Promotion of Risk Management

Goal 2

Basic Concept

The Anritsu Group views risks as uncertain events that affect corporate value such as organizational profit and social credibility. In other words, we do not consider risks as necessarily negative but instead as potentially positive events if managed appropriately. We recognize proper risk management as a vital management issue and have established a risk management system for the Anritsu Group as a corporate entity under basic policies concerning the development of an internal control system approved by the Board of Directors. We focus on initiatives that will enhance the risk sensitivity of not only top management but of all employees. At the same time, we promote risk management through an all-inclusive effort to maintain and expand our corporate value, fulfill our corporate social responsibility and seek sustainable development for the Group.

| **Risk Management Policy** |

The Anritsu Group will maintain and increase its corporate value, fulfill its corporate social responsibility and seek sustainable development for the Group by appropriately managing risks that affect management.

(1) We will seek to enhance the risk sensitivity of not only general managers but of all employees in an all-inclusive effort to promote risk management.

(2) General managers and all employees will promote risk management by complying with the Anritsu Group Charter of Corporate Behavior and the Anritsu Group Code of Conduct as well as laws and regulations as the basis of the company's internal controls.

(3) We will generate profit and limit losses by controlling management risks related to strategic decision making such as entry into new business areas and product development strategy, as well as operational procedures.

(4) We will anticipate potential emergency situations insofar as possible to prevent their occurrence. In the event that an emergency does occur, we will seek to minimize and limit losses and promptly extricate ourselves from the critical situation into a state where autonomous recovery is possible, and subsequently prevent a recurrence.

Risk Management Promotion System

The Anritsu Group has identified seven major risk categories: (1) business risks associated with management decision-making and execution of operations; (2) legal violations; (3) environmental preservation; (4) quality of products and services; (5) import/export control; (6) information security; and (7) disasters. We have established a management system for each risk, supervised by the vice president responsible for each risk or the head of the relevant division, who concurrently serves as the chief administrator. The chief administrator is responsible for the committee comprising the heads of relevant divisions and chief administrators of Group companies, exercises overall control of the Group companies involved in managing the relevant risk, and provides timely reports to the Management Strategy

Conference on the risk management measures, plans, status of implementation and results of the management cycle throughout the year. In addition, Anritsu's risk management promotion divisions are responsible for setting rules and guidelines and conducting education and training to raise the level of risk management and ensure ongoing business development.

In regard to our Group companies outside Japan, the regional headquarters in the Americas has set up a task force for managing business risks. With respect to compliance risk, compliance officers at each regional headquarters conduct risk assessments toward formulating annual action plans.

▶ **Risk Management Promotion System**
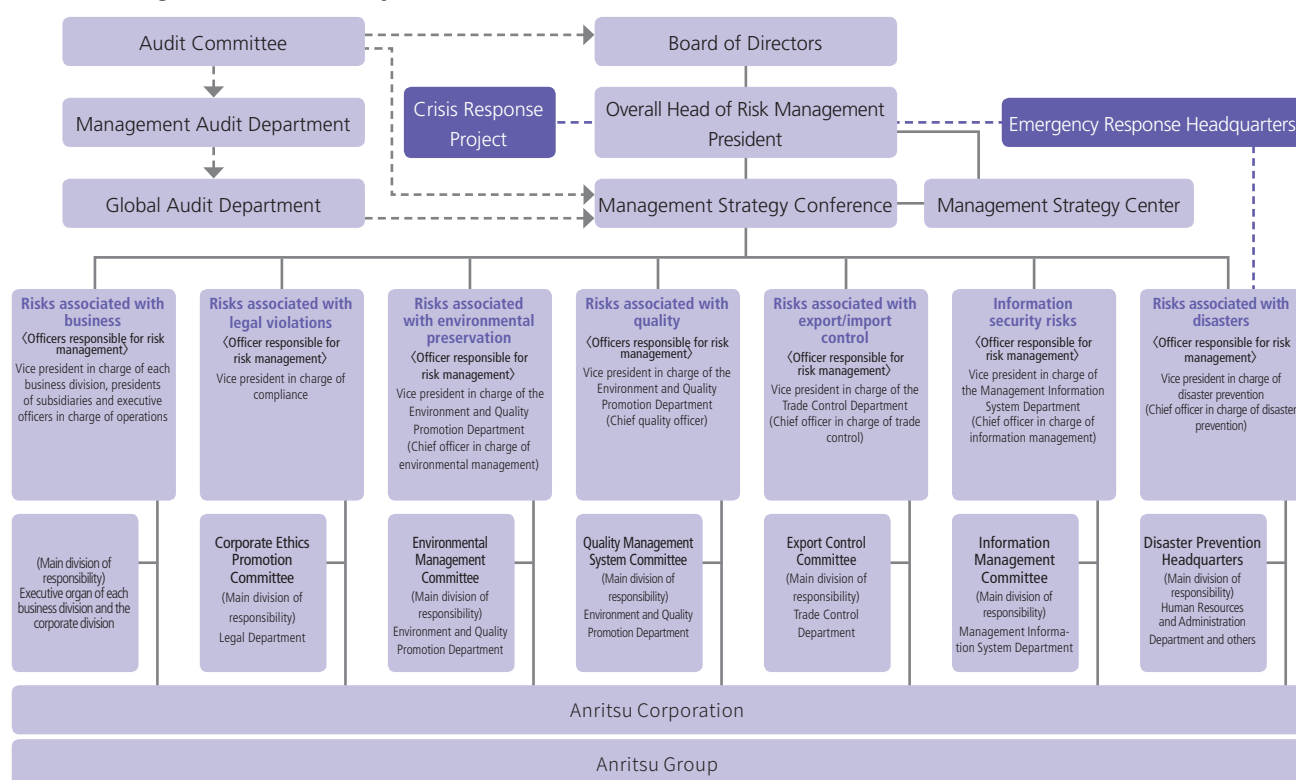
▶ **Risk Categories and Committees**

	Risk Categories and Related Rules		Responsibility for Risk Management	Committees and Other Organizations
1	Business risks associated with management decision making and execution of operations		Vice president in charge of each business division, presidents of subsidiaries and Vice Presidents in charge of operations	Executive organ of each business division and the corporate division
2	Risks associated with legal violations	Anritsu Group Charter of Corporate Behavior Anritsu Group Code of Conduct	Vice president in charge of compliance	Corporate Ethics Promotion Committee (Committee for Promoting Fair Trade)
3	Risks associated with environmental preservation	Basic Rules of Environmental Systems	Chief officer in charge of environmental management	Environmental Management Committee
4	Risks associated with product and service quality	Rules on Quality Management Systems	Chief quality officer	Quality Management System Committee
5	Risks associated with export/import control	Rules on Security Trade Control	Chief officer in charge of trade control	Export Control Committee
6	Information security risks	Basic Rules on Information Management	Chief officer in charge of information management	Information Management Committee
7	Risks associated with disasters	Basic Rules on Disasters and Emergency Response	Chief officer in charge of disaster prevention	Disaster Prevention Headquarters

■ Activities in Fiscal 2016

In fiscal 2016, we conducted risk management workshop training on managing practical business risks for newly promoted managers at the head office and subsidiaries in Japan. We also held risk management workshop training on operational risks for managers in the software development division and for each operational group in the procurement division.

Risk management workshop training

Risk Analysis Example

■ Assessing the Impact of Exchange Rate Fluctuations on Profit

The rise in our overseas revenue ratio has increased the impact of exchange rate fluctuations on profit. The Accounting and Control Department has been measuring and evaluating the Group's overall exchange position to rebalance the outstanding amount by improving the marry ratio of assets and liabilities and to conduct other hedging activities. The department also simulates the impact exchange rate fluctuations will have on profit and report to the Management Strategy Conference to plan and operate business strategies in response to the risk exposure.

Enhancing Corporate Value through Internal Controls

■ Basic Policy

The Anritsu Group's internal control system is intended to raise the effectiveness and efficiency of group management, ensure the validity of financial reporting and establish legal compliance. We are continuously improving and reinforcing the system to respond to the changing business content of the Anritsu Group and growing complexity and diversity of the business environment. This has enabled us to practice sound management activities sustained by a viable internal control system and strive to enhance corporate value.

■ Promotion System

In the Anritsu Group, the Internal Control Committee, which deals with the validity of financial reporting, and the Corporate Ethics Promotion Committee, which oversees compliance and related committees for information management, promoting fair trade, export control and environmental management, undertake the necessary deliberations, establish and operate internal control systems by implementing cross-Group information sharing and educational programs and conduct activities to ensure viability. With regard to our global operations, we have set up a Global Internal Control Committee comprising members of the internal audit divisions in Europe, Asia, the United States and Japan who share the current status of response to risks inherent in the business activities and management issues in each region. They also carry out activities to support the incorporation of internal control procedures into operations and the effective and efficient development of internal control systems.

Furthermore, the Internal Audit Department of Anritsu Corporation and the Group companies, directors elected as Audit Committee Members and the Management Audit Department conduct audits as part of their responsibility to evaluate the activities of these committees and the internal control system and to offer recommendations.

■ Activities for Fiscal 2016

With regard to activities related to the evaluation of internal controls conducted in fiscal 2016, and in the area of financial reporting, the Internal Audit Department of Anritsu Corporation and Group companies evaluated the effectiveness of internal controls related to financial reporting. Appropriate improvements were implemented against potential risks identified during the evaluation process. In areas other than financial reporting, Anritsu Corporation's internal audit division conducted operational audits to evaluate the effectiveness of internal controls related to compliance, such as information management and export controls. During the audit, emphasis was placed on verifying processes that had been revised in their control environment due to organizational reform and IT system upgrades.

With regard to Group companies outside Japan, in addition to audits conducted by audit officers in each region, our directors in their capacity as Audit elected as Audit Committee Members, along with staff from the Management Audit Department and the Internal Audit Department, visited each company to evaluate the effectiveness of internal controls. In fiscal 2016, we evaluated our regional headquarters and sales companies in the Americas to evaluate the status of operational execution and compliance.

Business Continuity Management

*1 BCM : Management activities conducted during normal operations, such as formulating, maintaining and updating business continuity plans, securing budgets and resources for continuing business, taking preparatory measures, implementing education and training before launching initiatives, conducting inspections and making continuous improvements.

*2 BCP : A plan formulated to ensure the rapid resumption of critical business functions in the event that business activities are interrupted by an emergency.

■ Basic Policy on Business Continuity Management(BCM*1)

Each Anritsu division creates a business continuity plan (BCP*2) to maintain smooth operations in the event of a disaster or emergency by minimizing damage and resuming full business activities as quickly as possible.
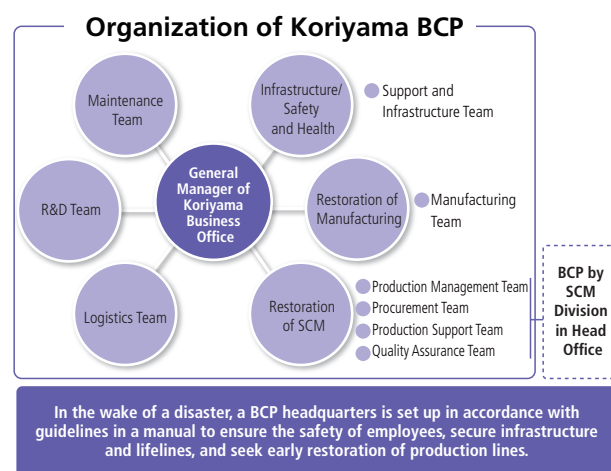
■ Disaster Prevention

The Anritsu Group has laid out its BCM policy in the following Basic Policy on Disaster Response.

| Basic Policy on Disaster Response |

The Anritsu Group establishes a prevention system against disasters that may significantly affect its management, places top priority on ensuring the safety of its stakeholders including employees and local communities in the event of a disaster or accident, and strives to minimize damage and promptly resume business activities in order to fulfill its social responsibility and continue to seek enduring success for the Anritsu Group.

■ Business Continuity Management at Manufacturing Bases

The stable procurement of production materials represents the fundamental part of any manufacturing company's BCPs. Tohoku Anritsu Co., Ltd. and the Koriyama Business Office of Anritsu Corporation, which serve as the manufacturing bases of the Anritsu Group, have formulated BCPs to respond to earthquakes and other natural disasters by identifying them as material risks. These clearly set out concrete steps for each process in the event of a disaster. Applying the lessons learned from an actual large-scale disaster, we revised the criteria for invoking BCPs in an emergency to prepare against a broader range of risks and refined our procedures for responding to each risk.

Organization of Koriyama BCP

Maintenance Team

Infrastructure/ Safety and Health
● Support and Infrastructure Team

R&D Team

General Manager of Koriyama Business Office

Restoration of Manufacturing
● Manufacturing Team

Logistics Team

Restoration of SCM
● Production Management Team
● Procurement Team
● Production Support Team
● Quality Assurance Team

BCP by SCM Division in Head Office

In the wake of a disaster, a BCP headquarters is set up in accordance with guidelines in a manual to ensure the safety of employees, secure infrastructure and lifelines, and seek early restoration of production lines.

## ■ Education, Training and Manual Revision

Tohoku Anritsu Co., Ltd. seeks to ensure that all employees can respond effectively in the event of a disaster or emergency. We formulate an education plan every year and conduct training and drills on a regular basis. The officer in charge of BCPs also participates in these drills to determine whether or not the manual requires a review and revises it as needed.

■ Developing Infrastructure for Stable Supply

Seeking to disperse exposure to risks, Tohoku Anritsu Co., Ltd. opened a second plant in July 2013. Production lines have been distributed between the two plants to ensure stable supply.

■ Securing the Information System

For key information systems, including the Group's mission critical systems and e-mail, we have established a structure in which data is replicated across our Nagoya Data Center (relocated from the Osaka Data Center in fiscal 2016), Atsugi site and Koriyama site. This allows us to continue operating these systems from an alternate site, even in the event that any one site is stricken by a disaster. We are preparing our response to disasters by designating emergency procedures with a targeted time for recovery. We also conduct regular recovery drills based on projected scenarios to assess the effectiveness of our procedures and correct any problems that may arise.
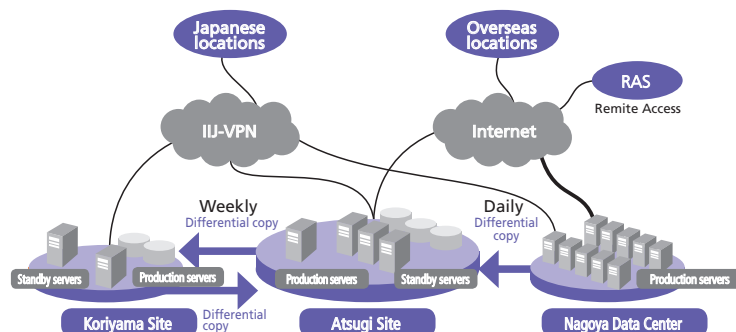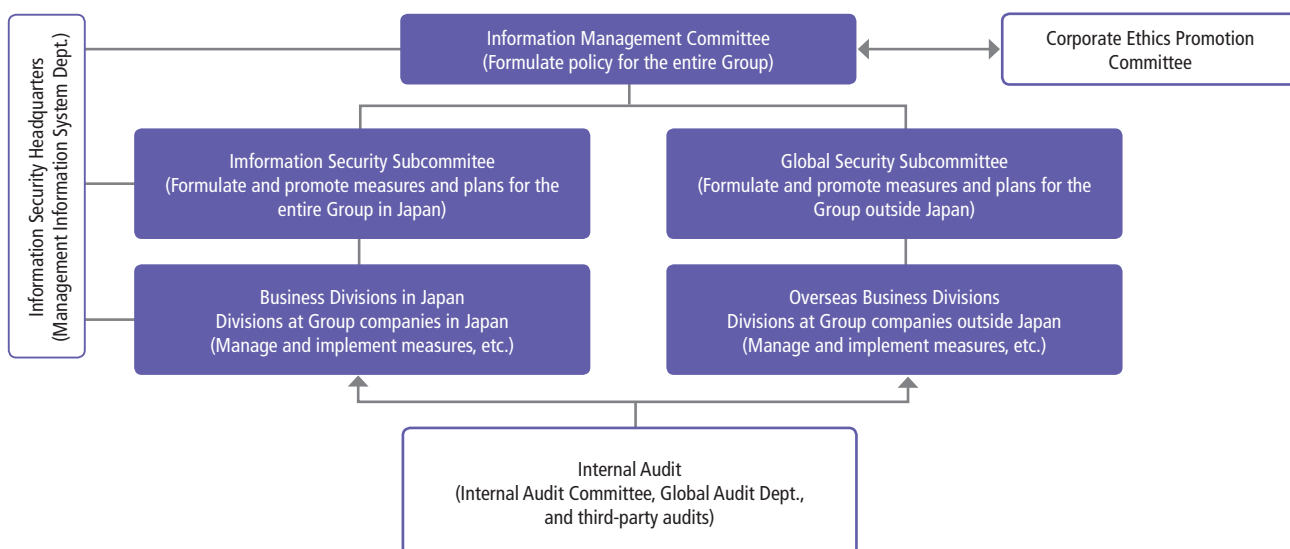
Information Security Management

■ Basic Concept

Anritsu is making a continuous effort to maintain and enhance information security through its information security management system.

■ Management System (Information Security Management)

Anritsu's management system consists of the Information Management Committee comprising key executive officers from each business division and Group companies, the Information Security Subcommittee comprising representatives from business divisions in Japan, and the Global Security Subcommittee, whose members include Chief Regional Officers at Group companies outside Japan.

The Information Management Committee formulates basic policies on information management for the entire Group. The Information Security Subcommittee and Global Security Subcommittee develop annual action plans and concrete measures for Group companies in Japan. The plans these high-level bodies formulate are implemented through the actions of each department. Anritsu uses this management system to oversee its PDCA (plan-do-check-act) cycle.

■ **Major Activities in Fiscal 2016**

Anritsu has developed an information security management system and is continuously engaged in initiatives to maintain and enhance security.

■ **Reinforcing the Global Security System**

We began implementing operational controls for improving security in accordance with the global information security policy formulated in fiscal 2015.

● Regional Initiatives

Each region is working on closing the gaps between their own rules and global policy by revising their rules and adding new measures.

● Global Communication Initiatives

We carried out activities for cultivating awareness on security across the Group by sharing information related to information security with all employees, organizing global information security training under common themes and stringently enforcing the reporting of incidents that occur at overseas subsidiaries. Also, we introduced an e-learning system that can be used to conduct training on a global scope and are seeking to raise the attendance rate by centrally overseeing progress and attendance records.

■ **Measures Against Cyber Security**

With the expanded use of ICT, cyber attacks are becoming more sophisticated and elaborate every day, and this presents a major challenge for corporations. Anritsu has been focusing on countering this threat as a top priority. Defense in Depth, or multiple layers of security controls, is believed to be effective, and we have been applying access controls to the Internet, screening e-mail for viruses, and encrypting critical information. In fiscal 2016, we sought to reinforce patch management of software in use. We are concentrating on managing the application of security patches for high-risk software and implementing initiatives for applying newly updated software to all PCs within a week after it becomes available. Moreover, we provided WBT on ransomware, which is currently on the rise, to raise employee awareness of security issues.