An Interview with Group CEO Hirokazu Hashimoto

Hirokazu Hashimoto
Group CEO

Net Sales

Fiscal Year Ended March 31, 2012:

¥93.6 billion

GLP2012 Target:
¥90.0 billion

Global through

The policies we have been implementing produced good results during the fiscal year ended March 31, 2012, including record-high net income. We also achieved the numerical targets of Mid-Term Plan GLP2012 and Anritsu 120, our vision for the Anritsu Group's 120th anniversary, ahead of schedule.

The Anritsu Group intends to achieve continuous profitable growth by taking advantage of global business opportunities with a focus on growth drivers.

Operating Income Margin	Return on Equity (ROE)	ACE*
Fiscal Year Ended March 31, 2012:	Fiscal Year Ended March 31, 2012:	Fiscal Year Ended March 31, 2012:
15.4%	21.5%	¥9.2 billion
GLP2012 Target: 10.0%	GLP2012 Target: 10.0%	GLP2012 Target: ¥2.0 billion

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

Market Leadership Innovation

Review of Mid-Term Plan GLP2012

The Anritsu Group achieved all of the targets for the fiscal year ending March 31, 2013, the final year of GLP2012, in the fiscal year ended March 31, 2012. What factors supported this success, and what were the Anritsu Group's main policies for the fiscal year ending March 31, 2012?

Sales and income for the fiscal year ended March 31, 2012 increased year on year because of strong growth in the mobile test and measurement business throughout the year. Net income increased 231.7 percent year on year to ¥10.2 billion, surpassing ¥10.0 billion for the first time. The fiscal year began with the Anritsu Group truly working in concert toward restoration and reconstruction following the Great East Japan Earthquake of March 2011. I am deeply grateful to our employees for their hard work and solid cooperation in implementing our business continuity plan (BCP) activities and to the many customers and business partners who supported us. They enabled the Anritsu Group to achieve record-high net income in an operating environment that remained challenging due to factors including supply chain disruptions and the appreciation of the yen.

Well-known trends in the mobile communications field include the rapid global spread of smartphones, tablets and other devices that enable the use of diverse services and applications, and the unprecedented speed of expansion in commercial services using the Long Term Evolution (LTE) standard that enables massive gains in mobile handset communication speed.

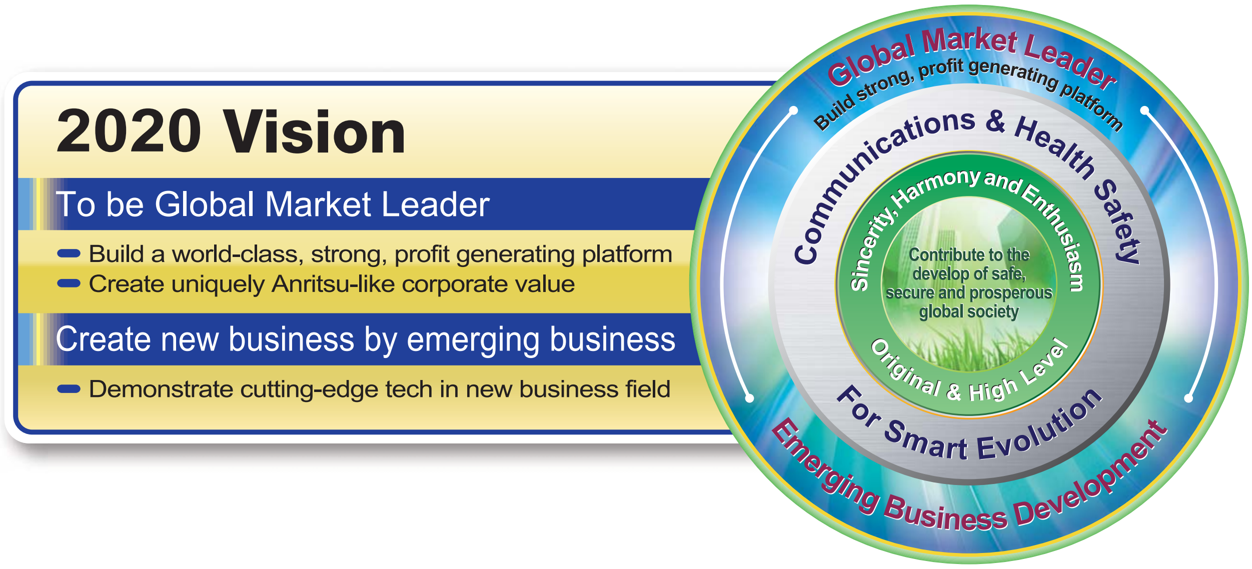
The Anritsu Group has developed innovative products in the field of third-generation mobile phone service ahead of other companies. The technological capabilities we have developed over many years, our full product lineup, and our customer support capabilities have allowed us to capture productive business opportunities in conjunction with rapid expansion in mobile broadband service. Specifically, sales and earnings have increased as a result of expanded orders for testers for mobile handset manufacturing lines, increased earnings due to both economies of scale in production and cost reductions, and substantial growth in sales of test and measurement solutions for LTE development.

We increased sales year on year in all regions globally, with continued strong year-on-year growth in China and other Asian markets that are home to the world's mobile handset manufacturing plants. The Anritsu Group also steadily built its presence in the test and measurement market, which was solid overall.

Toward Our 2020 Vision

After achieving the numerical targets of GLP2012 and Anritsu 120 in the fiscal year ended March 31, 2012, the Anritsu Group announced 2020 Vision. What will it involve?

When I became Group CEO, we looked at Anritsu's history in 10-year intervals and organized tasks as the basis for codifying our management policies for what Anritsu should become in the 2010s (NEXT10: 2011-2020). Now that the Anritsu Group has achieved the targets of the three-year plan GLP2012 and the five-year plan Anritsu 120, we formulated 2020 Vision to add clarity to the long-term vision for NEXT10. Therefore, 2020 Vision draws on our preceding management vision and policies to define our targeted form in 10 years with the aim of further increasing corporate value. Forecasts are difficult in this era of rapid change, so we need to clarify the kind of initiatives we will implement during this decade by transforming the consensus of Anritsu Group stakeholders into a clear vision. 2020 Vision has two primary components that revolve around our fundamental management strategy of continuous profitable growth.



Overview of the Management Strategies of NEXT10 and the New Mid-Term Plan GLP2014

Please explain the fundamental mid-to-long-term management strategies for each business and the main points of GLP2014, which will conclude in the fiscal year ending March 31, 2015.

During the NEXT10 decade, the Anritsu Group's target for operating income margin is 18 percent or higher. Average annual industry growth rates of 3% to 5% are expected in both the Test and Measurement business and the Industrial Automation business, and we are targeting sales growth of 7 percent or higher in each business. Beginning the fiscal year ending March 31, 2013, the Information and Communications business will be included in the Others segment.

The Test and Measurement business will focus on increasing competitiveness in the markets of mobile broadband services and Asia. We expect high growth rates in these areas, and have set a target operating income margin of 20 percent or higher. The Industrial Automation business will leverage the position as a top supplier it has built in the world-leading Japanese market to focus on the Asian market, which it expects to grow into a massive market, and the North American market. It is targeting an operating income margin of 12 percent or higher.

At the same time, our primary benchmarks in achieving a world-class earnings structure under GLP2014, which is Phase I of 2020 Vision, are sales of US$1 billion (¥80 billion) in the Test and Measurement business as the key to taking on the challenge of achieving consolidated net sales exceeding ¥100 billion. In the mobile market, which drives growth in the Test and Measurement business, we expect growth in demand in tandem with the increasing popularity of smartphones and the development of LTE service. In the Industrial Automation business, we expect demand to increase in overseas markets.

We will support business expansion over the medium-to-long term by consistently investing to strengthen our development and production system and localize operations. We will also invest to cultivate new businesses that will become the core businesses of 2020.

We will also switch to new accounting standards effective the fiscal year ending March 31, 2013. We have decided to voluntarily adopt the international financial reporting standards (IFRS) in place of the Japanese accounting standards that we formerly used. Sales outside Japan account for approximately 60 percent of the Anritsu Group’s net sales and about 70 percent of the core Test and Measurement business’s sales. Moreover, we do business globally through operations including research and development bases in Japan, the United States and Europe. Therefore, certain companies in the Anritsu Group use Japanese, U.S., international or other various accounting standards. Adopting IFRS will unify and strengthen our management base and diversify funding sources by enhancing the international comparability of our financial data.

GLP2014: Numerical Targets

Indicators		GLP2014 Fiscal Year Ending March 31, 2013	GLP2014 Fiscal Year Ending March 31, 2015
Net Sales		¥94.5 billion	¥110.0 billion
Operating Income		¥15.5 billion	¥19.0 billion
Net Income		¥10.0 billion	¥13.0 billion
ROE		20%	20%
ACE		¥7.0 billion	¥9.0 billion
Test and Measurement	Sales	¥70.0 billion	¥80.0 billion
	Operating Income	¥14.0 billion	¥16.0 billion
Industrial Automation	Sales	¥15.0 billion	¥18.0 billion
	Operating Income	¥1.0 billion	¥1.5 billion

Enhanced Financial Integrity and Capital Policy

The Anritsu Group enhanced its financial integrity during the fiscal year ended March 31, 2012 by steadily generating cash flow and achieving zero net debt. Please discuss the factors involved and the Anritsu Group's capital policy for the future.

During the fiscal year ended March 31, 2012, we successfully implemented adroit measures such as a system for securing component delivery date as a countermeasure to the supply chain disruption caused by the earthquake and a framework for increased production to handle a rapid increase in orders and sales. We also significantly reduced the number of days in our cash-to-cash cycle by reducing inventories. Moreover, earnings increased and ¥6.1 billion of the ¥10.0 billion in convertible bonds with subscription rights to shares we had issued were converted into stock. As a result, interest-bearing debt decreased ¥6.5 billion from a year earlier to ¥30.3 billion as of March 31, 2012, and the debt-to-equity ratio improved significantly to 0.55 times from 0.92 times a year earlier.

Anritsu Group management emphasizes return on invested capital. We intend to use cash flow generated by improvements in ACE, our proprietary indicator for assessing value added to invested capital, and asset turnover as well as enhanced capital efficiency resulting from measures including an internal Group cash management system to reduce interest-bearing debt, enhance shareholders' equity, improve the debt-to-equity ratio, and strengthen our financial integrity.

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 March 2011, the Anritsu Group secured stable financing by renewing a committed ¥15.0 billion line of credit that will be available until March 2014. While preparing for unforeseen domestic and overseas financial conditions in a dramatically changing market environment, the Anritsu Group will swiftly and flexibly meet its capital requirements for working capital, repayment of long-term borrowings and business growth.

In May 2012, Rating and Investment Information, Inc. (R&I) raised its rating on the Anritsu Group's long-term debt to BBB+ from BBB. R&I defines our former BBB rating as "creditworthiness is sufficient, though some factors require attention in times of major environmental changes." However, R&I judged the Anritsu Group as being close to its next higher rank of A, defined as "high creditworthiness supported by a few excellent factors," and therefore raised our rating to BBB+. Reasons supporting the upgrade included the improved ability of our core Test and Measurement business to drive growth, which in turn expands our earnings base as a whole and increases our ability to counter earnings volatility risk.

Shareholder Returns

What is the Anritsu Group's performance outlook for the fiscal year ending March 31, 2013 and beyond and what is its policy for shareholder returns?

Our basic policy for the return of profits to shareholders is to increase the ratio of dividends on consolidated equity (DOE) to reflect growth in consolidated net income while taking a comprehensive range of factors into account. The Anritsu Group will use internal capital resources to conduct research and development in order to respond to rapid advances in technological innovation and changes in market structure and to strengthen its operating infrastructure in ways such as increasing production capacity.

Anritsu paid cash dividends of ¥15.00 per share for the fiscal year ended March 31, 2012, which included an interim cash dividend of ¥5.00 per share. As a result, DOE was 4.2 percent. For the fiscal year ending March 31, 2013, we forecast that net income will be essentially unchanged year on year at ¥10.0 billion. We therefore plan to maintain cash dividends at ¥15.00 per share, which will include an interim cash dividend of ¥7.50 per share.

Creating Corporate Value Unique to Anritsu

2012 is the 100th anniversary of Anritsu's invention of the TYK wireless telephone, a world-first product that could be called the origin of the mobile phone. What is the Anritsu Group's mission in creating its next era?

The Anritsu Group has been deeply involved with many historical achievements in the field of information and communications. The global high-technology market has few companies with histories of more than 100 years. I feel strongly that Anritsu is around today because it has made itself indispensable to society, just as individuals become necessary to organizations and the community. At the same time, I would like to caution the Anritsu Group to never forget that it has overcome the many trying management crises it has faced throughout its history by working together as one.

The two keys to corporate longevity are a willingness to innovate to create value that meets the needs and wants of customers and society, and an ability to adapt that commercializes this innovation by illuminating core technology from many angles to create new businesses. The basis for our willingness to innovate and our ability to adapt are the sincerity, harmony and enthusiasm called for in the Anritsu Group's philosophy. We serve society as a whole sincerely, value harmony with our stakeholders, and enthusiastically fulfill our social responsibilities. That is part of our corporate DNA.

Going forward, all types of electronics equipment will incorporate communications technology, and networks will grow even larger and more complex. Various systems will be seamlessly connected, evolving to become smarter, more agile and better able to harmonize people and the environment, which will enable the resolution of social issues and conflicts.

Over the medium-to-long term, Anritsu still has so much to do in creating new information and communication technology services. We aim to be a global market leader that achieves continuous profitable growth as we further refine the willingness to innovate and the ability to adapt that have been our tradition since the Anritsu Group was founded. We intend to remain an innovative company that enables society to safely, securely and easily connect any time and anywhere.