</u></u>	<u><u>207,016</u></u>

	Millions of Yen	
	As of March 31, 2016	As of September 30, 2016
Liabilities and Equity		
Liabilities		
Current liabilities		
Trade and other payables	22,101	22,551
Bonds	—	15,000
Income tax payables	1,548	2,224
Provisions	1,709	1,737
Other financial liabilities	487	438
Other current liabilities	3,589	3,621
Total current liabilities	<u>29,434</u>	<u>45,571</u>
Non-current liabilities		
Bonds	44,618	29,681
Other financial liabilities	65	43
Retirement benefit liabilities	41,076	40,539
Deferred tax liabilities	358	228
Other non-current liabilities	1,281	1,170
Total non-current liabilities	<u>87,398</u>	<u>71,661</u>
Total liabilities	<u>116,832</u>	<u>117,232</u>
Equity		
Share capital	32,363	32,363
Share premium	44,478	44,458
Treasury shares	(94,585)	(92,466)
Retained earnings	105,190	109,456
Other components of equity	6,173	(4,027)
Total equity attributable to owners of the parent	<u>93,619</u>	<u>89,784</u>
Total equity	<u>93,619</u>	<u>89,784</u>
Total liabilities and equity	<u><u>210,451</u></u>	<u><u>207,016</u></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	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Net sales	86,347	76,195
Cost of sales	<u>(40,039)</u>	<u>(29,850)</u>
Gross profit	46,308	46,345
Selling, general and administrative expenses	(39,716)	(38,128)
Other income	274	231
Other expenses	<u>(189)</u>	<u>(130)</u>
Operating income	6,677	8,318
Financial income	154	908
Financial expenses	<u>(753)</u>	<u>(111)</u>
Income before income taxes	6,078	9,115
Income taxes	<u>(3,101)</u>	<u>(1,854)</u>
Net income	<u><u>2,977</u></u>	<u><u>7,261</u></u>
Net income attributable to:		
Owners of the parent	2,977	7,261
Earnings per share:		Yen
Basic	<u>17.05</u>	41.56
Diluted	15.77	37.96

	Millions of Yen	
	Three months ended September 30, 2015	Three months ended September 30, 2016
Net sales	46,181	35,526
Cost of sales	(22,011)	(14,459)
Gross profit	24,170	21,067
Selling, general and administrative expenses	(20,050)	(18,531)
Other income	170	93
Other expenses	(88)	(49)
Operating income	4,202	2,580
Financial income	64	411
Financial expenses	(718)	(55)
Income before income taxes	3,548	2,936
Income taxes	(2,326)	(650)
Net income	1,222	2,286
Net income attributable to:		
Owners of the parent	1,222	2,286
Earnings per share:		Yen
Basic	7.00	13.07
Diluted	6.51	12.00

Condensed Consolidated Statements of Comprehensive Income

	Millions of Yen	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Net income	2,977	7,261
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	(418)	(10,013)
Net change in fair values of available-for-sale financial assets	(80)	(187)
Total other comprehensive income	(498)	(10,200)
Total comprehensive income for the period	<u>2,479</u>	<u>(2,939)</u>
Comprehensive income attributable to:		
Owners of the parent	2,479	(2,939)

	Millions of Yen	
	Three months ended September 30, 2015	Three months ended September 30, 2016
Net income	1,222	2,286
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	(3,040)	(1,111)
Net change in fair values of available-for-sale financial assets	(418)	(75)
Total other comprehensive income	(3,458)	(1,186)
Total comprehensive income for the period	<u>(2,236)</u>	<u>1,100</u>
Comprehensive income attributable to:		
Owners of the parent	(2,236)	1,100

(3) Condensed Consolidated Statements of Changes in Equity

Six months ended September 30, 2015

	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 at April 1,2015	32,363	44,487	(94,686)	106,916	12,730	101,810	101,810
Net income				2,977		2,977	2,977
Other comprehensive income					(498)	(498)	(498)
Total comprehensive income for the period	—	—	—	2,977	(498)	2,479	2,479
Purchase of treasury shares			(1)			(1)	(1)
Disposal of treasury shares		(9)	102	(60)		33	33
Dividends				(1,745)		(1,745)	(1,745)
Total transactions with the owners	—	(9)	101	(1,805)	—	(1,713)	(1,713)
Balance at September 30,2015	<u>32,363</u>	<u>44,478</u>	<u>(94,585)</u>	<u>108,088</u>	<u>12,232</u>	<u>102,576</u>	<u>102,576</u>

Six months ended September 30, 2016

	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 at April 1,2016	32,363	44,478	(94,585)	105,190	6,173	93,619	93,619
Net income				7,261		7,261	7,261
Other comprehensive income					(10,200)	(10,200)	(10,200)
Total comprehensive income for the period	—	—	—	7,261	(10,200)	(2,939)	(2,939)
Purchase of treasury shares			0			0	0
Disposal of treasury shares		(195)	2,119	(1,249)		675	675
Dividends				(1,746)		(1,746)	(1,746)
Share-based payments		175				175	175
Total transactions with the owners	—	(20)	2,119	(2,995)	—	(896)	(896)
Balance at September 30,2016	<u>32,363</u>	<u>44,458</u>	<u>(92,466)</u>	<u>109,456</u>	<u>(4,027)</u>	<u>89,784</u>	<u>89,784</u>

(4) Condensed Consolidated Statements of Cash Flows

	Millions of Yen	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Cash flows from operating activities:		
Income before income taxes	6,078	9,115
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,582	2,351
Gain on sales of available-for-sale financial assets	—	(226)
Changes in assets and liabilities:		
Trade and other receivables	998	7,979
Inventories	1,208	(1,160)
Trade and other payables	(5,644)	1,067
Warranty provisions	93	32
Retirement benefit liabilities	978	941
Other	(2,410)	256
Subtotal	3,883	20,355
Interest and dividends received	156	167
Interest paid	(70)	(112)
Income taxes paid	(2,490)	(2,166)
Net cash provided by (used in) operating activities	1,479	18,244
Cash flows from investing activities:		
Proceeds from sale of available-for-sale financial assets	—	626
Purchases of property, plant and equipment	(1,365)	(1,972)
Purchases of intangible assets	(256)	(225)
Other	204	131
Net cash provided by (used in) investing activities	(1,417)	(1,440)
Cash flows from financing activities:		
Proceeds from disposal of treasury shares	33	675
Redemption of bonds	(10,000)	—
Dividends paid	(1,742)	(1,743)
Other	(38)	(32)
Net cash provided by (used in) financing activities	(11,747)	(1,100)
Net effect of exchange rate changes on cash and cash equivalents	617	(6,044)
Net change in cash and cash equivalents	(11,068)	9,660
Cash and cash equivalents at beginning of period	97,574	85,430
Cash and cash equivalents at end of period	86,506	95,090

(5) Notes to the Condensed Consolidated Financial Statements

(Notes on Going Concern): None

(Segment Information)

Six months ended September 30, 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	50,948	20,158	15,241	—	86,347
Inter-segment sales	24	—	—	(24)	—
Total	50,972	20,158	15,241	(24)	86,347
Segment income (loss) (operating income (loss) before share option compensation expense)	2,774	4,228	2,416	(2,741)	6,677
Adjustment: Share option compensation expense	—	—	—	—	—
Operating income	—	—	—	—	6,677
Financial income	—	—	—	—	154
Financial expenses	—	—	—	—	(753)
Income before income taxes	—	—	—	—	6,078

Six months ended September 30, 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	51,334	10,857	14,004	—	76,195
Inter-segment sales	4	34	—	(38)	—
Total	51,338	10,891	14,004	(38)	76,195
Segment income (loss) (operating income (loss) before share option compensation expense)	11,507	(1,410)	1,594	(3,198)	8,493
Adjustment: Share option compensation expense	—	—	—	—	(175)
Operating income	—	—	—	—	8,318
Financial income	—	—	—	—	908
Financial expenses	—	—	—	—	(111)
Income before income taxes	—	—	—	—	9,115

Three months ended September 30, 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	26,286	11,457	8,438	—	46,181
Inter-segment sales	18	—	—	(18)	—
Total	26,304	11,457	8,438	(18)	46,181
Segment income (loss) (operating income (loss) before share option compensation expense)	1,338	2,660	1,630	(1,426)	4,202
Adjustment: Share option compensation expense	—	—	—	—	—
Operating income	—	—	—	—	4,202
Financial income	—	—	—	—	64
Financial expenses	—	—	—	—	(718)
Income before income taxes	—	—	—	—	3,548

Three months ended September 30, 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	22,651	5,734	7,141	—	35,526
Inter-segment sales	—	—	—	—	—
Total	22,651	5,734	7,141	—	35,526
Segment income (loss) (operating income (loss) before share option compensation expense)	3,468	(425)	960	(1,248)	2,755
Adjustment: Share option compensation expense	—	—	—	—	(175)
Operating income	—	—	—	—	2,580
Financial income	—	—	—	—	411
Financial expenses	—	—	—	—	(55)
Income before income taxes	—	—	—	—	2,936

(Notes)

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