

## Interview with President Hiromichi Toda

In the first year of our Mid-term Business Plan, Anritsu Global LP 2008 (GLP08), we achieved significant increases in net sales and income by conducting a range of measures including sweeping management structure reforms in the Information and Communications business and strengthening the global sales operations of the Test and Measurement and Industrial Automation businesses. Looking forward, we intend to expand sales and raise the operating margin with high-value-added products, and quickly achieve operating profitability in the service assurance field in order to achieve GLP08 objectives.



Hiromichi Toda  
President

**In the year ended March 31, 2007, net sales increased 9.0 percent compared with the previous fiscal year to ¥99,445 million and operating income increased 39.8 percent to ¥6,358 million. This clearly indicates steady progress in achieving profitable growth. How would you rate Anritsu's performance?**

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The first year of the Mid-term Business Plan was a year of challenges. While building a foundation for the shift to next-generation networks (NGN), which will support profitable growth in the future, we worked to meet near-term numerical targets. We are facing a variety of management issues, so I cannot say I was completely satisfied, but I do feel that the significant growth in sales and income was the result of Group-wide efforts during the past year.

One of our most notable accomplishments during the year was achieving operating profitability (operating income of ¥145 million) in the Information and Communications business. After six consecutive years of losses in this business, including an operating loss of ¥2.0 billion in the year ended March 31, 2006, sweeping management reforms, including spinning the business off as a separate company, finally returned it to profitability. It was by no means an easy task, and I am thankful for the hard work of those who made it possible.

In our mainstay Test and Measurement business, we attained higher sales and profits in the wireless field, which has become a core business, and successfully launched measuring instruments for high-speed communications equipment and related devices that we had been developing to expand our NGN-related business. However, the high-speed communications market is limited at present, and capturing increasing demand in the future will require additional functions. Accordingly, we are redoubling development efforts aimed at full-scale earnings growth.

In the service assurance field, which Anritsu entered in 2005 when we acquired the former NetTest A/S (now Anritsu A/S) to develop as a cornerstone of our NGN operations, we posted a loss that exceeded the gains in other Test and Measurement operations due to delays in aligning the company with Anritsu's business model. Consequently, while overall sales in the Test and Measurement business increased, operating income decreased slightly. We have therefore made improving profitability in the service assurance field a key management priority, and will focus our efforts on transforming it into an unmistakably Anritsu-style enterprise.

The Industrial Automation business faced a year of challenges, including restrained capital investment in the food products industry caused by rising crude oil prices and increased manufacturing costs resulting from high prices for metals used as raw materials. Sales were essentially unchanged from the previous fiscal year, while income decreased slightly. As we cannot expect any significant growth in the maturing domestic food products market, our task in the future will be to expand this business overseas.

**In GLP08, you set three fundamental policies – globally provide quick service and support that exceed customer expectations; strengthen core businesses with prioritized allocation of resources; and build new businesses that reflect emerging market trends. What have you done in these areas, and what new developments and issues lie ahead?**

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Regarding our first policy, the provision of global service and support, domestic sales declined slightly year-on-year due in part to slowing investment in third-generation mobile communications (3G) in Japan. Meanwhile, sales in Europe, the Middle East and Africa (EMEA), the Americas and Asia all increased significantly. The overseas sales ratio reached 54 percent on a consolidated basis. This is not simply because overseas markets are more active. Rather, it is the result of our conscious measures to expand overseas sales. The domestic/overseas market ratio is roughly 1 to 5 in our Test and Measurement business and about 3 to 7 in the Industrial Automation business. At the same time, while Anritsu has a large share of the domestic market, its share outside of Japan is relatively small. In other words, we are able to achieve greater growth by enhancing sales and support in overseas markets. Naturally, we are maintaining efficiency by aligning our efforts with product strategies and local market trends and focusing on priority regions and business domains.

Initiatives during the year ended March 31, 2007 included expanding support for the activities of sales representatives in the growing markets of Southern and Eastern Europe, Russia, the Middle East and Africa by establishing a central sales company for measuring instruments, Anritsu EMEA Ltd., in the United Kingdom. We also opened new offices in Spain and the United Arab Emirates to offer locally based sales support. In India, enhancements of our liaison office enabled it to provide services such as software upgrades, repair and calibration. India, particularly Bangalore, where Anritsu Pte. Ltd. India Branch Office is located, has become a global center for software development, including mobile phone software. Requests have come from head offices of European and U.S. mobile phone manufacturers to expand local support for our measuring instruments there. I visited Bangalore in May 2007. The visible progress since my previous visit only a year earlier left a vivid impression of India's growing importance. In the year ending March 31, 2008, Anritsu plans to strengthen its efforts throughout the Asia-Pacific region. Initiatives will include establishing India, Southeast Asia and Oceania as a separate area from China in order to build a sales and support framework that more closely matches regional characteristics.



Staff at the India Branch Office are working to improve their skills in order to provide full technical support.

We are also moving ahead in Latin America, where investment in communication networks and electronics manufacturing is expanding at the same pace as in Asia. In April 2007, our central sales company for this region began operating in Mexico. Together with our Brazilian subsidiary, the new company will conduct finely tuned sales activities for this mainly Spanish- and Portuguese-speaking business region.

In this way, we are conducting global development of the Test and Measurement business by continuously implementing measures tailored to market conditions, with a focus on markets expected to grow significantly in the future. In the year ended March 31, 2007, overseas sales accounted for more than 60 percent of sales of the Test and Measurement business. We expect this to grow to 70 percent in the medium term.

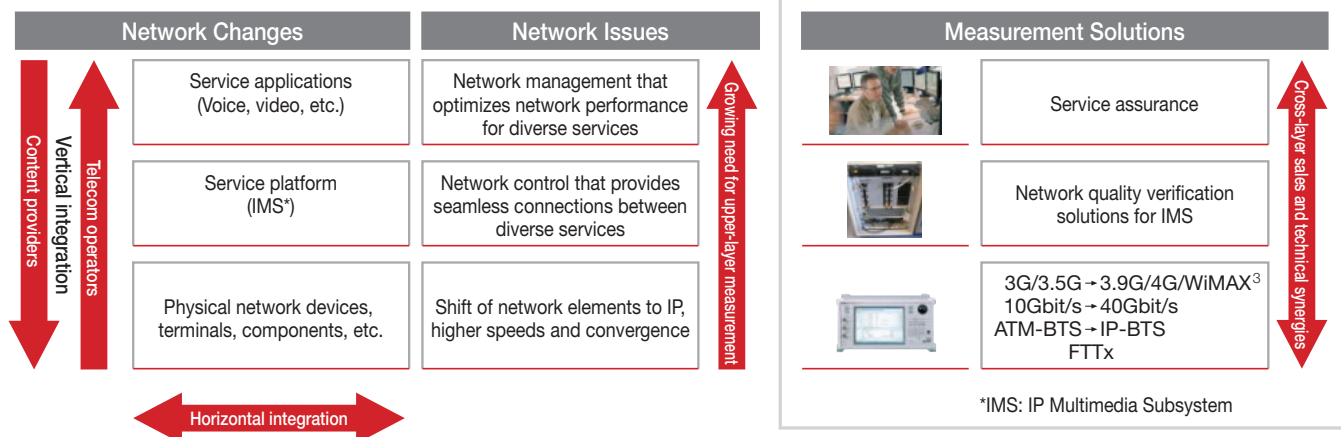
In the Industrial Automation business, expanding our share of overseas markets is the key to growth because the domestic food market is approaching maturity. We are seeing steady results from our efforts to expand our sales and support network and strengthen local marketing capabilities, such as the establishment of subsidiaries in the United Kingdom and the United States three years ago. Anritsu will leverage its world-class inspection systems to continue expanding this business in the future through full-scale participation in Europe and other booming markets.

Our second policy is prioritizing allocation of resources. The communications industry is undergoing a global shift to NGN. Based on internet protocol (IP), NGN employs relatively inexpensive systems to deliver diverse content at prices corresponding to service quality. The aim of NGN is to facilitate business that satisfies both subscribers and service providers. Over the next several years, networks will have to change to accommodate a rapid rise in traffic and support service interconnectivity. A mechanism and framework must also be developed to assure that the quality of each service conforms to the contracted level. This will not be an entirely easy process. Based on a policy of helping raise the value of NGN while increasing value for the entire Anritsu Group, we have been working under the slogan "Growing Value in Next-Generation Networks" to strengthen our Test and Measurement business in order to support the communications industry as it shifts to NGN.

Proprietary technologies are an Anritsu strength that we are leveraging in developing and providing optical and digital measuring instruments for communications equipment and devices that support the development of high-speed networks. Having developed measuring instruments for fixed-mobile convergence (FMC)<sup>1</sup> compatible mobile phones, which are the next stage beyond third-generation (3G) models, we are now developing measuring instruments and testing systems for next-generation mobile communications systems. Anticipating a growing need for quality assurance solutions for end-to-end services, we entered the service assurance field through the acquisition of a company in Denmark with unique product offerings. We are working to meet customer requirements more consistently in various ways, including establishing a sales team dedicated to serving major telecom operators who lead the way in technological innovation, and narrowing the range of customer and development targets.

The Test and Measurement business is not the only operation involved in NGN. The Information and Communications business, which achieved operating profitability in the year ended March 31, 2007, also sees NGN as a growth area. We are collaborating with system integrators to provide small, portable bandwidth control equipment incorporating original Anritsu technologies for IP-based corporate intranets.

## Expansion of NGN-Related Businesses



The field of wireless test and measurement will continue to be one of Anritsu's core businesses. In 2007, global leaders in the mobile phone industry will shift their development focus from 3G and 3.5 generation (3.5G) mobile communications to Long-Term Evolution (LTE)<sup>2</sup>, a next-generation communications protocol. As the world's leading provider of measurement solutions, the Anritsu Group will develop and launch LTE-compatible measuring instruments. Anritsu continues to achieve steady growth in the core area of handheld measuring instruments for base station field testing by regularly adding to its product lineup.

Our third policy is building new businesses that reflect emerging market trends. For over 20 years, Anritsu has been using its proprietary laser-based precision shape measurement technologies for various applications, including instruments for measuring the outer diameter of fiber optic cables. With the increasing density of printed circuit boards for computers, mobile phones, digital cameras and other electronic devices in recent years, controlling solder volume and print positioning of solder in circuit printing has become a critical issue. In response, Anritsu developed a solder paste inspector for this market. In the year ended March 31, 2007, Anritsu exceeded its projections in the precision measuring instruments business by forming a new sales alliance.

We see future potential in fields related to development and manufacturing of wireless modules for such applications as automobiles, home appliances and computers, as well as in fields related to high-speed interface development. We will apply our existing wireless measurement, high-speed digital measurement and other proprietary technologies to provide measuring instruments in these general purpose measurement fields.

Anritsu has been expanding its operations vertically to reflect the shift in capital investment from physical elements to services – in other words, from demand for measuring instruments for hardware to software solutions such as service assurance. However, to establish a business structure that mitigates the impact of fluctuations in capital investment in communications, I believe it is also important to expand our operations horizontally in fields other than communications.

(Note 1) Fixed-Mobile Convergence: Communication services that fuse wireline and mobile communications in ways such as enabling the use of a mobile phone as a wireless handset for a fixed-line phone.

(Note 2) Long-Term Evolution: Currently undergoing standardization, LTE is a communications protocol that evolved from 3.5G.

(Note 3) WiMAX (Worldwide Interoperability for Microwave Access): A standard for high-speed wireless access networks. WiMAX holds promise for providing wireless high-speed data transmission equal to that of wireline broadband access technologies such as ADSL and fiber optic cable.

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**What market trends do you foresee in the year ending March 31, 2008, and what are Anritsu's objectives?**

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As I have already mentioned, customer preparations for the shift to NGN will continue, as will increases in network speed and the fusion of mobile and fixed-line phone services. Amid such market trends, we anticipate increasing demand for measuring instruments for NGN, as well as for service assurance for networks incorporating IP phones in addition to mobile phones. In the field of wireless measurement, we project a continuing increase in the number of 3G and 3.5G mobile phone subscribers in Europe, resulting in continued launches of new mobile phone models by European and American manufacturers. In China, trial services using the TD-SCDMA protocol will begin in 10 cities. Although still at the trial stage, we expect handset shipments to be in the area of several million. In Japan, development will shift from 3.5G mobile phones to LTE. Overall, Anritsu believes demand will be firm for measuring instruments used in the development and manufacture of handsets, as well as for measuring instruments used in the installation and maintenance of base stations. In addition, opportunities in the general purpose measuring instruments business will increase as the use of wireless technologies for applications such as home appliances, computers and automobiles gains momentum.

In markets served by the Information and Communications business, Anritsu anticipates firm demand backed by disaster prevention-related capital investment and expansion of IP-based corporate intranets. We project that demand for the inspection equipment of Anritsu's Industrial Automation business will remain unchanged in the domestic food products industry. On the other hand, we foresee greater opportunities for this business in overseas markets such as Europe, where our presence has been relatively limited until recently.

Meanwhile, competition is intensifying as markets grow. Moreover, we foresee greater pressure from customers to lower prices in fields such as 3G mobile phones, which have moved from development to commercial scale production. Given this market environment, for the year ending March 31, 2008, Anritsu projects net sales of ¥103.5 billion, a year-on-year increase of 4 percent, and operating income of ¥7.0 billion, an increase of 10 percent. Our management focus is more on improving profitability than on expanding net sales.

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**Please explain the measures Anritsu is taking to achieve its numerical targets, and the business structure you envision.**

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Among key profitability improvement measures for the year ending March 31, 2008, the most important is to quickly achieve profitability in the service assurance field. It is a growing market, so our basic strategies are to expand orders and sales to absorb development costs. However, we will not achieve results by conducting haphazard sales promotions aimed at many customers or development activities lacking a clear focus. Therefore, in the latter half of 2006, we developed a sales organization to exclusively serve major telecom operators and concentrated sales efforts on major customers in the EMEA region. We expect to see the results of these efforts in the year ending March 31, 2008. We have also been improving development efficiency by strategically organizing projects. A review of the organization in line with long-term sales projections resulted in personnel reductions that led to a 10 percent decrease in



fixed costs. Strong resolve in implementing measures such as these has resulted in solid improvement in profits.

The service assurance field, however, is a new market. We are fully aware of the risks we face, including rapid changes in the market environment and intense competition from new entrants. The service assurance business operates primarily in Europe, centered on our subsidiary in Denmark. We will work to ensure that improvements are implemented more successfully by first enhancing governance at the head office. In the medium term, we intend to build service assurance into a highly profitable business with limited development outlays. To do this, we will develop horizontally, offering service assurance solutions already being provided to major customers in the EMEA region in other regions as well.

Our second profitability improvement measure is to raise profit margins by quickly expanding sales of products with high added value. In the year ended March 31, 2007, Anritsu launched new models of measuring instruments as NGN-related solutions. However, they have not yet generated widespread demand due to limited basic functions. We plan to rapidly expand orders by adding functions currently under development.

As these two measures indicate, the ideal business structure for Anritsu combines the provision of distinctive, high-value-added products with highly efficient development. It is a structure that we have nurtured and carried on through successive generations under the catchphrase "Original & High-level." Research and development expenses currently exceed 14 percent of net sales. This is not high for the measuring instruments industry, but it is a large investment. Therefore, we are considering three approaches to ensure more efficient development.

The first is to review development processes in order to improve results with a small number of people. Including subsidiaries, Anritsu currently has seven business divisions, each with a different level of development efficiency. By using efficient divisions as models for process improvements, I believe we can improve overall efficiency. It is also an absolute must for dealing with the serious shortage of engineers.

The second approach is to establish a framework for quickly developing the technological assets of our Core Technology R&D Center, which coordinates basic research, into products. In addition, to encourage interchange between domestic and overseas divisions and the R&D Center, in April 2006 we established the Incubation Department in the R&D Center to study ways to commercialize our proprietary technological assets. We are currently awaiting the results of several promising products under development.

The third approach is to curb software development expenses, which have been increasingly proportionally on an annual basis. As with hardware, we will promote sharing and the creation of platform software, and will increase our use of external resources both in Japan and overseas.

#### **Please explain how Anritsu has been working to achieve sustainable growth and raise corporate value.**

The Anritsu Group believes that honest business practices lead to sustainable growth and higher corporate value, and we will continue to actively conduct corporate social responsibility (CSR) activities. Anritsu intends to go beyond what it considers to be its primary CSR activity – contributing to the realization of a safe, secure, and comfortable society through its products and services – to review the activities of the entire Group in all areas of corporate social responsibility, including compliance, corporate governance, the environment, human rights and risk management.

Doing so will lead to further improvement of the Group's business activities.

By attaining its desired future form through these ongoing CSR activities, Anritsu will raise its value for customers, shareholders, employees and all other stakeholders, which by extension will contribute to achieving the Mid-term Business Plan. Naturally, as a global corporation we will conduct such activities on a Group-wide basis. One example is Anritsu's participation in the Global Compact, which is advocated by the United Nations.

### What is Anritsu's shareholder return policy?

Anritsu considers the return of profits to shareholders a management priority. Our basic policy for paying dividends is to increase the ratio of dividends on consolidated equity (DOE) to reflect the level of income during the consolidated period while taking into account factors such as the operating environment and the outlook for results in the next fiscal year.

Anritsu paid a year-end dividend of ¥3.50 per share. Accordingly, total dividends for the fiscal year were ¥7.00 per share, including an interim dividend of ¥3.50 per share. For the fiscal year ending March 31, 2008, Anritsu also plans to pay dividends totaling ¥7.00 per share, including an interim dividend of ¥3.50 per share. Maintaining this as the minimum level, we will work to increase returns in the future.

The advent of NGN is an excellent opportunity for Anritsu to fully leverage its accumulated assets, both tangible and intangible. In doing so, we will work toward achieving our numerical targets of net sales of ¥120.0 billion and operating income of ¥12.5 billion in the year ending March 31, 2009, the final year of GLP08. For the year ended March 31, 2007, the Anritsu Group's overseas sales ratio was already well above 50 percent, and we have accumulated experience in dealing with globalization. Anritsu Group companies around the world are working to raise corporate value by implementing our profitable growth strategy.

We are counting on the continuing support of all our shareholders.

July 2007

*Hiromichi Toda*

Hiromichi Toda  
President

