

Review of Operations

Test and Measurement

The Test and Measurement segment is introducing cutting-edge measurement solutions to build next-generation networks (NGN), which are advancing globally. This segment is also further strengthening its mainstay wireless test and measurement solutions, and will continue to be a profit platform that drives the growth of the Anritsu Group.

Business Trends and Review of the Year Ended March 31, 2007

In the telecommunications market, Anritsu's core business area, the spread of IPTV⁴ and other broadband services is fueling expansion of demand for test and measurement equipment for NGN construction, including construction of optical access networks and ultra-high-speed, large-capacity core networks. The worldwide increase in mobile phone service subscribers and expansion of base station networks is also generating strong demand for test and measurement equipment.

In the year ended March 31, 2007, Anritsu received large-scale orders for handheld measuring instruments for base stations from North American telecom operators and expanded sales of measuring instruments for 3G and 3.5G mobile phone development in North America and Europe. In addition, Anritsu capitalized on NGN-related investment with its newly launched instruments for ultra-high-speed communications equipment and devices and instruments for construction of optical access networks.

As a result of this growth in demand, as well as the full-year contribution of consolidated subsidiary Anritsu A/S, which Anritsu acquired in August 2005, sales of the Test and Measurement segment increased 11.9 percent year-on-year to ¥72,882 million. However, a delay in orders of the service assurance sub-segment resulted in a 10.8 percent decrease in operating income to ¥4,717 million.

(Note 4) IPTV: A television broadcasting service using IP networks

Profitable Growth Strategy of the Test and Measurement Segment

The Test and Measurement business has four sub-segments: wireless; general purpose; optical, digital and IP; and service assurance. To achieve the objectives of the mid-term business plan, this business will conduct its activities with a focus on the three market sectors shown in the chart on the right. Particularly in the NGN-related sector, where diverse tech-

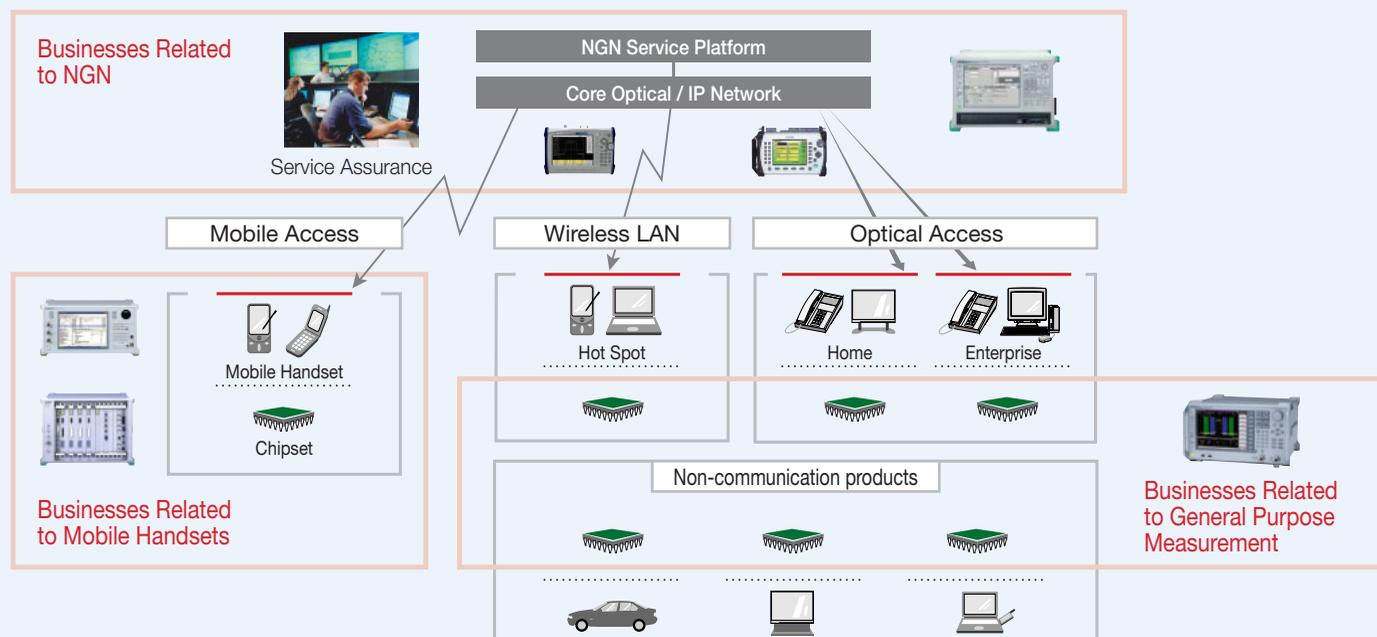
nologies are required, Anritsu will build strong competitiveness by offering comprehensive test and measurement solutions that extend across sub-segments. In the mobile phone handset sector, Anritsu will continue to participate in formulation of next-generation communications standards with its world-class technological capabilities. In addition, Anritsu will apply its accumulated test and measurement technologies in general purpose measurement areas such as information appliances and car electronics to create a stable business structure.

NGN-Related Sector

In the field of instruments needed in development and manufacturing of telecommunications equipment and devices, the advance of broadband service is creating requirements for core networks with an ultrahigh speed of 40Gbit/s. The cutting-edge technology necessary to develop test and measurement equipment in this field forms a high barrier to entry. Anritsu is deploying its ultrahigh-speed digital measurement technology and optical measurement technology to bring to market test and measurement equipment that offers world-class performance, as well as to differentiate its products by continuously enhancing their functions. To meet demand for construction of diverse broadband access networks such as fiber optic communications, 3G, 3.5G, WiMAX and digital broadcasting, Anritsu also has a wide array of high-performance handheld measuring instruments that take advantage of Anritsu's excellent miniature packaging technology. With these high-value-added products, Anritsu maintains a top-tier market share worldwide, and intends to expand earnings further by meeting growing demand through its global sales network.

Service assurance to measure the quality of network service is a new growth area in the telecommunications industry, which is moving to create a rate structure based on service quality. Anritsu offers flexible and user-friendly advanced network monitoring systems, primarily to major telecom operators in Europe.

Three Priority Business Fields of Anritsu's Profitable Growth Strategy in the Test and Measurement Business



Enhanced sales teams specializing in the telecom operators in each region will contribute to Anritsu's efforts to expand sales and improve profits.

Mobile Phone Handset Sector

Anritsu provides measuring instruments utilizing the technologies it has accumulated from its close relationships with leading customers, along with global customer support. As a result, Anritsu's measuring instruments for development of 3G and 3.5G handsets and chipsets have established a position as the de facto standard. Anritsu will steadily capture opportunities from the ongoing solid investment in 3G and 3.5G related development in Europe and the United States, while also focusing on new product development for next-generation mobile communications systems such as WiMAX and LTE. By embracing these cutting-edge technologies, Anritsu intends to maintain its leading industry position in the mobile phone handset sector and expand this high-value-added business.

General Purpose Measurement Sector

Anritsu has high-frequency measurement technologies for microwave and millimeter wave communications. In addition to applying them in its core business area of telecommunications measuring instruments, Anritsu is also applying these technologies, together with wide range of digital wireless technologies such as wireless LAN, Bluetooth^{®5} and digital broadcasting, in

general purpose measuring instruments used in development and manufacturing of diverse electronic components and modules. Customers for general purpose measuring instruments also include car electronics and information appliance manufacturers, which have different investment cycles from the telecommunications market. Expanding business in these markets will therefore help to stabilize the Test and Measurement business.

(Note 5) Bluetooth[®]: A short-range wireless communication technology used for interconnection of mobile devices and other devices within several meters.

Outlook for the Year Ending March 31, 2008

Anritsu will conduct research and development more closely with major customers in the mobile phone handset-related and general purpose measurement business areas, with a focus on NGN-related business, to continue introducing high-value-added products that match market needs. In addition, Anritsu will work to expand its business globally by strengthening sales in markets with high growth potential such as Latin America and Asia. In the area of service assurance, Anritsu will focus on expanding sales and implementing profitability improvement measures including reduction of fixed costs. As a result, for the fiscal year ending March 31, 2008, Anritsu projects segment sales of ¥76.5 billion (a year-on-year increase of 5.0 percent) and operating income of ¥5.3 billion (a year-on-year increase of 12.3 percent) for the Test and Measurement business.

Information and Communications

Anritsu's Information and Communication business will contribute to NGN development by providing unique solutions that leverage the Anritsu Group's strengths in IP network technology.

Business Trends and Review of the Year Ended March 31, 2007

In the public-sector market, which accounts for approximately 70 percent of this segment's sales, demand increased for public information systems such as video monitoring and telemetry systems for rivers and other locations, particularly to improve the infrastructure for disaster prevention. In the private-sector market, attention focused on bandwidth control equipment that works to ensure quality of service in IP networks.

In the year ended March 31, 2007, Anritsu made sweeping structural reforms in this business, including reducing fixed costs by reforming the employment structure, concentrating resources in areas with high profitability and spinning the business off as a separate company to clarify management responsibility. As a result, sales of the business in its previous form fell sharply, decreasing 17.0 percent year-on-year to ¥6,010 million. However, the business achieved operating income of ¥145 million, an improvement of ¥2,118 million from the previous fiscal year, indicating the success of Anritsu's efforts to reduce fixed costs and other expenses through streamlining.

Profitable Growth Strategy of the Information and Communications Business

This business will concentrate on further improving profitability by focusing on video monitoring and transmission systems, IP access devices and bandwidth control equipment, which utilize the technologies it has accumulated to date.

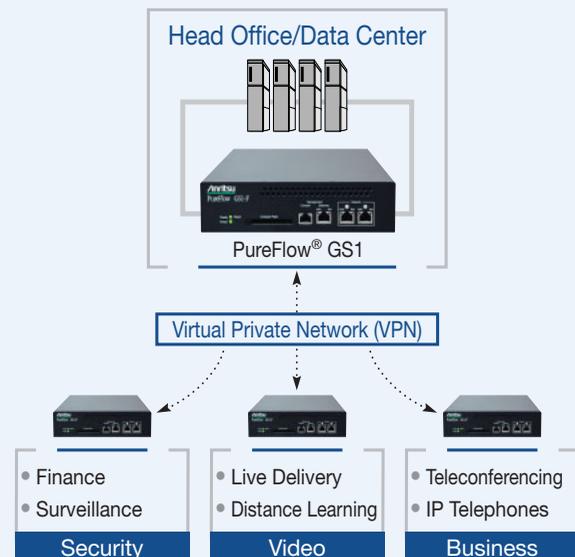
For the public sector, the Information and Communications business will secure sales and profits by tapping demand for disaster prevention infrastructure. For the private sector, the business will expand sales of bandwidth control equipment, particularly for enterprise IP networks, through measures including collaboration with system integrators. These initiatives will steadily grow sales and profits to build the Information and

Communications business into one of the Anritsu Group's core businesses.

Outlook for the Year Ending March 31, 2008

The business will aggressively develop private-sector demand through efforts such as strengthening its competitiveness in IP network solutions and enhancing collaborative relationships with system integrators.

For the year ending March 31, 2008, Anritsu expects this business to achieve sales of ¥6.5 billion, an 8.1 percent increase year-on-year. However, while operating income is expected to remain in the black, Anritsu projects that it will decrease 31.4 percent year-on-year to ¥0.1 billion due to investment in new product development to strengthen the operating base, and in improvement of customer support.



Industrial Automation

The Industrial Automation segment is strengthening its global presence to solidify its growth trajectory, and aims to be a stable source of profits for the Anritsu Group.

Business Trends and Review of the Year Ended March 31, 2007

This segment's products — checkweighers, X-ray inspection systems and metal detectors — are used in production and inspection in the food industry, which accounts for 80 percent of sales, as well as pharmaceuticals, cosmetics and other products. Concerns about food safety and reliability are increasing around the world, fueling strong demand for Anritsu's products, which are capable of high-precision, high-speed detection of metal and plastic fragments and other alien materials mixed in during the production process.

In the first half of the fiscal year, orders decreased because investment in inspection equipment in the food industry was restrained due to the effects of rising crude oil prices. In the second half, new products with enhanced functions were introduced, food manufacturers' willingness to invest rebounded, and orders for checkweighers in Asia increased. As a result, segment sales increased 0.8 percent year-on-year to ¥12,295 million. However, the product cost ratio worsened because improvements in production efficiency did not fully absorb the effect of higher prices of stainless steel and other metal raw materials. Consequently, operating income decreased ¥179 million compared with the previous fiscal year to ¥608 million.

Profitable Growth Strategy of the Industrial Automation Segment

In 2006, the Danish Meat Association held a competition for X-ray inspection systems that recognized Anritsu's X-ray detection system as having the best performance. This recognition was an important step in building our position in Europe, the world's largest food inspection market. With steady economic development in Europe spurring brisk investment in food inspection equipment, business inquiries have increased rapidly. While maintaining its high market share in Japan, Anritsu plans to reinforce its competitive advantage in Asia and make a full-fledged



KD7405AW X-ray Inspection System

entry into the European and North American markets, with the aim of further expanding its overseas sales ratio, which was approximately 25 percent in the year ended March 31, 2007. Moreover, ongoing production innovations and increases in operating efficiency are aimed at improving the operating margin.

Outlook for the Year Ending March 31, 2008

In the Industrial Automation business, Anritsu will improve profits by shifting its product mix to higher value added products, and intends to expand business by aggressively increasing its presence in overseas markets. In the year ending March 31, 2008, Anritsu projects segment sales of ¥12.5 billion, an increase of 1.7 percent year-on-year, and operating income of ¥0.7 billion, an increase of 15.1 percent.