

## Financial Section

### Management's Discussion and Analysis

#### Changes in the Scope of Consolidation

During the fiscal year ended March 31, 2010, the Anritsu Group liquidated two consolidated subsidiaries, Anritsu Instruments S.A.S. and NetTest Pte Ltd. As a result, the Anritsu Group comprised 41 consolidated subsidiaries at the end of the fiscal year.

#### Sales and Income

In the field of communication networks, construction of integrated wireline and wireless network environments and the shift to broadband networks has led to the development of numerous diverse services using these networks in recent years. The development of new technologies and services has precipitated a wave of change in new demand that is spurring business restructuring and mergers and acquisitions among existing companies while expanding new markets for smartphones and cloud computing, creating new markets and giving rise to new market players. In the context of these trends, in the field of mobile communications, major telecom carriers in Japan, the United States and other countries have announced that in 2010 they will begin launching commercial services based on Long Term Evolution (LTE), which will become a worldwide platform for next-generation mobile phones, and full-fledged investment in the development of LTE has begun. In China, which has the world's largest mobile phone subscriber base, infrastructure is being upgraded for the expansion of third-generation (3G) mobile services.

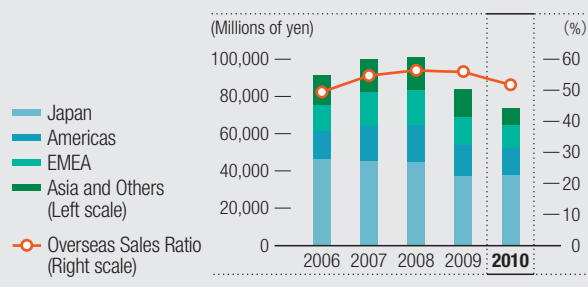
With many new opportunities to expand business, the Anritsu Group continued to work energetically to achieve its management targets. In the core Test and Measurement segment, Anritsu took measures to improve profitability and enhance competitiveness. Organizational reforms included further consolidation and improvement of its production operations and reorganization of its sales organization in Japan. Anritsu also worked to capitalize on customer demand by launching a succession of new products, including measuring instruments for LTE development and new general purpose products.

Anritsu worked to increase earnings, but customers generally continued to curtail capital investment. Consequently, for the fiscal year ended March 31, 2010 orders decreased 6.6 percent compared with the previous fiscal year to ¥76,117 million, and net sales decreased 12.4 percent to ¥73,548 million. However, operating income increased 406.3 percent to ¥4,583 million, and income before income taxes totaled ¥3,913 million, compared with loss before income taxes of ¥2,236 million for the previous fiscal year. The improvement in income before income taxes reflected in part the effect of group-wide reductions in operating expenses, including reductions of fixed costs from the implementation of urgent management measures. Provision for income taxes net of deferrals increased substantially year on year because of a reversal in deferred tax assets, resulting in net income of ¥385 million, compared with net loss of ¥3,541 million for the previous fiscal year.

#### Net Sales

For the fiscal year ended March 31, 2010, net sales decreased ¥10,392 million, or 12.4 percent, year on year to ¥73,548 million.

#### Net Sales by Region and Overseas Sales Ratio



Note: The former Europe segment has been changed to EMEA from the year ended March 31, 2007. In addition, Middle East and Africa, which had been part of the Asia and Others segment, are now included in the EMEA segment.

A primary factor was a decrease of ¥9,178 million in the Test and Measurement segment sales due to lower demand.

For the fiscal year ended March 31, 2010, overseas sales decreased 13.8 percent year on year to ¥40,058 million, and the ratio of overseas sales to net sales decreased 0.9 percentage points to 54.5 percent from 55.4 percent. Sales decreased in each region. Signs of improved demand emerged in the North American market, but customers generally continued to curtail and postpone capital investment. In Asia, the Test and Measurement business benefited from rising demand for LTE base stations and mobile handset development, as well as firm demand for construction and maintenance linked to communication infrastructure upgrades and expansion. Sales in Japan decreased 10.6 percent year on year to ¥33,490 million. Sales of measuring instruments for LTE base station and mobile handset development were firm, as were sales in the Information and Communications segment. However, reduced capital expenditures among customers impacted non-LTE sales in the Test and Measurement segment and sales in the Industrial Automation segment, which were solid in the previous fiscal year.

#### Cost of Sales and Gross Profit

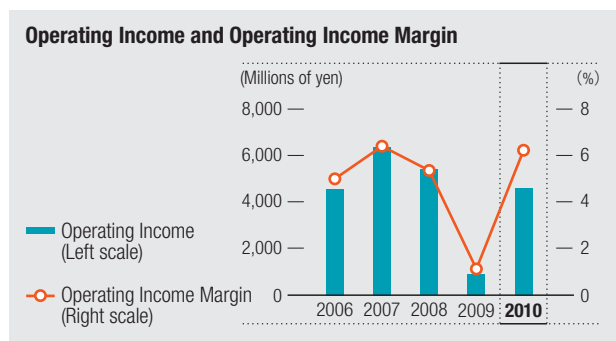
Cost of sales decreased ¥9,297 million, or 17.9 percent, compared with the previous fiscal year to ¥42,708 million, and the ratio of cost of sales to net sales decreased 3.9 percentage points to 58.1 percent. Reflecting activities to improve profitability, gross profit only decreased ¥1,095 million, or 3.4 percent, compared with the previous fiscal year to ¥30,840 million. The ratio of gross profit to net sales increased 3.9 percentage points to 41.9 percent.

#### Selling, General and Administrative (SG&A) Expenses and Operating Income

SG&A expenses decreased 15.4 percent year on year to ¥26,257 million as a result of the Anritsu Group's ongoing and meticulous efforts to reduce fixed costs.

Research and development expenses, which are included in cost of sales and SG&A expenses, decreased 19.8 percent compared with the previous fiscal year to ¥9,388 million. The ratio of research and development expenses to net sales decreased 1.1 percentage points to 12.8 percent. As a result of the above, operating income increased ¥3,678 million, or 406.3 percent, year on year to ¥4,583 million. The ratio of operating income to net sales, or operating margin, increased 5.1 percentage points to 6.2 percent.

SG&A Expenses	(Millions of yen)		
	2010	2009	Change
Salaries and bonuses	¥9,332	¥11,659	(20.0)%
Advertising	836	1,184	(29.4)
Pensions	1,934	1,310	47.6
Travel and transportation	1,541	1,572	(2.0)
Depreciation	703	810	(13.2)
Testing research	4,738	5,700	(16.9)



### Other Income (Expenses), Income before Income Taxes, and Net Income

Other expenses, net totaled ¥670 million, a decrease of ¥2,471 million from ¥3,141 million for the previous fiscal year. While gain on revision of retirement benefit plan totaling ¥1,202 million in the previous fiscal year did not recur, gain on sales of property, plant and equipment totaled ¥158 million, gain on sales of investment securities totaled ¥140 million and gain on retirement by purchase of bonds totaled ¥62 million. Moreover, loss on devaluation of inventories totaling ¥1,358 million and business structure improvement expenses totaling ¥2,214 million in the previous fiscal year did not recur.

As a result of the above, income before income taxes totaled ¥3,913 million, compared with loss before income taxes of ¥2,236 million for the previous fiscal year. Net income totaled ¥385 million, compared with net loss of ¥3,541 million for the previous fiscal year. Net income per share totaled ¥3.02, compared with net loss per share of ¥27.78 for the previous fiscal year.

### Costs, Expenses and Income as a Percentage of Net Sales

	2010	2009	2008
Net sales	100.0%	100.0%	100.0%
Cost of sales	58.1	62.0	56.2
Gross profit	41.9	38.0	43.8
SG&A expenses	35.7	37.0	38.5
R&D expenses	12.8	13.9	14.0
Net income	0.5	—	—

## Shareholder Return Policies

### Dividend Policy

Anritsu considers the return of profits to shareholders a management priority. Its basic policy for paying dividends from surplus funds is to increase the ratio of dividends on consolidated equity (DOE) to reflect the level of income during the consolidated period while taking into general account factors such as the

operating environment and the outlook for results in the current fiscal year and beyond. The Anritsu Group will use internal capital resources to make capital investments and conduct research and development to respond to rapid advances in technology and changes in market structure.

### Cash Dividends per Share

Based on the above policy, Anritsu regrettably decided not to pay an interim or a year-end cash dividend. Anritsu plans to resume dividends in the fiscal year ending March 31, 2011 by paying an interim cash dividend of ¥2.00 per share and a year-end cash dividend of ¥2.00 per share, for total cash dividends of ¥4.00 per share for the fiscal year.

## Business Segments

The Anritsu Group classifies operations into the segments of Test and Measurement, Information and Communications, Industrial Automation, and Services and Others.

### Test and Measurement

During the fiscal year ended March 31, 2010, demand emerged for measuring instruments for the development of base stations and handsets for LTE, which will become a worldwide platform for next-generation mobile phones. Meanwhile, demand in North American markets showed signs of recovering. However, overall demand was weak, mainly in Japan, because customers continued to curtail and postpone capital investment.

Consequently, segment sales decreased 16.0 percent compared with the previous fiscal year to ¥48,271 million. Operating income was ¥2,252 million, compared with operating loss of ¥792 million in the previous fiscal year.

The Test and Measurement segment accounts for approximately 66 percent of Anritsu Group net sales, and is divided into three sub-segments: Mobile, Network Infrastructure and Electronics.

#### 1. Mobile

The Mobile sub-segment includes measuring instruments for mobile phone acceptance testing by mobile phone service operators, and for design, production, function and performance verification, and maintenance of mobile phone handsets by manufacturers of mobile phones, IC chipsets and relevant components. Demand in this sub-segment tends to be influenced by factors including technological innovations in mobile phone services, the degree of diffusion, and the number of new subscribers, new mobile phone models and mobile phones shipped.

Amid the accelerating popularity of broadband services for mobile phones, LTE services are expected to begin globally. As a result, full-scale development has begun for IC chipsets and mobile handsets supporting LTE, the 3.9 generation (3.9G) technology, and demand for related measuring equipment is expanding as a result. Anritsu worked to increase orders by promptly launching new products for use in research and development of LTE handsets. Further, Anritsu is working to enhance its portfolio of solutions for the LTE handset market and to maintain and expand market share by optimally employing the technologies gained in this process to continue developing and

launching competitive products to meet expected demand for conformance testing (to confirm interconnectivity) and measuring equipment for manufacturing LTE handsets.

In addition, the handset manufacturing market is expected to pick up due to the expansion of commercial 3G services in China, which has the world's largest number of mobile phone subscribers. Anritsu will work to further expand business by providing competitive products such as measuring equipment for manufacturing 3G handsets, including TD-SCDMA, to accurately meet this demand.

## 2. Network Infrastructure

The Network Infrastructure sub-segment includes network construction, maintenance, monitoring and service quality assurance solutions for wireline and wireless service providers, and solutions for communication equipment manufacturers in areas including design, production and testing.

In this sub-segment, broadband network services are becoming increasingly popular. Consequently, new services such as cloud computing are now being offered in addition to broadband services including music and video download and IPTV. Furthermore, internet access via mobile phones is growing rapidly as flat-rate data services for mobile phones expand. As a result, demand for higher-speed networks is rising with increasing data traffic. At the same time, there is demand to curb ever-growing electricity consumption as an environmental measure.

In the field of network infrastructure, with the start of full-scale construction of 40Gbit/s networks that can handle the rapid increase in high-speed traffic and optical networks aimed at reducing energy consumption, as well as full-fledged research and development for 100Gbit/s network equipment, demand for related measuring equipment is increasing. The Network Infrastructure sub-segment is working to expand and stabilize business by providing comprehensive solutions from constructing and monitoring communications infrastructure to ensuring service quality in addition to research and development solutions for telecommunications equipment.

## 3. Electronics

The Electronics sub-segment includes measuring instruments widely used in the electronics industry, particularly for design, production and evaluation of electronic devices used in telecommunications network-related communications equipment and other electronic equipment. Demand in this sub-segment tends to be impacted by the scale of production of electronic components and products used in telecommunications equipment, automobiles and intelligent home appliances.

Anritsu launched spectrum analyzers, network analyzers and other new products in this field, where medium-to-long-term growth is expected. Sales of handheld measuring instruments incorporating compact, high-density packaging and energy-saving technologies, an Anritsu strength, are also solid. Anritsu will work to further expand business in this sub-segment by offering a wider range of applications for these markets and enhancing its lineup of general-purpose measuring equipment.

## Information and Communications

During the fiscal year ended March 31, 2010, while there were delays in the progress of projects for government and municipal offices, demand was solid for bandwidth controllers, primarily for

the networks of financial institutions. Consequently, segment sales increased 2.0 percent compared with the previous fiscal year to ¥5,307 million. Operating income increased ¥72 million year on year to ¥143 million.

The Information and Communications business accounts for about 7 percent of the Anritsu Group's net sales. It is easily influenced by the budgets of the national and local governments because a high proportion of its sales are for delivery to the government market. In addition, because of the connection with customers' budget implementation periods, approximately 50 percent or more of its sales tend to be concentrated in the fourth quarter.

In the government market, investment in safety- and security-related disaster prevention and IP infrastructure development continues despite reviews of the necessity of public works projects. In the private-sector market, demand is increasing for bandwidth controllers and other communication infrastructure enhancements in order to maintain Quality of Service (QoS) for financial institutions and telecom carriers.

The Anritsu Group will expand business by addressing this demand with high-quality solutions based on IP network technologies, an Anritsu Group strength, while further promoting business cooperation with system integrators.

The Information and Communications business is conducted by Anritsu Networks Co., Ltd., a wholly owned subsidiary of the Company.

## Industrial Automation

During the fiscal year ended March 31, 2010, investment in inspection systems by food manufacturers in the core market of Japan was weak. In overseas markets, however, demand in Asia showed signs of recovery. As a result, segment sales decreased 10.3 percent compared with the previous fiscal year to ¥11,641 million. Operating income increased 2.3 percent to ¥610 million due to operating cost reductions.

The Industrial Automation business accounts for about 16 percent of the Anritsu Group's net sales. Since approximately 85 percent of segment sales are made to food manufacturers, this segment is substantially influenced by economic growth rates and changes in consumer spending levels due to their impact on food manufacturers' business results.

Core products include highly precise checkweighers for high-speed food processing lines, as well as X-ray and other inspection systems that detect and remove metal fragments, stones and other alien materials in the food processing process with high precision. Anritsu's products have been adopted in Japan and around the world and are highly regarded in the market. In addition, although capital investment was weak in Japan, investment aimed at expanding market share in Asia, the United States and Europe resulted in an overseas sales ratio of approximately 30 percent.

Demand for quality control inspection solutions is expected to remain firm overall due to continuing high interest among food manufacturers. However, there are grounds for concern, including curtailed capital investment by food manufacturers in Japan against a background of uncertainty about the future of the economy, a decrease in market prices and a decline in cost competitiveness in overseas markets due to the strong yen. Anritsu will address these issues by developing high-value products and high-quality services for quality assurance, and

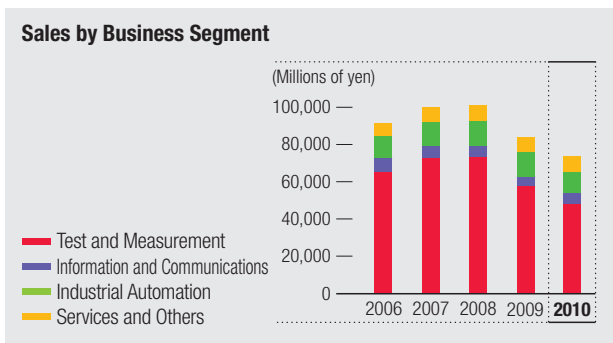
optimize its supply chain including overseas production in order to expand the business and increase profitability.

The Industrial Automation business is conducted by Anritsu Industrial Solutions Co., Ltd., a wholly owned subsidiary of the Company.

**Services and Others**

During the fiscal year ended March 31, 2010, sales were weak in the precision measurement business due to a drop in demand. In the device business, demand was firm in the optical communications market in Japan and overseas. As a result, segment sales increased 0.2 percent compared with the previous fiscal year to ¥8,329 million. Operating income increased 12.7 percent compared with the previous fiscal year to ¥2,249 million.

The precision measurement business is conducted as Anritsu Precision Co., Ltd., a wholly owned subsidiary of the Company.



**Geographical Segments**

**Japan**

In the domestic Test and Measurement segment, demand emerged for measuring instruments for the development of base stations and handsets for LTE, which will become a worldwide platform for next-generation mobile phones. Generally, however, customers continued to curtail and postpone capital investment. In the Information and Communications segment, there were delays in the progress of projects for government and municipal offices, but demand was solid for bandwidth controllers, primarily for the networks of financial institutions. In the Industrial Automation segment, capital investment in inspection equipment by Japanese food manufacturers was weak, but signs of recovery in demand emerged in the overseas market of Asia. In the Services and Others segment, demand dropped in the precision measurement business, but in the device business, demand was firm in the domestic optical communications market.

As a result, sales in Japan decreased 11.8 percent year on year to ¥37,959 million. Supported by factors including operating cost reductions, operating income increased substantially to ¥3,006 million from ¥37 million for the previous fiscal year.

**Americas**

In the Test and Measurement segment, demand emerged for LTE mobile handset development and signs of improved demand appeared in the North American market, centered on construction and maintenance of wireless infrastructure.

However, sales in the Americas decreased 14.9 percent year on year to ¥13,999 million, and operating income decreased 32.5 percent to ¥1,805 million.

**Europe**

In the Test and Measurement segment, demand emerged for LTE base station and mobile handset development, and performance of the service assurance business was relatively solid. Generally, however, customers continued to curtail and postpone capital investment.

As a result, sales in Europe decreased 15.2 percent year on year to ¥12,661 million. Supported by operating cost reductions, operating loss decreased to ¥535 million from ¥2,098 million for the previous fiscal year.

**Asia and Others**

In the Test and Measurement segment, the market was generally firm as Anritsu benefited from demand for LTE base stations and mobile handset development, as well as demand for construction and maintenance linked to communication infrastructure upgrades and expansion.

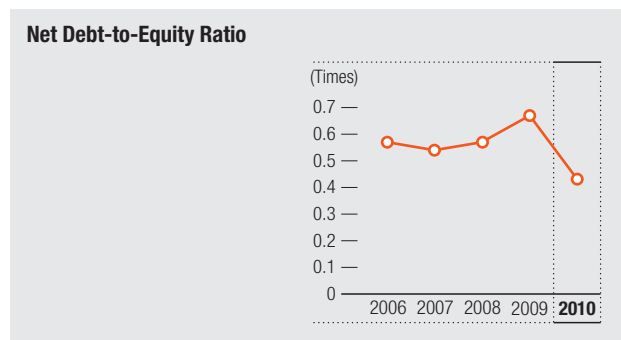
As a result, sales decreased 6.1 percent year on year to ¥8,929 million, but operating income increased ¥240 million compared with the previous fiscal year to ¥360 million.

**Liquidity and Financial Condition**

**Fund Procurement and Liquidity Management**

The Anritsu Group's funding requirements consist primarily of working capital such as material purchase costs and operating expenses incurred in product manufacturing, sales and marketing, as well as capital investment funds and research and development expenses. Anritsu supplements internal capital resources by directly and indirectly procuring funds from external sources to secure sufficient liquidity. Moreover, the Anritsu Group secured stable financing by establishing a committed ¥15,000 million line of credit in April 2008 that will be available until March 2011. While preparing for unforeseen domestic and overseas financial risks in a dramatically changing market environment, the Anritsu Group will swiftly and flexibly meet its capital requirements for working capital, repayment of long-term borrowings and business growth.

In the year ended March 31, 2010, Anritsu continued to reduce interest-bearing debt. Total interest-bearing debt as of March 31, 2010 decreased ¥1,331 million from a year earlier to ¥42,275 million. As a result, the net debt-to-equity ratio<sup>1</sup> decreased to 0.43 times from 0.67 times at the previous fiscal year-end and the debt-to-equity ratio<sup>2</sup> decreased to 1.12 times from 1.16 times at the previous fiscal year-end.



The Company will use increased cash flow generated by improvements in Anritsu Capital-cost Evaluation<sup>9</sup> and asset turnover as well as enhanced capital efficiency resulting from measures including an internal Group cash management system to make further reductions in interest-bearing debt, improve the net debt-to-equity ratio, enhance shareholders' equity and fortify its financial structure.

At the end of March 2010, Rating and Investment Information, Inc. (R&I) rated Anritsu's short-term debt a-2, and its long-term debt BBB. Anritsu will continue working to enhance its financial stability in order to improve its debt rating.

Note 1: Net debt-to-equity ratio: (Interest-bearing debt - cash and cash equivalents) / (Net assets - Reservation rights on common stock)

Note 2: Debt-to-equity ratio: Interest-bearing debt / (Net assets - Reservation rights on common stock)

Note 3: Anritsu Capital-cost Evaluation (ACE): Net operating profit after tax - Invested capital cost

## Cash Flow

Cash and cash equivalents as of March 31, 2010 increased ¥7,732 million from the end of the previous fiscal year to ¥26,270 million. Free cash flow, defined as the sum of net cash provided by operating activities and net cash provided by or used in investing activities, increased to ¥7,471 million from ¥5,590 million for the previous fiscal year.

Net cash provided by operating activities totaled ¥7,970 million, compared with ¥6,916 million in the previous fiscal year. Income before income taxes was the primary source of cash. In addition, Anritsu improved the efficiency of working capital in ways such as reducing inventories. Depreciation and amortization was ¥2,972 million, a decrease of ¥209 million compared with the previous fiscal year.

Net cash used in investing activities was ¥499 million, compared with ¥1,326 million in the previous fiscal year. Acquisition of property, plant and equipment were a primary use of cash, while proceeds from sales of marketable securities and investment securities were a primary source of cash. Acquisition of property, plant and equipment decreased ¥751 million compared with the previous fiscal year to ¥1,161 million.

Net cash provided by financing activities was ¥387 million. In the previous fiscal year, financing activities used net cash totaling ¥3,848 million. Principal factors included repayment of ¥7,000 million in long-term debt and ¥12,000 million in proceeds from long-term debt through a syndicated loan. In addition, Anritsu repurchased at par value and retired ¥7,976 million of the ¥15,000 million in bonds with subscription rights to shares that are scheduled for redemption in September 2010.

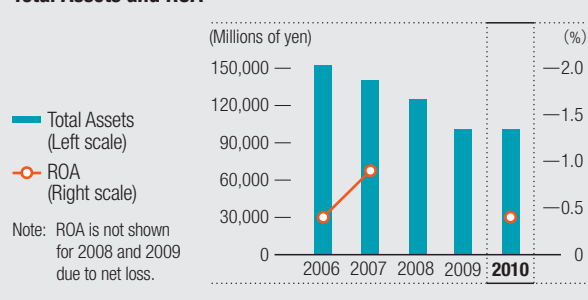
## Assets, Liabilities and Net Assets

As of March 31, 2010, total assets increased ¥205 million, or 0.2 percent, from a year earlier to ¥101,188 million. Current assets increased ¥5,463 million, or 8.8 percent, from a year earlier to ¥67,749 million due to an increase in cash.

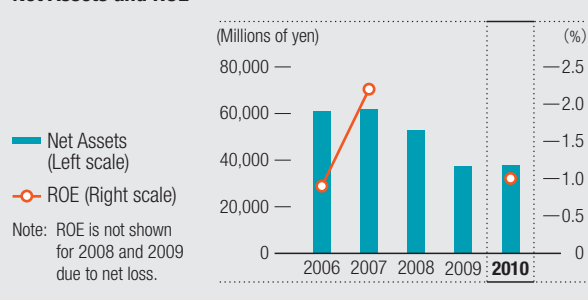
The inventory turnover ratio decreased to 5.5 times from 5.7 times for the previous fiscal year. One of the Anritsu Group's near-term objectives is to increase the inventory turnover ratio to 6.0 times.

Property, plant and equipment net of accumulated depreciation decreased ¥1,870 million, or 8.9 percent, from a

## Total Assets and ROA



## Net Assets and ROE



year earlier to ¥19,117 million. Among other reasons, Anritsu continued to curtail capital investment.

As of March 31, 2010, total liabilities increased ¥56 million, or 0.1 percent, from a year earlier to ¥63,514 million. Current liabilities decreased as a result of repayment of short-term borrowings. Long-term liabilities rose marginally because of an increase in lease obligation. The pending repayment of unsecured bonds with stock acquisition rights in September 2010 shifted long-term liabilities to current liabilities. Anritsu repurchased and retired ¥7,976 million of these bonds during the past fiscal year. The current ratio was 243.6 percent, compared with 222.0 percent a year earlier. Working capital totaled ¥39,935 million as of March 31, 2010, compared with ¥34,224 million a year earlier. Total interest-bearing debt decreased ¥1,331 million from a year earlier to ¥42,275 million.

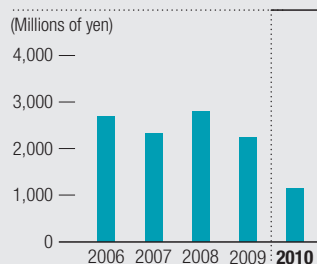
Net assets increased ¥149 million, or 0.4 percent, from a year earlier to ¥37,674 million. The ratio of net assets to total assets was 37.2 percent, compared with 37.1 percent a year earlier.

## Capital Expenditures

For the fiscal year ended March 31, 2010, capital expenditures decreased 49.2 percent compared with the previous fiscal year to ¥1,135 million. The Anritsu Group is concentrating resources in fields related to the quality and high performance of evolving communication networks, including the integration of wireline and wireless communications, increasing network speed and the development of next-generation networks using IP networks. During the fiscal year ended March 31, 2010, the Anritsu Group concentrated capital expenditures in the core Test and Measurement segment with the primary objectives of enhancing its research and development environment and rationalizing its production network.

Overview of Capital Expenditures	(Millions of yen)	
	2010	Change
Test and Measurement	¥ 844	60.6%
Information and Communications	48	84.5
Industrial Automation	132	81.3
Services and Others	111	20.6
Sub-total	1,135	50.8
Eliminations or corporate	—	—
Total	¥1,135	50.8%

### Capital Expenditures



## Research and Development

The Anritsu Group conducts research and development under the Group corporate philosophy of developing Original & High Level products that contribute to the realization of an affluent ubiquitous network society. The Anritsu Group is promoting new product research and development with a focus on leading-edge technology fields including IP networks and mobile communication systems.

An overview of research and development expenditures in the year ended March 31, 2010 follows below.

	(Millions of yen)	
	2010	Ratio to Segment Sales
Test and Measurement	¥6,967	14.4%
Information and Communications	381	7.2
Industrial Automation	902	7.7
Services and Others	234	2.8
Basic Research	903	—
Total	¥9,388	12.8%

Note: The "Total" line shows the ratio to net sales.

The results of research and development in each business segment are outlined below.

Segment	Model	Product	Application	Contribution
Test and Measurement	ME7873L	FR conformance test system	Verification testing of LTE handsets and signal transmission and reception between handset and base station	Contributes to smooth commercialization of LTE service and improvement of service quality
	ME7832L	Protocol conformance test system		
	MS272xB MT8222A MT8221B	Compact spectrum analyzer Base station analyzer	Measurement during installation and maintenance of LTE base stations and repeaters	Meets demand for base station measurement during LTE diffusion period
	MS2830A	Signal analyzer	Measurement during production of digital wireless products and electronic components	Reduces production cost of components for LTE and other digital wireless applications, and contributes to reduction of CO <sub>2</sub> emissions
Test and Measurement	MS9740A	Optical spectrum analyzer	Evaluation of various optical characteristics of active optical devices	Reduces production cost of active optical devices for LTE and broadband, and contributes to higher productivity
	Disaster communication systems		Two-way communication systems for use during disasters	Contributes to rapid response during disasters in ways such as transmitting data and confirming safety
Information and Communications				
Industrial Automation		Development of highly sensitive detection systems KD7447DW X-ray inspection systems Super Mepoli III metal detection systems SV series checkweighers	Higher-sensitivity quality inspection for food safety and security	Suitable for various applications including large products and packaging. Contributes to rigorous, wide-ranging quality control

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## Management Objectives and Indicators

Anritsu emphasizes consolidated cash flow with the aim of maximizing corporate value. Moreover, Anritsu evaluates performance in each of its businesses using ACE, a proprietary indicator for assessing value added to invested capital.

In April 2010, Anritsu initiated the Mid-Term Plan GLP2012 for the three years ending March 31, 2013 to achieve continuous profitable growth. Anritsu is aiming to be a highly profitable company with net sales of ¥90,000 million, an operating margin of 10 percent, and ROE of 10 percent by the fiscal year ending March 31, 2013.

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## Outlook and Management Issues for the Year Ending March 31, 2011

For the fiscal year ending March 31, 2011, the global economy is expected to continue gradually recovering as the economies of emerging countries expand and business confidence improves in developed countries. In the Japanese market, an uptrend in capital investment among Anritsu's customers is expected as their results improve. However, factors that will require careful attention include intensifying price competition resulting from changing market structures, as well as foreign exchange rate trends.

In this market environment, the Anritsu Group will deploy the following measures.

In the core Test and Measurement segment, Anritsu will focus on enhancing its lineup of competitive measurement instruments for the emerging 3.9G LTE handset market and for the electronics market, which is expected to grow over the medium-to-long term. The Company will also work to develop demand for service assurance and other offerings in emerging countries. Anritsu will continue to promote the launch of new products that match market needs by getting closer to customers in ways such as sharing development road maps with key customers in order to strengthen its product planning ability. The Company will also work to expand business and increase profitability by increasing management efficiency through the promotion of enhancements to the operational framework.

In the Information and Communications segment, Anritsu will work to expand business by boosting the competitiveness of its IP network solutions and strengthening cooperation with system integrators.

In the Industrial Automation segment, Anritsu will strengthen cost-cutting to improve profitability, while aiming to expand business by promoting a product strategy of higher added value and differentiation and further accelerating business development in overseas markets, such as beginning full-scale overseas production.

Steady implementation of these strategies requires Anritsu to appropriately manage and reduce risks and transform them from impediments into a source of competitive advantage. For this reason, Anritsu will work to achieve its management targets by improving its risk management system through further strengthening of established ties among Group companies in Japan and overseas via upgrades to the internal control system.

The Anritsu Group seeks to increase corporate value through sincere corporate activities, and proactively carries out its corporate social responsibility (CSR) program. While Anritsu believes that its most important CSR activities involve contributing to the creation of a safe, secure society through its products and services, it is also reviewing Anritsu Group activities in CSR areas including compliance, corporate governance, environmental protection, human rights and risk management as a means of further improving its management infrastructure.

Anritsu aims to be a company that contributes to creating an affluent, safe and secure global society as it works to steadily expand its operations and improve its financial structure.

Based on the above, in the core Test and Measurement segment, Anritsu anticipates continuing firm demand in markets related to 3.9G LTE mobile communication systems, as well as increased sales due to contributions from new products centered on the electronics market. Therefore, as of April 27, 2010, Anritsu projects that net sales will increase 4.7 percent year on year overall to ¥77,000 million.

Anritsu forecasts that various factors projected to contribute to operating income will be insufficient to offset increased personnel costs and other expenses associated with the termination of some of the urgent management measures formulated and implemented in January 2009. Anritsu therefore projects that operating income will decrease 17.1 percent year on year to ¥3,800 million. In addition, the Company projects that net income will increase 289.5 percent year on year to ¥1,500 million.

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## Risk Information

The following are among the operational and management issues presented in this annual report that have the potential to materially affect investor decisions. Forward-looking statements reflect the Anritsu Group's judgment as of March 31, 2010.

### (1) Inherent Risks in the Anritsu Group's Technology and Marketing Strategies

The Anritsu Group works to deploy its well-developed technological capabilities to quickly provide leading-edge products and services that offer value to customers. However, the rapid pace of technological innovation in the Anritsu Group's core information and communication markets and the Anritsu Group's ability to deliver products and services to meet the needs and wants of customers are factors that have the potential to exert a material impact on the Anritsu Group's results.

### (2) Market Fluctuation Risk

External factors including changes in the economy or market conditions and technological innovation affect the profitability of product lines the Group develops and have the potential to exert a significant material impact on the Anritsu Group's results.

The Test and Measurement segment derives a large percentage of its sales from the telecommunications market, and changes in capital investment among telecom carriers, telecommunications equipment manufacturers and related electronic component manufacturers may affect results in this

segment. The telecommunications industry is curtailing capital investment while introducing new technologies to support rapid expansion in data traffic, and is also promoting shared network use and open networks to raise the efficiency of service development. Moreover, demand for mobile communications measuring instruments, the cornerstone of earnings for the Anritsu Group, is affected by such factors as technological innovation in mobile phone services, penetration rate, the number of subscribers and changes in mobile handset replacement rate. In addition, Anritsu's earnings are affected by changes in development techniques in areas such as mobile handset software and platform creation, and also by intensified price competition for measuring instruments for production of mobile phones.

In the Information and Communications segment, price competition is influenced by economic trends and technological innovation. In addition, because this business has a particularly high proportion of sales to government entities, the scale and status of implementation of government and municipal budgets for disaster prevention and IP networks may exert a material impact on its performance.

In the Industrial Automation segment, sales to food manufacturers constitute about 85 percent of sales. Economic growth rates, consumer spending and raw material price trends have the potential to impact performance, capital investment and other issues among food manufacturers and materially influence this segment's performance.

### **(3) Global Business Development Risks**

The Anritsu Group markets its products globally, and conducts business in the Americas, Europe, Asia and elsewhere. In particular, the overseas sales ratio for the Test and Measurement business is about 70 percent, and many customers likewise operate on a global scale. As a result, economic trends in countries worldwide, international conditions and progress in the Anritsu Group's global strategy have the potential to exert a material impact on earnings. In addition, global-scale mergers, acquisitions and realignment in the telecommunications industry are changing the competitive landscape. Significant changes in capital investment resulting from this trend have the potential to exert a material impact on the Anritsu Group's operating results.

### **(4) Foreign Exchange Risk**

The Anritsu Group's sales outside Japan account for 54.5 percent of consolidated net sales. The Anritsu Group hedges foreign exchange risk using instruments including forward foreign exchange contracts for foreign exchange transactions that occur upon collection of accounts receivable and other events. However, rapid changes in foreign exchange rates have the potential to exert a material impact on the Anritsu Group's performance.

### **(5) Long-term Inventory Obsolescence Risk**

The Anritsu Group works to provide products and services that precisely meet customer needs and wants. However, particularly in the test and measuring instruments market, product lines are subject to rapid changes in technology, which can easily result in obsolescence of products and parts, and cause inventory held for long periods to lose value. These factors have the potential to exert a material impact on the Anritsu Group's financial condition.

### **(6) Risk of Impairment of Goodwill**

As of March 31, 2010, the balance sheets of the Anritsu Group included goodwill resulting from the acquisition of an overseas company in order to expand the scope of business of the Test and Measurement segment. The impact on earnings of the Test and Measurement business from changes in the global economy and markets, intensifying competition and other factors has the potential to cause the Group to recognize impairment of goodwill.