# Financial Section
# Management's Discussion and Analysis

## Changes in the Scope of Consolidation

During the fiscal year ended March 31, 2011, the Anritsu Group added newly established Anritsu Solutions S.R.L. to the scope of consolidation and liquidated five consolidated subsidiaries, NetTest Equipment España S.A., Photonetics Ltd., NetTest Ltd., NetTest (UK) Ltd. and NetTest GmbH. As a result, the Anritsu Group comprised 37 consolidated subsidiaries at the end of the fiscal year.

## Sales and Income

In the field of communication networks, the shift to broadband is giving rise to numerous diverse services, including video distribution services and cloud computing. In the field of mobile communications, major telecom operators in the United States and Japan launched commercial services in December 2010 based on Long Term Evolution (LTE), a next-generation communications standard that enables dramatic increases in the transmission speed of mobile handsets. Major telecom operators elsewhere in the world are also stepping up development investment in LTE as they prepare to roll out commercial services from 2011 onward. Infrastructure is being upgraded to meet growing demand for mobile phone service in China, which already has the world's largest mobile phone subscriber base, as well as in India and other emerging countries.

Amid such expanding business opportunities, the Anritsu Group focused on expanding sales by aggressively bringing new products to the market. At the same time, the Group overhauled its domestic and overseas sales operations to improve profitability and strengthened management of costs and investment using key performance indicators (KPI). Other measures to fortify future competitiveness included establishing a development base in Romania.

For the fiscal year ended March 31, 2011, demand was firm, centered on measuring instruments for the mobile phone market in the core Test and Measurement segment. Orders increased 5.5 percent compared with the previous fiscal year to ¥80,282 million, net sales increased 5.9 percent to ¥77,853 million and operating income increased 52.6 percent to ¥6,994 million. Income before income taxes increased 8.3 percent to ¥4,238 million after foreign exchange loss of ¥769 million and impairment loss on goodwill of ¥987 million, and net income increased 697.0 percent to ¥3,069 million.

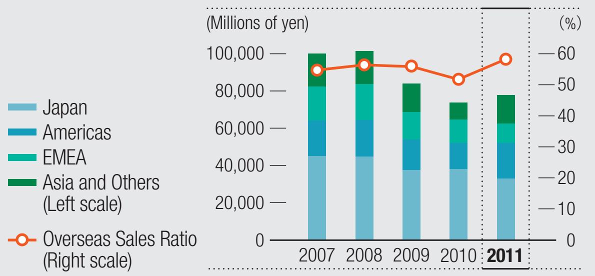
The Great East Japan Earthquake caused damage to certain production and other facilities at Tohoku Anritsu Co., Ltd., a manufacturing subsidiary of Anritsu. However, there was no personal harm to Anritsu Group employees, and all production lines were restored and resumed production within the fiscal year. Therefore, the impact on results for the period was limited.

### Net Sales

For the fiscal year ended March 31, 2011, net sales increased ¥4,305 million, or 5.9 percent, year on year to ¥77,853 million. The principal factor was a 10.8 percent increase in sales of the core Test and Measurement segment to ¥53,463 million, owing to 1) the strong performance of solutions for use in manufacturing of mobile handsets capable of handling all of the 3G, 3.5G and LTE communication systems and 2) orders from leading operators and vendors in North America and Asia reflecting the rise in LTE-related demand.

By geographic region, sales in the Americas increased due to steady investment in wireless network upgrades and base station installation and maintenance, as well as expansion of development applications for mobile broadband, including LTE. Sales in Asia recovered steadily in both the Test and Measurement and Industrial Automation segments. Sales in Japan, however, remained weak, and were below the level of the previous fiscal year. As a result, overseas sales accounted for 57.7 percent of total net sales in the fiscal year ended March 31, 2011.

**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.

### Cost of Sales and Gross Profit

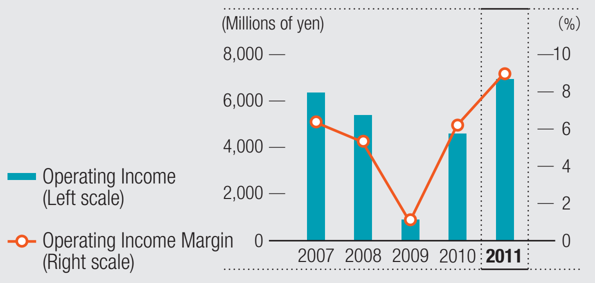
Cost of sales increased ¥325 million, or 0.8 percent, compared with the previous fiscal year to ¥43,033 million, and the ratio of cost of sales to net sales decreased 2.8 percentage points to 55.3 percent. Reflecting activities to improve profitability, gross profit increased ¥3,980 million, or 12.9 percent, compared with the previous fiscal year to ¥34,820 million. The ratio of gross profit to net sales increased 2.8 percentage points to 44.7 percent.

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

SG&A expenses increased 6.0 percent year on year to ¥27,826 million. This was due to an increase in personnel expenses, which the Anritsu Group has taken measures to hold down in the past several years. The Group continued its ongoing efforts to reduce fixed costs and to strengthen management of costs and investments using key performance indicators (KPI).

Research and development expenses, which are included in general and administrative expenses and manufacturing expenses, were ¥9,381 million, essentially unchanged compared with the previous fiscal year, and were equivalent to 12.0 percent of net sales. As a result of the above, operating income increased ¥2,411 million, or 52.6 percent, year on year to ¥6,994 million. The ratio of operating income to net sales, or the operating income margin, increased 2.8 percentage points to 9.0 percent.

**Operating Income and Operating Income Margin**




**SG&A Expenses** (Millions of yen)

| | 2011 | 2010 | Change |
|---|---|---|---|
| Salaries and bonuses | **¥10,061** | ¥9,332 | (7.8)% |
| Pensions | **1,644** | 1,934 | (15.0) |
| Advertising | **902** | 836 | 7.8 |
| Travel and transportation | **1,330** | 1,541 | (13.7) |
| Depreciation | **609** | 703 | (13.4) |
| Testing research | **4,935** | 4,738 | 4.1 |

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

Other expenses, net totaled ¥2,756 million, compared with ¥670 million for the previous fiscal year. In addition to a foreign exchange loss of ¥769 million due to the strengthening of the yen, the Anritsu Group recorded an impairment loss on goodwill of ¥987 million related to the acquisition of NetTest Pte. Ltd., loss on devaluation of investment securities of ¥78 million, and loss on adjustment for changes of accounting standard for asset retirement obligations of ¥68 million. Consequently, other expenses, net increased ¥2,086 million compared with the previous fiscal year.

As a result of the above, income before income taxes increased ¥325 million, or 8.3 percent, compared with the previous fiscal year to ¥4,238 million. Net income increased ¥2,684 million, or 697.0 percent, to ¥3,069 million.

Net income per share totaled ¥24.09, an increase of ¥21.07 compared with the previous fiscal year.

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Net sales | **100.0%** | 100.0% | 100.0% |
| Cost of sales | **55.3** | 58.1 | 62.0 |
| Gross profit | **44.7** | 41.9 | 38.0 |
| SG&A expenses | **35.7** | 35.7 | 37.0 |
| R&D expenses | **12.0** | 12.8 | 13.9 |
| Net income | **3.9** | 0.5 | (4.2) |

# 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 account general 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 decided to pay cash dividends totaling ¥7.00 per share for the fiscal year ended March 31, 2011, including an interim dividend of ¥2.00 per share, to reward shareholders for their support.

# Business Segments

The Anritsu Group classifies operations into the segments of Test and Measurement, Industrial Automation, Information and Communications, and Others. Segment sales are sales to outside customers only.

## Test and Measurement

This business develops, manufactures and sells measuring instruments and systems for a variety of communications applications, including IP network and mobile communications, RF/microwave and millimeter wave communications, and service assurance, to telecom operators, manufacturers of related equipment, and maintenance and installation companies around the world.

During the fiscal year ended March 31, 2011, demand emerged for the manufacturing and installation of base stations and development of handsets for LTE, the next-generation communications standard. Demand for manufacturing of multifunctional mobile handsets also increased. By region, customers continued to curtail or postpone capital investments, mainly in Japan, but demand for measuring instruments was firm in the North American and Asian markets. As a result, segment sales increased 10.8 percent compared with the previous fiscal year to ¥53,463 million. Operating income increased 124.3 percent to ¥5,051 million.

The Test and Measurement business, which accounts for approximately 69 percent of the Anritsu Group's net sales, is divided into the following three sub-segments.

## 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 dramatic expansion in mobile broadband services for smartphones as well as conventional mobile phones, services based on LTE, the next-generation communications standard, are expected to begin globally. As a result, full-scale development has begun for IC chipsets and mobile handsets supporting LTE, and demand for related measuring equipment is expanding as a result. Anritsu launched new products for use in research and development of LTE handsets. Further, the Company is working to enhance its portfolio of solutions for the LTE handset market and to maintain and expand market position 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 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 of TD-SCDMA and other 3G handsets and TD-LTE, which is scheduled for introduction, 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 manufacturer needs in areas including design, production and testing.

In this sub-segment, with the increasing popularity of broadband network services, in addition to broadband services such as music and video download and IPTV, new services such as cloud computing are now being offered. Further, 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.

In the field of network infrastructure, with the start of full-scale construction of 40Gbps networks that can handle the rapid increase in high-speed traffic, as well as full-fledged research and development for 100Gbps network equipment, demand for related measuring equipment is increasing. Additionally, demand for installation of base stations and mobile backhaul equipment, as well as related measuring equipment, is increasing to meet surging demand for data communications driven by the popularization of multifunctional mobile devices such as smartphones and tablets.

In service assurance, increased demand is anticipated for solutions that ensure service quality due to the development of new services using networks as platforms. At the same time, demand for professional services is expected in this market due to the shortage of network engineers.

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 RF and microwave measuring instruments, spectrum 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 the business in this sub-segment by offering a wider range of applications for these markets and enhancing its lineup of general-purpose measuring equipment.

## Industrial Automation

This business develops, manufactures and sells precision, high-speed industrial machinery, including auto checkweighers, automatic combination weighers and metal detectors for production management and quality management systems in the food, pharmaceutical and cosmetics industries.

During the fiscal year ended March 31, 2011, conditions were firm overall, with demand in Asia showing signs of recovery. As a result, segment sales increased 5.9 percent compared with the previous fiscal year to ¥12,326 million. Operating income increased 8.0 percent to ¥659 million.

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 the impact of economic growth rates and changes in consumer spending levels 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, continuous 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, particularly in emerging countries, as interest among food manufacturers remains high. To meet this demand, Anritsu will recombine its internal resources to develop and deliver integrated quality control inspection solutions, and will 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.

### Information and Communications

This business carries out development, manufacturing and sale of video monitoring systems, telemeters and other public works information systems for delivery to Japanese government and municipal offices, including the Ministry of Land, Infrastructure, Transport and Tourism, and video distribution solutions and network bandwidth control equipment for Internet service providers and other customers.

During the fiscal year ended March 31, 2011, demand was firm for bandwidth controllers, primarily for the networks of financial institutions, but there were delays and partial freezes in projects for government and municipal offices. As a result, segment sales decreased 22.4 percent compared with the previous fiscal year to ¥4,118 million. Operating income decreased 51.7 percent to ¥69 million.

The Information and Communications business accounts for about 5 percent of 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 60 percent or more of its sales tend to be concentrated in the fourth quarter.

In the government market, the trend of cutbacks in investment is forecast to continue. In the private-sector market, however, demand is projected to increase further for bandwidth controllers in order to maintain Quality of Service (QoS) for the increasingly sophisticated networks of financial institutions and telecom operators.

In these conditions, the Anritsu Group will continue to focus on the private-sector market. Specifically, the Anritsu Group will further promote business cooperation with system integrators to expand sales of bandwidth controllers. The Group will also aim to improve its profit structure by making a thorough review of supply chain management.

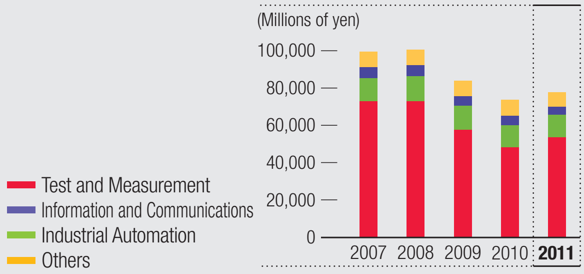
The Information and Communications business is conducted by Anritsu Networks Co., Ltd., a wholly owned subsidiary of the Company.

### Others

The Others segment comprises devices, precision measurement, logistics, welfare services, real estate leasing and other businesses.

During the fiscal year ended March 31, 2011, in the device business, demand was firm in the optical communications market in Japan and overseas, but reached the end of a cycle in the second half of the period. In the precision measurement business, demand was weak overall despite signs of recovery in some sectors. As a result, segment sales decreased 4.6 percent compared with the previous fiscal year to ¥7,946 million. Operating income decreased 26.5 percent to ¥1,653 million.

**Sales by Business Segment**

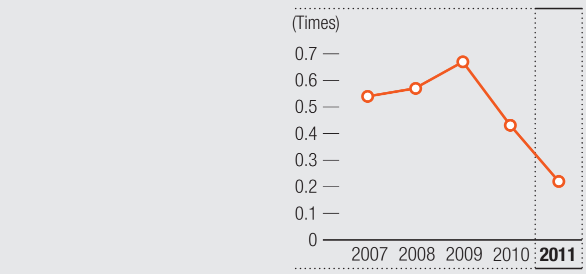



## Liquidity and Financial Condition

### 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. In the year ended March 31, 2011, the Anritsu Group secured stable financing by renewing a committed ¥15,000 million line of credit that will be available until March 2014. 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.

**Net Debt-to-Equity Ratio**




In the year ended March 31, 2011, Anritsu continued to reduce interest-bearing debt. Total interest-bearing debt as of March 31, 2011 decreased ¥5,436 million from a year earlier to ¥36,839 million. As a result, the net debt-to-equity ratio[1] decreased to 0.22 times from 0.43 times at the previous fiscal year-end and the debt-to-equity ratio[2] decreased to 0.92 times from 1.12 times at the previous fiscal year-end.

The Company will use increased cash flow generated by improvements in Anritsu Capital-cost Evaluation[3] 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-to-equity ratio, enhance shareholders' equity and fortify its financial structure.

At the end of March 2011, 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 (hereafter, "net cash") as of March 31, 2011 increased ¥1,724 million from the end of the previous fiscal year to ¥27,994 million.

Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was ¥7,797 million, compared with ¥7,471 million in the previous fiscal year.

Net cash provided by operating activities was ¥9,229 million (in the previous fiscal year, operating activities provided net cash of ¥7,970 million). The primary factor, in addition to recording income before income taxes, was the collection of receivables recorded in the previous consolidated fiscal year. Depreciation and amortization was ¥2,591 million, a decrease of ¥381 million compared with the previous fiscal year.

Net cash used in investing activities was ¥1,432 million, compared with ¥499 million in the previous fiscal year. This was mainly due to acquisition of property, plant and equipment of ¥1,185 million. In the previous fiscal year, Anritsu booked proceeds from sales of marketable securities and investment securities.

Net cash used in financing activities was ¥6,050 million. In the previous fiscal year, financing activities provided net cash of ¥387 million. Although the Anritsu Group issued ¥10,000 million in euro-denominated convertible bonds with subscription rights to shares due in 2015, the primary factors were the redemption of ¥7,024 million in bonds with subscription rights to shares and repayment of loans.

### Assets, Liabilities and Net Assets

As of March 31, 2011, total assets decreased ¥1,939 million, or 0.2 percent, from a year earlier to ¥99,249 million. Current assets increased ¥1,924 million, or 2.8 percent, from a year earlier to ¥69,673 million due to an increase in cash.

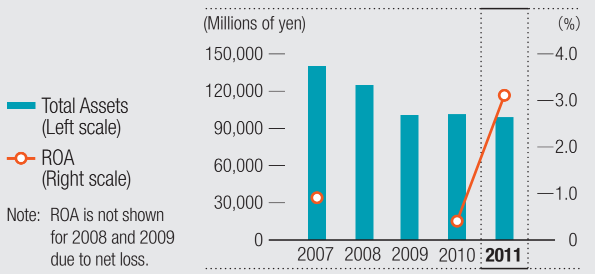
The inventory turnover ratio decreased to 4.9 times from 5.5 times for the previous fiscal year. One of the Anritsu Group's near-term objectives is to increase the inventory turnover ratio to 6.0 times.

Property, plant and equipment net of accumulated depreciation decreased ¥1,464 million, or 7.7 percent, from a year earlier to ¥17,653 million. Factors included impairment of goodwill.

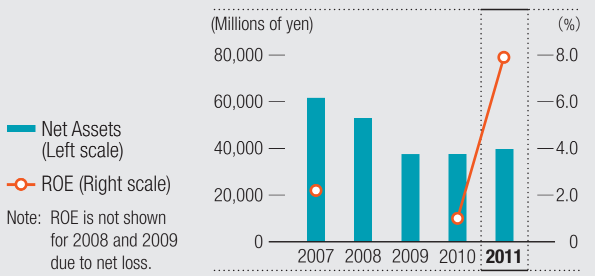
As of March 31, 2011, total liabilities decreased ¥4,171 million, or 6.6 percent, from a year earlier to ¥59,343 million. Current liabilities decreased ¥7,410 million, or 26.6 percent, to ¥20,404 million as a result of the redemption of ¥7,024 million in bonds with stock acquisition rights and repayment of loans. Anritsu repaid bank loans, but also issued ¥10,000 million in bonds with stock acquisition rights. As a result, long-term liabilities increased ¥3,239 million, or 9.1 percent, compared with the previous fiscal year to ¥38,939 million. The current ratio was 341.5 percent, compared with 243.6 percent a year earlier. Working capital totaled ¥49,269 million as of March 31, 2011, compared with ¥39,935 million a year earlier. Total interest-bearing debt decreased ¥5,436 million from a year earlier to ¥36,839 million.

Net assets increased ¥2,232 million, or 5.9 percent, from a year earlier to ¥39,906 million. The ratio of net assets to total assets was 40.2 percent, compared with 37.2 percent a year earlier.

**Total Assets and ROA**




**Net Assets and ROE**



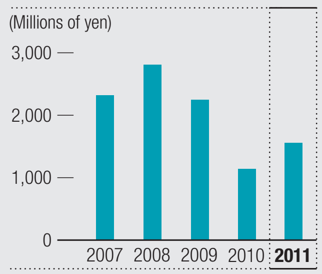

## Capital Expenditures

For the fiscal year ended March 31, 2011, capital expenditures increased 36.6 percent compared with the previous fiscal year to ¥1,550 million. The Anritsu Group is concentrating resources in fields related to the quality and high performance of communication networks, which are evolving in ways such as integration of wireline and wireless communications, increasing network speed and higher capacity. During the fiscal year ended March 31, 2011, 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)

| | 2011 | Change |
|---|---|---|
| Test and Measurement | ¥1,099 | 30.2% |
| Industrial Automation | 198 | 50.0 |
| Information and Communications | 37 | (22.1) |
| Others | 216 | 93.1 |
| Total | 1,550 | 36.6 |
| Adjustment | — | — |
| Consolidated | ¥1,550 | 36.6% |

**Capital Expenditures**




## Research and Development

The Anritsu Group develops original and high level products globally at its development bases in Japan, the United States and Europe to contribute to the realization of a safe, secure and affluent global society. The Test and Measurement business conducts development in a coordinated manner to increase the synergy of the mutually complementary technologies of Anritsu Corporation, Anritsu Company (U.S.), Anritsu Ltd. (U.K.), Anritsu A/S (Denmark), Anritsu Solutions S.r.l. (Italy) and Anritsu Solutions S.R.L. (Romania).

Research and development is conducted by Anritsu Industrial Solutions Co., Ltd. in the Industrial Automation business and Anritsu Networks Co., Ltd. in the Information and Communications business.

An overview of research and development expenditures in the year ended March 31, 2011 follows below.

(Millions of yen)

| | 2011 | Ratio to Segment Sales |
|---|---|---|
| Test and Measurement | ¥7,153 | 13.4% |
| Industrial Automation | 993 | 8.1 |
| Information and Communications | 398 | 9.7 |
| Services and Others | 282 | 3.5 |
| Basic Research | 554 | — |
| Total | ¥9,381 | 12.0% |

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

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

| Business Segment | Model | Product | Application | Contribution |
|---|---|---|---|---|
| **Test and Measurement** | ME7834 | Conformance test system/Mobile device test platform | LTE mobile terminal protocol conformance tests and carrier acceptance tests | Improves efficiency of development of commercial LTE mobile terminals |
| | MT8820C | LTE wireless device tester/Radio communication analyzer | Transmitter and receiver tests of 2G, 3G and LTE wireless devices | Contributes to development and mass production of commercial LTE mobile terminals |
| | MD1260A | 40/100G Ethernet analyzer | Communication standard testing of high-speed optical networks | Improves efficiency of development and manufacturing of high-speed optical networks |
| **Industrial Automation** | KD74-h Series | High-sensitivity X-ray inspection system | Detection of low-contrast contaminants such as bone and plastics in processed foods and other products | New sensor enables detection with high sensitivity and high stability |
| **Information and Communications** | NC7100A | Multi-screen system | System monitoring, street advertising, etc. with a large screen that combines images from multiple projectors | Enables simple, low-cost creation of large-screen images for diverse applications |

## 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 to achieve its management vision of continuous profitable growth. Anritsu made significant advances in the fiscal year ended March 31, 2011, the first year of the plan, and will continue to put its full effort into achieving the plan's objectives.

The principal numerical targets of GLP2012, and progress toward them, are as follows.

| | 2010 (Actual) | **2011 (Actual)** | 2013 (Target) |
|---|---|---|---|
| ACE (Billions of yen) | ¥(3.0) | **¥1.9** | ¥2.0 |
| ROE (%) | 1.0% | **7.9%** | 10.0% |
| Operating income to net sales (%) | 6.2% | **9.0%** | 10.0% |

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

## Outlook and Management Issues for the Year Ending March 31, 2012

In the outlook for the fiscal year ending March 31, 2012, there are many uncertainties, including revision of investment plans and measures to restrict electric power due to the effects of the Great East Japan Earthquake, which has been called Japan's greatest postwar crisis. In addition, careful attention remains necessary to factors including intensifying price competition, volatility in exchange rates and the impact of the rising price of crude oil.

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

In the core Test and Measurement segment, the Anritsu Group will roll out competitive products that meet needs for the mobile market including 3G/LTE, where continued expansion of demand is projected worldwide; the core network market, where investment will be needed due to increasing data transmission volume from smartphones and other devices; and the electronics market, which is expected to grow in the medium-to-long term.

The Anritsu Group will also work to develop new demand in the markets of emerging countries, such as for network infrastructure upgrades and service assurance. In addition, the Anritsu Group will work more closely with customers by sharing development road maps with customers and strengthening technical support, and will work to further increase profitability by raising management efficiency through the promotion of enhancements to the operational framework, such as expansion of indirect sales channels and the use of EMS.

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

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

Based on the above points, the performance forecast for the year ending March 31, 2012 (announced on April 27, 2011) is as follows.

In the Test and Measurement segment, Anritsu anticipates increased sales due to continuing firm demand in the mobile market and contributions from new products. However, with the impact of the stronger yen and a cyclical drop in demand for optical communication devices, the Anritsu Group projects total net sales of ¥80.0 billion, a 2.8 percent increase compared with the fiscal year ended March 31, 2011.

Although the Anritsu Group anticipates factors that will contribute to operating income, it projects increases in development expenses centered on LTE-related equipment and in costs associated with enhancement of overseas support operations. The Anritsu Group therefore forecasts operating income of ¥6.2 billion, an 11.4 percent decrease, and net income of ¥3.8 billion, a 23.8 percent increase.

## 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, 2011.

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

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

Because a high percentage of Test and Measurement segment sales are in the telecommunications market, capital investment trends among telecom operators, telecommunications equipment manufacturers and electronic component manufacturers have the potential to exert a material effect on business results. Telecom operators are progressively adopting technologies to handle rapid increases in data traffic even as they curtail capital investment. However, they are also increasingly adopting shared open network use in order to increase service development efficiency. Moreover, business results for the mobile communications measuring instrument field, the cornerstone of earnings for the Anritsu Group, are affected by changes in technological innovation in mobile phone services, the number of subscribers and the replacement ratio for mobile phones. Business results are also affected by factors such as changes in development methods as seen in the shift to mobile phone software platforms and response to intensifying price competition in measuring instruments used in handset production.

In the Industrial Automation business, 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 its performance.

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.

### (3) Global Business Development Risks

The Anritsu Group markets its products globally, and conducts proactive business with the aim of being in closer contact with its customers in the Americas, Europe, Asia and elsewhere. In particular, the overseas sales ratio for the Test and Measurement business is about 74 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 trends that result have the potential to exert a material impact on the Anritsu Group's operating results.

### (4) Foreign Exchange Risk

Anritsu Group's sales outside Japan account for 57.7 percent of consolidated net sales. 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 Anritsu Group's performance.

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

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 change in technology, which can easily result in obsolescence of products and parts, and cause inventory held for long periods to lose its value. These factors have the potential to exert a material impact on Anritsu Group's financial condition.

### 6) Risk of Impairment Loss of Goodwill

As of March 31, 2011, the Anritsu Group recorded goodwill resulting from the acquisition of an overseas company for the purpose of expanding the territory of the Test and Measurement business. 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 a loss of goodwill.

### 7) Risk Related to Deferred Tax Assets

The Anritsu Group records future tax benefits as deferred tax assets. Calculation of deferred tax assets is based on projections that include estimates of future taxable income, and the actual benefit may differ from the projection. If the deferred tax assets based on the estimate of future taxable income are judged to be partially or wholly unrecoverable, these deferred tax assets are written down, which has the potential to exert a material impact on the Anritsu Group's financial condition and operating results.

### 8) Risk Related to Retirement Benefit Obligations

The Anritsu Group's employee retirement benefit expenses and liabilities are calculated based on the discount rate and other assumptions set in actuarial calculations, and on expected pension plan returns. However, presumptive changes in the discount rate or actuarial calculations that form the basis for calculating projected retirement benefit obligations could exert a material impact on the Anritsu Group's financial condition and operating results.

### 9) Effect of Revisions to Accounting Standards

The Anritsu Group prepares its financial statements based on generally accepted accounting standards and conducts appropriate financial disclosure. However, new application of or changes in accounting standards, the tax system or other systems in the future have the potential to exert a material impact on the Anritsu Group's operating results and financial condition.

### 10) Risk of Natural Disasters and Other Unexpected Events

The Anritsu Group carries out production and sales activities globally. Consequently, the occurrence of major earthquakes or other natural disaster, fire, war, acts of terrorism or violence could exert a material impact on the Anritsu Group's operating results and financial condition by disrupting the business activities of the Anritsu Group or its suppliers and customers due to damage to key facilities, or by causing political or economic instability.