Notes to Consolidated Financial Statements

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2010, 2009 and 2008

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Anritsu Corporation (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in "the Financial Instruments and Exchange Law" and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

Prior to the year ended March 31, 2009, the accounts of overseas subsidiaries were based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. As discussed in Note 2, the accounts of overseas subsidiaries for the year ended March 31, 2009 and thereafter are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified six items as applicable. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2010, which was ¥93.05 to U.S.$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. CHANGES IN ACCOUNTING POLICIES

Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

On March 17, 2006, the Accounting Standards Board of Japan issued ASBJ Practical Issues Task Force No. 18 "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" ("PITF No. 18"). PITF No. 18 requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. In this case, adjustments for the following six items are required in the consolidation process so that their impacts on net income are accounted for in accordance with Japanese GAAP unless the impact is not material.

(a) Goodwill not subjected to amortization
(b) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(c) Capitalized expenditures for research and development activities
(d) Fair value measurement of investment properties, and revaluation of property, plant and equipment, and intangible assets
(e) Retrospective treatment of a change in accounting policies
(f) Accounting for net income attributable to minority interests

As a result of adopting PITF No. 18, from April 1, 2008, retained earnings at April 1, 2008 was decreased by ¥10,291 million.

New accounting standard for inventories

On July 5, 2006, the Accounting Standards Board of Japan issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." As permitted under the superseded accounting standard, the Company and its consolidated domestic subsidiaries previously stated inventories at cost (unless market value of inventories declined significantly and not deemed recoverable, in such cases costs were reduced to recoverable amounts). The new accounting standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value, which is defined as selling price less additional estimated manufacturing costs and estimated direct selling expenses. Replacement cost may be used in place of the net realizable value, if appropriate. As a result of this adoption, gross profit and operating income decreased by ¥885 million, and income before income taxes decreased by ¥1,530 million for the year ended March 31, 2009.

Change in depreciation method

On April 1, 2007, the Company and its domestic consolidated subsidiaries changed the depreciation method for tangible fixed assets acquired on or after April 1, 2007 based on the revised Corporation Tax Law in accordance with revisions to that law ((Partial Amendment to the Income Tax Law, March 30, 2007, Law No. 6) and (Partial Amendment to the Corporation Tax Enforcement Ordinance, March 30, 2007, Ordinance No. 83)). As a result, gross profit and operating income decreased by ¥74 million and ¥86 million, respectively, and loss before income taxes increased by ¥86 million, in comparison with the figures derived using the conventional accounting method for the year ended March 31, 2008.

New accounting standards for lease transactions as lessee

Prior to April 1, 2008, the Company and its consolidated domestic subsidiaries accounted for finance leases which did not transfer ownership of the leased property to the lessee as operating leases with disclosure of certain “as if capitalized” information in a note to the consolidated financial statements.

On March 31, 2007, the Accounting Standards Board of Japan issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions” and ASBJ Guidance No. 16, “Guidance on Accounting Standard for Lease Transactions.” The new accounting standards require that all finance leasing transactions should be capitalized.

Effective from the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries adopted the new accounting standards for finance leases commencing after March 31, 2008 and capitalized assets used under such leases, except for certain immaterial or short-term finance leases, which are accounted for as operating leases.

The adoption of the new standards had no impact on the consolidated statements of operations for the year ended March 31, 2009.

Application of “Partial Amendments to Accounting Standard for Retirement Benefit (Part 3)

Effective from the year ended March 31, 2010, the Company and its consolidated domestic subsidiaries adopted “Partial Amendments to Accounting standard for Retirement Benefit (Part 3)” (ASBJ Statement No.19 dated July 31, 2008).

The adoption of the new standards had no impact on the consolidated financial statements for the year ended March 31, 2010.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries (41 subsidiaries in 2010, and 43 subsidiaries in 2009 and 2008). There are no minority interests in the balance sheet because all consolidated subsidiaries are wholly owned by the Company. Intercompany account balances and transactions have been eliminated.

Investment in a significant affiliated company is accounted for by the equity method.

Investment in the other affiliated Company is stated at cost, because the income or losses of the Company is not significant for the Company’s equity.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Securities

The Company and its consolidated subsidiaries (the “Companies”) assessed the intent of holding each security and classified those securities as (a) securities held for trading purposes (“trading securities”), (b) debt securities intended to be held to maturity (“held-to-maturity debt securities”), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (“available-for-sale securities”).

No trading securities and held-to-maturity debt securities have been owned by the Companies. Equity securities issued by subsidiaries have been eliminated upon consolidation. Equity security issued by an affiliated company is stated at cost as described in “Consolidation.” Available-for-sale securities with fair market value are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the net assets. Realized gain on sale of such securities is computed using the moving-average cost.

Debt securities with no fair market value are stated at the amortized cost, net of the amount considered uncollectible. Other securities with no fair market value are stated at the moving-average cost.

If the market value of equity securities issued by an affiliated company, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline.

If the fair market value of equity securities issued by an affiliated company is not readily available, such securities should be written down to net asset value in the event net asset value significantly declines. Unrealized losses on these securities are reported in the consolidated statement of income.

Inventories

Prior to April 1, 2008, inventories of the Company and consolidated subsidiaries were stated at cost determined principally using the specific identification method (unless market value of inventories declines significantly and is not expected to recover to cost, in such cases costs are reduced to net realizable values). As discussed in Note 2, effective April 1, 2008, the Company and consolidated domestic subsidiaries adopted the new accounting standard for measurement of inventories and stated the inventories at the lower of cost or net realizable values.

Allowance for doubtful accounts

Allowance for doubtful accounts is provided principally for amounts sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to specific items, and possible losses on collection computed by applying a percentage based on collection experience to the remaining items.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. The Company and consolidated domestic subsidiaries depreciate buildings acquired after March 31, 1998 using the straight-line method and the other property, plant and equipment using the declining-balance method at rates based on the useful lives of the assets. Consolidated foreign subsidiaries compute depreciation principally using the straight-line method over the estimated useful lives.

Property, plant and equipment used under finance lease arrangements are capitalized and depreciated over the estimated useful lives or the lease terms of the respective assets.

Goodwill

Goodwill and negative goodwill is amortized by the straight-line method over the estimated recovery periods not exceeding a twenty-year period of the respective investments.

Goodwill arising from the acquisition of Anritsu A/S is amortized over a nine-year period.

Software costs

Software costs, which are included in other assets, are amortized based on the straight-line method over their estimated useful lives (five years).

Accounting for lease transactions as lessee

Finance leases, except for certain immaterial or short-term leases, are capitalized and depreciated over the estimated useful lives or lease terms, as applicable.

Accrued bonuses

The Company accrued the estimated amounts of bonuses for managers based on estimated amounts to be paid at the end of each evaluation period.

Accrued bonuses to directors and corporate auditors

Accrued bonuses are stated at an estimated amount of the bonuses to be paid to directors and corporate auditors, based on their services for the current fiscal period.

The accounting standard requires that directors' bonuses be accounted for as an expense of the accounting period in which such bonuses were accrued.

Severance and retirement benefits

As of April 1, 2008, the Company and its consolidated domestic subsidiaries had three types of pension plans for employees, i.e., lump-sum payment plan, cash-balance pension plan (market interest reflecting type) and tax-qualified post-employment benefit plan.

On March 1, 2009, the tax-qualified post-employment benefit plan was terminated and a part of the pension plan was transferred to a defined contribution plan. So from March 31, 2009, the Company and its domestic consolidated subsidiaries have three types of pension plan for employees, i.e., a lump-sum payment plan, a cash-balance pension plan (market interest reflecting type) and a defined contribution plan. Under the lump-sum payment plan and cash-balance pension plan, all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. The Company has adopted a trust fund for pension payments.

Allowance and expenses for the lump-sum payment plan and cash-balance pension plan are determined based on the amount actuarially calculated using certain assumptions.

Prior service cost is recognized as expense as incurred. Actuarial gains and losses are also recognized as expense using the straight-line method over a certain period (primarily 13 years) within the estimated average remaining service life commencing from the succeeding period.

The Board of Directors and corporate auditors of the Company made a resolution in June 2004, that severance and retirement benefits for directors and corporate auditors would not be paid thereafter. The balance of severance and retirement benefits for directors and corporate auditors as of March 31, 2010 and 2009 were for directors and corporate auditors who provided services before the resolution. Previously, severance and retirement benefits for directors and corporate auditors were recorded at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

Severance and retirement benefits for directors and corporate auditors of the consolidated domestic subsidiaries were recorded at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

As a result of the transfer to defined contribution plan, ¥1,202 million gain on revision of retirement benefit plan was recognized for the year ended March 31, 2009, according to "Guidance on Accounting for Transfer between Retirement Benefit Plans" (ASBJ Guidance No. 1).

Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company and its domestic subsidiaries have adopted consolidated tax system since April 1, 2005.

Derivative transactions and hedge accounting

The accounting standard for financial instruments requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,

1-(a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the consolidated statements of operations in the period which includes the inception date, and

1-(b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract is executed.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

Translation of foreign currency

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing on the balance sheet date, and the resulting gains and losses are charged to income.

Translation of foreign currency financial statements

The assets and liabilities are translated into Japanese yen at the year-end rate and the revenues and expenses are translated at the monthly average rate of the respective year. The resulting foreign currency translation adjustments are reflected as a separate component of the net assets in the consolidated balance sheets.

Amounts per share of common stock

The computations of basic net income per share are based on the weighted average number of shares outstanding during the respective year.

Cash dividends per share represent the cash dividends declared applicable to the respective year including dividends paid after the end of the year.

Reclassification and restatement

Certain prior year amounts have been reclassified to conform to the current year presentation.

4. ADDITIONAL INFORMATION

Effective in the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries shortened the useful lives of machinery and equipment based on the reassessment of the useful lives in light of the change in the Corporation Tax Code of Japan. The change had no significant impact on the consolidated statements of operations for the year ended March 31, 2009.

Pursuant to an amendment to the Corporation Tax Law, after having fully depreciated tangible fixed assets acquired on and before March 31, 2007 up to 5% of the acquisition cost, based on the prior Corporation Tax Law, the Company and its domestic consolidated subsidiaries have depreciated the difference between 5% of the acquisition cost and the memorandum price, using a straight-line method over 5 years and expensed as “Depreciation and amortization.” The straight-line depreciation starts from the following year, when the book value of tangible assets acquired on or before March 31, 2007 reaches 5% of the acquisition cost.

As a result, gross profit and operating income for the year ended March 31, 2008 decreased by ¥178 million and ¥196 million, respectively, and loss before income taxes increased by ¥196 million each in comparison with the figures derived using the conventional depreciation method.

5. CASH AND CASH EQUIVALENTS

There is no difference between cash on the consolidated balance sheet and cash and cash equivalents on the consolidated statements of cash flows at March 31, 2010 and 2009.

6. FINANCIAL INSTRUMENTS

1. Current status of financial instruments

(1) Group policy for financial instruments

The policy of the Company and its consolidated subsidiaries (the “Companies”) is to put money in low risk financial instruments only, and to fund through bank loans and bond issues. The Companies use derivatives to hedge foreign exchange risk associated with receivables and payables from transactions denominated in foreign currencies and interest rate risk fluctuations associated with borrowings. The Companies do not use derivatives for speculative or highly leveraged transactions.

(2) Financial instruments, associated risks and the risk management system

Notes and accounts receivable expose the “Companies” to customer’s credit risk. Sales and sales management divisions manage the risk associated with these receivables by regularly monitoring the financial conditions of major customers in accordance with credit control rule. The divisions also check settlement dates and account balances of each customer and try to identify and mitigate collection risk sooner when the financial condition of the customer became worse. Consolidated subsidiaries of the Company apply the same credit control rule.

Receivables denominated in foreign currencies expose the Companies to foreign exchange risk. In principle, the Company and certain consolidated subsidiaries use forward foreign exchange contracts to hedge foreign exchange risk on a currency-by-currency basis.

Short-term investments and investment securities, which consist primarily of held-to-maturity debt securities and shares in companies with which the Company and its consolidated subsidiaries have business relationship, expose the Companies to market risk. Held-to-maturity relationship securities expose the Companies to very low risk because internal fund management rules require to hold debt securities with high credit ratings only. In addition, the Companies regularly monitor the market prices of shares in companies with which they have business relationship and the financial condition of the issuers, and accordingly keep reviewing the status of their holdings.

Almost all notes and accounts payable are due within one year. Part of notes and accounts payable is associated with imports of raw materials and is denominated in foreign currencies, which exposes the Companies to foreign exchange risk.

The Companies primarily fund working capital requirement by loans, bonds and finance lease transactions. Certain loans expose the Companies to interest rate risk. In order to minimize the interest rate risk and to fix the interest rate, the Companies enter into derivative transactions of interest rate swap as measures of hedging.

The Companies enter into derivative transactions of forward foreign exchange contracts to hedge the foreign exchange risk associated with monetary receivables denominated in foreign currencies and interest rate swaps to hedge interest rate risk associated with loans.

Payables, loans and bonds expose the Companies to liquidity risk. The Companies manage this risk by way of having funding plan, updating operating capital requirements and maintaining sufficient liquidity.

(3) Supplemental information on the fair value of financial instruments

The contractual amounts of the transactions discussed in Note 13, DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS are not an indicator of the market risk associated with derivatives.

2. Fair value of financial instruments

Book value and fair value of financial instruments and differences between them as of March 31, 2010 are as follows. Note 2 below provides information on financial instruments that are not included in the table because of the difficulty of determining their fair value.

	Millions of yen		
At March 31, 2010	Book value	Fair value	Difference
(1) Cash	¥26,270	¥26,270	¥ —
(2) Notes and accounts receivable–trade	21,012	21,012	—
(3) Investment securities Available-for-sale securities	637	637	—
(4) Notes and accounts payable–trade	(5,297)	(5,297)	—
(5) Short-term borrowings	(3,751)	(3,751)	—
(6) Bonds and bonds with stock acquisition rights convertible into common stock (including due within one year)	(17,024)	(16,401)	(623)
(7) Long-term debt (including due within one year)	(21,500)	(21,493)	(7)
(8) Lease obligation (including due within one year)	(2,209)	(2,203)	(6)
(9) Derivatives	(44)	(44)	—

	Thousands of U.S. dollars		
At March 31, 2010	Book value	Fair value	Difference
(1) Cash	$282,321	$282,321	$ —
(2) Notes and accounts receivable–trade	225,814	225,814	—
(3) Investment securities Available-for-sale securities	6,846	6,846	—
(4) Notes and accounts payable–trade	(56,926)	(56,926)	—
(5) Short-term borrowings	(40,312)	(40,312)	—
(6) Bonds and bonds with stock acquisition rights convertible into common stock (including due within one year)	(182,955)	(176,260)	(6,695)
(7) Long-term debt (including due within one year)	(231,059)	(230,983)	(76)
(8) Lease obligation (including due within one year)	(23,740)	(23,675)	(65)
(9) Derivatives	(473)	(473)	—

* Figures shown in parentheses are liability items.

Note 1: Methods for computing the estimated fair value of financial instruments, securities and derivative transactions

(1) Cash and (2) Notes and accounts receivable—trade

Book value is used for the fair value of these items because these are settled in a short period and the book value can be deemed as fair value.

(3) Investment securities—Available-for-sale-securities

The fair value of these investments is the price at stock market and the price at bond market or quoted by financial institutions for bonds. See Note 7, SECURITIES for information on marketable securities by holding purposes.

(4) Notes and accounts payable—trade and (5) Short-term borrowings

Book value is used for the fair value of these items because these are settled in a short period and the book value can be deemed as fair value.

(6) Bonds and bonds with stock acquisition rights convertible into common stock (including due within one year

The fair value of these items is the market price or quoted by financial institutions.

(7) Long-term debt and (8) Lease obligation (both including due within one year)

The fair values of these items are derived using discount rates based on the rates of borrowing or leasing currently available to the Company for debt and lease obligations including interest portion.

(9) Derivatives

Note 13, DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS provides information on derivatives.

Note 2: Financial instruments with no readily available fair value at March 31, 2010 are as follows:

At March 31, 2010	Millions of yen
Non-listed equity securities	¥111
	¥111

At March 31, 2010	Thousands of U.S. dollars
Non-listed equity securities	$1,193
	$1,193

Note 3: The annual maturities of monetary receivables at March 31, 2010 are as follows:

At March 31, 2010	Millions of yen
Cash	¥26,270
Notes and accounts receivable-trade	21,012
	¥47,282

At March 31, 2010	Thousands of U.S. dollars
Cash	$282,321
Notes and accounts receivable-trade	225,814
	$508,135

Note 4: See Note 10, SHORT-TERM BORROWINGS AND LONG-TERM DEBT for the annual maturities of long-term debt at March 31, 2010.

Effective from the year ended March 31, 2010, the Company adopted “the Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 dated March 10, 2008) and “Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19 dated March 10, 2008).

7. SECURITIES

The following tables summarize acquisition costs and book values of securities of which fair values are available as of March 31, 2010 and 2009:

	Millions of yen		
At March 31, 2010	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Equity securities	**¥440**	**¥637**	**¥197**
	¥440	**¥637**	**¥197**

	Thousands of U.S. dollars		
At March 31, 2010	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Equity securities	**$4,729**	**$6,846**	**$2,117**
	$4,729	**$6,846**	**$2,117**

	Millions of yen		
At March 31, 2009	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Equity securities	¥797	¥1,109	¥312
	¥797	¥1,109	¥312

The following table summarizes book values of securities of which fair values are not available as of March 31, 2010 and 2009:

	Millions of yen
At March 31, 2010	Book value
Available-for-sale securities:	
Non-listed equity securities	**¥111**
	¥111

	Thousands of U.S. dollars
At March 31, 2010	Book value
Available-for-sale securities:	
Non-listed equity securities	**$1,193**
	$1,193

	Millions of yen
At March 31, 2009	Book value
Available-for-sale securities:	
Non-listed equity securities	¥144
	¥144

Total sales of available-for-sale securities for the year ended March 31, 2010 amounted to ¥500 million ($5,373 thousand) and the net gains amounted to ¥140 million ($1,505 thousand).

Total sales of available-for-sale securities for the year ended March 31, 2009 amounted to ¥5 million and the net gains amounted to ¥5 million.

8. INVENTORIES

Inventories at March 31, 2010 and 2009, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Finished goods	**¥ 5,049**	¥ 6,030	**$ 54,261**
Raw materials and supplies	**4,617**	5,024	**49,618**
Work in process	**3,805**	3,675	**40,893**
	¥13,471	¥14,729	**$144,772**

9. RENTAL AND OTHER REAL ESTATE ASSETS

The Company and certain consolidated subsidiaries own rental commercial facilities and other properties in Kanagawa Prefecture, Tokyo Metropolis and other area. Net rent income in the year ended March 31, 2010 totaled ¥839 million. Rent income is included in net sales and rent expense is primarily included in operating expenses and other expenses.

Book value of the rental property, etc., changes during the year and fair value are as follows.

Year ended March 31, 2010	Millions of yen
Book value as of March 31, 2009	**¥ 3,308**
Decrease	**(129)**
Book value as of March 31, 2010	**3,179**
Fair value as of March 31, 2010	**18,005**

Year ended March 31, 2010	Thousands of U.S. dollars
Book value as of March 31, 2009	**$ 35,551**
Decrease	**(1,386)**
Book value as of March 31, 2010	**34,164**
Fair value as of March 31, 2010	**193,498**

Notes 1. Book value is net of acquisition cost and accumulated depreciation.
2. Decrease is the amount of depreciation for the period.
3. Fair value is calculated by the Company based on primarily real estate appraisal standards and including adjustments using indices, etc.

Effective from the year ended March 31, 2010, the Company adopted "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No. 20 dated November 28, 2008) and the "Guidance on Accounting standard for Disclosures about Fair value of Investment and Rental property (ASBJ Guidance No. 23 dated November 28, 2008).

10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings consisted principally of bank loans. Short-term bank loans at March 31, 2010 and 2009, are represented by overdrafts, generally maturing within six months. Weighted-average interest rate of short-term bank loans at March 31, 2010 is 1.6%.

Long-term debt at March 31, 2010 and 2009, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
No interest unsecured bonds with stock acquisition rights convertible into common stock at ¥1,070 ($11) per share due in 2010	**¥ 7,024**	¥15,000	**$ 75,486**
1.87% unsecured bonds due 2012	**10,000**	10,000	**107,469**
Unsecured bank loans due in 2010 through 2014 (Weighted-average interest rate of 1.7% as of March 31, 2010)	**21,500**	14,804	**231,059**
Total	**38,524**	39,804	**414,014**
Less current portion	**(7,424)**	(7,800)	**(79,785)**
	¥31,100	¥32,004	**$334,229**

At March 31, 2010, the number of common stock assumable upon full conversion of outstanding convertible bonds and exercise of outstanding warrants is 11,393 thousand shares.

The annual maturities of long-term debt at March 31, 2010, are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 7,424	$ 79,785
2012	400	4,299
2013	25,100	269,747
2014	600	6,448
2015	5,000	53,735
2016	—	—
Thereafter	—	—

11. STOCK OPTION PLAN

The Company has the following stock option plans in accordance with the Japanese Corporation Law (the "Law") as of March 31, 2010 and 2009:

Year ended March 31, 2010	**2007 Plan**
Date of resolution	**June 27, 2007**
Grantees	Company's directors, certain employees and subsidiaries' directors
Type of stock	Common stock
Number of shares granted	213,000
Exercise price	¥566
Exercisable period	August 14, 2009 - August 13, 2012

	2007 Plan
Non-vested (number of shares)	
Outstanding at the beginning of the year	213,000
Granted during the year	—
Forfeited during the year	—
Vested during the year	213,000
Outstanding at the end of the year	—
Vested (number of shares)	
Outstanding at the beginning of the year	—
Vested during the year	213,000
Exercised during the year	—
Forfeited during the year	—
Outstanding at the end of the year	213,000
Weighted-average market price per share at the date of exercise	—
Fair value per share at the date of grant	¥92

Year ended March 31, 2009	**2007 Plan**
Date of resolution	**June 27, 2007**
Grantees	Company's directors, certain employees and subsidiaries' directors
Type of stock	Common stock
Number of shares granted	213,000
Exercise price	¥566
Exercisable period	August 14, 2009 - August 13, 2012

	2007 Plan	2006 Plan
Non-vested (number of shares)		
Outstanding at the beginning of the year	213,000	229,000
Granted during the year	—	—
Forfeited during the year	—	229,000
Vested during the year	—	—
Outstanding at the end of the year	213,000	—
Vested (number of shares)		
Outstanding at the beginning of the year	—	—
Vested during the year	—	—
Exercised during the year	—	—
Forfeited during the year	—	—
Outstanding at the end of the year	—	—
Weighted-average market price per share at the date of exercise	—	—
Fair value per share at the date of grant	¥92	¥151

12. INCOME TAXES

The Companies are subject to several taxes based on income, which are corporate tax, inhabitants taxes and enterprise tax. The aggregate normal effective tax rate on income before income taxes in Japan is approximately 41% for the years ended March 31, 2010, 2009 and 2008.

Significant components of deferred tax assets and liabilities as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Inventories	**¥ 11,538**	¥ 11,802	**$ 123,998**
Net operating loss carried forward	**2,515**	4,309	**27,028**
Software	**1,685**	2,176	**18,109**
Accrued expenses	**979**	569	**10,521**
Investment securities on affiliated companies	**3,486**	2,667	**37,464**
Investment securities	**564**	640	**6,061**
Research and development expenses	**419**	527	**4,503**
Others	**810**	1,230	**8,705**
Subtotal deferred tax assets	**21,996**	23,920	**236,389**
Valuation allowance	**(13,743)**	(12,681)	**(147,695)**
Total deferred tax assets	**8,253**	11,239	**88,694**
Deferred tax liabilities:			
Retirement benefits	**1,194**	1,318	**12,832**
Net unrealized holding gains on securities	**58**	54	**623**
Subtotal deferred tax liabilities	**1,252**	1,372	**13,455**
Net deferred tax assets	**¥ 7,001**	¥ 9,867	**$ 75,239**

The following table summarizes significant differences between the normal effective tax rate and the Companies' effective tax rate for financial statement purposes for the year ended March 31, 2010.

	2010
Normal effective tax rate	41%
Increase in valuation allowance for temporary differences	75
Decrease of valuation allowance for net-operating loss carried forward	(15)
Permanent differences of the Company and its consolidated subsidiaries	(15)
Inhabitants tax per capita	4
Difference in the amount of tax estimation	3
Others	(3)
The Companies' effective tax rate	90%

Difference between the normal effective tax rate and the Companies' effective tax rate is not presented due to loss before income taxes for the year ended March 31, 2009.

13. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

The Companies utilize derivative financial instruments such as foreign currency forward contracts, and interest rate swap contracts to reduce foreign exchange risk and interest rate risk on assets and liabilities. The Companies do not hold or issue derivative financial instruments for trading purposes.

The Companies are exposed to credit risk in the event of nonperformance by counterparties to derivative financial instruments but such risk is considered minor because of the high credit rating of the counterparties.

The Companies enter into foreign currency forward contracts, generally maturing within one year, as hedges for existing assets and liabilities denominated in foreign currencies (principally U.S. dollar and EURO) arising from operations. And also the Companies enter into interest rate swap contracts to manage their interest rate exposures. Interest rate swaps effectively convert certain floating rate debt to fixed rate debt.

The derivative transactions are executed and managed by the Company's Accounting Department in accordance with the established policies and within the specified limit on the amounts of derivative transactions allowed. The Manager of the Accounting Department reports information on derivative transactions to the Officer in charge of the Accounting Department on a semi-annual basis.

The following tables summarize derivative contracts not qualified for hedge accounting as of March 31, 2010 and 2009:

Currency Instruments

	Millions of yen				Thousands of U.S. dollars			
	Contract amount, etc.				Contract amount, etc.			
At March 31, 2010	Total	Due over one year	Fair value	Valuation gain (loss)	Total	Due over one year	Fair value	Valuation gain (loss)
Forward exchange contract								
Selling contract								
Euro	**¥ 590**	**—**	**¥ 0**	**¥ 0**	**$ 6,341**	**—**	**$ 0**	**$ 0**
U.S. Dollar	**553**	**—**	**5**	**5**	**5,943**	**—**	**54**	**54**
Yen	**406**	**—**	**16**	**16**	**4,363**	**—**	**172**	**172**
Other	**541**	**—**	**(16)**	**(16)**	**5,814**	**—**	**(172)**	**(172)**
	¥2,090	**—**	**¥ 5**	**¥ 5**	**$22,461**	**—**	**$ 54**	**$ 54**

	Millions of yen			
	Contract amount, etc.			
At March 31, 2009	Total	Due over one year	Fair value	Valuation gain (loss)
Forward exchange contract				
Selling contract				
Euro	¥ 664	—	¥ 34	¥ 34
U.S. Dollar	972	—	(31)	(31)
Yen	600	—	3	3
Other	561	—	(23)	(23)
	¥2,797	—	¥(17)	¥(17)

The following tables summarize derivative contracts qualified for hedge accounting as of March 31, 2010:

Currency Instruments

	Millions of yen			Thousands of U.S. dollars		
	Contract amount, etc.			Contract amount, etc.		
At March 31, 2010	Total	Due over one year	Fair value	Total	Due over one year	Fair value
Forward exchange contract						
Selling contract						
Euro	**¥1,432**	**—**	**¥(38)**	**$15,390**	**—**	**$ (408)**
U.S. Dollar	**93**	**—**	**4**	**999**	**—**	**43**
	¥1,525	**—**	**¥(34)**	**$16,389**	**—**	**$ (365)**

Interest Instruments

	Millions of yen			Thousands of U.S. dollars		
	Contract amount, etc.			Contract amount, etc.		
At March 31, 2010	Total	Due over one year	Fair value	Total	Due over one year	Fair value
Interest rate swaps						
Pay fixed / Receive floating	**¥2,000**	**¥2,000**	**¥(49)**	**$21,494**	**$21,494**	**$(527)**
	¥2,000	**¥2,000**	**¥(49)**	**$21,494**	**$21,494**	**$(527)**

14. RELATED PARTY TRANSACTION

During the years ended March 31, 2010 and 2009, the Company had no important transaction with NEC Corporation which owned 22.01% of the shares of the Company.

The Company has no outstanding balance of receivable due from NEC Corporation as of March 31, 2010 and 2009.

15. SEVERANCE AND RETIREMENT BENEFITS

Allowance and expenses for employees' severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

Allowance for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Projected benefit obligation	¥ 27,719	¥ 28,373	$ 297,894
Unrecognized actuarial differences	(10,840)	(13,983)	(116,497)
Less fair value of pension assets	(23,238)	(21,054)	(249,737)
Allowance for employees' severance and pension benefits	(6,359)	(6,664)	(68,340)
Prepaid pension expense	8,046	8,295	86,470
Allowance for directors' severance and pension benefits	16	20	172
	¥ 1,703	¥ 1,651	$ 18,302

Included in the consolidated statements of operations for the years ended March 31, 2010 and 2009 is severance and retirement benefit expense comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service costs-benefits earned during the year	¥ 842	¥ 826	$ 9,049
Interest cost on projected benefit obligation	667	740	7,168
Expected return on plan assets	(556)	(686)	(5,975)
Amortization of actuarial gains or losses	1,800	1,438	19,344
Amortization of prior service cost	—	(1,282)	—
Severance and pension benefit expense	¥ 2,753	¥ 1,036	$29,586

For the years ended March 31, 2010 and 2009, the discount rate and the rate of expected return on plan assets used by the Company are 2.5% and 3.0%, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains or losses are recognized as income or expense using the straight-line method over primarily 13 years from the succeeding period.

16. NET ASSETS

Under the Law and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

In cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve.

Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

17. COMMITMENTS AND CONTINGENT LIABILITIES

(1) Assets used under capitalized finance leases

As discussed in Note 2, the Company and consolidated domestic subsidiaries adopted the new accounting standards for lease. Capitalized property, plant and equipment and fixed assets used under finance lease arrangement for the year ended March 31, 2009 are classified as machinery and equipment and other assets.

Lease expenses under non-capitalized finance leases for the year ended March 31, 2008 aggregated approximately ¥174 million.

(2) Contingent liabilities at March 31, 2010 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Guarantee for employees' housing loans	¥613	$6,588

18. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are charged to income as incurred.

The amounts charged to income for the years ended March 31, 2010, 2009 and 2008 are ¥9,388 million ($100,892 thousand), ¥11,704 million and ¥14,115 million, respectively.

19. SEGMENT INFORMATION

Information by **industry segment** for the years ended March 31, 2010, 2009 and 2008 is as follows:

	Millions of yen						
Year ended March 31, 2010	Test and Measurement	Information and Communications	Industrial Automation	Services and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	¥48,271	¥5,307	¥11,641	¥ 8,329	¥73,548	¥ —	¥73,548
Inter-segment	136	126	12	2,648	2,922	(2,922)	—
Total	48,407	5,433	11,653	10,977	76,470	(2,922)	73,548
Operating expenses	46,155	5,290	11,043	8,728	71,216	(2,251)	68,965
Operating income (loss)	¥ 2,252	¥ 143	¥ 610	¥ 2,249	¥ 5,254	¥ (671)	¥ 4,583
Identifiable assets	¥52,605	¥6,501	¥10,732	¥15,453	¥85,291	¥15,897	¥101,188
Depreciation and amortization	1,930	110	163	745	2,948	32	2,980
Capital expenditures	844	48	132	111	1,135	0	1,135

Year ended March 31, 2009	Test and Measurement	Information and Communications	Industrial Automation	Services and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	¥57,449	¥5,201	¥12,981	¥ 8,309	¥83,940	¥ —	¥ 83,940
Inter-segment	165	0	20	2,821	3,006	(3,006)	—
Total	57,614	5,201	13,001	11,130	86,946	(3,006)	83,940
Operating expenses	58,406	5,130	12,404	9,135	85,075	(2,040)	83,035
Operating income (loss)	¥ (792)	¥ 71	¥ 597	¥ 1,995	¥ 1,871	¥ (966)	¥ 905
Identifiable assets	¥63,580	¥6,847	¥10,309	¥15,016	¥95,752	¥ 5,231	¥100,983
Depreciation and amortization	2,053	85	205	597	2,940	160	3,100
Capital expenditures	1,391	56	162	544	2,153	83	2,236

Year ended March 31, 2008	Test and Measurement	Information and Communications	Industrial Automation	Services and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	¥72,718	¥5,749	¥13,596	¥ 8,423	¥100,486	¥ —	¥100,486
Inter-segment	176	5	35	3,241	3,457	(3,457)	—
Total	72,894	5,754	13,631	11,664	103,943	(3,457)	100,486
Operating expenses	68,768	5,678	12,816	9,738	97,000	(1,870)	95,130
Operating income (loss)	¥ 4,126	¥ 76	¥ 815	¥ 1,926	¥ 6,943	¥ (1,587)	¥ 5,356
Identifiable assets	¥80,561	¥7,551	¥10,565	¥16,480	¥115,157	¥ 9,760	¥124,917
Depreciation and amortization	2,242	99	176	628	3,145	228	3,373
Capital expenditures	2,162	83	192	285	2,722	69	2,791

	Thousands of U.S. dollars						
Year ended March 31, 2010	Test and Measurement	Information and Communications	Industrial Automation	Services and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	$518,764	$57,034	$125,105	$ 89,511	$790,414	$ —	$ 790,414
Inter-segment	1,462	1,354	129	28,457	31,402	(31,402)	—
Total	520,226	58,388	125,234	117,968	821,816	(31,402)	790,414
Operating expenses	496,024	56,851	118,678	93,799	765,352	(24,191)	741,161
Operating income (loss)	$ 24,202	$ 1,537	$ 6,556	$ 24,169	$ 56,464	$ (7,211)	$ 49,253
Identifiable assets	$565,341	$69,866	$115,336	$166,072	$916,615	$170,843	$1,087,458
Depreciation and amortization	20,742	1,182	1,752	8,006	31,682	344	32,026
Capital expenditures	9,070	516	1,419	1,193	12,198	0	12,198

Information by **geographic area** for the years ended March 31, 2010, 2009 and 2008 is as follows:

	Millions of yen						
Year ended March 31, 2010	Japan	Americas	Europe	Asia and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	**¥37,959**	**¥13,999**	**¥12,661**	**¥8,929**	**¥73,548**	**¥ —**	**¥ 73,548**
Inter-segment	**11,527**	**6,428**	**1,440**	**398**	**19,793**	**(19,793)**	**—**
Total	**49,486**	**20,427**	**14,101**	**9,327**	**93,341**	**(19,793)**	**73,548**
Operating expenses	**46,480**	**18,622**	**14,636**	**8,967**	**88,705**	**(19,740)**	**68,965**
Operating income (loss)	**¥ 3,006**	**¥ 1,805**	**¥ (535)**	**¥ 360**	**¥ 4,636**	**¥ (53)**	**¥ 4,583**
Identifiable assets	**¥98,198**	**¥20,647**	**¥ 7,225**	**¥5,408**	**¥131,478**	**¥(30,290)**	**¥101,188**

Year ended March 31, 2009	Japan	Americas	Europe	Asia and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	¥ 43,056	¥16,443	¥14,931	¥9,510	¥ 83,940	¥ —	¥ 83,940
Inter-segment	12,602	8,856	1,896	455	23,809	(23,809)	—
Total	55,658	25,299	16,827	9,965	107,749	(23,809)	83,940
Operating expenses	55,621	22,624	18,925	9,845	107,015	(23,980)	83,035
Operating income (loss)	¥ 37	¥ 2,675	¥ (2,098)	¥ 120	¥ 734	¥ 171	¥ 905
Identifiable assets	¥104,112	¥26,760	¥ 8,483	¥4,838	¥144,193	¥(43,210)	¥100,983

Year ended March 31, 2008	Japan	Americas	Europe	Asia and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	¥ 50,167	¥20,438	¥19,267	¥10,614	¥100,486	¥ —	¥100,486
Inter-segment	14,811	9,633	4,859	618	29,921	(29,921)	—
Total	64,978	30,071	24,126	11,232	130,407	(29,921)	100,486
Operating expenses	62,481	26,600	26,051	10,794	125,926	(30,796)	95,130
Operating income (loss)	¥ 2,497	¥ 3,471	¥ (1,925)	¥ 438	¥ 4,481	¥ 875	¥ 5,356
Identifiable assets	¥111,007	¥33,696	¥15,204	¥ 4,993	¥164,900	¥(39,983)	¥124,917

	Thousands of U.S. dollars						
Year ended March 31, 2010	Japan	Americas	Europe	Asia and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	**$ 407,942**	**$150,446**	**$136,066**	**$ 95,960**	**$ 790,414**	**$ —**	**$ 790,414**
Inter-segment	**123,880**	**69,081**	**15,476**	**4,277**	**212,714**	**(212,714)**	**—**
Total	**531,822**	**219,527**	**151,542**	**100,237**	**1,003,128**	**(212,714)**	**790,414**
Operating expenses	**499,517**	**200,129**	**157,292**	**96,367**	**953,305**	**(212,144)**	**741,161**
Operating income (loss)	**$ 32,305**	**$ 19,398**	**$ (5,750)**	**$ 3,870**	**$ 49,823**	**$ (570)**	**$ 49,253**
Identifiable assets	**$1,055,325**	**$221,891**	**$ 77,646**	**$ 58,120**	**$1,412,982**	**$(325,524)**	**$1,087,458**

Overseas sales for the years ended March 31, 2010, 2009 and 2008 are as follows:

	Millions of yen			
Year ended March 31, 2010	Americas	EMEA	Asia and Others	Total
Overseas sales	**¥13,967**	**¥12,463**	**¥13,628**	**¥40,058**
Consolidated net sales	**—**	**—**	**—**	**73,548**
Percentage of consolidated net sales	**19.0%**	**16.9%**	**18.6%**	**54.5%**
Year ended March 31, 2009	Americas	EMEA	Asia and Others	Total
Overseas sales	¥16,365	¥14,871	¥15,245	¥46,481
Consolidated net sales	—	—	—	83,940
Percentage of consolidated net sales	19.5%	17.7%	18.2%	55.4%
Year ended March 31, 2008	Americas	EMEA	Asia and Others	Total
Overseas sales	¥19,558	¥19,093	¥17,554	¥ 56,205
Consolidated net sales	—	—	—	100,486
Percentage of consolidated net sales	19.4%	19.0%	17.5%	55.9%

	Thousands of U.S. dollars			
Year ended March 31, 2010	Americas	EMEA	Asia and Others	Total
Overseas sales	**$150,102**	**$133,939**	**$146,459**	**$430,500**
Consolidated net sales	**—**	**—**	**—**	**790,414**
Percentage of consolidated net sales	**19.0%**	**16.9%**	**18.6%**	**54.5%**