

# Where We're Going

**Anritsu is working to achieve sustained profitable growth by further increasing its value as a worldwide corporation through enhanced global management. Hiromichi Toda, who assumed the position of President this June, explains Anritsu's strategies for the future and how they will be implemented.**

## **Management Objectives for the Year Ending March 31, 2006**

The Anritsu Group has implemented management structure reforms in business, organization and employment to restore the corporate value damaged by the collapse of the IT bubble. In the year ended March 31, 2005, the Group steadily regained profitability and achieved increases in sales and income through increased profitability in its core business through unified efforts to recover and grow. As a result of these structural reforms, Anritsu significantly improved the profit margin and restored the profit structure in its core Test and Measurement business, which is highly competitive in the area of measuring instruments for third-generation (3G) mobile communications. In addition, increased sales of X-ray inspection systems contributed to improved profitability in the Industrial Automation business, which supplies solutions to the food products industry with an emphasis on safety and security.

As targets for solidifying its profitable growth strategy in the year ending March 31, 2006, Anritsu aims to achieve net sales of ¥92,000 million (9.5 percent year-on-year increase) and operating income of ¥7,200 million (48.1 percent year-on-year increase). Anritsu uses Anritsu Capital-cost Evaluation (ACE)<sup>1</sup> as an indicator to evaluate corporate value, and will concentrate on returning to profitability on an ACE basis in the year ending March 31, 2006.

Note 1. Anritsu Capital-cost Evaluation (ACE): Operating income after tax – Cost of capital

## **Future Focus Areas**

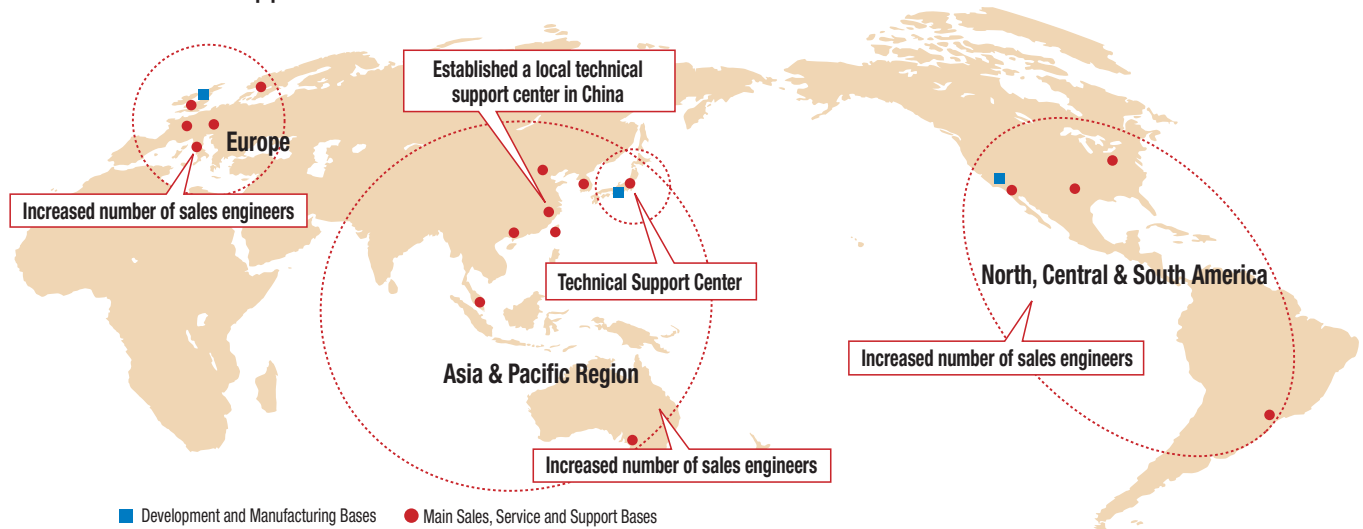
Anritsu has cultivated numerous "Original & High Level" technologies since its founding 110 years ago. Determining how best to use these technologies to meet customer needs and wants is crucial. The rapidly changing telecommunications industry demands new solutions that satisfy customer expectations. Anritsu will continue to function as an "Intelligent Solution Creator," as former President Shiomi expressed it.

Toward this end, Anritsu must not only provide good products, but also remain closely focused on customers in all regions and build a support structure to provide solutions that enhance customer value. Therefore, Anritsu increased the number of sales engi-



**Hiromichi Toda**  
President

## Global Customer Support



neers in the United States, Europe and Asia, established a technical support center in Shanghai, China, and will continue to strengthen its support structure.

Anritsu has concentrated investment on the 3G mobile communications and internet protocol (IP) network markets, and expects its services and capital investment in these areas to produce strong results.

In its core Test and Measurement business for the mobile communications segment, the Group aims to become a market leader by steadily capturing 3G service-related growth opportunities in the United States, Europe and China, in addition to Japan, and by offering a wide range of products and customer support services that cover development, production and maintenance.

In the wireless market, demand is growing with a succession of new technologies including wireless LAN and Worldwide Interoperability for Microwave Access (WiMAX)<sup>2</sup>. Anritsu will work aggressively in these areas to form close relationships with global customers as a market leader, and to provide solutions in new markets based on general purpose measuring instruments.

Sales of measuring instruments for the IP network market grew strongly in Japan in the year ended March 31, 2005, due to the increasing use of IP networks in the backbone lines for mobile communication networks and in access lines for broadband. Anritsu plans to develop this market globally in the year ending March 31, 2006. Specifically, Anritsu will aim to increase sales in the metro access network market, where strong demand is expected for development, production and maintenance from telecommunications carriers and IP network system vendors.

In its Information and Communications business, Anritsu plans to reform its profit structure by cultivating demand in private-sector markets and boldly reforming its market and product portfolio, while continuing to focus on the Japanese government and municipal markets. Toward this end, Anritsu plans to enhance profits through an aggressive strategy of forming alliances with outside partners to expand sales of video surveillance systems and develop the private-sector market for video distribution solutions.

Note 2. An IEEE standard for wireless broadband access

## Market Conditions and Anritsu's Activities in the Test and Measurement Business

Anritsu offers numerous products used in development, production and maintenance in the mobile phone market. Third-generation mobile phones are expected to gain acceptance worldwide as information terminals offering various applications including television and payment functions. In addition, demand is picking up for measuring instruments for development, with 3.5G HSDPA<sup>3</sup> mobile phone systems scheduled to begin service in 2005 in the United States and 2006 in Japan. This set of conditions is extremely favorable for Anritsu, as it holds a leading share in the market for measuring instruments used in 3G and 3.5G development, which require advanced wireless software technologies.

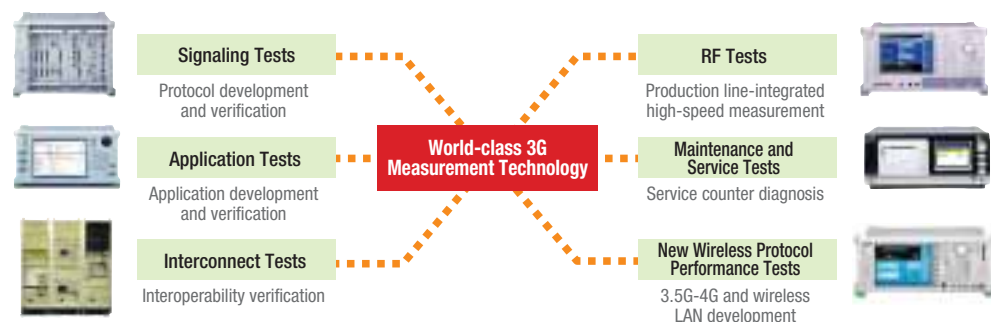
In the wireline network market, expectation of greater investment in broadband worldwide is driving expansion of "triple play service," which offers combined voice, data and video services over fiber-optic cables or xDSL, for home use in Japan, the United States and Europe. The development of the ubiquitous network society is also creating new demand in the Test and Measurement business through efforts to combine wireless and wireline IP networks.

Product development and support for global customers will be core tasks in the future. In addition to strengthening the cooperation arrangement of product divisions in Japan, the United States and the United Kingdom, Anritsu will further enhance global management through collaboration in development, production and sales by increasing sales staff and creating a customer support structure in Japan, the Americas, Europe and the Asia-Pacific region.

Mark Evans, formerly Senior Manager of the Globalization Center, was appointed my successor as General Manager of the Measurement Business Group in April 2005 to accelerate global development of the Test and Measurement business. We expect Mr. Evans to excel in implementing the core market-driven and customer-focused strategies of the Test and Measurement business and increasing overseas market share.

Note 3. HSDPA: High Speed Downlink Packet Access

### Integration of Telecommunications Networks



## Japan

In Japan, the number of subscribers to 3G services surpassed 32 million at the end of May 2005. The key to expanding business for telecommunications carriers and handset manufacturers will be their ability to provide attractive services to further increase the number of subscribers. Telecommunications carriers are therefore intensifying develop-

ment and testing of application software for handsets. In 2004, Anritsu introduced a measuring instrument for the development of application software for handsets, an industry first, and will develop this new market. In addition, Anritsu will aggressively capitalize on new business opportunities created by the entry of new operators in 2006.

## Europe

In Europe, 44 companies had begun UMTS<sup>4</sup> service as of the end of May 2005, but growth in the number of subscribers remains modest, due in part to difficulty offering attractive services caused by problems establishing compatibility for new applications among the numerous telecommunications carriers. Anritsu expects a growing number of inquiries for interoperability tests<sup>5</sup>, application tests and handset service tests to solve this problem. Anritsu will build a solid position in Europe by providing solutions in the near future that exploit its leading position in 3G in Japan, and will focus on seizing post-3G opportunities.

**Note 4.** UMTS (Universal Mobile Telecommunications System) is a 3G system that combines GSM and W-CDMA.

**Note 5.** Tests to determine interoperability between different handsets and carriers.

## Americas

Cingular Wireless, the largest U.S. wireless carrier with 46 million customers, plans to introduce 3G and 3.5G services in 2005. Anritsu foresees steady growth in the year ending March 31, 2006, and is building close relationships with major chipset and handset manufacturers in areas including development of 3.5G.

In the wireline market, so-called triple play service, which combines voice, data and video, offered by Verizon Communications Inc. and other companies is rapidly expanding. Anritsu expects increasing demand for fiber optic/IP measuring instruments for FTTx<sup>6</sup> extension, which is essential to triple play service.

**Note 6.** FTTx (Fiber-to-the-x): High-speed internet access technology achieved through direct fiber optic connections to homes, apartment buildings, offices and other spaces

## Asia

Exports to Europe and the United States from China, the world's "factory" for handsets, are expected to increase with growth in the number of 3G service subscribers. In the Chinese market, which has the greatest number of mobile phone subscribers, production of 3G handsets for the domestic market is expected to increase after 3G service licenses are issued. The timing for issuance of 3G licenses remains undecided, but Anritsu is preparing for coming market developments through measures including strengthening relations with the China Academy of Telecommunication Research, building ties with design houses that have strong influence among local Chinese manufacturers, and conducting marketing aimed at Taiwanese ODM<sup>7</sup> manufacturers. In addition, Anritsu plans to open a base in India, which is rapidly growing as a global software development base, to support customers worldwide.

**Note 7.** An ODM (Original Design Manufacturer) is a company that performs contract-based design and manufacturing for partner brands. It differs from OEM in that work is subcontracted from the design process.



**Mark Evans**  
Executive Vice President,  
General Manager of  
Measurement Business Group

I was appointed Senior Manager of the Globalization Center in April 2004, where I started out by conducting customer satisfaction surveys. I visited customers around the world and listened to them talk about what they want from Anritsu and what they think of Anritsu as a global supplier. Customer focus is the most important point for Anritsu as we aim to become a truly global company that supports our global customers' businesses.

In the year ending March 31, 2006, we will conduct a project to analyze problems identified in the customer satisfaction surveys. Enhancing speed and quality, which are critical factors in improving our responsiveness to customers, is a particularly urgent task. Our mission is to build close relationships with customers from the early stages of design and provide timely, high-quality solutions tailored to customer business plans. As part of this effort, we intend to construct a system of close alliances to support the efficient functioning of our tripolar research and development structure in Japan, the United States and the United Kingdom.

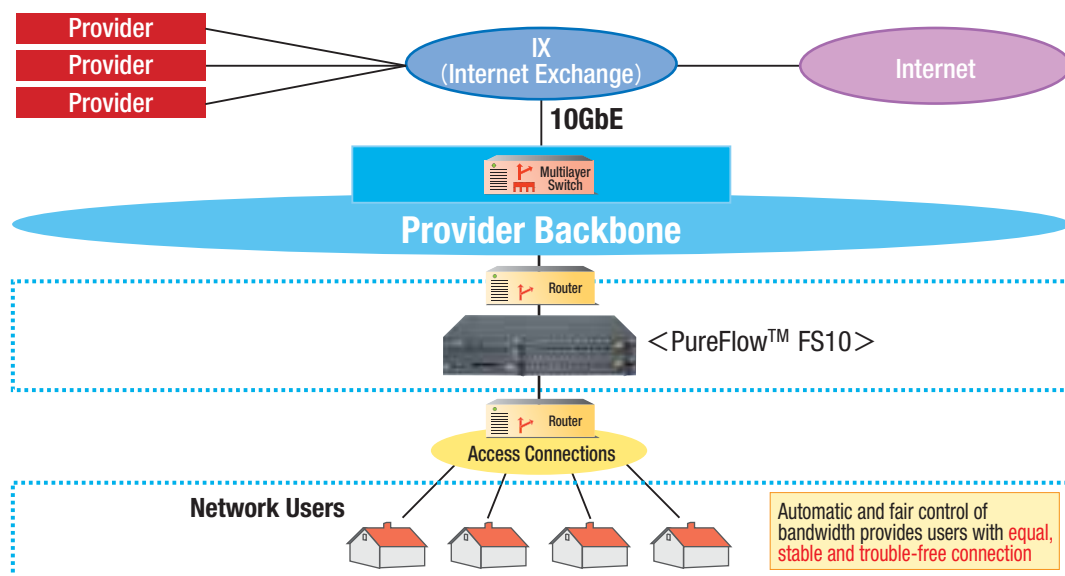
## Outlook for Businesses Other Than the Test and Measurement Business

In the **Information and Communications** business, improving profitability is imperative, and Anritsu is further reviewing its markets and products. To promote expansion into the private-sector market from the government market, we plan to expand sales channels through alliances with system integrators related to major trading companies. In addition, we will take steps to introduce our video surveillance systems in areas such as train and subway stations through alliances. In the PureFlow™ business, we established a dedicated sales force in April 2005 to sell network bandwidth control equipment and other products to internet service providers. We will concentrate on initiatives such as these to enhance profitability.

In the **Industrial Automation** business, sales are strong due to recent increased public demand for food safety. In the year ended March 31, 2005, overseas sales accounted for 20 percent of sales in this business, and Anritsu is optimizing its overseas operations to support further expansion. Also in this period, Anritsu added to its previously established subsidiary in China with aggressive investment including establishment of subsidiaries in the United States and United Kingdom, and a representative office in Thailand. Established as original sales bases separate from the Test and Measurement business, these bases will expand the number of major global customers by providing products including X-ray inspection systems essential for food safety and security.

In the **Services and Others** business, we are conducting the precision measurement business and environment-related business as special projects in the internal venture organization. The precision measurement business handles production and sales of quality inspection equipment for the electronic packaging and liquid crystal production processes. A solder paste inspector used for three-dimensional measurement of printed solder paste in the surface mounting process of electronic components can detect problems including solder insufficiency, excess and bridging with high speed and accuracy. Against the backdrop of increasing speed, capacity and compactness in telecommuni-

Example of PureFlow™ FS10 in Use



cations devices, further growth in Japan and Asia is expected.

The laser gas detector co-developed with a major gas company is a portable, remote gas detector that uses a semiconductor laser. The device detects and measures methane gas with high speed and sensitivity simply by irradiating the measured area with a laser beam. By easily pinpointing methane gas emission sources, this device permits efficient understanding of methane gas diffusion, which is key to efforts to reduce it. Amid increasing worldwide efforts to cut greenhouse gases, this is a field in which Anritsu will make significant contributions to environmental preservation.

Anritsu will create pillars of businesses that will become new sources of profit by promoting these special projects.

## Financial Strategy

Anritsu's management focuses on consolidated cash flows with the aim of maximizing corporate value. In addition, we use Anritsu Capital-cost Evaluation (ACE), a proprietary indicator for determining the rate of return on invested capital, to evaluate the performance of each group and focus on capital efficiency. We introduced ACE in the year ended March 31, 2001 under a policy positioning returns above cost of capital as the primary management indicator in enhancing corporate value.

Despite improvement of ¥3,052 million compared to the previous fiscal year, we failed to return to profitability on an ACE basis in the year ended March 31, 2005, with ACE totaling negative ¥2,230 million. Other major management indicators including consolidated ROE, consolidated free cash flow and net debt-to-equity ratio<sup>8</sup> improved substantially. While the speed of improvement is certainly not rapid, these indicators show that our measures to increase corporate value are producing results. We will continue to improve our financial structure through measures including enhancement of shareholders' equity, reduction of interest-bearing debt and improvement of cash flow generation.

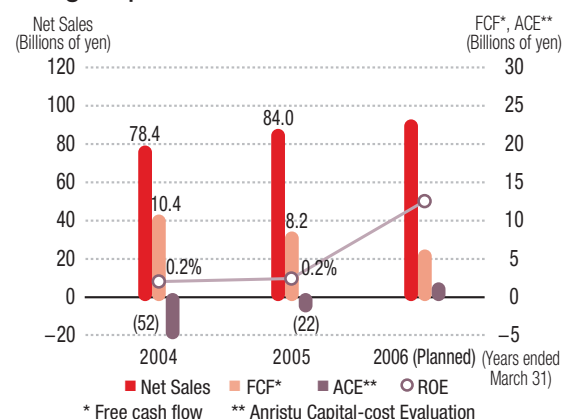
In the year ending March 31, 2006, we will strengthen the global strategy of the Test and Measurement business to increase sales and solidify our profit structure, in addition to achieving positive ACE. In the year ending March 31, 2007, we aim to enhance corporate value by building a profit structure with a consolidated operating margin over 10 percent.

Anritsu's basic policy on shareholder returns is to pay cash dividends based on the state of consolidated net income and other factors, including the operating environment, performance forecasts for the next period and beyond, and the ratio of dividends to consolidated equity. Expanding operating income is crucial. In order to raise the ratio of dividends to consolidated equity, we will therefore concentrate on developing and selling high-value-added products such as 3G measuring instruments.

Note 8. Net debt-to-equity ratio:  $(\text{Interest-bearing debt} - \text{cash and cash equivalents}) / \text{shareholders' equity}$

Note 9. NPV: Net present value

## Rising Corporate Value



**Hirokazu Hashimoto**

Executive Vice President,  
Senior Manager of Control  
and Accounting Dept.  
Chief Administrative Officer

In order to bring a steady management focus to capital efficiency (capital cost) and cash flows, Anritsu must ensure that the significance of these is fully understood company-wide. A key to this effort is taking management indicators such as daily work efficiency improvement indexes and investment decision indicators and breaking them down and linking them to management indicators to make them easier to understand. For example, one standard we use for making investment decisions in product development planning is NPV<sup>9</sup>. This is calculated by subtracting the present value of the amount invested from the present value of the future cash flows we expect to obtain from this product development using cost of capital as the discount rate.

In addition to introducing a stock option plan for executives at Anritsu and its subsidiaries, we also introduced phantom stock options as a long-term incentive system for middle management. This plan incorporates improvement in cash flow and ACE, and serves as an indicator for increased corporate value, which determines the price of the phantom shares. Through these measures, we will work to maximize corporate value throughout the Anritsu Group.