Consolidated Balance Sheets

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
ASSETS			
Current assets:			
Cash	**¥ 31,845**	¥ 32,830	**$ 296,729**
Marketable securities (Note 4)	**1,900**	2,400	**17,704**
Notes and accounts receivable — trade	**23,379**	24,249	**217,844**
Allowance for doubtful accounts	**(326)**	(328)	**(3,038)**
Inventories (Note 5)	**24,811**	25,992	**231,187**
Deferred tax assets (Note 8)	**8,492**	8,678	**79,128**
Other current assets	**2,020**	741	**18,823**
Total current assets	**92,121**	94,562	**858,377**
Property, plant and equipment:			
Land	**4,516**	4,707	**42,080**
Buildings and structures	**43,938**	44,192	**409,411**
Machinery and equipment	**31,308**	33,272	**291,726**
Construction in progress	**82**	241	**764**
	79,844	82,412	**743,981**
Accumulated depreciation	**(54,685)**	(54,925)	**(509,551)**
Net property, plant and equipment	**25,159**	27,487	**234,430**
Investments and other assets:			
Investment securities (Note 4)	**4,091**	4,563	**38,120**
Goodwill, net of amortization	**8,953**	8,816	**83,423**
Long-term prepaid expense	**8,625**	9,316	**80,367**
Deferred tax assets (Note 8)	**1,415**	1,280	**13,185**
Other assets	**1,804**	2,381	**16,809**
Allowance for doubtful accounts	**(57)**	(52)	**(531)**
Total investments and other assets	**24,831**	26,304	**231,373**
Total assets	**¥142,111**	¥148,353	**$1,324,180**

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Note 6)	**¥ 5,031**	¥ 5,330	**$ 46,878**
Long-term debt due within one year (Note 6)	**1,410**	1,228	**13,138**
Notes and accounts payable — trade	**7,305**	8,185	**68,067**
Accrued liabilities	**3,712**	1,811	**34,588**
Accrued expenses	**2,400**	2,248	**22,363**
Income taxes payable (Note 8)	**946**	621	**8,815**
Other current liabilities	**3,259**	3,054	**30,368**
Total current liabilities	**24,063**	22,477	**224,217**
Long-term liabilities:			
Long-term debt (Note 6)	**54,943**	63,475	**511,955**
Employees' severance and retirement benefits (Note 11)	**1,551**	1,250	**14,452**
Severance and retirement benefits for directors and corporate auditors	**90**	116	**839**
Accrued bonuses	**126**	—	**1,174**
Deferred tax liabilities (Note 8)	**584**	582	**5,442**
Other long-term liabilities	**445**	440	**4,146**
Total long-term liabilities	**57,739**	65,863	**538,008**
Commitments and contingent liabilities (Note 13)			
Minority interests	**—**	1	**—**
Shareholders' equity (Note 12)**:**			
Common stock, no par value			
Authorized — 400,000,000 shares			
Issued — 128,018,848 shares in 2004	**—**	14,043	**—**
— 128,037,848 shares in 2005	**14,050**	—	**130,917**
Additional paid-in capital	**23,000**	22,993	**214,312**
Retained earnings	**27,414**	27,188	**255,442**
Net unrealized holding gains on securities	**822**	1,001	**7,659**
Foreign currency translation adjustments	**(4,188)**	(4,440)	**(39,023)**
Treasury stock, at cost	**(789)**	(773)	**(7,352)**
Total shareholders' equity	**60,309**	60,012	**561,955**
Total liabilities and shareholders' equity	**¥142,111**	¥148,353	**$1,324,180**

Consolidated Statements of Operations

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	**2005**
Net sales (Note 15)	**¥84,040**	¥78,396	¥ 78,554	**$783,079**
Cost of sales (Note 15)	**53,666**	54,249	58,036	**500,056**
Gross profit	**30,374**	24,147	20,518	**283,023**
Selling, general and administrative expenses (Note 15)	**25,512**	22,339	31,267	**237,719**
Operating income (loss) (Note 15)	**4,862**	1,808	(10,749)	**45,304**
Other income (expenses):				
Interest and dividends income	**86**	148	258	**801**
Interest expenses	**(939)**	(1,139)	(1,168)	**(8,750)**
Foreign exchange loss	**(88)**	(642)	(82)	**(820)**
Amortization of bond issue costs	**(16)**	(56)	(40)	**(149)**
Gain on sales of investment securities	**2**	950	1,212	**19**
Loss on disposal of inventories	**(295)**	(1,285)	(170)	**(2,749)**
Loss on devaluation of inventories	**(1,184)**	(4,224)	(15,908)	**(11,032)**
Loss on disposal of fixed assets	**(101)**	(267)	(852)	**(941)**
Gain on sale of property, plant and equipment	**548**	4,857	—	**5,106**
Loss on disposal of software	**(356)**	(564)	—	**(3,317)**
Gain from transfer of retirement benefits	**—**	2,573	—	**—**
Loss on devaluation of investment securities	**(159)**	(2)	(1,927)	**(1,482)**
Gain on return of the governmental portion of the pension fund	**—**	—	6,229	**—**
Gain on the sale of product lines	**—**	—	317	**—**
Moving expense of head office	**—**	—	(109)	**—**
Special severance allowance	**—**	—	(11,342)	**—**
Other, net	**(282)**	(285)	(869)	**(2,627)**
	(2,784)	64	(24,451)	**(25,941)**
Income (loss) before income taxes	**2,078**	1,872	(35,200)	**19,363**
Provision for income taxes (Note 8):				
Current	**691**	944	(660)	**6,439**
Deferred	**107**	(173)	(1,779)	**997**
	1,280	1,101	(32,761)	**11,927**
Minority interests	**0**	0	0	**0**
Net income (loss)	**¥ 1,280**	¥ 1,101	¥(32,761)	**$11,927**

	Yen			U.S. dollars (Note 1)
	2005	2004	2003	**2005**
Amount per share of common stock:				
Net income (loss):				
Basic	**¥ 9.31**	¥8.38	¥(256.90)	**$0.09**
Diluted	**8.22**	7.77	—	**0.08**
Cash dividends applicable to the year	**7.00**	4.50	—	**0.07**

Consolidated Statements of Shareholders' Equity

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2005, 2004 and 2003

	Millions of yen						
	Number of shares issued	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock, at cost
Balance at March 31, 2002	128,016,724	¥14,042	¥22,987	¥ 59,295	¥ (247)	¥(1,195)	¥(711)
Net loss	—	—	—	(32,761)	—	—	—
Net unrealized holding gain on securities	—	—	—	—	271	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(1,585)	—
Treasury stock	—	—	—	—	—	—	(50)
Merger of subsidiary	—	—	5	(5)	—	—	—
Cash dividends paid	—	—	—	(383)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(47)	—	—	—
Conversion of convertible bonds	1,071	0	0	—	—	—	—
Exercise of warrants	1,053	1	1	—	—	—	—
Balance at March 31, 2003	128,018,848	14,043	22,993	26,099	24	(2,780)	(761)
Net income	—	—	—	1,101	—	—	—
Net unrealized holding gain on securities	—	—	—	—	977	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(1,660)	—
Treasury stock	—	—	—	—	—	—	(12)
Bonuses to directors and corporate auditors	—	—	—	(11)	—	—	—
Loss on sale of the treasury stock	—	—	—	(1)	—	—	—
Balance at March 31, 2004	128,018,848	14,043	22,993	27,188	1,001	(4,440)	(773)
Net income	**—**	**—**	**—**	**1,280**	**—**	**—**	**—**
Net unrealized holding gain on securities	**—**	**—**	**—**	**—**	**(179)**	**—**	**—**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**252**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(16)**
Cash dividends paid	**—**	**—**	**—**	**(1,020)**	**—**	**—**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(32)**	**—**	**—**	**—**
Loss on sale of the treasury stock	**—**	**—**	**—**	**(2)**	**—**	**—**	**—**
Exercise of stock option	**19,000**	**7**	**7**	**—**	**—**	**—**	**—**
Balance at March 31, 2005	**128,037,848**	**¥14,050**	**¥23,000**	**¥ 27,414**	**¥ 822**	**¥(4,188)**	**¥(789)**

	Thousands of U.S. dollars (Note 1)						
	Number of shares issued	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock, at cost
Balance at March 31, 2004	128,018,848	$130,852	$214,247	$253,336	$9,327	$(41,371)	$(7,203)
Net income	**—**	**—**	**—**	**11,927**	**—**	**—**	**—**
Net unrealized holding gain on securities	**—**	**—**	**—**	**—**	**(1,668)**	**—**	**—**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**2,348**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(149)**
Cash dividends paid	**—**	**—**	**—**	**(9,504)**	**—**	**—**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(298)**	**—**	**—**	**—**
Loss on sale of the treasury stock	**—**	**—**	**—**	**(19)**	**—**	**—**	**—**
Exercise of stock option	**19,000**	**65**	**65**	**—**	**—**	**—**	**—**
Balance at March 31, 2005	**128,037,848**	**$130,917**	**$214,312**	**$255,442**	**$7,659**	**$(39,023)**	**$(7,352)**

Consolidated Statements of Cash Flows

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	**2005**
Cash flows from operating activities:				
Net income (loss)	**¥ 1,280**	¥ 1,101	¥(32,761)	**$ 11,927**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	**3,754**	4,421	5,978	**34,980**
Gain on sales of investment securities	**(2)**	(950)	(1,328)	**(19)**
Gain on sales of property, plant and equipment	**(548)**	(4,899)	(8)	**(5,106)**
Loss on disposal of inventories	**295**	1,285	170	**2,749**
Loss on devaluation of investment securities	**159**	2	1,927	**1,482**
Deferred income taxes	**108**	(173)	(1,779)	**1,006**
Other — net	**538**	634	1,000	**5,013**
Notes and accounts receivable—trade	**1,024**	(2,390)	6,738	**9,542**
Inventories	**979**	7,397	16,476	**9,122**
Other current assets	**(707)**	649	(160)	**(6,588)**
Notes and accounts payable—trade	**(990)**	518	(3,320)	**(9,225)**
Income taxes payable and receivable	**(46)**	906	1,670	**(429)**
Provision for retirement benefits	**970**	(1,149)	(14,018)	**9,038**
Other current liabilities	**2,145**	(2,148)	1,475	**19,987**
Other — net	**318**	749	(82)	**2,963**
Net cash provided by (used in) operating activities	**9,277**	5,953	(18,022)	**86,442**
Cash flows from investing activities:				
Purchases of marketable securities and investment securities	**(3)**	(939)	(975)	**(28)**
Proceeds from sales of marketable securities and investment securities	**3**	1,015	4,393	**28**
Acquisition of property, plant and equipment	**(1,338)**	(1,305)	(2,733)	**(12,467)**
Proceeds from sales of property, plant and equipment	**576**	5,694	59	**5,367**
Net decrease in long-term loans receivable	**5**	14	9	**47**
Other — net	**(289)**	(58)	2,945	**(2,693)**
Net cash provided by (used in) investing activities	**(1,046)**	4,421	3,698	**(9,746)**
Cash flows from financing activities:				
Proceeds from long-term debt	**—**	1,200	12,329	**—**
Payment of long-term debt	**(8,497)**	(1,696)	(38)	**(79,174)**
Proceeds from issue of bonds	**—**	15,000	—	**—**
Redemption of bonds	**—**	(5,000)	(14,197)	**—**
Proceeds from issuance of common stack warrants	**13**	—	1	**121**
Net decrease in short-term borrowings	**(350)**	(873)	(6,080)	**(3,261)**
Payments on acquisition of treasury stock	**(21)**	(15)	(50)	**(196)**
Proceeds from sale of treasury stock	**4**	1	—	**37**
Cash dividends paid	**(1,020)**	—	(383)	**(9,504)**
Other — net	**(1)**	(49)	—	**(9)**
Net cash provided by (used in) financing activities	**(9,872)**	8,568	(8,418)	**(91,986)**
Effect of exchange rate changes on cash and cash equivalents	**155**	(549)	17	**1,444**
Net increase (decrease) in cash	**(1,486)**	18,393	(22,725)	**(13,846)**
Increase in cash due to addition of consolidated subsidiaries	**—**	10	—	**—**
Cash at beginning of year	**35,230**	16,827	39,552	**328,271**
Cash at end of year (Note 3)	**¥33,744**	¥35,230	¥ 16,827	**$314,424**
Supplemental information of cash flows:				
Cash paid during the year for:				
Interest	**¥ 942**	¥ 1,141	¥ 1,238	**$ 8,777**
Income taxes	**(924)**	(1,570)	(1,082)	**(8,610)**
Cash received during the year for:				
Income taxes	**186**	1,531	—	**1,733**
Non-cash investing and financing activities:				
Conversion of convertible bonds into common stock and additional paid-in capital	**—**	—	1	**—**

Notes to Consolidated Financial Statements

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2005, 2004 and 2003

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2005, which was ¥107.32 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

In the year ended March 31, 2005, the Company did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The Company will adopt these standards effective April 1, 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of Anritsu Corporation (the "Company") and all its subsidiaries (30 subsidiaries in 2005, 28 subsidiaries in 2004 and 26 subsidiaries in 2003). Intercompany account balances and transactions have been eliminated.

Investments in an affiliated company is stated at cost, because the income or losses of the company is not significant for the Company's equity.

The fiscal year of the consolidated subsidiaries is the same as the Company.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

The difference between the cost and the underlying net equity at the respective acquisition dates of investments in consolidated subsidiaries is amortized over a five-year period. However, such difference, provided that it is not significant, is charged to income as incurred.

Statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Securities

The Company and its consolidated subsidiaries (the "Companies") assessed the intent of holding each security and classified those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

No trading securities and held-to-maturity debt securities have been owned by the Companies. Equity securities issued by subsidiaries have been eliminated upon consolidation. Equity security issued by an affiliated company is stated at cost as described in "Consolidation." Available-for-sale securities with fair market value are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the shareholders' equity. Realized gain on sale of such securities is computed using the moving-average cost.

Debt securities with no fair market value are stated at the amortized cost, net of the amount considered uncollectible. Other securities with no fair market value are stated at the moving-average cost.

If the market value of equity securities issued by an affiliated company, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline.

If the fair market value of equity securities issued by an affiliated company is not readily available, such securities should be written down to net asset value in the event net asset value significantly declines. Unrealized losses on these securities are reported in the consolidated statement of income.

Inventories

Inventories are stated at cost determined principally by the specific identification method.

Allowance for doubtful accounts

Allowance for doubtful accounts is provided principally for amounts sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to specific items, and possible losses on collection computed by applying a percentage based on collection experience to the remaining items.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost.

Depreciation is computed principally using the declining-balance method over their estimated useful lives except for buildings acquired after March 31, 1998, which are depreciated based on the straight-line method.

Goodwill

Goodwill, which principally represents the excess of purchase price over the fair value of Wiltron Company (current Anritsu Company) purchased by Anritsu U.S. Holding, Inc. in February 1990, is assessed for impairment based on fair value in accordance with the provisions of Statement of Financial Accounting Standards No. 142 issued by the Financial Accounting Standards Board of the U.S.

Software costs

Software costs, which are included in other assets, are amortized based on the straight-line method over their estimated useful lives (five years).

Accounting for leases

Financial leases, except for those leases under which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

Bonuses to directors and corporate auditors

Bonuses to directors and corporate auditors, which are subject to shareholders' approval at the annual shareholders' meeting, are accounted for as an appropriation of retained earnings.

Severance and retirement benefits

The Company and its consolidated domestic subsidiaries have three types of pension plans for employees, i.e., lump-sum payment plan, cash-balance pension plan (market interest reflecting type) and tax-qualified post-employment benefit plan, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement of termination, length of service and certain other factors. The Company has adopted a trust fund for pension payments.

Allowance and expenses for severance and pension benefits are determined based on the amount actuarially calculated using certain assumptions.

Prior service cost is recognized as expense as incurred.

Actuarial gains and losses are also recognized as expense using the straight-line method over certain period (primarily 13 years) within the estimated average remaining service life commencing from the succeeding period.

The Board of Directors and corporate auditors of the Company made a resolution in June 2004, that severance and retirement benefits for directors and corporate auditors would not be paid thereafter. The balance of severance and retirement benefits for directors and corporate auditors as of March 31, 2005 was for directors and corporate auditors who had been in service since before the resolution. Previously, severance and retirement benefits for directors and corporate auditors were recorded at the amount that would be required if all directors and corporate auditors retired at each balance sheet date. The effect of this change to the consolidated financial statements was immaterial.

Severance and retirement benefits for directors and corporate auditors of the consolidated domestic subsidiaries were recorded at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

Accrued Bonuses

The Company accrued the estimated amounts of bonuses for managers based on estimated amounts to be paid at the end of each evaluation period.

Bond issuance costs

Bond issuance costs are amortized equally for three years in accordance with the provisions of the Commercial Code of Japan.

Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Derivative transactions and hedge accounting

The accounting standard for financial instruments requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,

1-(a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the consolidated statement of income in the period which includes the inception date, and

1-(b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Translation of foreign currency

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing on the balance sheet date, and the resulting gains and losses are charged to income.

Translation of foreign currency financial statements

The assets and liabilities are translated into Japanese yen at the year-end rate and the revenues and expenses are translated at the monthly average rate of the relevant year. The resulting foreign currency translation adjustments are reflected as a separate component of the shareholders' equity in the consolidated balance sheets.

Amounts per share of common stock

The computations of basic net income (loss) per share are based on the weighted average number of shares outstanding during the relevant year.

Diluted net income per share for 2003 is not presented due to net loss. Diluted net income per share is computed based on the average number of shares of common stock and contingent issuances of common stock from convertible bonds or warrants.

Cash dividends per share represent the cash dividends declared applicable to the respective year including dividends paid after the end of the year.

Reclassifications

Certain reclassifications of previously reported amounts have been made to conform with current classifications.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2005 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Cash	¥31,845	$296,729
Time deposits with maturities not exceeding three months	1,899	17,695
	¥33,744	$314,424

4. SECURITIES

The following tables summarize acquisition costs and book values of securities with fair value as of March 31, 2005 and 2004:

	Millions of yen		
Year ended March 31, 2005	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with fair value exceeding book value:			
Equity securities	**¥1,224**	**¥2,607**	**¥1,383**
Corporate bonds	**918**	**920**	**2**
	¥2,142	**¥3,527**	**¥1,385**

	Thousands of U.S. dollars		
Year ended March 31, 2005	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with fair value exceeding book value:			
Equity securities	**$11,405**	**$24,292**	**$12,887**
Corporate bonds	**8,554**	**8,572**	**18**
	$19,959	**$32,864**	**$12,905**

The following table summarizes book values of securities without fair value as of March 31, 2005:

	Millions of yen
	Book value
Available-for-sale securities:	
Non-listed equity securities	**¥ 559**
Commercial paper	**1,900**
	¥2,459

	Thousands of U.S. dollars
	Book value
Available-for-sale securities:	
Non-listed equity securities	**$ 5,209**
Commercial paper	**17,704**
	$22,913

Maturities of available-for-sale securities at March 31, 2005 are as follows:

	Millions of yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Available-for-sale securities:				
Corporate bonds	**¥ —**	**¥920**	**¥—**	**¥—**
Others	**1,900**	**—**	**—**	**—**

	Thousands of U.S dollars			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Available-for-sale securities:				
Corporate bonds	**$ —**	**$8,572**	**$—**	**$—**
Others	**17,704**	**—**	**—**	**—**

Total sales of available-for-sale securities in the year ended March 31, 2005, amounted to ¥10,754 million ($100,205 thousand) and the net gains amounted to ¥3 million ($28 thousand).

	Millions of yen		
Year ended March 31, 2004	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with fair value exceeding book value:			
Equity securities	¥1,219	¥2,908	¥1,689
	¥1,219	¥2,908	¥1,689
Other securities:			
Equity securities	¥ 0	¥ 0	(0)
Corporate bonds	932	931	(1)
	¥ 932	¥ 931	¥ (1)

The following table summarizes book values of securities without fair value as of March 31, 2004:

	Millions of yen
	Book value
Available-for-sale securities:	
Non-listed equity securities	¥ 719
Commercial paper	2,400
	¥3,119

Maturities of available-for-sale securities at March 31, 2004 are as follows:

	Millions of yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Available-for-sale securities:				
Corporate bonds	¥ —	¥930	¥—	¥—
Others	2,400	—	—	—

Total sales of available-for-sale securities in the year ended March 31, 2004, amounted to ¥7,615 million and the net gains amounted to ¥954 million.

5. INVENTORIES

Inventories at March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Finished goods	**¥ 6,944**	¥ 6,948	**$ 64,704**
Raw materials and supplies	**9,662**	9,604	**90,030**
Work in process	**8,205**	9,440	**76,453**
	¥24,811	¥25,992	**$231,187**

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings consisted principally of bank loans. Short-term bank loans at March 31, 2005 and 2004 represented bank overdrafts, generally matured in the period up to six months. The annual interest rates of short-term bank loans ranged from 0.8% to 24.0% at March 31, 2005 and 2004.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
1.85% unsecured bonds due 2008	**¥15,000**	¥15,000	**$139,769**
0.65% unsecured convertible bonds convertible into common stock at ¥1,476 ($14) per share due 2006	**14,793**	14,793	**137,840**
0.0% unsecured bonds with stock acquisition rights convertible into common stock at ¥1,070 ($10) per share due 2010	**15,000**	15,000	**139,769**
Unsecured bank loans due to 2005 and 2006 at interest rates ranging from 4.4% to 5.4%	**547**	8,191	**5,097**
Unsecured bank loans due to 2005, 2006 and 2007 at interest rates ranging from 1.7% to 1.8%	**11,000**	11,700	**102,497**
Other long-term obligations	**13**	19	**121**
Total	**56,353**	64,703	**525,093**
Less current portion	**(1,410)**	(1,228)	**(13,138)**
	¥54,943	¥63,475	**$511,955**

On May 25, 2001 the Company issued ¥2,160 million of bonds with 5,000 detachable warrants. One warrant entitles the holder to subscribe ¥400 thousand for shares of common stock of the Company at ¥2,500 per share. Upon issuance of the bonds, Anritsu Company bought all of these bonds with warrants and distributed the warrants to the then employees of Anritsu Company as part of their remuneration at fair market value. At March 31, 2005, 5,000 warrants were outstanding and will expire on November 30, 2006.

At March 31, 2005, the number of common stock issuable upon full conversion of outstanding convertible bonds and exercise of outstanding warrants was 24,105 thousand shares.

The annual maturities of long-term debt at March 31, 2005, are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 1,410	$ 13,138
2007	17,930	167,071
2008	22,000	204,994
2009	13	121
2010	0	0
2011	15,000	139,769
Thereafter	0	0

7. STOCK OPTION PLAN

(1) At the annual meeting of shareholders held on June 29, 2000, the Company's directors and certain employees were granted options in the amount of 106,000 shares to purchase a maximum of 10,000 common shares of the Company, per individual. The option exercise price is ¥1,997 per share. The option is exercisable between July 1, 2002 and June 30, 2005.

(2) At the annual meeting of shareholders held on June 26, 2001, the Company's directors and certain employees were granted options in the amount of 290,000 shares to purchase a maximum of 10,000 common shares of the Company, per individual. The option exercise price is ¥2,131 per share. The option is exercisable between July 1, 2003 and June 30, 2006.

(3) Pursuant to the resolution at the annual meeting of shareholders held on June 25, 2002, the Company's directors, certain employees and subsidiaries' directors were granted options in the amount of 309,000 shares to purchase a maximum of 20,000 common shares of the Company, per individual. The option exercise price is ¥707 per share. The option is exercisable between July 1, 2004 and June 30, 2007.

(4) At the annual meeting of shareholders held on June 25, 2004, the Company's directors, certain employees, subsidiaries' directors, and subsidiaries' employees were granted options in the amount of 210,000 shares to purchase a maximum of 20,000 common shares of the Company, per individual. The option exercise price is ¥718 per share. The option is exercisable between July 1, 2006 and June 30, 2009.

(5) At the annual meeting of shareholders held on June 23, 2005, it was decided that options be granted to the Company's directors, certain employees, subsidiaries' directors, and subsidiaries' employees in the amount of not more than 300,000 shares in total. The subscription price per share of the rights will be determined at 1.05 of average market quotation of the shares of the Company at the month that precedes the month in which the subscription right is granted. The option is exercisable between July 1, 2007 and June 30, 2010.

8. INCOME TAXES

The Companies are subject to several taxes based on income, which are corporate tax, inhabitants taxes and enterprise tax. The aggregate normal effective tax rate on income before income taxes in Japan was approximately 41% for the year ended March 31, 2005 and approximately 42% for the years ended March 31, 2004 and 2003.

Effective for years commencing on or after April 1, 2004, according to the revised local tax law, income tax rates for enterprise taxes are reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred income tax assets and liabilities, the Company and consolidated domestic subsidiaries used the statutory income tax rates of 42% and 40% for current items and non-current items, respectively, for the year ended March 31, 2003.

As a result of the change in the effective tax rates, deferred income tax assets decreased by ¥76 million, provision for deferred income taxes by ¥75 million and net unrealized holding gains on securities by ¥1 million as of March 31, 2003, compared with what would have been recorded under the previous local tax law.

Significant components of deferred tax assets and liabilities as of March 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets:			
Net operating loss carried forward	**¥ 7,743**	¥ 9,737	**$ 72,149**
Inventories	**8,351**	8,825	**77,814**
Software	**2,031**	2,106	**18,925**
Accrued expenses	**928**	993	**8,647**
Investment securities	**857**	812	**7,985**
Other	**1,091**	501	**10,166**
Subtotal deferred tax assets	**21,001**	22,974	**195,686**
Valuation allowance	**(9,776)**	(10,980)	**(91,092)**
Total deferred tax assets	**11,225**	11,994	**104,594**
Deferred tax liabilities:			
Retirement benefits	**1,355**	1,910	**12,626**
Net unrealized holding gains on securities	**562**	684	**5,237**
Other	**—**	24	**—**
Subtotal deferred tax liabilities	**1,917**	2,618	**17,863**
Net deferred tax assets	**¥ 9,308**	¥ 9,376	**$ 86,731**

The following table summarizes significant differences between the normal effective tax rate and the Company's effective tax rate for financial statement purposes for the year ended March 31, 2005.

	2005
Normal effective tax rate	41%
Permanent differences of the Company and its consolidated subsidiaries	0
Decrease in valuation allowance for temporary differences	(28)
Difference in the amount of tax estimation	11
Renounced amount of deficit carried forward on consolidated subsidiaries	10
Taxes nonrelated to taxable income such as taxation on per capita basis	6
Tax credit on R&D expenses	(4)
Increase of valuation allowance for net-operating loss carried forward	3
Others	(1)
The Company's effective tax rate	38%

Difference between the normal effective tax rate and the Companies' effective tax rate is not presented due to loss before income taxes for the year ended March 31, 2003.

For the year ended March 31, 2004, a reconciliation is not presented because the difference is less than 5% of normal effective statutory tax rate and therefore considered insignificant.

9. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

The Companies utilize derivative financial instruments such as foreign currency forward contracts, currency swap contracts and interest rate swap contracts to reduce market risks of fluctuations in foreign currency exchange rates and interest rate on assets and liabilities. The Companies do not hold or issue derivative financial instruments for trading purposes.

The Companies are exposed to credit risk in the event of nonperformance by counterparties to derivative financial instruments but such risk is considered minor because of the high credit rating of the counterparties.

The Companies enter into foreign currency forward contracts, generally maturing within one year, as hedges for existing assets and liabilities denominated in foreign currencies (principally U.S. dollar and EURO) arising from operations. The Company also utilize currency swap contracts as hedges for existing intercompany monetary assets and liabilities in foreign currencies. And also the Companies enter into interest rate swap contracts to manage their interest rate exposures. Interest rate swaps effectively convert certain floating rate debt to fixed rate debt.

The derivative transactions are executed and managed by the Company's Accounting Department in accordance with the established policies and within the specified limit on the amounts of derivative transactions allowed. The Manager of the Accounting Department reports information on derivative transactions to the Officer in charge of the Accounting Department on a semi-annual basis.

The Companies evaluate hedge effectiveness semi-annually by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

There are no derivative transactions for which hedge accounting has not been applied as of March 31, 2005, 2004 and 2003.

The Companies did not have any foreign currency option transactions at the balance sheet date.

10. RELATED PARTY TRANSACTION

The Company sold investment securities to NEC Corporation during the year ended March 31, 2004, which owned 21.67% of the shares of the Company at March 31, 2004. The proceed for the sales was ¥1,001 million and the Company recognized gain of ¥947 million from these transactions.

During the year ended March 31, 2005, the Company had no important transaction with NEC Corporation.

The Company has no outstanding balance of receivable due from NEC Corporation as of March 31, 2005 and 2004.

11. SEVERANCE AND PENSION BENEFITS

Allowance and expenses for employees' severance and pension benefits are determined based on the amounts obtained by actuarial calculations.

Allowance for severance and pension benefits included in the liability section of the consolidated balance sheet as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Projected benefit obligation	**¥ 31,017**	¥ 30,939	**$ 289,014**
Unrecognized actuarial differences	**(13,752)**	(15,744)	**(128,140)**
Less fair value of pension assets	**(24,235)**	(23,131)	**(225,820)**
Allowance for employees' severance and pension benefits	**(6,970)**	(7,936)	**(64,946)**
Prepaid pension expense	**8,521**	9,186	**79,398**
Allowance for directors' severance and pension benefits	**90**	116	**839**
	¥ 1,641	¥ 1,366	**$ 15,291**

Included in the consolidated statement of income for the years ended March 31, 2005 and 2004 was severance and pension benefit expense comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Service costs-benefits earned during the year	**¥ 852**	¥ 1,240	**$ 7,939**
Interest cost on projected benefit obligation	**749**	698	**6,979**
Expected return on plan assets	**(560)**	(600)	**(5,218)**
Amortization of actuarial gains or losses	**1,681**	1,282	**15,663**
Amortization of prior service cost	**(124)**	—	**(1,155)**
Gain from transfer of retirement benefits	**—**	(2,573)	**—**
Severance and pension benefit expense	**¥2,598**	¥ 47	**$ 24,208**

For the years ended March 31, 2005 and 2004, the discount rate and the rate of expected return on plan assets used by the Company were 2.5% and 3.0%, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains or losses are recognized as income or expense using the straight-line method over primarily 13 years from the succeeding period.

Employees of Japanese companies are compulsorily included in the Welfare Pension Insurance Scheme operated by the government. Employers are legally required to deduct employees' welfare pension insurance contributions from their payroll and to pay them to the government together with employers' own contributions. For companies that have established their own Employees' Pension Fund which meets certain legal requirements, it is possible to transfer a part of their welfare pension insurance contributions (referred to as the "substitutional portion" of the government's Welfare Pension Insurance Scheme) to their own Employees' Pension Fund under the government's permission and supervision.

Based on the newly enacted Defined Benefit Corporate Pension Law, the Company and its domestic consolidated subsidiaries decided to restructure their Employees' Pension Fund and were permitted by the Minister of Health, Labor and Welfare on September 1, 2003 to be released from their future obligation for payments for the substitutional portion of the Welfare Pension Insurance Scheme. Pension assets for the substitutional portion maintained by the Employees' Pension Fund are to be transferred back to the government's scheme.

The Company and its domestic consolidated subsidiaries applied the transitional provisions as prescribed in paragraph 47-2 of the JICPA Accounting Committee Report No. 13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)", and the effect of transferring the substitutional portion was recognized on the date permission was received from the Ministry of Health, Labor and Welfare. As the result, in the year ended March 31, 2003, the Company and its consolidated domestic subsidiaries recorded gains on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme amounting to ¥ 6,229 million, which was calculated based on the amount of the substitutional portion of the projected benefit obligations as of the permission date, the related pension assets determined pursuant to the government formula, and the related unrecognized items.

The amount of pension plan assets expected to be transferred back to the government approximated ¥15,841 million as at March 31, 2003.

Based on the Defined Benefit Corporate Pension Law, the Company and its domestic consolidated subsidiaries transferred additional portion on the substitutional portion to a new cash balance type pension plan. The transfer is accounted for by "Accounting for shifts between Retirement Benefit Plans" (Financial Accounting Standards Implementation Guidance No.1).

As the result, Gain from transfer of retirement benefit plan including prior service cost and amortization of related unrealized actuarial difference amounting to ¥2,573 million was recorded in other income in the consolidated statements of operation for the year ended March 31, 2004.

12. SHAREHOLDERS' EQUITY

The issuance of shares upon conversion of convertible bonds and exercise of warrants is accounted for by crediting an amount equal to at least 50% of the amount of the issue to the common stock account and the balance to the additional paid-in capital account in accordance with provisions of the Commercial Code of Japan.

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

Effective October 1, 2001, the Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of the shareholders' meeting. Legal reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Commercial Code of Japan.

Effective October 2001, the Code no longer required minimum par value of shares issued. The par value description on the Company's consolidated balance sheet has changed to "no par" accordingly.

13. COMMITMENTS AND CONTINGENT LIABILITIES

The Companies and certain of its subsidiaries had commitments payable under non-capitalized finance leases and future payments of rental expenses under non-cancellable operating leases at March 31, 2005, as follows:

	Millions of yen	Thousands of U.S. dollars
Within one year	¥ 561	$ 5,227
After one year	1,115	10,389
	¥1,676	$15,617

Lease expenses under non-capitalized finance leases for the years ended March 31, 2005, 2004 and 2003 aggregated approximately ¥244 million ($2,274 thousand), ¥244 million and ¥247 million, respectively.

Contingent liabilities at March 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
Loan guarantees and items of a similar nature		
Employees	¥1,515	$14,117
Others	5	47

14. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are charged to income as incurred.

The amount charged to income for the years ended March 31, 2005, 2004 and 2003 were ¥10,515 million ($97,978 thousand), ¥9,887 million and ¥13,222 million, respectively.

15. SEGMENT INFORMATION

Information by **industry segment** for the years ended March 31, 2005, 2004 and 2003 is as follows:

Millions of yen

Year ended March 31, 2005	Information and Communications	Test and Measurement	Industrial Automation	Services and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	**¥ 8,726**	**¥55,245**	**¥12,234**	**¥ 7,835**	**¥ 84,040**	**¥ —**	**¥ 84,040**
Inter-segment	**25**	**49**	**38**	**3,411**	**3,523**	**(3,523)**	**—**
Total	**8,751**	**55,294**	**12,272**	**11,246**	**87,563**	**(3,523)**	**84,040**
Operating expenses	**9,761**	**51,058**	**11,270**	**9,223**	**81,312**	**(2,134)**	**79,178**
Operating income (loss)	**¥ (1,010)**	**¥ 4,236**	**¥ 1,002**	**¥ 2,023**	**¥ 6,251**	**¥ (1,389)**	**¥ 4,862**
Identifiable assets	**¥14,077**	**¥66,710**	**¥10,362**	**¥16,722**	**¥107,871**	**¥34,240**	**¥142,111**
Depreciation and amortization	**308**	**1,750**	**97**	**971**	**3,126**	**274**	**3,400**
Capital expenditures	**188**	**1,213**	**182**	**185**	**1,768**	**102**	**1,870**

Year ended March 31, 2004	Information and Communications	Test and Measurement	Components and Devices	Industrial Automation	Services and Others	Total	Eliminations or corporate	Consolidated
Net sales:								
Outside customers	¥12,389	¥47,675	¥ 921	¥11,445	¥ 5,966	¥ 78,396	¥ —	¥ 78,396
Inter-segment	16	209	194	16	2,990	3,425	(3,425)	—
Total	12,405	47,884	1,115	11,461	8,956	81,821	(3,425)	78,396
Operating expenses	12,620	46,881	2,510	10,579	6,589	79,179	(2,591)	76,588
Operating income (loss)	¥ (215)	¥ 1,003	¥ (1,395)	¥ 882	¥ 2,367	¥ 2,642	¥ (834)	¥ 1,808
Identifiable assets	¥17,334	¥68,743	¥ 6,598	¥10,975	¥12,708	¥116,358	¥31,995	¥148,353
Depreciation and amortization	397	2,355	719	67	407	3,945	312	4,257
Capital expenditures	85	985	19	215	109	1,413	117	1,530

Year ended March 31, 2003	Information and Communications	Test and Measurement	Components and Devices	Industrial Automation	Services and Others	Total	Eliminations or corporate	Consolidated
Net sales:								
Outside customers	¥10,610	¥51,441	¥ 1,218	¥11,584	¥3,701	¥ 78,554	¥ —	¥ 78,554
Inter-segment	6	319	8	29	2,492	2,854	(2,854)	—
Total	10,616	51,760	1,226	11,613	6,193	81,408	(2,854)	78,554
Operating expenses	13,158	58,705	4,018	11,202	4,280	91,363	(2,060)	89,303
Operating income (loss)	¥ (2,542)	¥ (6,945)	¥ (2,792)	¥ 411	¥1,913	¥ (9,955)	¥ (794)	¥ (10,749)
Identifiable assets	¥16,417	¥87,566	¥ 8,777	¥11,155	¥6,655	¥130,570	¥13,561	¥144,131
Depreciation and amortization	644	3,480	958	98	267	5,447	382	5,829
Capital expenditures	154	1,846	172	37	182	2,391	477	2,868

	Thousands of U.S. dollars						
Year ended March 31, 2005	Information and Communications	Test and Measurement	Industrial Automation	Services and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	**$ 81,308**	**$514,769**	**$113,996**	**$ 73,006**	**$ 783,079**	**$ —**	**$ 783,079**
Inter-segment	**233**	**457**	**354**	**31,783**	**32,827**	**(32,827)**	**—**
Total	**81,541**	**515,226**	**114,350**	**104,789**	**815,906**	**(32,827)**	**783,079**
Operating expenses	**90,952**	**475,755**	**105,013**	**85,939**	**757,659**	**(19,884)**	**737,775**
Operating income (loss)	**$ (9,411)**	**$ 39,471**	**$ 9,337**	**$ 18,850**	**$ 58,247**	**$ (12,943)**	**$ 45,304**
Identifiable assets	**$131,168**	**$621,599**	**$ 96,552**	**$155,815**	**$1,005,134**	**$319,046**	**$1,324,180**
Depreciation and amortization	**2,870**	**16,306**	**904**	**9,048**	**29,128**	**2,553**	**31,681**
Capital expenditures	**1,752**	**11,303**	**1,696**	**1,723**	**16,474**	**951**	**17,425**

The components and devices business, which was previously a separate segment, is included in "Services and Others" segment starting from the year ended March 31, 2005. This is because of reorganization of the devices business, i.e., the Company reorganized the devices business as Optical Devices R&D Center, for purposes of providing optical devices and its base technology to Anritsu products and basic research. This change of segmentation is to reflect the business of Anritsu Group more properly.

As a result of this change, net sales and operating expenses increased by ¥1,183 million ($11,023 thousand) and ¥1,571 million ($14,638 thousand) respectively, and operating income decreased by ¥388 million ($3,615 thousand) in "Services and Others" segment.

The amounts of identifiable assets, depreciation and capital expenditures for the devices business included in "Services and Others" segment were ¥5,190 million ($48,360 thousand), ¥545 million ($5,078 thousand) and ¥39 million ($363 thousand) respectively, for the year ended March 31, 2005.

Information by **geographic area** for the years ended March 31, 2005, 2004 and 2003 is as follows:

	Millions of yen						
Year ended March 31, 2005	Japan	Americas	Europe	Asia and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	**¥ 53,678**	**¥13,651**	**¥10,104**	**¥6,607**	**¥ 84,040**	**¥ —**	**¥ 84,040**
Inter-segment	**9,463**	**5,956**	**1,936**	**409**	**17,764**	**(17,764)**	**—**
Total	**63,141**	**19,607**	**12,040**	**7,016**	**101,804**	**(17,764)**	**84,040**
Operating expenses	**59,529**	**18,200**	**12,225**	**6,785**	**96,739**	**(17,561)**	**79,178**
Operating income (loss)	**¥ 3,612**	**¥ 1,407**	**¥ (185)**	**¥ 231**	**¥ 5,065**	**¥ (203)**	**¥ 4,862**
Identifiable assets	**¥109,703**	**¥31,705**	**¥ 7,317**	**¥3,755**	**¥152,480**	**¥(10,369)**	**¥142,111**
Year ended March 31, 2004							
Net sales:							
Outside customers	¥ 50,836	¥11,469	¥ 8,911	¥7,180	¥ 78,396	¥ —	¥ 78,396
Inter-segment	9,477	5,162	1,155	562	16,356	(16,356)	—
Total	60,313	16,631	10,066	7,742	94,752	(16,356)	78,396
Operating expenses	58,441	16,322	10,521	7,493	92,777	(16,189)	76,588
Operating income (loss)	¥ 1,872	¥ 309	¥ (455)	¥ 249	¥ 1,975	¥ (167)	¥ 1,808
Identifiable assets	¥109,942	¥33,081	¥ 6,399	¥2,978	¥152,400	¥ (4,047)	¥148,353
Year ended March 31, 2003							
Net sales:							
Outside customers	¥ 49,363	¥12,821	¥10,941	¥5,429	¥ 78,554	¥ —	¥ 78,554
Inter-segment	7,965	5,083	1,957	456	15,461	(15,461)	—
Total	57,328	17,904	12,898	5,885	94,015	(15,461)	78,554
Operating expenses	67,681	19,245	13,952	5,874	106,752	(17,449)	89,303
Operating income (loss)	¥ (10,353)	¥ (1,341)	¥ (1,054)	¥ 11	¥ (12,737)	¥ 1,988	¥ (10,749)
Identifiable assets	¥116,860	¥38,626	¥ 6,996	¥2,824	¥165,306	¥(21,175)	¥144,131

	Thousands of U.S. dollars						
Year ended March 31, 2005	Japan	Americas	Europe	Asia and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	**$ 500,168**	**$127,199**	**$ 94,148**	**$61,564**	**$ 783,079**	**$ —**	**$ 783,079**
Inter-segment	**88,176**	**55,498**	**18,040**	**3,811**	**165,525**	**(165,525)**	**—**
Total	**588,344**	**182,697**	**112,188**	**65,375**	**948,604**	**(165,525)**	**783,079**
Operating expenses	**554,687**	**169,586**	**113,912**	**63,222**	**901,407**	**(163,632)**	**737,775**
Operating income (loss)	**$ 33,657**	**$ 13,111**	**$ (1,724)**	**$ 2,153**	**$ 47,197**	**$ (1,893)**	**$ 45,304**
Identifiable assets	**$1,022,205**	**$295,425**	**$ 68,179**	**$34,989**	**$1,420,798**	**$ (96,618)**	**$1,324,180**

Overseas sales for the years ended March 31, 2005, 2004 and 2003 were as follows:

	Millions of yen			
Year ended March 31, 2005	Americas	Europe	Asia and Others	Total
Overseas sales	**¥12,392**	**¥10,065**	**¥12,939**	**¥35,396**
Consolidated net sales	**—**	**—**	**—**	**84,040**
Percentage of consolidated net sales	**14.7%**	**12.0%**	**15.4%**	**42.1%**
Year ended March 31, 2004				
Overseas sales	¥10,720	¥ 9,033	¥13,857	¥33,610
Consolidated net sales	—	—	—	78,396
Percentage of consolidated net sales	13.7%	11.5%	17.7%	42.9%
Year ended March 31, 2003				
Overseas sales	¥11,442	¥10,938	¥ 9,743	¥32,123
Consolidated net sales	—	—	—	78,554
Percentage of consolidated net sales	14.6%	13.9%	12.4%	40.9%

	Thousands of U.S dollars			
Year ended March 31, 2005	Americas	Europe	Asia and Others	Total
Overseas sales	**$115,468**	**$93,785**	**$120,565**	**$329,818**
Consolidated net sales	**—**	**—**	**—**	**783,079**
Percentage of consolidated net sales	**14.7%**	**12.0%**	**15.4%**	**42.1%**

16. FINANCIAL INFORMATION OF THE COMPANY

The following summarizes the non-consolidated financial position of the Company at March 31, 2005 and 2004, and the results of operations for each of the three years in the period ended March 31, 2005.

Balance Sheets (Supplementary information)

	Millions of yen		Thousands of U.S. dollars
ASSETS	**2005**	2004	**2005**
Current assets:			
Cash	**¥ 28,528**	¥ 28,801	**$ 265,822**
Notes and accounts receivable—trade	**17,760**	19,569	**165,486**
Allowance for doubtful accounts	**(225)**	(394)	**(2,097)**
Marketable securities	**1,900**	2,400	**17,704**
Inventories	**16,415**	17,524	**152,954**
Deferred tax assets—current	**6,748**	6,748	**62,877**
Other current assets	**1,206**	1,638	**11,237**
Total current assets	**72,332**	76,286	**673,983**
Property, plant and equipment:			
Land	**493**	498	**4,594**
Buildings and structures	**23,706**	23,733	**220,891**
Machinery and equipment	**14,627**	16,231	**136,293**
Accumulated depreciation	**(28,764)**	(29,704)	**(268,021)**
Net property, plant and equipment	**10,062**	10,758	**93,757**
Investments and other assets:			
Investment securities	**35,947**	36,432	**334,952**
Long-term loans receivable	**16,959**	12,118	**158,023**
Deferred tax assets—non-current	**404**	135	**3,764**
Other assets	**9,200**	10,333	**85,725**
Allowance for doubtful accounts	**(78)**	(90)	**(727)**
Total investments and other assets	**62,432**	58,928	**581,737**
Total assets	**¥144,826**	¥145,972	**$1,349,477**

	Millions of yen		Thousands of U.S. dollars
LIABILITIES AND SHAREHOLDERS' EQUITY	**2005**	2004	**2005**
Current liabilities:			
Short-term borrowings	**¥ 870**	¥ 1,070	**$ 8,107**
Long-term debt due within one year	**1,400**	1,060	**13,045**
Notes and accounts payable—trade	**6,697**	7,977	**62,402**
Accrued liabilities	**4,033**	2,028	**37,579**
Accrued expenses	**1,249**	1,122	**11,638**
Income taxes payable	**164**	184	**1,528**
Other current liabilities	**4,030**	4,954	**37,551**
Total current liabilities	**18,443**	18,395	**171,850**
Long-term liabilities:			
Long-term debt	**55,193**	56,593	**514,284**
Retirement benefits for directors and corporate auditors	**78**	106	**727**
Other long-term liabilities	**416**	273	**3,876**
Total long-term liabilities	**55,687**	56,972	**518,887**
Shareholders' equity:			
Common stock	**14,050**	14,043	**130,917**
Additional paid-in capital	**23,000**	22,993	**214,312**
Legal reserve	**2,468**	2,468	**22,997**
Retained earnings	**31,156**	30,877	**290,309**
Net unrealized holding gains on securities	**811**	997	**7,557**
Treasury stock, at cost	**(789)**	(773)	**(7,352)**
Total shareholders' equity	**70,696**	70,605	**658,740**
Total liabilities and shareholders' equity	**¥144,826**	¥145,972	**$1,349,477**

Statements of Operations (Supplementary information)

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	**2005**
Net sales	**¥49,669**	¥47,503	¥ 44,833	**$462,812**
Cost of sales	**36,638**	37,875	40,656	**341,390**
Gross profit	**13,031**	9,628	4,177	**121,422**
Selling, general and administrative expenses	**11,138**	9,420	16,506	**103,783**
Operating income (loss)	**1,893**	208	(12,329)	**17,639**
Other income (expenses):				
Interest and dividends income	**1,161**	773	589	**10,818**
Interest expenses	**(586)**	(757)	(732)	**(5,460)**
Foreign exchange gain (loss)	**83**	(332)	4	**773**
Loss on disposal of inventories	**(216)**	(1,243)	(122)	**(2,013)**
Gain on sale of head office building and TODA plant	**—**	4,857	—	**—**
Gain on sales of property, plant and equipment	**162**	—	—	**1,510**
Gain on sales of investment securities	**2**	950	1,212	**19**
Loss on devaluation of investment securities	**(159)**	(2)	(1,402)	**(1,482)**
Revaluation loss of investments in subsidiaries' securities	**—**	—	(551)	**—**
Gain on return of the governmental portion of the pension fund	**—**	—	5,562	**—**
Reversal of bad debt reserve	**36**	—	240	**335**
Gain on expiration of warrants	**28**	50	38	**261**
Gain from transfer of retirement benefits plan	**—**	2,165	—	**—**
Loss on devaluation of inventories	**(1,175)**	(4,042)	(11,847)	**(10,949)**
Special severance allowance	**—**	—	(10,004)	**—**
Moving expense of head office	**—**	—	(109)	**—**
Loss on disposal of fixed assets	**—**	(564)	(646)	**—**
Rental fee	**—**	0	841	**—**
Other, net	**(68)**	(417)	(402)	**(634)**
	(732)	1,438	(17,329)	**(6,822)**
Income (loss) before income taxes	**1,161**	1,646	(29,658)	**10,817**
Provision for income taxes:				
Current	**7**	230	(73)	**65**
Deferred	**(142)**	267	(2,291)	**(1,323)**
Income taxes refund	**4**	118	—	**37**
Net income (loss)	**¥ 1,300**	¥ 1,267	¥(27,294)	**$ 12,112**

Report of Independent Public Accountants

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF ANRITSU CORPORATION:

We have audited the accompanying consolidated balance sheets of Anritsu Corporation and subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2005, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Anritsu Corporation and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion, we draw attention to Note 15 to the consolidated financial statements. The components and devices business, which was previously a separate segment, is included in the Services and Others segment effective April 1, 2004.

The consolidated financial statements as of and for the year ended March 31, 2005 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 of the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 23, 2005