

Interview with Group CEO Hiromichi Toda

In the midst of rapid market changes in the year ended March 31, 2008, we launched Management Innovation 2008 to bolster our competitiveness and improve future profitability. In the year ending March 31, 2009, we will restore profitability by firmly establishing the measures of this plan and providing timely, optimum solutions that meet market needs.



Hiromichi Toda
Group CEO

First, please explain the background and goals of Management Innovation 2008.

Amid rapid technological innovation and intensifying global competition, we must establish a cost-competitive structure that allows us to respond nimbly to changes in market needs, and expand market share and raise profitability by leveraging the strong products that result. Management Innovation 2008 comprises measures for just these purposes.

The market landscape for Anritsu's core business, test and measurement instruments for telecommunications, is changing significantly due to intensifying global competition and such fundamental changes to telecommunications as the shift to high-speed wireless services, including for mobile phones, progress in triple play and FMC¹ service integration resulting from the widening use of internet protocol (IP), and the migration to next-generation networks (NGN). Anritsu views these changes as substantial business opportunities, but to take advantage of them the Company needs the strength and structure to respond flexibly to the changes. For the last several years, the Company has achieved significant success in one of these areas of opportunity, the market for third-generation (3G) mobile system development and deployment. However, this market has matured, and we are seeking new changes that we can leverage in going to the next stage. To mitigate the risk of relying solely on businesses based on change, strong general-purpose products that satisfy a broad range of customer needs are needed to secure stable profitability. It is therefore important to have a supply chain management (SCM)² framework that supports our ability to meet customer needs globally and allows us to maintain cost competitiveness.

Until now, Anritsu had expanded the Test and Measurement segment through its two divisions in Japan, which met the respective needs of the wireline and wireless communication sectors, and a division in the United States that excels in measuring instruments with broad applicability in the microwave region.

However, as I stated earlier, our framework has become increasingly disadvantageous due to emerging demand for the development and provision of solutions that straddle these market divisions. As a result, under Management Innovation 2008 we have begun with combining the two measuring instrument divisions in Japan and related divisions into one. Our aim is to create a framework that uses resources effectively while producing optimum solutions. We are also strengthening the global responsiveness of all our business processes, positioning the Test and Measurement segment under the direct control of headquarters to enable smooth cooperation with the segment's subsidiaries, and effectuating overall management through the Management Strategy Center.

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: Supply Chain Management: Comprehensive management from receipt of orders and material procurement to inventory management and product delivery.

Outline of Management Innovation 2008



Could you please explain the organizational changes under Management Innovation 2008?

The two main management objectives of these innovation measures are bolstering competitiveness and improving profitability. To achieve them, Anritsu is focusing head-office functions on the measuring instruments business and aligning its organizational structure with business processes to facilitate rapid decision making and clarify responsibilities.

Specifically, we have reorganized the existing two Japanese measuring instruments divisions, the sales division and corporate division, into four major organizations by business process: Sales and CRM,³ R&D, SCM, and Corporate.

We have placed the Marketing Division, including the Product Planning Center, within the Sales and CRM Group to promote thoroughly customer-centered product development, rather than the R&D-centered development that we have tended to have, and this has strengthened our framework for listening to customers and markets. We intend to establish an indispensable presence as a business partner to our customers, which will lead to strong product development that meets market needs.

In R&D, we have integrated units including the development departments of the two business divisions that extend overseas, and the research and development department of the R&D Center, into a single R&D Group. Concentrating the many resources that had been dispersed throughout the Group enables product development geared to time-to-market processes, as well as development process improvements and efficient management of development investments.

SCM integrates all divisions related to making products and delivering them to customers, including production planning, manufacturing engineering technology, quality assurance, material procurement and logistics. By integrating the SCM functions, we will create a production system with world-class competitiveness in terms of quality, cost and time to delivery, and will improve the inventory turnover ratio through production innovations, thus contributing to generation of cash flow.

Corporate is a framework of a select few strategic divisions that effectuate internal controls and governance and act as a strategic headquarters to raise corporate value.

The key point of the organizational realignment is that by gathering together the Test and Measurement segment's business divisions in the United States, Europe, the Middle East and Africa (EMEA) and Asia based on the segment's individual processes, we will be able to move more quickly. I believe that achieving total optimization of the Test and Measurement segment from a global perspective to raise its competitiveness and profitability is essential.

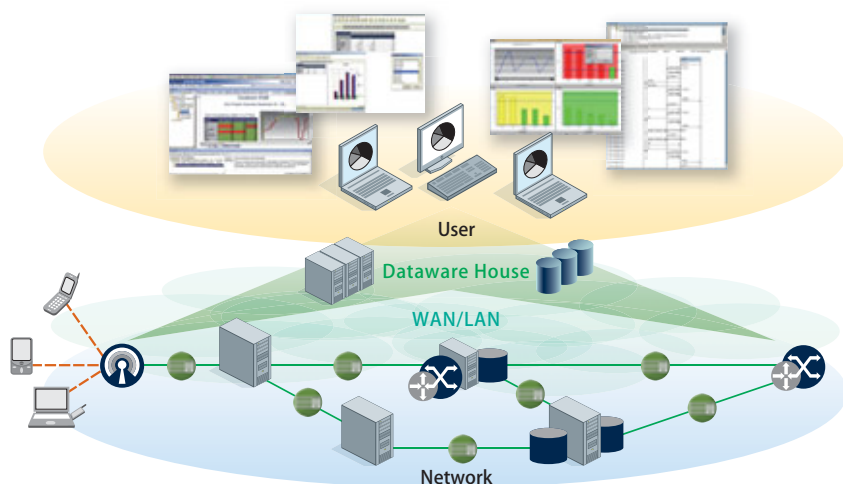
Note 3: Customer Relationship Management: A management technique that places importance on building relationships with customers to improve customer satisfaction.

What are some of the measures you are taking in other areas?

In the year ended March 31, 2008, we decided to discontinue unprofitable, comparatively old product lines. We disposed of their inventories and consolidated related departments to improve profitability. We also spun off Anritsu Precision Co., Ltd. on April 1, 2008 from the precision measuring instruments division of the Services and Others segment, aiming to optimize its management efficiency by clarifying responsibilities and speeding decision making through independent operation.

The Anritsu Group was able to improve profitability in the Service Assurance business for the year ended March 31, 2008, which was a key priority. What were the major activities in this area for the year, and what are the plans for its future growth?

Service Assurance Business Overview



Anritsu entered the service assurance business with the acquisition of the former NetTest A/S (now Anritsu A/S) in 2005, but at first the company was unable to establish an operational framework that would attract telecom customers throughout the world. For the year ended March 31, 2008, we made particularly good progress in the EMEA region, where we focused on building the operational framework. We grew sales substantially by aggressively expanding our business among Tier 1 telecom carriers.

Competition among network service providers to deliver the services, quality and price demanded by subscribers is intensifying, as raising customer satisfaction and operating networks efficiently have become major issues for

them. I believe that demand in the service assurance business to resolve these issues will continue to rise.

In the year ending March 31, 2009, we will continue to promote our Tier 1 strategy and strengthen our presence both in and outside the EMEA region. In preparation, in the year ended March 31, 2008, we established a central sales company for Latin America in Mexico. We expect this business will grow to become a pillar of the Anritsu Group.

What is the outlook for the year ending March 31, 2009, and what are your thoughts on achieving the mid-term management targets?

For the year ending March 31, 2009, the expansion of emerging economies is expected to continue supporting the global economy. However, numerous negative factors preclude optimism, including turbulence in world financial markets triggered by the U.S. subprime mortgage crisis; concerns about economic recession in the United States and its effect on Japan, Europe and other regions; foreign exchange trends; and rising oil and commodity prices and resulting deterioration of corporate profits.

In the Test and Measurement segment, Anritsu will concentrate on firmly establishing Management Innovation 2008 and producing results from it in order to achieve steady profits even in the absence of large sales growth. As a specific initiative, Anritsu sees substantial opportunity in and will focus on the field of measuring instruments for development of LTE⁴ handsets, which is gaining momentum. In the NGN and Infrastructure sub-segment, we intend to expand the business by accurately meeting measur-

ing instrument needs created by advances such as high-speed backbone networks and progress in IP networks. In the General Purpose sub-segment, we will offer optimum solutions in the market for measuring instruments for wireless components in car electronics, information appliances and other fields by aggressively adding functions that reflect market needs.

In the Information and Communications segment, Anritsu will focus on expanding private-sector business by boosting the competitiveness of its IP network solutions and strengthening relationships with system integrators. In addition, we will work to fortify our business foundation.

In the Industrial Automation segment, while strengthening cost-cutting to improve profitability, we will promote a product strategy of higher added value and differentiation. We are also aiming to expand by further accelerating business development in overseas markets.

As a result, in the year ending March 31, 2009, the Anritsu Group anticipates growth in the Service Assurance business and Industrial Automation segment, but also expects sales to decline in the Test and Measurement segment as customers restrain capital investment. Overall, Anritsu projects net sales of ¥100 billion, essentially unchanged from the previous year. While the measures of Management Innovation 2008 should improve profitability, the strong yen compared to the dollar will have a negative impact on earnings. In addition, a loss on devaluation of inventories, previously recorded as an other expense, will be included in cost of sales under a new accounting standard that took effect on April 1, 2008. Accordingly, Anritsu projects operating income of ¥4.5 billion, a decrease of 16 percent compared with the year ended March 31, 2008. The difference in inventories as of April 1, 2008 resulting from the application of the new accounting standard, totaling approximately ¥1.5 billion, will be recorded as an extraordinary loss, and is reflected in the performance forecast. As a result, Anritsu projects net income of ¥1.0 billion.

Anritsu is aiming to be a highly profitable company and has set an operating margin and return on equity of 10 percent or higher as medium-term targets. By implementing Management Innovation 2008 in the year ending March 31, 2009, I would like us to improve our corporate structure so it can generate profits even in an uncertain environment, and work vigorously on the next challenge of achieving our medium-term targets.

Note 4: Long-Term Evolution: Currently undergoing standardization, LTE is a wireless communications protocol that evolved from 3.5G.

Finally, please explain the Anritsu Group's CSR activities and initiatives.

The Anritsu Group believes that honest business practices enhance corporate value, and will globally expand corporate social responsibility (CSR) activities. Anritsu's CSR initiatives have been rated highly not only by research organizations in Japan and overseas, but also in customers' CSR audits. Anritsu intends to continue going 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 once again 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. In doing so, we will strive to further improve the Group's management infrastructure.

Through these ongoing CSR activities, Anritsu hopes to raise its value for customers, shareholders, employees, business partners and all other stakeholders. I believe that this in turn will help us achieve our management goals.

Performance Trends

