Management's Discussion and Analysis

Changes in the Scope of Consolidation

During the fiscal year ended March 31, 2012, the Anritsu Group added newly established Anritsu (China) Co., Ltd. to the scope of consolidation and merged Anritsu Precision Co., Ltd. into Anritsu Industrial Solutions Co., Ltd. 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 diverse services, including video transmission services and cloud computing. In the field of mobile communications, the rapidly growing popularity of smartphones, tablets and other mobile devices that can use a wide variety of services and applications has resulted in a steady increase in network data traffic as well as further growth in demand for high-capacity, high-speed communications. As a result, the world's major telecom operators and telecom equipment vendors are now stepping up development investment as the start of commercial services based on LTE (Long Term Evolution), the high-speed communications standard capable of dramatic advances in the transmission speed of mobile handsets, expands to more countries around the world. In addition, the communications infrastructure is being upgraded aggressively in emerging countries such as China and India, where development of mobile services is expanding.

Amid an increasing number of business opportunities, the Anritsu Group moved proactively to reinforce its foundation for growth, including strengthening its solution functions, enhancing its product lineup, and improving its customer support capabilities.

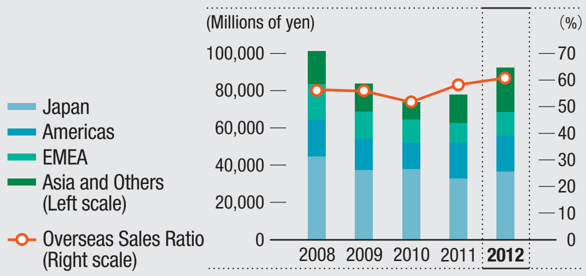
For the fiscal year ended March 31, 2012, the Test and Measurement segment performed well due to increasing demand for measuring instruments for the mobile communication market. As a result, orders increased 12.6 percent compared with the previous fiscal year to ¥90,359 million, net sales increased 20.2 percent to ¥93,587 million and operating income increased 106.1 percent to ¥14,415 million. Income before income taxes increased 167.9 percent to ¥11,352 million after foreign exchange loss of ¥306 million due to the appreciation of the yen and impairment loss on goodwill of ¥897 million. Net income increased 231.7 percent to ¥10,180 million.

Net Sales

For the fiscal year ended March 31, 2012, net sales increased ¥15,734 million, or 20.2 percent, year on year to ¥93,587 million. The principal factor was a 31.9 percent increase in sales of the core Test and Measurement segment to ¥70,531 million due to growing demand for test and measurement systems in the mobile handset manufacturing market, which is benefiting from the rapidly growing popularity of smartphones, tablets and other devices, and for R&D for the new fourth-generation high-speed mobile communications standard and the LTE standard.

By geographic region, sales were firm in the Americas because of investment in LTE-related markets and demand for wireless network construction and maintenance. Sales in Europe, the Middle East and Africa (EMEA) were solid despite restrained investment among customers due to financial instability. Sales increased substantially in the markets of Asia because of continued capital investment in mobile handset production centered on enhanced messaging services (EMS). Sales were firm in Japan, primarily because of LTE-related demand. Consequently, overseas sales excluding sales in Japan accounted for 60.6 percent of net sales for the fiscal year ended March 31, 2012.

Net Sales by Region and Overseas Sales Ratio



Cost of Sales and Gross Profit

Cost of sales increased ¥6,352 million, or 14.8 percent, compared with the previous fiscal year to ¥49,385 million, and the ratio of cost of sales to net sales decreased 2.5 percentage points to 52.8 percent. Reflecting further activities to improve profitability, gross profit increased ¥9,382 million, or 26.9 percent, compared with the previous fiscal year to ¥44,202 million. The ratio of gross profit to net sales increased 2.5 percentage points to 47.2 percent.

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

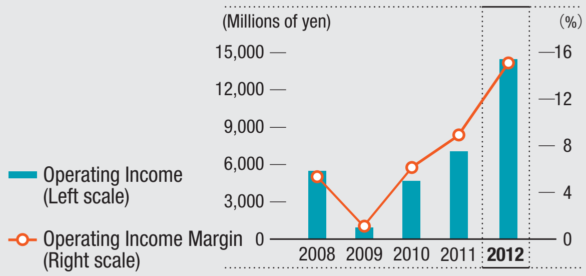
SG&A expenses increased 7.0 percent year on year to ¥29,787 million. Primary factors included higher sales promotions expenses as a result of the increase in net sales, and increased personnel expenses.

Research and development expenses, which are included in general and administrative expenses and manufacturing expenses, increased 6.7 percent year on year to ¥10,013 million, and were equivalent to 10.7 percent of net sales. As a result of the above, operating income increased ¥7,421 million, or 106.1 percent, year on year to ¥14,415 million. The ratio of operating income to net sales, or the operating income margin, increased 6.4 percentage points to 15.4 percent.

SG&A Expenses (Millions of yen)

Year ended March 31	2012	2011	Change (%)
Salaries and bonuses	¥11,865	¥10,061	17.9%
Pensions	1,764	1,644	7.3
Advertising	1,141	902	26.6
Travel and transportation	1,495	1,330	12.4
Depreciation	526	609	(13.5)
Testing research	5,261	4,935	6.6

Operating Income and Operating Income Margin



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

Other expenses, net totaled ¥3,063 million, compared with ¥2,756 million for the previous fiscal year. In addition to a foreign exchange loss of ¥306 million due to the ongoing appreciation of the yen, the Anritsu Group recognized an impairment loss on goodwill of ¥897 million related to the acquisition of the former NetTest Pte. Ltd., loss on revision of retirement benefit plan of ¥528 million, impairment loss of ¥410 miliion and loss on sales of noncurrent assets of ¥293 million. Consequently, other expenses, net increased ¥307 million compared with the previous fiscal year.

As a result of the above, income before income taxes increased ¥7,114 million, or 167.9 percent, compared with the previous fiscal year to ¥11,352 million. Net income increased ¥7,111 million, or 231.7 percent, to ¥10,180 million. Net income per share totaled ¥79.39, an increase of ¥55.30 compared with the previous fiscal year.

Costs, Expenses and Income as a Percentage of Net Sales

Year ended March 31	2012	2011	2010
Net sales	100.0%	100.0%	100.0%
Cost of sales	52.8	55.3	58.1
Gross profit	47.2	44.7	41.9
SG&A expenses	31.8	35.7	35.7
R&D expenses	10.7	12.0	12.8
Net income	10.9	3.9	0.5

Shareholder Return Policies

Dividend Policy

Anritsu's 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 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 its dividend policy, 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. For the fiscal year ending March 31, 2013, Anritsu plans to pay cash dividends of ¥15.00 per share, which will include an interim cash dividend of ¥7.50 per share.

Business Segments

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

Test and Measurement

This segment develops, manufactures and sells measuring instruments and systems for a variety of communications applications, 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, 2012, North America and Japan led increased demand for measuring instruments for basic development of chipsets and mobile handsets based on the high-speed communications standard LTE and for test and measurement systems that perform protocol conformance testing and interoperability testing. In addition, demand for measuring instruments for manufacturing multifunctional mobile devices increased, and demand for measuring instruments for the installation and maintenance of network infrastructure was solid, primarily in Asia. Consequently, segment sales increased 31.9 percent compared with the previous fiscal year to ¥70,531 million. Operating income increased 172.0 percent to ¥13,736 million.

The Test and Measurement business, which accounts for approximately 75 percent of the Anritsu Group's net sales, is divided into the following three sub-segments: Mobile, Network Infrastructure and Electronics.

1. Mobile

The Mobile sub-segment includes measuring instruments for mobile phone acceptance testing by mobile phone service operators, and for design, production, function and performance verification, and maintenance of mobile phone handsets by manufacturers of mobile phones, IC chipsets and relevant components.

Demand in this sub-segment tends to be influenced by factors including technological innovations in mobile phone services, the degree of diffusion, and the number of new subscribers, new mobile phone models and mobile phones shipped.

Amid the dramatic expansion in mobile broadband services for smartphones, tablets and other devices as well as conventional mobile phones, services based on the LTE high-speed communications standard are being rolled out 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. Further, the Anritsu Group is working to enhance its portfolio of solutions for the LTE handset market and 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 test and measurement systems that perform protocol conformance testing and interoperability testing, and for measuring instruments for manufacturing multifunctional mobile devices. In addition, the popularity of 3G services is increasing in China, India and other emerging countries, which are also growing markets because they are handset production bases for global markets. Anritsu will work to further expand business by providing competitive products such as measuring equipment for manufacturing.

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, 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, are under way. Additionally, demand for installation of base stations and mobile backhaul equipment is increasing to meet surging demand for data communications driven by the popularization of devices such as smartphones and tablets. As a result, demand for related measuring equipment is also increasing.

In service assurance, increased demand is anticipated for solutions that ensure service quality due to the development of new services using networks as platforms.

The Network Infrastructure sub-segment is working to expand 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, intelligent home appliances and automobiles.

The expansion of mobile broadband services is driving growth in demand for development and manufacturing of wireless modules for a broad array of applications. Anritsu will work to further expand the business in this sub-segment by offering a wider range of applications for the electronics market and enhancing its lineup of general-purpose measuring equipment.

Industrial Automation

This segment develops, manufactures and sells production management and quality management systems for the food, pharmaceutical and cosmetics industries, and precision measuring instruments for the electronics industry.

During the fiscal year ended March 31, 2012, demand was firm both in Japan and overseas in the food industry business. As a result of factors including changes in accounting standards, segment sales increased 15.4 percent compared with the previous fiscal year to ¥14,222 million. Operating income decreased 19.8 percent to ¥529 million.

The Industrial Automation business accounts for about 15 percent of the Anritsu Group's net sales. Since approximately 80 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 high-speed, highly precise checkweighers for 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. The Anritsu Group'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, the Anritsu Group will develop and deliver integrated quality control inspection solutions, and will optimize its supply chain 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

The Information and Communications 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, 2012, business for the government sector, which is closely tied to public works investment budgets, was weak. Consequently, segment sales decreased 20.5 percent compared with the previous fiscal year to ¥3,276 million. Operating loss was ¥104 million, compared with operating income of ¥69 million for the previous fiscal year.

The Information and Communications business accounts for about 4 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, more than 50 percent of its sales tend to be concentrated in the fourth quarter.

In the government market, public-sector investment remains restrained. In the private-sector market, however, demand is increasing for bandwidth controller and other communication infrastructure enhancements in order to maintain Quality of Service (QoS) for financial institutions and telecom operators.

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

In response to changes in the market, Anritsu restructured the operations of this business during the fiscal year ended March 31, 2012, primarily the organizational structure and business portfolio. Moreover, beginning the fiscal year ending March 31, 2013, the Information and Communications business will be included in the Others segment.

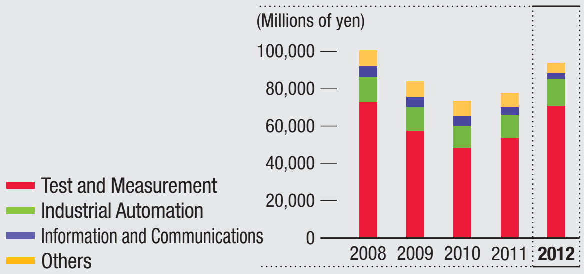
The Information and Communications business is conducted by Anritsu Networks Co., Ltd., a wholly owned subsidiary of the Company.

Others

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

During the fiscal year ended March 31, 2012, the device business was weak due to waning demand from the video transmission market in Japan, which was solid in the previous year. As a result, segment sales decreased 21.5 percent compared with the previous fiscal year to ¥5,558 million yen, and operating income decreased 49.1 percent to ¥841 million.

Sales by Business Segment



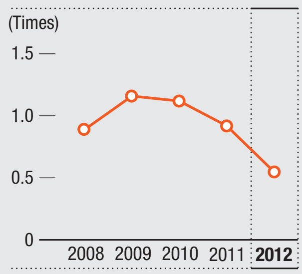
Liquidity and Financial Condition

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

During the fiscal year ended March 31, 2012, ¥6.1 billion of the ¥10.0 billion in convertible bonds with subscription rights to shares the Company had issued were converted into stock. As a result, interest-bearing debt was ¥30,336 million, compared with ¥36,839 million a year earlier, and the debt-to-equity ratio[1] improved significantly to 0.55 times from 0.92 times a year earlier. The inventory turnover ratio for the fiscal year ended March 31,

Debt-to-Equity Ratio



2012, calculated as the ratio of net sales to inventories, was 6.3 times. This surpassed the Anritsu Group's medium-term target of 6.0 times.

The Anritsu Group will use increased cash flow generated by improvements in ACE[2] 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 debt-to-equity ratio, enhance shareholders' equity and fortify its financial structure.

In May 2012, Rating and Investment Information, Inc. (R&I) raised its rating for Anritsu's long-term debt to BBB+ from BBB, and rated Anritsu's short-term debt a-2. Anritsu will continue working to enhance its financial stability in order to improve its debt rating.

Notes:

1. Debt-to-equity ratio: Interest-bearing debt / Equity capital
2. Anritsu Capital-cost Evaluation: Net operating profit after tax - Invested capital cost

Cash Flow

Cash and cash equivalents (hereafter, "net cash") as of March 31, 2012 increased ¥11,602 million from the end of the previous fiscal year to ¥39,596 million. Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was ¥13,908 million, compared with ¥7,797 million in the previous fiscal year.

Net cash provided by operating activities was ¥15,872 million, compared with ¥9,229 million in the previous fiscal year. The primary factors included net income and a decrease in inventories. Depreciation and amortization was ¥2,563 million, a decrease of ¥28 million compared with the previous fiscal year.

Net cash used in investing activities was ¥1,964 million, compared with ¥1,432 million in the previous fiscal year. This was mainly due to acquisition of property, plant and equipment of ¥2,393 million.

Net cash used in financing activities was ¥2,204 million, compared with ¥6,050 million in the previous fiscal year. The primary factors were cash dividends paid totaling ¥1,274 million and payment of long-term debt.

Assets, Liabilities and Net Assets

As of March 31, 2012, total assets increased ¥13,820 million, or 13.9 percent, compared with the end of the previous fiscal year to ¥113,069 million. Current assets increased ¥14,981 million, or 21.5 percent, to ¥84,654 million due to an increase in cash and deposits.

The inventory turnover ratio increased to 6.3 times from 4.9 times for the previous fiscal year. This surpassed the Anritsu Group's medium-term target of 6.0 times.

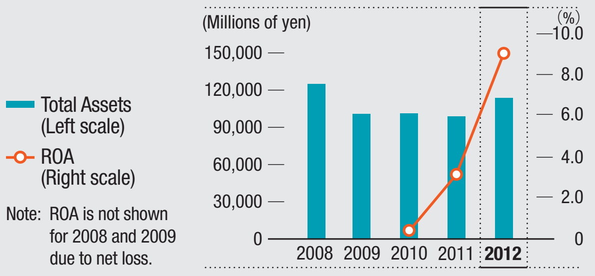
Property, plant and equipment net of accumulated depreciation decreased ¥768 million, or 4.4 percent, from a year earlier to ¥16,885 million. Factors included normal depreciation.

Investments and other assets decreased ¥393 million, or 3.3 percent, from a year earlier to ¥11,530 million. Factors included impairment of goodwill.

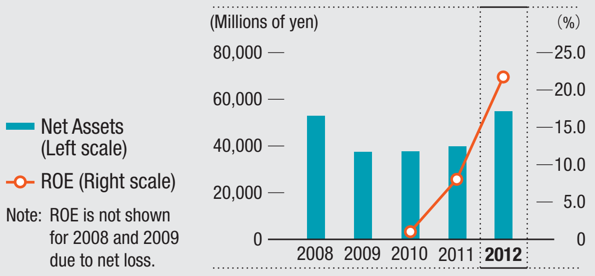
As of March 31, 2012, total liabilities decreased ¥1,137 million, or 1.9 percent, compared with the end of the previous fiscal year to ¥58,205 million. This was mainly because bonds with subscription rights to shares totaling ¥6,100 million were converted into stock. The Anritsu Group plans to redeem ¥9,900 million in straight bonds in September 2012 and repay ¥9,100 million in long-term debt during the fiscal year ending March 31, 2013. As a result, long-term liabilities decreased and current liabilities increased. The current ratio was 192.6 percent, compared with 341.5 percent a year earlier. Working capital totaled ¥40,705 million as of March 31, 2012, compared with ¥49,269 million a year earlier. Total interest-bearing debt decreased ¥6,503 million from a year earlier to ¥30,336 million.

Net assets increased ¥14,957 million, or 37.5 percent, from a year earlier to ¥54,863 million. The ratio of net assets to total assets was 48.5 percent, compared with 40.2 percent a year earlier.

Total Assets and ROA



Net Assets and ROE



Capital Expenditures

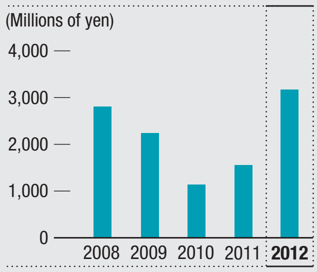
For the fiscal year ended March 31, 2012, capital expenditures increased 104.2 percent compared with the previous fiscal year to ¥3,165 million. The Anritsu Group is concentrating resources in fields related to the quality and high performance of communication networks, which are evolving in ways such as integration of wireline and wireless communications, increasing network speed and higher capacity. During the fiscal year ended March 31, 2012, 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 upgrading its production network.

Overview of Capital Expenditures

(Millions of yen)

Year ended March 31	2012	Change (%)
Test and Measurement	¥2,028	84.6%
Industrial Automation	96	(51.5)
Information and Communications	53	41.8
Subtotal	2,177	63.2
Others	988	357.1
Total	¥3,165	104.2%

Capital Expenditures



Research and Development

The Anritsu Group develops original and high level products and services 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.

An overview of investment in research and development in the year ended March 31, 2012 follows below.

(Millions of yen)

Year ended March 31	2012	Ratio to Segment Sales
Test and Measurement	¥ 7,553	10.7%
Industrial Automation	1,319	9.3
Information and Communications	230	7.0
Others	169	3.0
Basic Research	742	—
Total	¥10,013	10.7%

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

Business Segment	Model	Product	Application	Contribution
Test and Measurement	MG3710A	Vector signal generator	Multiband, multichannel and multisystem performance evaluation, including 2G, 3G, LTE and wireless LAN.	Contributes from evaluation of new technology to development and mass production of mobile phones, wireless LANs, and narrowband telecommunications.
	MD8475A	Signaling tester (base station simulator) for smartphones	Evaluates interoperability between LTE and 2G/3G standards, battery drain from running applications, data throughput, etc.	Contributes to smartphones, high-quality service and application development
	ME8783/ ME7834	LTE RF and protocol conformance testing system	RF and protocol conformance testing for LTE mobile handsets, 2G and 3G interoperability testing, and telecom carrier acceptance testing	Raises LTE mobile handset development efficiency
Industrial Automation	SSV Series	Checkweigher	High-precision weighing for high-speed packaging lines	Increases food product packaging line efficiency and inspection quality
	KD7416DWZ	Dual-energy X-ray inspection system	Inspects processed foods and other products for impurities and alien materials (bone, plastic, etc.)	High-precision detection of impurities and alien materials in inspection items with complex shapes
Information and Communications	NH3001A	Remote monitoring control unit	Remote monitoring control for plumbing	Creates efficient remote monitoring control systems for wide-area coverage

Management Objectives and Indicators

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

Anritsu achieved the targets for the fiscal year ending March 31, 2013 under its Mid-Term Plan GLP2012, which was initiated in April 2010, one year ahead of schedule. Anritsu therefore newly formulated Mid-Term Plan GLP2014 to achieve its management vision of continuous profitable growth, and will remain committed to achieving its objectives.

Main numerical targets of Mid-Term Plan GLP2014 and progress toward them are outlined below:

(Billions of yen; %)

Year to March 31	2012 (Actual; Japan GAAP)	2013 (Forecast; IFRS)	2015 (Target; IFRS)
Net sales	¥93.6	¥94.5	¥110.0
Operating income	14.4	15.5	19.0
Net income	10.2	10.0	13.0
ROE (%)	21.5%	20.0%	20.0%
ACE	¥ 9.2	¥ 7.0	¥ 9.0

Outlook and Management Issues for the Fiscal Year Ending March 31, 2013

For the fiscal year ending March 31, 2013, the recovery of the U.S. economy is expected to continue to drive the gradual recovery of the global and Japanese economies. However, a possible downturn due to factors such as the deepening of the government debt problem in Europe and the impact of rising crude oil prices is cause for concern. In addition, factors including intensifying price competition, volatility in exchange rates and concerns about electric power shortages will continue to require attention.

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

In the core Test and Measurement segment, the Anritsu Group will work more closely with customers by sharing development road maps with them and strengthening technical support to establish a competitive position in the mobile market, where demand is projected to continue expanding worldwide. In the network infrastructure market, the Anritsu Group will focus on expanding sales by rolling out competitive new products based on customer needs in the core network market, where investment will be needed due to increasing data traffic, as well as in the growing FTTx and base station markets. In the electronics market, which is expected to grow in the medium-to-long term, the Anritsu Group will work to develop new demand by enhancing its product lineup and expanding indirect sales channels to increase its brand power. In addition, the Anritsu Group will work to further increase profitability by raising management efficiency through measures such as stronger management of multi-base cooperative development and establishment of a global procurement system.

In the Industrial Automation segment, while developing the market with a strategy of higher added value and differentiation, the Anritsu Group aims to expand business in the growth markets of Asia and emerging countries by using global procurement and overseas production to introduce products that are highly cost-competitive.

Beginning in the fiscal year ending March 31, 2013, the Anritsu Group will voluntarily apply IFRS instead of Japanese GAAP, which it had been using previously. With this change, the Anritsu Group aims to strengthen its operating foundation through improvements in internal decision-making processes, and to diversify funding sources by enhancing the international comparability of its financial data. Therefore, the performance forecast for the fiscal year ending March 31, 2013 is based on IFRS.

Based on the above points, the performance forecast for the year ending March 31, 2013 (announced on April 26, 2012) is as follows. In the Test and Measurement segment, the Anritsu Group anticipates that sales will be essentially the same as in the fiscal year ended March 31, 2012. In the mobile market, which drives growth in the Anritsu Group, the Group will continue to focus on securing orders with the expectation that demand will remain at the same level as in the fiscal year ended March 31, 2012, when it recorded substantial sales growth. In the Industrial Automation segment, demand is expected to increase overseas. The Anritsu Group forecasts total net sales of ¥94.5 billion, operating income of ¥15.5 billion, income before income taxes of ¥14.5 billion, and net income of ¥10.0 billion.

Beginning the fiscal year ending March 31, 2013, the Information and Communications business will be included in the Others segment.

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, 2012.

1. Inherent Risks in the Anritsu Group's Technology and Marketing Strategies

The 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 the Anritsu Group's core information and communication markets and the 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 the Anritsu Group's results.

2. Market Fluctuation Risk

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

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 70 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.

3. Global Business Development Risks

The Anritsu Group markets its products globally, and conducts business in the Americas, Europe, Asia and elsewhere. In particular, the overseas sales ratio for the Test and Measurement business is about 71 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

The Anritsu Group's sales outside Japan account for 60.6 percent of consolidated net sales. The Anritsu Group hedges foreign exchange risk using instruments including forward foreign exchange contracts for foreign exchange transactions that occur upon collection of accounts receivable and other events. However, rapid changes in foreign exchange rates have the potential to exert a material impact on the Anritsu Group's performance.

5. Long-term Inventory Obsolescence Risk

The Anritsu Group works to provide products and services that precisely meet customer needs and wants. However, particularly in the test and measuring instruments market, product lines are subject to rapid 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 the Anritsu Group's financial condition.

6. 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.

7. 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.

8. 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. Beginning in the fiscal year ending March 31, 2013, the Anritsu Group will voluntarily apply IFRS instead of Japan GAAP, which it had been using previously.

9. 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.

Consolidated Balance Sheets

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Assets			
Current assets:			
Cash (Notes 6 and 7)	**¥ 39,596**	¥ 27,994	**$ 482,114**
Notes and accounts receivable - trade (Note 7)	**23,606**	19,175	**287,422**
Allowance for doubtful accounts	**(240)**	(280)	**(2,922)**
Inventories (Note 9)	**14,814**	15,763	**180,373**
Deferred tax assets (Note 14)	**5,638**	5,813	**68,647**
Other current assets	**1,240**	1,208	**15,098**
Total current assets	**84,654**	69,673	**1,030,732**
Property, plant and equipment:			
Land (Note 11)	**3,755**	4,245	**45,720**
Buildings and structures (Note 11)	**44,374**	44,718	**540,290**
Machinery and equipment	**21,862**	21,406	**266,188**
Construction in progress	**—**	1	**—**
	69,991	70,370	**852,198**
Accumulated depreciation	**(53,106)**	(52,717)	**(646,609)**
Net property, plant and equipment	**16,885**	17,653	**205,589**
Investments and other assets:			
Investment securities (Notes 7 and 8)	**804**	806	**9,789**
Goodwill, net of amortization	**—**	1,256	**—**
Long-term prepaid expense	**7,313**	7,572	**89,042**
Deferred tax assets (Note 14)	**2,355**	1,271	**28,674**
Other assets	**1,132**	1,098	**13,783**
Allowance for doubtful accounts	**(74)**	(80)	**(901)**
Total investments and other assets	**11,530**	11,923	**140,387**
Total assets	**¥113,069**	¥ 99,249	**$1,376,708**

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Liabilities and net assets			
Current liabilities:			
Short-term borrowings (Notes 7 and 12)	**¥ 1,836**	¥ 1,839	**$ 22,355**
Long-term debt due within one year (Notes 7 and 12)	**9,100**	400	**110,800**
Current portion of bonds (Notes 7 and 12)	**9,900**	—	**120,541**
Notes and accounts payable - trade (Note 7)	**4,920**	6,147	**59,905**
Accrued liabilities	**5,502**	3,248	**66,991**
Accrued expenses	**3,837**	2,498	**46,719**
Income taxes payable	**1,876**	868	**22,842**
Provision for product warranties (Note 3)	**348**	—	**4,237**
Other current liabilities (Note 7)	**6,630**	5,404	**80,725**
Total current liabilities	**43,949**	20,404	**535,115**
Long-term liabilities:			
Long-term debt (Notes 7 and 12)	**9,500**	34,600	**115,670**
Lease obligation (Note 7)	**758**	1,179	**9,229**
Employees' severance and retirement benefits (Note 17)	**1,790**	1,896	**21,795**
Severance and retirement benefits for directors and corporate auditors (Note 17)	**23**	20	**280**
Deferred tax liabilities (Note 14)	**291**	345	**3,543**
Other long-term liabilities	**1,895**	899	**23,074**
Total long-term liabilities	**14,257**	38,939	**173,591**
Commitments and contingent liabilities (Note 19)			
Net assets (Note 18)**:**			
Shareholders' equity			
Common stock, no par value			
Authorized — 400,000,000 shares			
Issued — 137,753,771 shares in 2012 and 128,042,848 shares in 2011	**17,106**	14,051	**208,280**
Capital surplus	**26,056**	23,002	**317,253**
Retained earnings	**19,699**	10,793	**239,851**
Treasury stock, at cost	**(853)**	(843)	**(10,386)**
Total shareholders' equity	**62,008**	47,003	**754,998**
Accumulated other comprehensive income			
Net unrealized holding gain or loss on securities	**131**	122	**1,595**
Deferred gain or loss on hedged transactions	**(13)**	(22)	**(158)**
Foreign currency translations adjustments	**(7,337)**	(7,208)	**(89,334)**
Total accumulated other comprehensive income	**(7,219)**	(7,108)	**(87,897)**
Stock acquisition right (Note 13)	**74**	11	**901**
Total net assets	**54,863**	39,906	**668,002**
Total liabilities and net assets	**¥113,069**	¥99,249	**$1,376,708**

Consolidated Statements of Income

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2012, 2011 and 2010

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2011	2010	**2012**
Net sales (Note 24)	**¥93,587**	¥77,853	¥73,548	**$1,139,498**
Cost of sales (Note 24)	**49,385**	43,033	42,708	**601,302**
Gross profit	**44,202**	34,820	30,840	**538,196**
Selling, general and administrative expenses (Note 24)	**29,787**	27,826	26,257	**362,682**
Operating income (Note 24)	**14,415**	6,994	4,583	**175,514**
Other income (expenses):				
Interest and dividends income	**108**	117	98	**1,315**
Interest expenses	**(517)**	(710)	(631)	**(6,295)**
Foreign exchange gain (loss)	**(306)**	(769)	(320)	**(3,726)**
Loss on sales of noncurrent assets	**(293)**	—	—	**(3,568)**
Loss on disposal of property, plant and equipment	**(53)**	(34)	(17)	**(645)**
Gain on sales of property, plant and equipment	**4**	14	158	**49**
Gain on sales of investment securities	**10**	—	140	**122**
Loss on devaluation of investment securities	**(1)**	(78)	(17)	**(12)**
Gain on retirement by purchase of bonds	**—**	—	62	**—**
Gain on reversal of subscription rights to shares	**—**	8	—	**—**
Impairment loss on goodwill (Note 21)	**(897)**	(987)		**(10,922)**
Loss on adjustment for changes of accounting standard for asset retirement obligations	**—**	(68)	—	**—**
Loss on revision of retirement benefit plan	**(528)**	—	—	**(6,429)**
Impairment loss (Note 22)	**(410)**	—	—	**(4,992)**
Business structure improvement expenses	**(103)**	—	—	**(1,254)**
Loss on sales of investment securities	**(20)**	—	—	**(244)**
Other, net	**(57)**	(249)	(143)	**(693)**
	(3,063)	(2,756)	(670)	**(37,294)**
Income (loss) before income taxes	**11,352**	4,238	3,913	**138,220**
Provision for income taxes (Note 14)**:**				
Current	**2,195**	1,044	728	**26,726**
Deferred	**(1,023)**	125	2,800	**(12,456)**
	1,172	1,169	3,528	**14,270**
Income before minority interests	**10,180**	3,069	385	**123,950**
Net income (loss)	**¥10,180**	¥ 3,069	¥ 385	**$ 123,950**

	Yen			U.S. dollars
	2012	2011	2010	**2012**
Amount per share of common stock:				
Net income (loss):				
Basic	**¥79.39**	¥24.09	¥3.02	**$0.97**
Diluted	**71.01**	22.08	2.77	**0.87**
Cash dividends applicable to the year	**15.00**	7.00	—	**0.18**

See accompanying notes.

Consolidated Statements of Comprehensive Income

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2012, 2011 and 2010

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2011	2010	**2012**
Income before minority interests	**¥10,180**	¥3,069	¥ 385	**$123,950**
Other comprehensive income:				
Valuation difference on available-for-sale securities	**9**	(17)	(120)	**110**
Deferred gain or loss on hedged transactions	**8**	7	(7)	**97**
Foreign currency translation adjustments	**(125)**	(563)	(120)	**(1,523)**
Share of other comprehensive income of associates accounted for using equity method	**(2)**	3	15	**(24)**
	(110)	(570)	(232)	**(1,340)**
Comprehensive income	**¥10,070**	¥2,499	¥ 153	**$122,610**
Breakdown:				
Comprehensive income attributable to owners of the parent	**¥10,070**	¥2,499	¥ 153	**$122,610**
Comprehensive income attributable to minority interests	**—**	—	—	**—**

See accompanying notes.

Consolidated Statements of Changes in Net Assets

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2012, 2011 and 2010

	Number of shares issued	Millions of yen								
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain or loss on securities	Deferred gain or loss on hedged transactions	Foreign currency translation adjustments	Stock acquisition right	Total
Balance at April 1, 2009	128,037,848	¥14,050	¥23,000	¥ 7,594	¥(833)	¥ 259	¥(21)	¥(6,544)	¥20	¥37,525
Net income (loss)	–	–	–	385	–	–	–	–	–	385
Purchases of treasury stock	–	–	–	–	(4)	–	–	–	–	(4)
Disposal of treasury stock	–	–	–	(0)	1	–	–	–	–	1
Net unrealized holding gain or loss on securities	–	–	–	–	–	(121)	–	–	–	(121)
Deferred gain or loss on hedged transactions	–	–	–	–	–	–	(8)	–	–	(8)
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	(104)	–	(104)
Balance at March 31 and April 1, 2010	128,037,848	¥14,050	¥23,000	¥ 7,979	¥(836)	¥ 138	¥(29)	¥(6,648)	¥20	¥37,674
Issuance of new shares	5,000	1	2	–	–	–	–	–	–	3
Cash dividends paid	–	–	–	(255)	–	–	–	–	–	(255)
Net income (loss)	–	–	–	3,069	–	–	–	–	–	3,069
Purchases of treasury stock	–	–	–	–	(8)	–	–	–	–	(8)
Disposal of treasury stock	–	–	–	(0)	1	–	–	–	–	1
Net changes of items other than shareholders' equity	–	–	–	–	–	(16)	7	(560)	(9)	(578)
Balance at March 31 and April 1, 2011	128,042,848	¥14,051	¥23,002	¥10,793	¥(843)	¥ 122	¥(22)	¥(7,208)	¥11	¥39,906
Issuance of new shares	**9,710,923**	**3,055**	**3,054**	**–**	**–**	**–**	**–**	**–**	**–**	**6,109**
Cash dividends paid	**–**	**–**	**–**	**(1,274)**	**–**	**–**	**–**	**–**	**–**	**(1,274)**
Net income (loss)	**–**	**–**	**–**	**10,180**	**–**	**–**	**–**	**–**	**–**	**10,180**
Purchases of treasury stock	**–**	**–**	**–**	**–**	**(10)**	**–**	**–**	**–**	**–**	**(10)**
Disposal of treasury stock	**–**	**–**	**–**	**(0)**	**0**	**–**	**–**	**–**	**–**	**0**
Net changes of items other than shareholders' equity	**–**	**–**	**–**	**–**	**–**	**9**	**9**	**(129)**	**63**	**(48)**
Balance at April 1, 2012	**137,753,771**	**¥17,106**	**¥26,056**	**¥19,699**	**¥(853)**	**¥ 131**	**¥(13)**	**¥(7,337)**	**¥74**	**¥54,863**

	Number of shares issued	Thousands of U.S. dollars (Note 1)								
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain or loss on securities	Deferred gain or loss on hedged transactions	Foreign currency translation adjustments	Stock acquisition right	Total
Balance at April 1, 2011	128,042,848	$171,082	$280,068	$131,414	$(10,264)	$1,485	$(268)	$(87,763)	$134	$485,888
Issuance of new shares	**9,710,923**	**37,198**	**37,185**	**–**	**–**	**–**	**–**	**–**	**–**	**74,383**
Cash dividends paid	**–**	**–**	**–**	**(15,512)**	**–**	**–**	**–**	**–**	**–**	**(15,512)**
Net income (loss)	**–**	**–**	**–**	**123,950**	**–**	**–**	**–**	**–**	**–**	**123,950**
Purchases of treasury stock	**–**	**–**	**–**	**–**	**(122)**	**–**	**–**	**–**	**–**	**(122)**
Disposal of treasury stock	**–**	**–**	**–**	**(1)**	**0**	**–**	**–**	**–**	**–**	**(1)**
Net changes of items other than shareholders' equity	**–**	**–**	**–**	**–**	**–**	**110**	**110**	**(1,571)**	**767**	**(584)**
Balance at March 31, 2012	**137,753,771**	**$208,280**	**$317,253**	**$239,851**	**$(10,386)**	**$1,595**	**$(158)**	**$(89,334)**	**$901**	**$668,002**

See accompanying notes.

Consolidated Statements of Cash Flows

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2012, 2011 and 2010

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2011	2010	**2012**
Cash flows from operating activities				
Net income (loss)	**¥10,180**	¥ 3,069	¥ 385	**$ 123,950**
Adjustments to reconcile net income (loss) to net cash provided by operating activities				
Depreciation and amortization	**2,563**	2,591	2,972	**31,207**
Impairment loss	**410**	—	—	**4,992**
Amortization expense of goodwill	**359**	641	641	**4,371**
Impairment loss on goodwill	**897**	987	—	**10,922**
Gain on sales of investment securities	**(10)**	—	(140)	**(122)**
Gain on sales of property, plant and equipment	**(4)**	(14)	(158)	**(49)**
Loss on revision of retirement benefit plan	**528**	—	—	**6,429**
Loss on devaluation of investment securities	**1**	78	17	**12**
Loss on sales of investment securities	**20**	—	—	**244**
Deferred income taxes	**(1,023)**	125	2,800	**(12,456)**
Other — net	**323**	248	(79)	**3,933**
Changes in assets and liabilities:				
Notes and accounts receivable — trade	**(4,739)**	1,234	(928)	**(57,701)**
Inventories	**872**	(2,796)	1,001	**10,617**
Other current assets	**(18)**	(286)	113	**(219)**
Notes and accounts payable — trade	**(1,035)**	1,256	471	**(12,602)**
Income taxes payable and receivable	**1,151**	(20)	683	**14,014**
Provision for retirement benefits	**151**	690	306	**1,839**
Other current liabilities	**4,667**	767	(541)	**56,825**
Other — net	**579**	659	427	**7,049**
Net cash provided by operating activities	**15,872**	9,229	7,970	**193,255**
Cash flows from investing activities				
Purchases of marketable securities and investment securities	**(4)**	(4)	(5)	**(49)**
Proceeds from sales of marketable securities and investment securities	**11**	—	500	**134**
Acquisition of property, plant and equipment	**(2,393)**	(1,185)	(1,161)	**(29,137)**
Proceeds from sales of property, plant and equipment	**712**	23	206	**8,669**
Net increase (decrease) in long-term loans receivable	**7**	5	(15)	**85**
Other — net	**(297)**	(271)	(24)	**(3,615)**
Net cash used in investing activities	**(1,964)**	(1,432)	(499)	**(23,913)**
Cash flows from financing activities				
Proceeds from long-term debt	**—**	—	21,735	**—**
Payment of long-term debt	**(400)**	(6,400)	(15,035)	**(4,870)**
Proceeds from issue of bonds	**—**	10,000	—	**—**
Redemption of bonds	**—**	(7,024)	—	**—**
Payment for retirement by purchase of bonds	**—**	(102)	(7,914)	**—**
Proceeds from sale and leaseback transaction	**—**	—	1,985	**—**
Proceeds from issuance of common stock	**7**	3	—	**85**
Net increase (decrease) in short-term borrowings	**—**	(1,726)	26	**—**
Payments on acquisition of treasury stock	**(10)**	(7)	(4)	**(122)**
Cash dividends paid	**(1,274)**	(255)	—	**(15,512)**
Other — net	**(527)**	(539)	(406)	**(6,417)**
Net cash provided by (used in) financing activities	**(2,204)**	(6,050)	387	**(26,836)**
Effect of exchange rate changes on cash and cash equivalents	**(102)**	(23)	(126)	**(1,242)**
Net increase (decrease) in cash	**11,602**	1,724	7,732	**141,264**
Cash and cash equivalents at beginning of year	**27,994**	26,270	18,538	**340,850**
Cash and cash equivalents at end of year (Note 6)	**¥39,596**	¥27,994	¥ 26,270	**$482,114**
Supplemental information of cash flows:				
Cash paid during the year for:				
Interest	**¥ (517)**	¥ (700)	¥ (627)	**$ (6,295)**
Income taxes	**(1,145)**	(1,160)	(425)	**(13,941)**
Cash received during the year for:				
Interest and dividend income	**107**	119	96	**1,303**
Income taxes	**102**	98	380	**1,242**

See accompanying notes.

Notes to Consolidated Financial Statements

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2012, 2011 and 2010

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Anritsu Corporation and its consolidated subsidiaries (collectively, the "Company") 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.

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. The accounts of overseas subsidiaries are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified five 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, 2012, which was ¥82.13 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

New accounting standard for Accounting Changes and Error Corrections

Effective from the year ended March 31, 2012, the Company adopted "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No. 24 issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors which are made.

There is no impact of this change on the Company's consolidated financial statements as of and for the year ended March 31, 2012.

New accounting standard for Asset Retirement Obligations

Effective from the year ended March 31, 2011, the Company adopted "Accounting Standards for Asset Retirement Obligations" (ASBJ Statement No.18 dated March 31, 2008) and "Guidance on Accounting Standards for Asset Retirement Obligations" (ASBJ Guidance No. 21 dated March 31, 2008).

As a result of this adoption, operating income decreased by ¥5 million ($60 thousand), income before income taxes decreased by ¥73 million ($878 thousand) for the year ended March 31, 2011 and other current liabilities increased by ¥0 million ($4 thousand) and other long-term liabilities increased by ¥119 million ($1,431 thousand).

New accounting standard for Presentation of Comprehensive Income

Effective March 31, 2011, the Company adopted "Accounting Standard for Presentation of Comprehensive Income" (Accounting Standards Board of Japan ("ASBJ") Statement No. 25 on June 30, 2010) and "Revised Accounting Standards for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on June 20, 2010).

As a result of the adoption of these standards, the Company has presented the consolidated statements of comprehensive income in the consolidated financial statements for the fiscal years ended March 31, 2012 and 2011.

In addition, the Company has presented the consolidated statements of comprehensive income for the fiscal year ended March 31, 2010 as well as that for the fiscal year ended March 31, 2011.

3. CHANGES IN ACCOUNTING ESTIMATE

Provision for product warranties

During the fiscal year ended March 31, 2012, the Company established a policy to accrue the estimated cost of product warranty at the time the sale is recorded. The Company considers it as a change in accounting estimate since it became possible during the fiscal year ended March 31, 2012 to reasonably estimate the future warranty claim obligation. As a result of the change in estimate, gross profit, operating income and income before income taxes decreased by ¥348 million for the year ended March 31, 2012.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of Anritsu Corporation and all its subsidiaries (37 subsidiaries in 2012, 37 subsidiaries in 2011, and 41 subsidiaries in 2010). There are no minority interests in the consolidated balance sheet because all consolidated subsidiaries are wholly owned by Anritsu Corporation. Intercompany account balances and transactions have been eliminated in consolidation.

Investment in a significant affiliated company is accounted for using the equity method of accounting.

Investment in the other affiliated company is stated at cost, as the income or losses of such affiliated company are 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 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 company, 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 Company. 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

Inventories are stated at the lower of cost (specific identification) or market.

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 depreciates 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.

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 is amortized using 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 in the accompanying consolidated balance sheet, 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 accrues 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 are accrued.

Provision for product warranties

The Company provides a one year warranty for most of its products. The Company's policy is to accrue the estimated cost of warranty at the time the sale is recorded. The accrued product warranty costs are based primarily on historical experience of actual warranty claims as well as current information on repair costs. Warranty expenses are recorded in cost of sales in the accompanying consolidated statements of income.

Severance and retirement benefits

The Company has 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, 2012 and 2011 are for directors and corporate auditors who provided services before the resolution. Previously, severance and retirement benefits for the Company's 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.

Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. 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. Anritsu Corporation and its domestic subsidiaries have adopted consolidated tax filing since April 1, 2005.

Derivative transactions and hedge accounting

The accounting standard for financial instruments requires the Company 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 Company defers 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.

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 transactions

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.

5. ADDITIONAL INFORMATION

Severence and retirement benefit

During the fiscal year ended March 31, 2012, Anritsu Corporation and its consolidated domestic subsidiaries transferred a part of their retirement benefit plan for employees to the defined contribution plan. In accordance with the revised PITF No. 2 (revised 2007) "Practical Solution on Accounting for Transfer between Retirement Benefit Plans Accounting", the Company recorded the related loss of ¥528 million ($6,429 thousand) as "loss on revision of retirement benefit plan" in the accompanying consolidated statements of income for the year ended March 31, 2012.

6. 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, 2012, 2011 and 2010.

7. FINANCIAL INSTRUMENTS

1. Current status of financial instruments

(1) Group policy for financial instruments

The policy of the Company is to put money in low risk financial instruments only, and to fund through bank loans and bond issues. The Company uses 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 Company does 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 Company 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. The consolidated subsidiaries establish the same credit control rule.

Receivables denominated in foreign currencies expose the Company to foreign exchange risk. In principle, the Company uses 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 has business relationship, expose the Company to market risk. Held-to-maturity relationship securities expose the Company to very low risk because internal fund management rules require to hold debt securities with high credit ratings only. In addition, the Company regularly monitors 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 Company to foreign exchange risk. The Company primarily funds working capital requirement by loans, bonds and finance lease transactions. Certain loans expose the Company to interest rate risk. In order to minimize the interest rate risk and to fix the interest rate, the Company enters into derivative transactions of interest rate swap as measures of hedging.

The Company enters 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 Company to liquidity risk. The Company manages 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 15, 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, 2012 and 2011 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, 2012	Book value	Fair value	Difference
Cash	¥ 39,596	¥ 39,596	¥ –
Notes and accounts receivable–trade	23,606	23,606	–
Investment securities Available-for-sale securities	556	556	–
Notes and accounts payable–trade	(4,920)	(4,920)	–
Short-term borrowings	(1,836)	(1,836)	–
Bonds and bonds with stock acquisition rights convertible into common stock (including due within one year)	(13,800)	(16,639)	2,839
Long-term debt (including due within one year)	(14,700)	(14,816)	116
Lease obligation (including due within one year)	(1,304)	(1,313)	9
Derivatives	(22)	(22)	–

	Thousands of U.S. dollars		
At March 31, 2012	Book value	Fair value	Difference
Cash	$ 482,114	$ 482,114	$ –
Notes and accounts receivable–trade	287,422	287,422	–
Investment securities Available-for-sale securities	6,770	6,770	–
Notes and accounts payable–trade	(59,905)	(59,905)	–
Short-term borrowings	(22,355)	(22,355)	–
Bonds and bonds with stock acquisition rights convertible into common stock (including due within one year)	(168,026)	(202,593)	34,567
Long-term debt (including due within one year)	(178,985)	(180,397)	1,412
Lease obligation (including due within one year)	(15,877)	(15,987)	110
Derivatives	(268)	(268)	–

At March 31, 2011	Millions of yen Book value	Fair value	Difference
Cash	¥ 27,994	¥ 27,994	¥ —
Notes and accounts receivable–trade	19,175	19,175	—
Investment securities Available-for-sale securities	553	553	—
Notes and accounts payable–trade	(6,147)	(6,147)	—
Short-term borrowings	(1,839)	(1,839)	—
Bonds and bonds with stock acquisition rights convertible into common stock (including due within one year)	(19,900)	(21,359)	1,459
Long-term debt (including due within one year)	(15,100)	(15,270)	170
Lease obligation (including due within one year)	(1,705)	(1,723)	18
Derivatives	(65)	(65)	—

* 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 8, 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 15, DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS provides information on derivatives.

Note 2: Financial instruments with no readily available fair value at March 31, 2012 and 2011 are as follows:

At March 31, 2012	Millions of yen
Non-listed equity securities	**¥ 67**
Stocks of subsidiaries and affiliates	**178**
Other	**3**
	¥248

At March 31, 2012	Thousands of U.S. dollars
Non-listed equity securities	**$ 816**
Stocks of subsidiaries and affiliates	**2,167**
Other	**37**
	$3,020

Year ended March 31, 2011	Millions of yen
Non-listed equity securities	¥ 87
Stocks of subsidiaries and affiliates	152
Other	15
	¥254

Note 3: The annual maturities of monetary receivables at March 31, 2012 and 2011 are as follows:

At March 31, 2012	Millions of yen
	Within one year
Cash	¥39,596
Notes and accounts receivable–trade	23,606
	¥63,202

At March 31, 2012	Thousands of U.S. dollars
	Within one year
Cash	$482,114
Notes and accounts receivable–trade	287,422
	$769,536

Year ended March 31, 2011	Millions of yen
	Within one year
Cash	¥27,994
Notes and accounts receivable–trade	19,175
	¥47,169

Note 4: See Note 12, SHORT-TERM BORROWINGS AND LONG-TERM DEBT (including due within one year) for the annual maturities of long-term debt at March 31, 2012.

8. SECURITIES

The following tables summarize acquisition costs and book values of securities of which fair values are available as of March 31, 2012 and 2011:

	Millions of yen		
At March 31, 2012	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Equity securities	¥370	¥556	¥186
	¥370	¥556	¥186

	Thousands of U.S. dollars		
At March 31, 2012	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Equity securities	$4,505	$6,770	$2,265
	$4,505	$6,770	$2,265

	Millions of yen		
At March 31, 2011	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Equity securities	¥366	¥553	¥187
	¥366	¥553	¥187

The following table summarizes book values of securities of which fair values are not available as of March 31, 2012 and 2011:

	Millions of yen
At March 31, 2012	Book value
Available-for-sale securities:	
Non-listed equity securities	¥70
	¥70

	Thousands of U.S. dollars
At March 31, 2012	Book value
Available-for-sale securities:	
Non-listed equity securities	$852
	$852

	Millions of yen
At March 31, 2011	Book value
Available-for-sale securities:	
Non-listed equity securities	¥102
	¥102

Total sales of available-for-sale securities in the year ended March 31, 2012, amounted to ¥11 million ($134 thousand) and the gains and losses amounted to ¥10 million ($122 thousand) and ¥20 million ($244 thousand), respectively.
No sales of available-for-sale securities in the year ended March 31, 2011.

Impairment loss of some investment securities were charged to other expense as “Loss on devaluation of investment securities” of ¥0 million ($0 thousand) in the year ended March 31, 2012.
Impairment loss of some investment securities were charged to other expense as “Loss on devaluation of investment securities” of ¥78 million ($938 thousand) in the year ended March 31, 2011.

9. INVENTORIES

Inventories at March 31, 2012 and 2011, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Finished goods	¥ 5,527	¥ 6,184	$ 67,296
Work in process	4,084	4,520	49,726
Raw materials and supplies	5,203	5,059	63,351
	¥14,814	¥15,763	$180,373

10. LEASE TRANSACTIONS

The amount of outstanding future non-cancellable operating leases payments due at March 31, 2012 and 2011, consist of the follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	¥282	¥1	$ 3,434
Due over one year	550	6	6,696
	¥832	¥7	$10,130

11. RENTAL AND OTHER REAL ESTATE ASSETS

The Company owns rental commercial facilities and other properties in Kanagawa Prefecture, Tokyo Metropolis and other area. Net rent income in the years ended March 31, 2012 and 2011 totaled ¥592 million ($7,208 thousand) and ¥767 million, respectively. 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 years ended March 31, 2012 and 2011 and fair value are as follows.

Year ended March 31, 2012	Millions of yen
Book value as of March 31, 2011	¥ 3,056
Decrease	(285)
Book value as of March 31, 2012	2,771
Fair value as of March 31, 2012	17,613

Year ended March 31, 2012	Thousands of U.S. dollars
Book value as of March 31, 2011	$ 37,209
Decrease	(3,470)
Book value as of March 31, 2012	33,739
Fair value as of March 31, 2012	214,453

Year ended March 31, 2011	Millions of yen
Book value as of March 31, 2010	¥ 3,179
Decrease	(123)
Book value as of March 31, 2011	3,056
Fair value as of March 31, 2011	17,070

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.

12. SHORT-TERM BORROWINGS AND LONG-TERM DEBT (including due within one year)

Short-term borrowings consist principally of bank loans. Short-term bank loans at March 31, 2012 and 2011 are represented by overdrafts, generally maturing within six months. Weighted-average interest rate of short-term bank loans at March 31, 2012 is 1.1%.

Long-term debt at March 31, 2012 and 2011, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
1.87% unsecured bonds due 2012	¥ 9,900	¥ 9,900	$ 120,541
0.0% unsecured bonds with stock acquisition rights convertible into common stock at ¥629 ($8) per share due in 2015	3,900	10,000	47,486
Unsecured bank loans due in 2012 through 2014 (Weighted-average interest rate of 1.6% as of March 31, 2012)	14,700	15,100	178,984
Total	28,500	35,000	347,011
Less current portion	(19,000)	(400)	(231,341)
	¥ 9,500	¥34,600	$ 115,670

At March 31, 2012, the number of common stock assumable upon full conversion of outstanding convertible bonds and exercise of outstanding warrants was 15,122 thousand shares.

The annual maturities of long-term debt at March 31, 2012, are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2013	¥19,000	$231,341
2014	600	7,305
2015	5,000	60,879
2016	3,900	47,486
2017	—	—
Thereafter	—	—

13. STOCK OPTION PLAN

The Company has the following stock option plans in accordance with the Japanese Corporation Law (the "Law") as of March 31, 2012 and 2011:

Year ended March 31, 2012 Date of resolution	2007 Plan June 27, 2007	2011 Plan June 28, 2011
Grantees	Company's directors, certain employees and subsidiaries' directors	Company's directors, certain employees and subsidiaries' directors
Type of stock	Common stock	Common stock
Number of shares granted	213,000	206,000
Exercise price	¥566	¥908
Exercisable period	August 14, 2009 - August 13, 2012	September 1, 2014 - August 31, 2016

	2007 Plan	2011 plan
Non-vested (number of shares)		
Outstanding at the beginning of the year	—	—
Granted during the year	—	206,000
Forfeited during the year	—	—
Vested during the year	—	—
Outstanding at the end of the year	—	206,000
Vested (number of shares)		
Outstanding at the beginning of the year	121,000	—
Vested during the year	—	—
Exercised during the year	13,000	—
Forfeited during the year	—	—
Outstanding at the end of the year	108,000	—
Weighted-average market price per share at the date of exercise	868	—
Fair evaluated price per share at the date of grant	¥92	¥309

Year ended March 31, 2011 Date of resolution	2007 Plan 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	—
Granted during the year	—
Forfeited during the year	—
Vested during the year	—
Outstanding at the end of the year	—
Vested (number of shares)	
Outstanding at the beginning of the year	213,000
Vested during the year	—
Exercised during the year	5,000
Forfeited during the year	87,000
Outstanding at the end of the year	121,000
Weighted-average market price per share at the date of exercise	673
Fair evaluated price per share at the date of grant	¥92

Some cancellations of stock acquisition right were charged to other income as "Gain on reversal of stock acquisition rights" of ¥8 million ($96 thousand) in the year ended March 31, 2011.

14. INCOME TAXES

The Company is 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, 2012, 2011 and 2010.

Significant components of deferred tax assets and liabilities as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Inventories	¥ 3,198	¥ 9,903	$ 38,938
Net operating loss carried forward	4,648	2,679	56,593
Software	2,436	1,477	29,660
Accrued expenses	1,457	1,050	17,740
Investment securities on affiliated companies	5,778	3,878	70,352
Investment securities	520	595	6,331
Research and development expenses	343	307	4,176
Others	1,562	1,060	19,020
Subtotal deferred tax assets	19,942	20,949	242,810
Valuation allowance	(11,454)	(13,249)	(139,462)
Total deferred tax assets	8,488	7,700	103,348
Deferred tax liabilities:			
Retirement benefits	776	902	9,448
Net unrealized holding gains on securities	56	64	682
Others	4	—	49
Subtotal deferred tax liabilities	836	966	10,179
Net deferred tax assets	¥ 7,652	¥ 6,734	$ 93,169

Following the promulgation on December 2, 2011 of "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and "Act on special Measures for Great East Japan Earthquake" (Act No. 117 of 2011), the effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 40.6% to 37.9% for temporary differences expected to be eliminated in the fiscal year beginning on or after April 1, 2012, and the rate was changed to 35.5% for temporary differences expected to be eliminated in the fiscal year beginning on or after April 1, 2015. As a result, net deferred tax assets after offsetting deferred tax liabilities decreased by ¥436 million and variation difference on available-for-sale securities increased by ¥8 million. Income taxes-deferred increased by ¥443 million.

The following table summarizes significant differences between the normal effective tax rate and the Company's effective tax rate for financial statement purposes for the years ended March 31, 2012 and 2011.

	2012	2011
Normal effective tax rate	**41%**	41%
Increase (Decrease) in valuation allowance for temporary differences	**(14)**	(26)
Difference in the amount of tax estimation	**(2)**	10
Permanent differences of the Company and its consolidated subsidiaries	**(20)**	6
Tax credit	**(3)**	(5)
Increase (Decrease) of valuation allowance for net-operating loss carried forward	**6**	4
Inhabitants tax per capita	**1**	2
Difference of changes in the tax rate	**4**	—
Others	**(3)**	(4)
The Company's effective tax rate	**10%**	28%

15. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

The following tables summarize derivative contracts not qualified for hedge accounting as of March 31, 2012 and 2011:

Currency Instruments

	Millions of yen				Thousands of U.S. dollars			
	Contract amount, etc.				Contract amount, etc.			
At March 31, 2012	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	**¥605**	**—**	**¥(4)**	**¥(4)**	**$7,366**	**—**	**$(49)**	**$(49)**
Other	**368**	**—**	**0**	**0**	**4,481**	**—**	**0**	**0**
Buying contract								
Euro	**287**	**—**	**3**	**3**	**3,494**	**—**	**37**	**37**
Other	**170**	**—**	**(1)**	**(1)**	**2,070**	**—**	**(12)**	**(12)**
	—	**—**	**¥(2)**	**¥(2)**	**—**	**—**	**$(24)**	**$(24)**

	Millions of yen			
	Contract amount, etc.			
At March 31, 2011	Total	Due over one year	Fair value	Valuation gain (loss)
Forward exchange contract				
Selling contract				
Euro	¥1,728	—	¥(28)	¥(28)
Other	1,000	—	(6)	(6)
Buying contract				
Euro	860	—	2	2
Other	493	—	3	3
	—	—	¥(29)	¥(29)

The following tables summarize derivatives contracts qualified for hedge accounting as of March 31, 2012 and 2011:

Currency Instruments

	Millions of yen			Thousands of U.S. dollars		
	Contract amount, etc.			Contract amount, etc.		
At March 31, 2012	Total	Due over one year	Fair value	Total	Due over one year	Fair value
Forward exchange contract						
Selling contract						
Euro	**¥1,212**	**—**	**¥ (62)**	**$14,757**	**—**	**$ (755)**
U.S. dollar	**2,418**	**—**	**(50)**	**29,441**	**—**	**(609)**
	¥3,630	**—**	**¥(112)**	**$44,198**	**—**	**$(1,364)**

At March 31, 2011	Millions of yen		
	Contract amount, etc.		
	Total	Due over one year	Fair value
Forward exchange contract			
Selling contract			
Euro	¥ 542	—	¥(29)
U.S. dollar	1,541	—	(8)
	¥2,083	—	¥(37)

Interest Instruments

At March 31, 2012	Millions of yen			Thousands of U.S. dollars		
	Contract amount, etc.			Contract amount, etc.		
	Total	Due over one year	Fair value	Total	Due over one year	Fair value
Interest rate swaps						
Pay fixed / Receive floating	**¥2,000**	**¥0**	**¥(21)**	**$24,352**	**$0**	**$(256)**
	¥2,000	**¥0**	**¥(21)**	**$24,352**	**$0**	**$(256)**

At March 31, 2011	Millions of yen		
	Contract amount, etc.		
	Total	Due over one year	Fair value
Interest rate swaps			
Pay fixed / Receive floating	¥2,000	¥2,000	¥(37)
	¥2,000	¥2,000	¥(37)

16. RELATED PARTY TRANSACTION

During the years ended March 31, 2012 and 2011, the Company had no important transaction with related party.

17. 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, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Projected benefit obligation	**¥ 28,936**	¥ 27,361	**$ 352,319**
Unrecognized actuarial differences	**(12,277)**	(10,560)	**(149,483)**
Less fair value of pension assets	**(22,175)**	(22,468)	**(270,000)**
Allowance for employees' severance and pension benefits	**(5,516)**	(5,667)	**(67,162)**
Prepaid pension expense	**7,306**	7,563	**88,957**
Allowance for directors' severance and pension benefits	**23**	20	**280**
	¥ 1,813	¥ 1,916	**$ 22,075**

Included in the consolidated statements of income for the years ended March 31, 2012 and 2011 is severance and retirement benefit expense comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service costs-benefits earned during the year	**¥1,022**	¥ 987	**$12,444**
Interest cost on projected benefit obligation	**632**	647	**7,695**
Expected return on plan assets	**(488)**	(600)	**(5,942)**
Amortization of actuarial gains or losses	**1,811**	1,692	**22,050**
Amortization of prior service cost	**528**	—	**6,429**
Severance and pension benefit expense	**¥3,505**	¥2,726	**$42,676**

For the years ended March 31, 2012 and 2011, the discount rate and the rate of expected return on plan assets used by the Company have changed to 1.8% and 2.5% from 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.

18. 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.

19. COMMITMENTS AND CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Guarantee for the bonds issued by consolidated subsidiaries	**¥1,252**	¥1,306	**$15,244**
Guarantee for employees' housing loans	**390**	530	**4,749**
	¥1,642	¥1,836	**$19,993**

20. 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, 2012, 2011 and 2010 are ¥10,013 million ($121,916 thousand), ¥9,381 million and ¥9,388 million, respectively.

21. IMPAIRMENT LOSS ON GOODWILL

Impairment loss on goodwill recorded during the year ended March 31, 2012 is as follows:

Type: Goodwill (a part of goodwill of purchasing NetTest A/S)

Amount of impairment: ¥897 million ($10,922 thousand)

Background leading to recognition of impairment: As a result of reevaluating of the future business plan for the related reporting unit, it was determined that no sufficient future cash flow is predicted to be generated to recover the carrying amount of the reporting unit due to decline in profitability.

22. IMPAIRMENT LOSS

Impairment loss property, plant, and equipment recorded during the year ended March 31, 2012 is as follows:

Location	Use	Type of assets
Atsugi City, Kanagawa	Idle assets	Buildings and structures
Sagamihara City, Kanagawa	Idle assets	Land, buildings and structures
Onomichi City, Hiroshima	Idle assets	Buildings and structures

With respect to idle assets, the Company carries out assets grouping principally on an individual basis. During the fiscal year ended March 31, 2012, the Company has applied impairment accounting to idle assets.

As a result, the carrying value of these assets was reduced to recoverable amounts and the reduced amounts of ¥410 million ($4,992 thousand) were recorded as "impairment loss in the accompanying consolidated statements of income."

The breakdown of the loss is ¥239 million ($2,910 thousand) for buildings and structures, ¥17 million ($207 thousand) for land, and ¥154 million ($1,875 thousand) for demobilization cost.

23. ACCOUNTING STANDARDS FOR PRESENTATION OF COMPREHENSIVE INCOME

	Millions of yen	Thousands of U.S. dollars
Unrealized gains (losses) on securities:		
Increase (decrease) during the year	¥ (0)	$ (0)
Reclassification adjustments	—	—
Sub-total, before tax	(0)	(0)
Tax (expense) or benefit	9	110
Sub-total, net of tax	9	110
Deferred gains or losses on hedges:		
Increase (decrease) during the year	16	195
Reclassification adjustments	(8)	(98)
Sub-total, net of tax	8	97
Foreign currency translation adjustment:		
Increase (decrease) during the year	(125)	(1,522)
Share of other comprehensive income of associates accounted for using equity method:		
Increase (decrease) during the year	(2)	(24)
Total other comprehensive income	¥(110)	$(1,339)

24. SEGMENT INFORMATION

Information by **reportable segment** for the years ended March 31, 2012, 2011 and 2010 is as follows:

	Millions of yen						
	Reportable Segment						
Year ended March 31, 2012	Test and Measurement	Industrial Automation	Information and Communications	Others	Total	Adjustment	Consolidated
Net sales:							
Outside customers	¥70,531	¥14,222	¥3,276	¥ 5,558	¥93,587	¥ —	¥ 93,587
Inter-segment	110	4	0	4,131	4,245	(4,245)	—
Total	70,641	14,226	3,276	9,689	97,832	(4,245)	93,587
Operating income (loss)	13,736	529	(104)	841	15,002	(587)	14,415
Identifiable assets	67,023	11,782	6,304	11,221	96,330	16,739	113,069
Other items							
Depreciation and amortization	1,956	164	63	372	2,555	—	2,555
Amortization expense of goodwill	359	—	—	—	359	—	359
Impairment loss on goodwill	897	—	—	—	897	—	897
Increase in tangible fixed assets and intangible fixed assets	2,028	96	53	988	3,165	—	3,165

	Millions of yen						
	Reportable Segment						
Year ended March 31, 2011	Test and Measurement	Industrial Automation	Information and Communications	Others	Total	Adjustment	Consolidated
Net sales:							
Outside customers	¥53,463	¥12,326	¥4,118	¥ 7,946	¥77,853	¥ —	¥77,853
Inter-segment	43	5	24	3,162	3,234	(3,234)	—
Total	53,506	12,331	4,142	11,108	81,087	(3,234)	77,853
Operating income	5,051	659	69	1,653	7,432	(438)	6,994
Identifiable assets	58,611	11,140	7,024	11,846	88,621	10,628	99,249
Other items							
Depreciation and amortization	1,861	183	88	457	2,589	—	2,589
Amortization expense of goodwill	641	—	—	—	641	—	641
Impairment loss on goodwill	987	—	—	—	987	—	987
Increase in tangible fixed assets and intangible fixed assets	1099	198	37	216	1,550	—	1,550

	Millions of yen						
	Reportable Segment						
Year ended March 31, 2010	Test and Measurement	Industrial Automation	Information and Communications	Others	Total	Adjustment	Consolidated
Net sales:							
Outside customers	¥48,271	¥11,641	¥5,307	¥ 8,329	¥73,548	¥ —	¥73,548
Inter-segment	136	12	126	2,648	2,922	(2,922)	—
Total	48,407	11,653	5,433	10,977	76,470	(2,922)	73,548
Operating income	46,155	11,043	5,290	8,728	71,216	(2,251)	68,965
Identifiable assets	2,252	610	143	2,249	5,254	(671)	4,583
Other items							
Depreciation and amortization	1,930	163	110	745	2,948	32	2,980
Amortization expense of goodwill	641	—	—	—	641	—	641
Increase in tangible fixed assets and intangible fixed assets	844	132	48	111	1,135	—	1,135

	Thousands of U.S. dollars						
	Reportable Segment						
Year ended March 31, 2012	Test and Measurement	Industrial Automation	Information and Communications	Others	Total	Adjustment	Consolidated
Net sales:							
Outside customers	**$858,773**	**$173,164**	**$39,888**	**$ 67,673**	**$1,139,498**	**$ —**	**$1,139,498**
Inter-segment	**1,339**	**49**	**0**	**50,299**	**51,687**	**(51,687)**	**—**
Total	**860,112**	**173,213**	**39,888**	**117,972**	**1,191,185**	**(51,687)**	**1,139,498**
Operating income (loss)	**167,247**	**6,441**	**(1,266)**	**10,240**	**182,662**	**(7,148)**	**175,514**
Identifiable assets	**816,060**	**143,455**	**76,756**	**136,626**	**1,172,897**	**203,811**	**1,376,708**
Other items							
Depreciation and amortization	**23,816**	**1,997**	**767**	**4,529**	**31,109**	**—**	**31,109**
Amortization expense of goodwill	**4,371**	**—**	**—**	**—**	**4,371**	**—**	**4,371**
Impairment loss on goodwill	**10,922**	**—**	**—**	**—**	**10,922**	**—**	**10,922**
Increase in tangible fixed assets and intangible fixed assets	**24,693**	**1,169**	**645**	**12,029**	**38,536**	**—**	**38,536**

Related information

Information by **geographic area** for the years ended March 31, 2012, 2011 and 2010 is as follows:

	Millions of yen				
Year ended March 31, 2012	Japan	Americas	EMEA	Asia and Others	Total
Net sales	**¥36,899**	**¥19,884**	**¥12,550**	**¥24,254**	**¥93,587**
Property, plant and equipment	**13,925**	**2,349**	**382**	**229**	**16,885**

Year ended March 31, 2011	Japan	Americas	EMEA	Asia and Others	Total
Net sales	¥32,952	¥18,947	¥10,630	¥15,324	¥77,853
Property, plant and equipment	14,805	2,286	393	169	17,653

Year ended March 31, 2010	Japan	Americas	EMEA	Asia and Others	Total
Net sales	¥33,490	¥13,967	¥12,463	¥13,628	¥73,548

	Thousands of U.S. dollars				
Year ended March 31, 2012	Japan	Americas	EMEA	Asia and Others	Total
Net sales	**$449,276**	**$242,104**	**$152,807**	**$295,311**	**$1,139,498**
Property, plant and equipment	**169,548**	**28,601**	**4,651**	**2,789**	**205,589**

Effective from the fiscal year ended March 31, 2011, the Company adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17 dated March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20 dated March 21, 2008).

Information by reportable segment for the year ended March 31, 2010 conforms with the new accounting standard.

Non-Consolidated Balance Sheets (Supplementary Information)

ANRITSU CORPORATION
March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Assets			
Current assets:			
Cash	**¥ 25,835**	¥ 18,756	**$ 314,562**
Notes and accounts receivable — trade	**16,203**	12,963	**197,285**
Allowance for doubtful accounts	**(67)**	(73)	**(816)**
Long-term loans receivable due within one year	**3,455**	—	**42,067**
Inventories	**7,686**	7,966	**93,583**
Deferred tax assets	**3,327**	4,190	**40,509**
Other current assets	**1,521**	1,794	**18,520**
Total current assets	**57,960**	45,596	**705,710**
Property, plant and equipment:			
Land	**1,268**	1,285	**15,439**
Building and structures	**29,413**	29,534	**358,127**
Machinery and equipment	**8,210**	7,791	**99,963**
Accumulated depreciation	**(30,303)**	(29,750)	**(368,963)**
Net property, plant and equipment	**8,588**	8,860	**104,566**
Investments and other assets:			
Investment securities	**46,056**	52,793	**560,770**
Long-term loans receivable	**5,703**	9,229	**69,439**
Deferred tax assets	**1,008**	15	**12,273**
Other assets	**5,964**	6,324	**72,616**
Allowance for doubtful accounts	**(1)**	(1)	**(12)**
Total investments and other assets	**58,730**	68,360	**715,086**
Total assets	**¥125,278**	¥122,816	**$1,525,362**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Liabilities and net assets			
Current liabilities:			
Short-term borrowings	¥ 1,436	¥ 1,439	$ 17,484
Long-term debt due within one year	8,500	400	103,494
Current portion of bonds	9,900	—	120,541
Notes and accounts payable — trade	5,376	5,859	65,457
Accrued liabilities	3,675	3,579	44,746
Accrued expenses	2,000	1,017	24,352
Income taxes payable	657	63	8,000
Provision for product warranties	152	—	1,851
Other current liabilities	13,260	12,531	161,451
Total current liabilities	44,956	24,888	547,376
Long-term liabilities:			
Long-term debt	9,500	34,000	115,670
Retirement benefits for directors and corporate auditors	6	10	73
Other long-term liabilities	1,276	1,305	15,537
Total long-term liabilities	10,782	35,315	131,280
Net assets:			
Common stock	17,106	14,051	208,280
Capital surplus	26,056	23,002	317,253
Legal reserve	2,468	2,468	30,050
Retained earnings	24,579	23,826	299,269
Treasury stock, at cost	(853)	(843)	(10,387)
Net unrealized holding gain or loss on securities	123	120	1,498
Deferred gain or loss on hedged transactions	(13)	(22)	(158)
Stock acquisition right	74	11	901
Total net assets	69,540	62,613	846,706
Total liabilities and net assets	¥125,278	¥122,816	$1,525,362

Non-Consolidated Statements of Operations (Supplementary Information)

ANRITSU CORPORATION
Years ended March 31, 2012, 2011 and 2010

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2011	2010	2012
Net sales	**¥52,549**	¥39,108	¥36,754	**$639,827**
Cost of sales	**33,160**	28,802	27,706	**403,750**
Gross profit	**19,389**	10,306	9,048	**236,077**
Selling, general and administrative expenses	**10,087**	8,056	7,283	**122,818**
Operating income (loss)	**9,302**	2,250	1,765	**113,259**
Other income (expenses):				
Interest and dividends income	**544**	691	652	**6,624**
Interest expenses	**(498)**	(616)	(559)	**(6,064)**
Foreign exchange gain (loss)	**(121)**	(265)	12	**(1,473)**
Gain on sales of property, plant and equipment	**1**	—	149	**12**
Gain on sales of investment securities	**10**	—	140	**122**
Loss on devaluation of investment securities	**(0)**	(78)	(17)	**(0)**
Loss on devaluation of stock of subsidiaries and affiliates	**(6,698)**	(964)	(2,015)	**(81,554)**
Gain on reversal of subscription rights to shares	**—**	8	—	**—**
Gain on retirement by purchase of bonds	**—**	—	62	**—**
Gain on extinguishment of tie-in shares	**—**	—	47	**—**
Loss on adjustment for changes of accounting standard for asset retirement obligations	**—**	(33)	—	**—**
Impairment loss	**(237)**	—	—	**(2,886)**
Loss on revision of retirement benefit plan	**(216)**	—	—	**(2,630)**
Loss on sales of investment securities	**(20)**	—	—	**(244)**
Other, net	**(12)**	(121)	3	**(145)**
	(7,247)	(1,378)	(1,526)	**(88,238)**
Income (loss) before income taxes	**2,055**	872	239	**25,021**
Provision for income taxes:				
Current	**156**	(460)	(410)	**1,900**
Deferred	**(128)**	292	2,919	**(1,559)**
Net income (loss)	**¥ 2,027**	¥ 1,040	¥ (2,270)	**$ 24,680**

Independent Auditor's Report

To the Board of Directors of Anritsu Corporation:

We have audited the accompanying consolidated financial statements of Anritsu Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Anritsu Corporation and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 27, 2012
Tokyo, Japan