

(English translation and a part of summary of the Quarterly Report for the fiscal first quarter ended June 30, 2019, pursuant to the Japanese Financial Instrument and Exchange Law.)

Quarterly Financial Report

For the fiscal first quarter ended June 30, 2019

Advantest Corporation

1. Condensed Consolidated Financial Statements

(1) Condensed Consolidated Statement of Financial Position

		Millions of Yen	
	Note	As of March 31, 2019	As of June 30, 2019
Assets			
Current assets			
Cash and cash equivalents		119,943	111,358
Trade and other receivables		51,786	56,213
Inventories		57,099	59,151
Other current assets		4,423	4,324
Total current assets		233,251	231,046
Non-current assets			
Property, plant and equipment, net		30,786	30,409
Right-of-use assets	3	—	9,892
Goodwill and intangible assets, net	11	26,119	25,090
Other financial assets	10	2,861	2,660
Deferred tax assets		11,209	11,298
Other non-current assets		354	394
Total non-current assets		71,329	79,743
Total assets		304,580	310,789
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables		43,942	38,636
Income tax payables		8,650	4,844
Provisions		2,886	2,880
Other financial liabilities		905	5,302
Other current liabilities		6,465	8,127
Total current liabilities		62,848	59,789
Non-current liabilities			
Lease liabilities	3	—	8,226
Retirement benefit liabilities		37,528	37,554
Deferred tax liabilities		1,680	1,745
Other non-current liabilities		3,793	4,076
Total non-current liabilities		43,001	51,601
Total liabilities		105,849	111,390
Equity			
Share capital		32,363	32,363
Share premium		43,018	43,111
Treasury shares		(6,262)	(5,899)
Retained earnings		125,927	129,632
Other components of equity		3,685	192
Total equity attributable to owners of the parent		198,731	199,399
Total equity		198,731	199,399
Total liabilities and equity		304,580	310,789

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

Condensed Consolidated Statement of Profit or Loss

				Millions of Yen	
	Note	Three months ended June 30, 2018	Three months ended June 30, 2019		
Net sales	5, 8	70,931	66,165		
Cost of sales		(32,733)	(26,814)		
Gross profit		38,198	39,351		
Selling, general and administrative expenses		(22,450)	(24,215)		
Other income		93	46		
Other expenses		(23)	(22)		
Operating income	5	15,818	15,160		
Financial income		752	232		
Financial expenses		(33)	(443)		
Income before income taxes		16,537	14,949		
Income taxes		(2,645)	(2,865)		
Net income		<u>13,892</u>	<u>12,084</u>		
Net income attributable to:					
Owners of the parent		13,892	12,084		
Earnings per share:	9		Yen		
Basic		76.99	61.07		
Diluted		70.17	60.93		

Condensed Consolidated Statement of Comprehensive Income

				Millions of Yen	
		Three months ended June 30, 2018	Three months ended June 30, 2019		
Net income		13,892	12,084		
Other comprehensive income (loss), net of tax					
Items that will not be reclassified to profit or loss					
Net change in fair value measurements of equity instruments at fair value through other comprehensive income		37	(18)		
Items that may be subsequently reclassified to profit or loss					
Exchange differences on translation of foreign operations		1,843	(3,364)		
Total other comprehensive income (loss)		<u>1,880</u>	<u>(3,382)</u>		
Total comprehensive income for the period		<u>15,772</u>	<u>8,702</u>		
Comprehensive income attributable to:					
Owners of the parent		15,772	8,702		

(3) Condensed Consolidated Statement of Changes in Equity

Three months ended June 30, 2018

		Millions of Yen						
		Equity attributable to owners of the parent						
	Note	Share capital	Share premium	Treasury shares	Retained earnings	Other components of equity	Total	Total 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					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 as of June 30, 2018		<u>32,363</u>	<u>43,348</u>	<u>(64,984)</u>	<u>128,628</u>	<u>3,181</u>	<u>142,536</u>	<u>142,536</u>

Three months ended June 30, 2019

		Millions of Yen						
		Equity attributable to owners of the parent						
	Note	Share capital	Share premium	Treasury shares	Retained earnings	Other components of equity	Total	Total Equity
Balance as of April 1, 2019		32,363	43,018	(6,262)	125,927	3,685	198,731	198,731
Net income					12,084		12,084	12,084
Other comprehensive income, net of tax						(3,382)	(3,382)	(3,382)
Total comprehensive income for the period		—	—	—	12,084	(3,382)	8,702	8,702
Purchase of treasury shares				(0)			(0)	(0)
Disposal of treasury shares			(35)	363	(181)		147	147
Dividends	7				(8,309)		(8,309)	(8,309)
Share-based payments			128				128	128
Transfer from other components of equity to retained earnings					111	(111)	—	—
Total transactions with the owners		—	93	363	(8,379)	(111)	(8,034)	(8,034)
Balance as of June 30, 2019		<u>32,363</u>	<u>43,111</u>	<u>(5,899)</u>	<u>129,632</u>	<u>192</u>	<u>199,399</u>	<u>199,399</u>

(4) Condensed Consolidated Statement of Cash Flows

Millions of Yen

	Note	Three months ended June 30, 2018	Three months ended June 30, 2019
Cash flows from operating activities:			
Income before income taxes		16,537	14,949
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization		1,232	2,389
Changes in assets and liabilities:			
Trade and other receivables		(11,574)	(5,635)
Inventories		(1,855)	(2,514)
Trade and other payables		(853)	(4,750)
Warranty provisions		346	1
Deposits received		1,868	2,463
Advance receipt		2,040	1,826
Retirement benefit liabilities		437	353
Other		602	342
Subtotal		8,780	9,424
Interest and dividends received		187	229
Interest paid		(2)	(38)
Income taxes paid		(2,497)	(6,288)
Net cash provided by (used in) operating activities		6,468	3,327
Cash flows from investing activities:			
Proceeds from sale of equity instruments		—	111
Purchases of property, plant and equipment		(1,399)	(1,652)
Purchases of intangible assets		(59)	(17)
Other		9	32
Net cash provided by (used in) investing activities		(1,449)	(1,526)
Cash flows from financing activities:			
Proceeds from disposal of treasury shares		217	147
Dividends paid	7	(3,943)	(7,981)
Payments for lease liabilities		—	(578)
Other		0	(0)
Net cash provided by (used in) financing activities		(3,726)	(8,412)
Net effect of exchange rate changes on cash and cash equivalents		1,178	(1,974)
Net change in cash and cash equivalents		2,471	(8,585)
Cash and cash equivalents at the beginning of period		103,973	119,943
Cash and cash equivalents at the end of period		106,444	111,358

Notes to the Condensed Consolidated Financial Statements

1. Reporting Entity

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

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

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

2. Basis of Preparation

(1) Compliance with IFRS

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

As the condensed consolidated financial statements do not contain all the information required in annual consolidated financial statements, they should be read in combination with the consolidated financial statements for the fiscal year ended March 31, 2019.

The condensed consolidated financial statements were approved on August 13, 2019 by Yoshiaki Yoshida, Representative Director, President and CEO and Atsushi Fujita, Chief Financial Officer of the Company.

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

3. Significant Accounting Policies

The condensed consolidated financial statements are prepared based on the same accounting policies as those applied in the Advantest’s consolidated financial statements for the fiscal year ended March 31, 2019, except for the followings:

(1) IFRS 16: Leases

Advantest has adopted IFRS 16 Leases from this quarter.

To apply IFRS 16, Advantest used the cumulative effect transition method which is recognizing the cumulative effect of applying the new standard at the beginning of the year of initial application.

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

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

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

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

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

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

Millions of Yen

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

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

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

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

(2) IFRIC23: Uncertainty over Income Tax Treatments

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

The estimates and assumptions that could have a material effect on the amounts recognized in its condensed consolidated financial statements are equivalent to those estimates and assumptions in Advantest’s consolidated financial statements for the fiscal year ended March 31, 2019.

5. Segment Information

(1) Overview of Reporting Segments

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

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

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

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

(2) Information of Reporting Segments

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

Advantest uses the operating income (loss) before share option compensation expense for management's analysis of operating segment results.

Share-based compensation expense represents expenses for stock options and performance-based stock remuneration expense.

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

Inter-segment sales are based on market prices.

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-based compensation expense)	15,497	441	1,902	(1,958)	15,882
Adjustment: Share-based compensation expense	—	—	—	—	(64)
Operating income	—	—	—	—	15,818
Financial income	—	—	—	—	752
Financial expenses	—	—	—	—	(33)
Income before income taxes	—	—	—	—	16,537

Three months ended June 30, 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	50,909	6,645	8,611	—	66,165
Inter-segment sales	10	—	—	(10)	—
Total	50,919	6,645	8,611	(10)	66,165
Segment income (loss) (operating income (loss) before share-based compensation expense)	17,659	(952)	513	(1,911)	15,309
Adjustment: Share-based compensation expense	—	—	—	—	(149)
Operating income	—	—	—	—	15,160
Financial income	—	—	—	—	232
Financial expenses	—	—	—	—	(443)
Income before income taxes	—	—	—	—	14,949

(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. 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.

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

7. Dividends

Dividends Paid

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

Three months ended June 30, 2019

Resolution	Class of shares	Amount of dividend (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 22, 2019	Ordinary shares	8,320	42	March 31, 2019	June 4, 2019

(Note) Dividend of (Y) 11 million to treasury shares for the BIP Trust and the ESOP Trust is included in the amount of dividend which was resolved at the Board of Directors' meeting held on May 22, 2019.

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	Elimination and Corporate	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

Three months ended June 30, 2019

Millions of Yen

	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Consolidated
Main regions					
Japan	902	598	1,245	(10)	2,735
Americas	1,858	1,110	2,066	—	5,034
Europe	1,022	68	498	—	1,588
Asia	47,137	4,869	4,802	—	56,808
Total	50,919	6,645	8,611	(10)	66,165

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

Three months ended June 30, 2019			Millions of Yen
	SoC	Memory	Total
Semiconductor and Component Test System Business	44,861	6,058	50,919

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, 2018	Three months ended June 30, 2019
Net income attributable to owners of the parent (Millions of Yen)	13,892	12,084
Net income not attributable to owners of the parent (Millions of Yen)	—	—
Net income to calculate basic earnings per share (Millions of Yen)	13,892	12,084
Dilutive effect of convertible bonds (Millions of Yen)	32	—
Net income to calculate diluted earnings per share (Millions of Yen)	13,924	12,084
Weighted average number of ordinary shares—basic	180,438,062	197,881,414
Dilutive effect of stock options	525,414	428,817
Dilutive effect of convertible bonds	17,459,925	—
Dilutive effect of performance-based stock remuneration	—	27,922
Weighted average number of ordinary shares—diluted	198,423,401	198,338,153
Basic earnings per share (Yen)	76.99	61.07
Diluted earnings per share (Yen)	70.17	60.93
Financial Instruments not included in the calculation of diluted earnings per share because they have anti-dilutive effect	Certain share options	Certain share options

10. Financial Instruments

(1) Carrying Amounts and Fair Value of Financial Instruments

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

(2) Fair Value Hierarchy of Financial Instruments

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

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

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

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

There were no transfers of financial instruments between Level during the year ended March 31, 2019 and the three months ended June 30, 2019.

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

As of March 31, 2019	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Financial assets that are measured at fair value through profit or loss				
Debt instruments	—	—	215	215
Financial assets that are measured at fair value through other comprehensive income ^(Note)				
Equity instruments	—	—	1,072	1,072
Total	—	—	1,287	1,287

As of June 30, 2019	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Financial assets that are measured at fair value through profit or loss				
Debt instruments	—	—	205	205
Financial assets that are measured at fair value through other comprehensive income ^(Note)				
Equity instruments	—	—	911	911
Total	—	—	1,116	1,116

^(Note) The Company holds equity investments to accomplish expansion of revenue base by maintaining and enforcing relationships with investees. These equity investments are designated as financial assets measured at FVTOCI. The fair value of each financial assets measured at FVTOCI as of March 31, 2019 and June 30, 2019 was not material.

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, 2018	Three months ended June 30, 2019
Balance at beginning of period	698	1,287
Gains or losses		
Other comprehensive income ^(Note)	52	(26)
Sales	—	(111)
Other	(1)	(34)
Balance at end of period	749	1,116

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

11. Business Combinations

Three months ended June 30, 2018

Not applicable.

Three months ended June 30, 2019

(Business combination through acquisition)

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

The assets acquired and fair value of the consideration paid as of the acquisition date were provisional as of March 31, 2019, but they were revised because the purchase price allocation was revised for the three months ended June 30, 2019. The purchase price allocation procedures have not been completed.

	Provisional fair value	Revision	Revised fair value
Fair value of assets acquired			
Inventories	641	—	641
Property, plant and equipment	377	—	377
Intangible assets	—	3,808	3,808
Fair value of assets acquired	1,018	3,808	4,826
Goodwill	10,080	(3,513)	6,567
Total	11,098	295	11,393
Fair value of consideration paid	11,098	295	11,393

The consideration paid includes the contingent consideration which represents an earn-out payment of up to USD35 million based on certain performance milestones. The fair value of the consideration paid was provisional amount.