Annual Report 2005

For the year ended March 31, 2005

Growing Toward Global Leadership

How We'll Stay Ahead

Where We're Going

Where We Are

Anritsu

Profile

To contribute to the development of the ubiquitous network society, Anritsu will provide solutions in the fields of electronics, information networks and measurement to the mobile & Internet, industrial electronics, security and environmental measurement markets by utilizing "Original & High Level" technologies.

Anritsu will work to become an "Intelligent Solution Creator" that contributes to the development of the ubiquitous network society by creating better solutions in cooperation with its customers and partners. These efforts will, in turn, lead to improved customer value and new demand.

Company Philosophy

Anritsu, with sincerity, harmony, and enthusiasm, will contribute to creating an affluent ubiquitous network society by providing "Original & High Level" products and services.

Company Vision

To be a shining light by contributing to the development of the global network society.

To be a Global Market Leader by realizing Market–Driven and Customer–Focused strategies.

Company Commitment

- High return for shareholders
- Win-win relationships with customers
- Employees who are proud of Anritsu
- Contribution to society as a good citizen

Forward-Looking Statements

All information contained in this annual report which pertains to the current plans, estimates, strategies and beliefs of Anritsu Corporation (hereafter "Anritsu") that is not historical fact shall be considered forward-looking statements of future business results or other forward-looking projections pertinent to the business of Anritsu. Implicit in reliance on these and all future projections is the unavoidable risk, caused by the existence of uncertainties about future events, that any and all suggested projections may not come to pass. Forward-looking statements include but are not limited to those using words such as "believe," "expect," "plans," "strategy," "prospects," "estimate," "project," "anticipate," "may" or "might" and words of similar meaning in connection with a discussion of future operations or financial performance. Actual business results are the outcome of a number of unknown variables and may substantially differ from the figures projected herein.

Factors which may affect the actual business results include but are not limited to the economic situation in the geographic areas in which Anritsu conducts business, including but not limited to Japan, the Americas, Europe and Asia, downward pressure on prices due to increasing competition or changes in actual demand for Anritsu products and services, Anritsu's ability to provide products and services that continue to be accepted by customers in competitive markets, and exchange rates.

Readers also should not place reliance on any obligation of Anritsu to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Anritsu disclaims any such obligation.

Contents

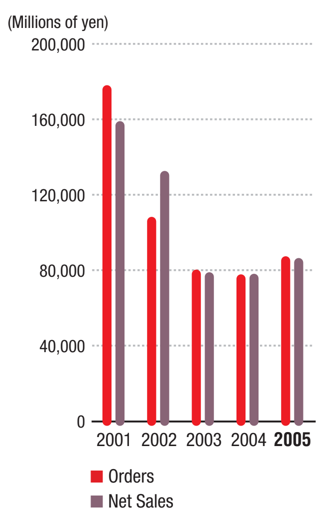
Financial Highlights

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31

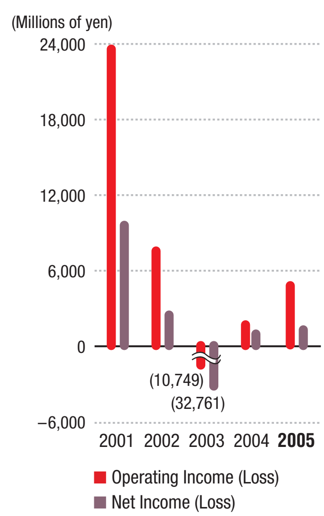
	Millions of yen			Change (%)	Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005/2004	**2005**
For the year:					
Net sales	**¥ 84,040**	¥ 78,396	¥ 78,554	**7.2%**	**$ 783,079**
Operating income (loss)	**4,862**	1,808	(10,749)	**168.9**	**45,304**
Net income (loss)	**1,280**	1,101	(32,761)	**16.3**	**11,927**
Depreciation and amortization	**3,400**	4,257	5,829	**(20.1)**	**31,681**
Capital expenditures	**1,870**	1,530	2,868	**22.2**	**17,425**
R&D expenses	**10,515**	9,887	13,222	**6.4**	**97,978**
At year-end:					
Total assets	**¥142,111**	¥148,353	¥144,131	**(4.2)%**	**$1,324,180**
Total shareholders' equity	**60,309**	60,012	59,618	**0.5**	**561,955**
	Yen			Change (%)	U.S. dollars (Note 1)
Per share:					
Net income (loss)					
Basic	**¥9.31**	¥ 8.38	¥(256.90)	**11.1%**	**$0.09**
Diluted (Note 2)	**8.22**	7.77	—	**5.8**	**0.08**
Cash dividends	**7.00**	4.50	—	**55.6**	**0.07**

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥107.32 to U.S. $1.00, the approximate exchange rate on March 31, 2005.
2. 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 here 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.

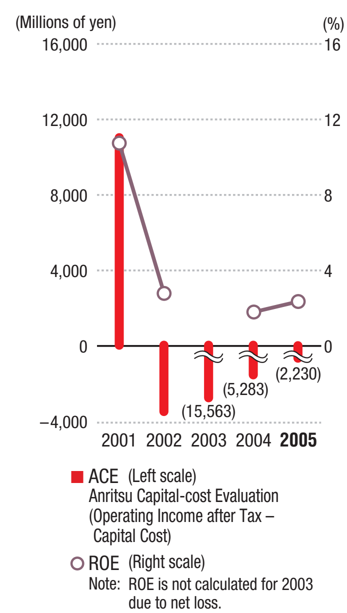
Orders/Net Sales



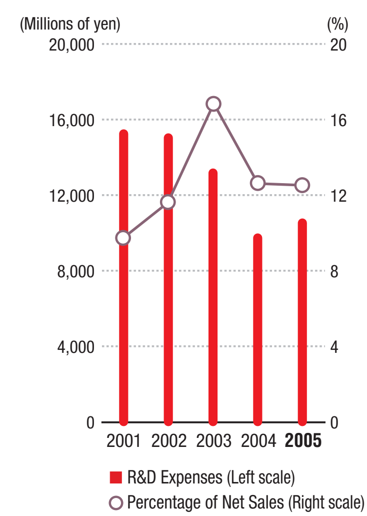
Operating Income (Loss)/ Net Income (Loss)



ACE/ROE

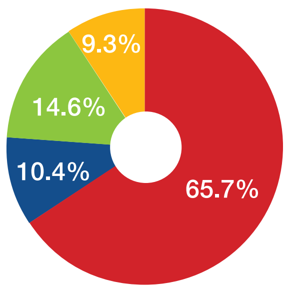


R&D Expenses/ Percentage of Net Sales



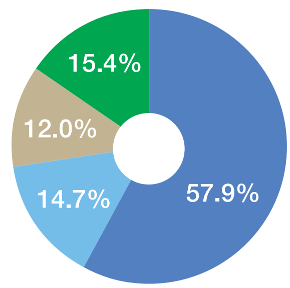
Anritsu at a Glance

Net Sales by Industry Segment
(Year ended March 31, 2005)



- Test and Measurement
- Information and Communications
- Industrial Automation
- Services and Others

Net Sales by Market
(Year ended March 31, 2005)



- Japan
- Americas
- Europe
- Asia and Others

Anritsu's Core Business: Test and Measurement

Wireless Test and Measurement

Addressing continuing advances in mobile telephones and mobile telephone services, Anritsu will use wireless measuring technology, protocol analysis and global customer support to develop and supply markets around the world with measuring instruments and systems optimized for mobile telephone networks.

IP Network Test and Measurement

Based on advanced IP analysis technologies, Anritsu will integrate optical and mobile technologies developed over many years to provide solutions optimized for IP networks, in which the shift to broadband is accelerating.

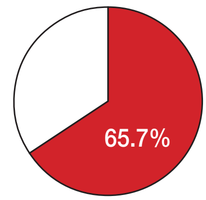
General Purpose RF/Microwave Test and Measurement

Anritsu will make the most of world-class ultra-high-frequency/high-speed measurement technologies to provide measurement solutions for communication networks as well as for the development and large-scale production of increasingly sophisticated and complex home electronics components.

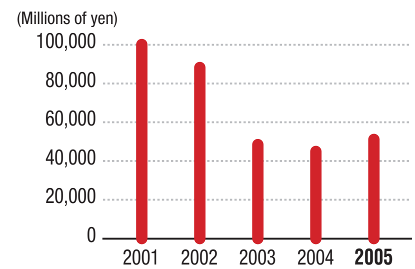
The components and devices business, which was previously a separate segment, is included in the "Services and Others" segment starting from the year ended March 31, 2005.

Test and Measurement

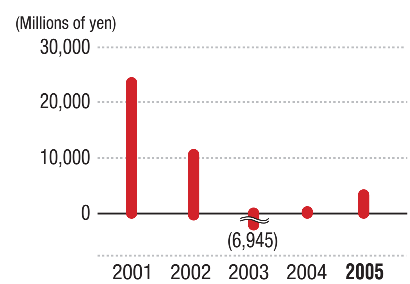
Percentage of Net Sales



Net Sales



Operating Income (Loss)



Business Overview

Anritsu will focus on three fields in its core Test and Measurement business:

① Wireless test and measurement
② IP network test and measurement
③ General purpose RF/microwave test and measurement

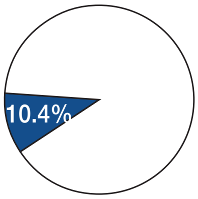
The Anritsu Group works closely together to provide incomparable value to customers through a combination of products, services and support in each of these fields.

MD8470A Signaling Tester

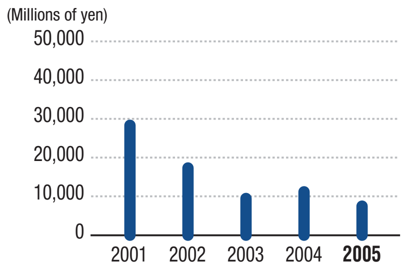
MD8470A Signaling Tester is a measuring instrument for development that permits testing of voice communication, contents download, video calling and other mobile terminal functions.

Information and Communications

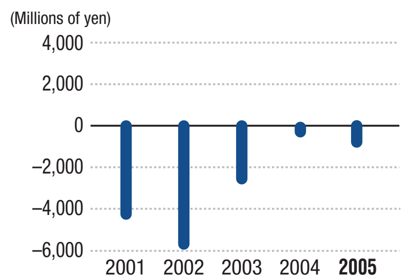
Percentage of Net Sales



Net Sales



Operating Income (Loss)

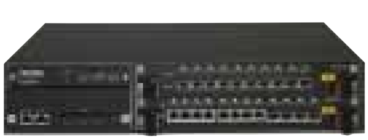


Business Overview

In the system solution business, Anritsu is expanding beyond its core government and municipal customers to telecommunications companies and other private-sector customers. We are also strengthening our presence in areas such as facility surveillance, video surveillance systems and video traffic smoothing systems.

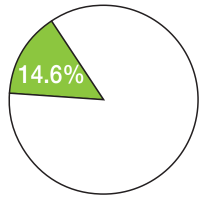
PureFlow™ SS10 Stream Shaper

This original Anritsu product uses a high-precision bandwidth control engine to eliminate burst traffic, which can degrade network quality.

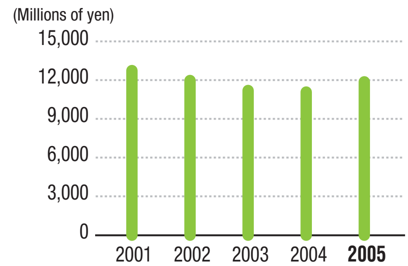


Industrial Automation

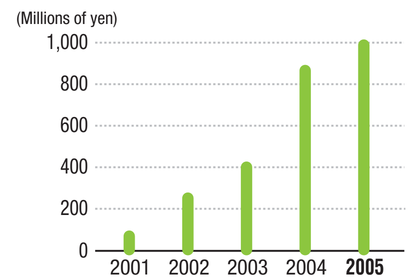
Percentage of Net Sales



Net Sales



Operating Income



Business Overview

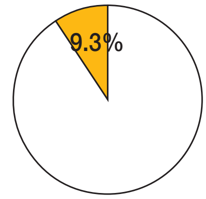
Anritsu employs many years of experience in developing weight measurement, magnetism, X-ray and other technologies to provide new solutions for alien material inspection and weight management for food and pharmaceutical products. In addition, Anritsu is strengthening operations in overseas markets, including China and other Asia countries, Europe and the United States.

KD7381AW Pipe X-ray Inspection System

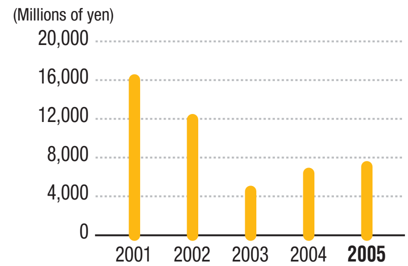
This equipment is incorporated into production lines for fluid food products to inspect for alien materials. The design permits non-stop inspection of the fluids as they flow through the pipe.

Services and Others

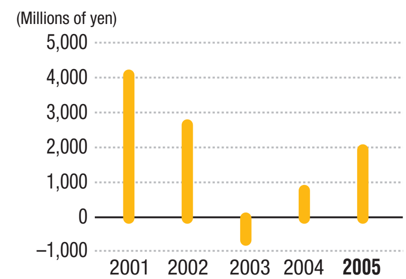
Percentage of Net Sales



Net Sales



Operating Income (Loss)

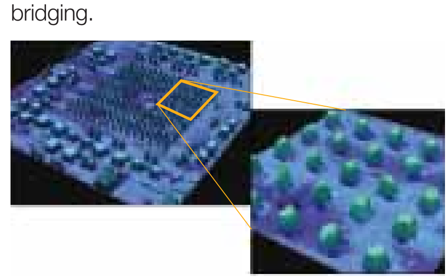


Business Overview

In addition to its main areas of business, Anritsu is active in the device business, the precision measurement business, environment-related businesses, employee welfare services, property rental and other businesses. Anritsu will initiate special projects employing an in-house venture system to create new businesses.

MK5400 Series Solder Paste Inspector

The MK5400 Series Solder Paste Inspector is used in surface-mount technology (SMT) production lines to measure the volume of printed solder paste three-dimensionally, thus allowing ultra-high-speed, precise detection of defects such as insufficient paste, excess paste and bridging.



To Our Shareholders

Akira Shiomi,
Chairman of the Board
(left)

Hiromichi Toda,
President
(right)

In the year ended March 31, 2005, the Anritsu Group launched a new growth strategy, expanded the overseas markets for its core Test and Measurement business and worked to establish a base for new businesses. As a result, Anritsu improved its profit structure and increased sales in the Test and Measurement business, thereby significantly increasing operating income.

Initiatives and Results for the Year Ended March 31, 2005

In the year ended March 31, 2005 as Anritsu worked to improve results by solidifying the recovery begun in the previous fiscal year and setting the Company on track for long-term profitable growth.

As part of its proactive global strategy for the core Test and Measurement business, Anritsu reorganized its sales and business operations on a global scale and established the Strategic Marketing Division and Globalization Center. Moreover, Anritsu established technical support centers at its headquarters and in China to enhance its ability to respond to customer needs.

At the same time, the Company promoted a strategy for profitable growth by strengthening quality improvement activities and providing high-value-added products as an "Intelligent Solution Creator" that increases customer value, by reducing costs through supply chain management (SCM) and production innovations, and by ensuring efficient outlays for research and development.

As a result of these measures, consolidated net sales increased 7.2 percent year-on-year to ¥84,040 million, supported by growth in sales in the Test and Measurement business. Operating income increased by 168.9 percent year-on-year to ¥4,862 million, and the operating income margin also improved substantially to 5.8 percent from 2.3 percent in the previous fiscal year, due in part to improvements in the Company's profit structure. Net income totaled ¥1,280 million, an increase of 16.3% over the previous fiscal year, and Anritsu increased cash dividends to ¥7.00 per share, compared to ¥4.50 per share in the previous fiscal year.

New Management Structure

At the Annual Meeting of Shareholders held on June 23, 2005, Akira Shiomi was appointed to the position of Representative Director and Chairman of the Board, and Hiromichi Toda was appointed to the position of President. Mr. Toda has contributed to the growth of Anritsu's Test and Measurement business, particularly in the area of measuring instruments for mobile communications, and will use his experience to further increase the Anritsu Group's corporate value as President. While executing the duties of Representative Director, Mr. Shiomi will work in his role as Chairman of the Board to enhance the Anritsu Group's corporate social responsibility (CSR) activities from the viewpoint of strengthening corporate governance.

Future Issues and Initiatives

In the year ending March 31, 2006, Anritsu will implement measures to firmly establish its strategy for profitable growth, making the period key to revitalizing Anritsu for its next step forward.

In the core Test and Measurement business, Anritsu will work to become a leader in the market for measuring instruments for telecommunications by seizing growth opportunities in the European, U.S. and Chinese markets for third-generation (3G) mobile communications services and bolstering its broad offering of products and support services for development, production and maintenance.

In addition to making focused investments in the mobile communications equipment business, where the Company has a competitive position, Anritsu will increase profitability in the Information and Communications business by developing its video distribution solutions business in the private-sector market, and will initiate special projects through in-house ventures to establish cornerstones for businesses that will become new sources of earnings.

Furthermore, Anritsu will promote cash flow-oriented management in such ways as reducing inventories and cutting costs and expenses, and will work to increase corporate value by fortifying its management foundation for revitalization and development through corporate social responsibility activities and strengthened business risk management structure.

Anritsu appreciates your continued support and guidance.

July 2005

Akira Shiomi
Chairman of the Board

Hiromichi Toda
President

Where We're Going

Hiromichi Toda
President

Anritsu is working to achieve sustained profitable growth by further increasing its value as a worldwide corporation through enhanced global management. Hiromichi Toda, who assumed the position of President this June, explains Anritsu's strategies for the future and how they will be implemented.

Management Objectives for the Year Ending March 31, 2006

The Anritsu Group has implemented management structure reforms in business, organization and employment to restore the corporate value damaged by the collapse of the IT bubble. In the year ended March 31, 2005, the Group steadily regained profitability and achieved increases in sales and income through increased profitability in its core business through unified efforts to recover and grow. As a result of these structural reforms, Anritsu significantly improved the profit margin and restored the profit structure in its core Test and Measurement business, which is highly competitive in the area of measuring instruments for third-generation (3G) mobile communications. In addition, increased sales of X-ray inspection systems contributed to improved profitability in the Industrial Automation business, which supplies solutions to the food products industry with an emphasis on safety and security.

As targets for solidifying its profitable growth strategy in the year ending March 31, 2006, Anritsu aims to achieve net sales of ¥92,000 million (9.5 percent year-on-year increase) and operating income of ¥7,200 million (48.1 percent year-on-year increase). Anritsu uses Anritsu Capital-cost Evaluation (ACE)[1] as an indicator to evaluate corporate value, and will concentrate on returning to profitability on an ACE basis in the year ending March 31, 2006.

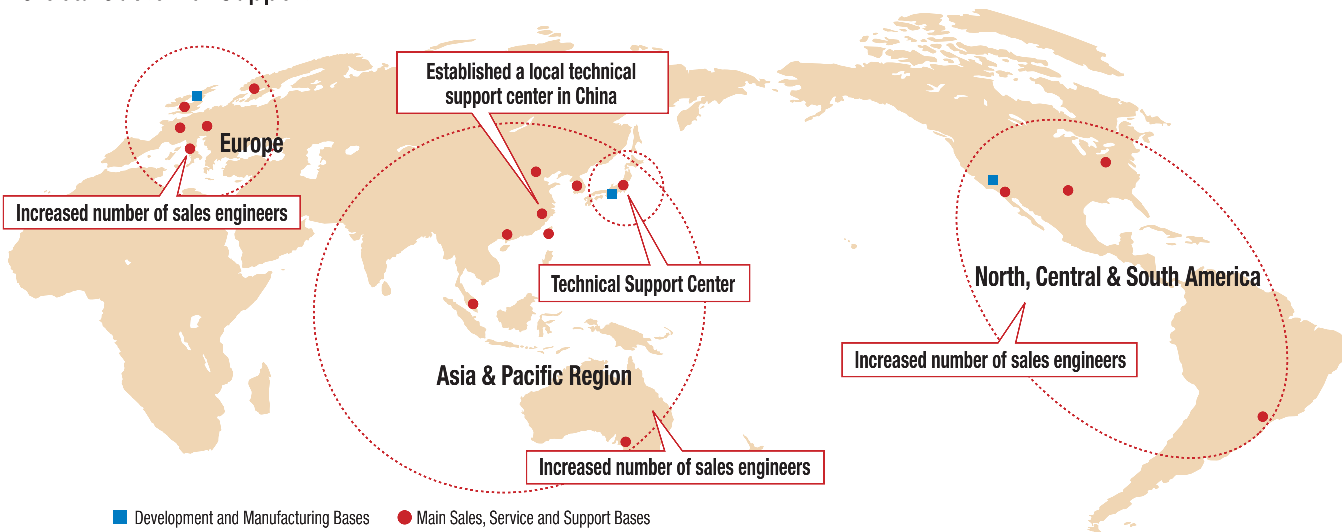
Note 1. Anritsu Capital-cost Evaluation (ACE): Operating income after tax – Cost of capital

Future Focus Areas

Anritsu has cultivated numerous "Original & High Level" technologies since its founding 110 years ago. Determining how best to use these technologies to meet customer needs and wants is crucial. The rapidly changing telecommunications industry demands new solutions that satisfy customer expectations. Anritsu will continue to function as an "Intelligent Solution Creator," as former President Shiomi expressed it.

Toward this end, Anritsu must not only provide good products, but also remain closely focused on customers in all regions and build a support structure to provide solutions that enhance customer value. Therefore, Anritsu increased the number of sales engi-

Global Customer Support



neers in the United States, Europe and Asia, established a technical support center in Shanghai, China, and will continue to strengthen its support structure.

Anritsu has concentrated investment on the 3G mobile communications and internet protocol (IP) network markets, and expects its services and capital investment in these areas to produce strong results.

In its core Test and Measurement business for the mobile communications segment, the Group aims to become a market leader by steadily capturing 3G service-related growth opportunities in the United States, Europe and China, in addition to Japan, and by offering a wide range of products and customer support services that cover development, production and maintenance.

In the wireless market, demand is growing with a succession of new technologies including wireless LAN and Worldwide Interoperability for Microwave Access (WiMAX)[2]. Anritsu will work aggressively in these areas to form close relationships with global customers as a market leader, and to provide solutions in new markets based on general purpose measuring instruments.

Sales of measuring instruments for the IP network market grew strongly in Japan in the year ended March 31, 2005, due to the increasing use of IP networks in the backbone lines for mobile communication networks and in access lines for broadband. Anritsu plans to develop this market globally in the year ending March 31, 2006. Specifically, Anritsu will aim to increase sales in the metro access network market, where strong demand is expected for development, production and maintenance from telecommunications carriers and IP network system vendors.

In its Information and Communications business, Anritsu plans to reform its profit structure by cultivating demand in private-sector markets and boldly reforming its market and product portfolio, while continuing to focus on the Japanese government and municipal markets. Toward this end, Anritsu plans to enhance profits through an aggressive strategy of forming alliances with outside partners to expand sales of video surveillance systems and develop the private-sector market for video distribution solutions.

Note 2. An IEEE standard for wireless broadband access

Market Conditions and Anritsu's Activities in the Test and Measurement Business

Anritsu offers numerous products used in development, production and maintenance in the mobile phone market. Third-generation mobile phones are expected to gain acceptance worldwide as information terminals offering various applications including television and payment functions. In addition, demand is picking up for measuring instruments for development, with 3.5G HSDPA[3] mobile phone systems scheduled to begin service in 2005 in the United States and 2006 in Japan. This set of conditions is extremely favorable for Anritsu, as it holds a leading share in the market for measuring instruments used in 3G and 3.5G development, which require advanced wireless software technologies.

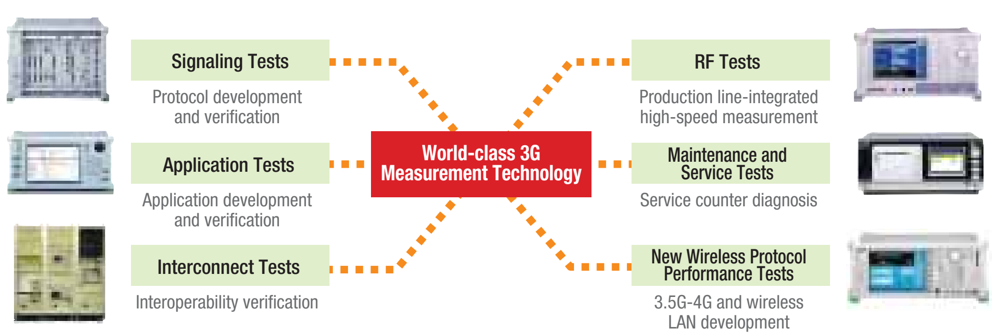
In the wireline network market, expectation of greater investment in broadband worldwide is driving expansion of "triple play service," which offers combined voice, data and video services over fiber-optic cables or xDSL, for home use in Japan, the United States and Europe. The development of the ubiquitous network society is also creating new demand in the Test and Measurement business through efforts to combine wireless and wireline IP networks.

Product development and support for global customers will be core tasks in the future. In addition to strengthening the cooperation arrangement of product divisions in Japan, the United States and the United Kingdom, Anritsu will further enhance global management through collaboration in development, production and sales by increasing sales staff and creating a customer support structure in Japan, the Americas, Europe and the Asia-Pacific region.

Mark Evans, formerly Senior Manager of the Globalization Center, was appointed my successor as General Manager of the Measurement Business Group in April 2005 to accelerate global development of the Test and Measurement business. We expect Mr. Evans to excel in implementing the core market-driven and customer-focused strategies of the Test and Measurement business and increasing overseas market share.

Note 3. HSDPA: High Speed Downlink Packet Access

Integration of Telecommunications Networks



Japan

In Japan, the number of subscribers to 3G services surpassed 32 million at the end of May 2005. The key to expanding business for telecommunications carriers and handset manufacturers will be their ability to provide attractive services to further increase the number of subscribers. Telecommunications carriers are therefore intensifying development and testing of application software for handsets. In 2004, Anritsu introduced a measuring instrument for the development of application software for handsets, an industry first, and will develop this new market. In addition, Anritsu will aggressively capitalize on new business opportunities created by the entry of new operators in 2006.

Europe

In Europe, 44 companies had begun UMTS[4] service as of the end of May 2005, but growth in the number of subscribers remains modest, due in part to difficulty offering attractive services caused by problems establishing compatibility for new applications among the numerous telecommunications carriers. Anritsu expects a growing number of inquiries for interoperability tests[5], application tests and handset service tests to solve this problem. Anritsu will build a solid position in Europe by providing solutions in the near future that exploit its leading position in 3G in Japan, and will focus on seizing post-3G opportunities.

Note 4. UMTS (Universal Mobile Telecommunications System) is a 3G system that combines GSM and W-CDMA.
Note 5. Tests to determine interoperability between different handsets and carriers.

Americas

Cingular Wireless, the largest U.S. wireless carrier with 46 million customers, plans to introduce 3G and 3.5G services in 2005. Anritsu foresees steady growth in the year ending March 31, 2006, and is building close relationships with major chipset and handset manufacturers in areas including development of 3.5G.

In the wireline market, so-called triple play service, which combines voice, data and video, offered by Verizon Communications Inc. and other companies is rapidly expanding. Anritsu expects increasing demand for fiber optic/IP measuring instruments for FTTx[6] extension, which is essential to triple play service.

Note 6. FTTx (Fiber-to-the-x): High-speed internet access technology achieved through direct fiber optic connections to homes, apartment buildings, offices and other spaces

Asia

Exports to Europe and the United States from China, the world's "factory" for handsets, are expected to increase with growth in the number of 3G service subscribers. In the Chinese market, which has the greatest number of mobile phone subscribers, production of 3G handsets for the domestic market is expected to increase after 3G service licenses are issued. The timing for issuance of 3G licenses remains undecided, but Anritsu is preparing for coming market developments through measures including strengthening relations with the China Academy of Telecommunication Research, building ties with design houses that have strong influence among local Chinese manufacturers, and conducting marketing aimed at Taiwanese ODM[7] manufacturers. In addition, Anritsu plans to open a base in India, which is rapidly growing as a global software development base, to support customers worldwide.

Note 7. An ODM (Original Design Manufacturer) is a company that performs contract-based design and manufacturing for partner brands. It differs from OEM in that work is subcontracted from the design process.

Mark Evans
Executive Vice President, General Manager of Measurement Business Group

I was appointed Senior Manager of the Globalization Center in April 2004, where I started out by conducting customer satisfaction surveys. I visited customers around the world and listened to them talk about what they want from Anritsu and what they think of Anritsu as a global supplier. Customer focus is the most important point for Anritsu as we aim to become a truly global company that supports our global customers' businesses.

In the year ending March 31, 2006, we will conduct a project to analyze problems identified in the customer satisfaction surveys. Enhancing speed and quality, which are critical factors in improving our responsiveness to customers, is a particularly urgent task. Our mission is to build close relationships with customers from the early stages of design and provide timely, high-quality solutions tailored to customer business plans. As part of this effort, we intend to construct a system of close alliances to support the efficient functioning of our tripolar research and development structure in Japan, the United States and the United Kingdom.

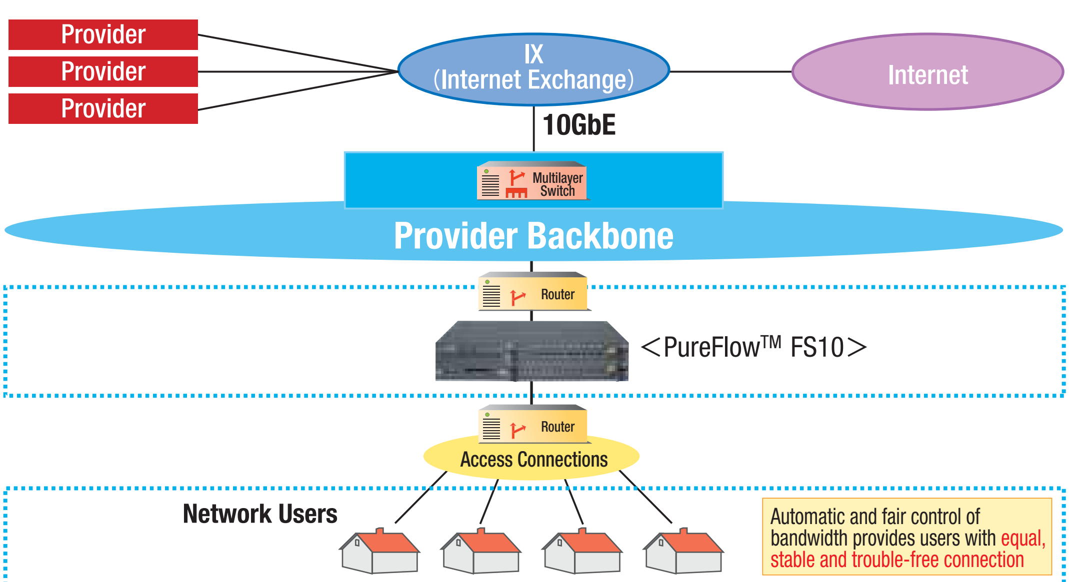
Outlook for Businesses Other Than the Test and Measurement Business

In the **Information and Communications** business, improving profitability is imperative, and Anritsu is further reviewing its markets and products. To promote expansion into the private-sector market from the government market, we plan to expand sales channels through alliances with system integrators related to major trading companies. In addition, we will take steps to introduce our video surveillance systems in areas such as train and subway stations through alliances. In the PureFlow™ business, we established a dedicated sales force in April 2005 to sell network bandwidth control equipment and other products to internet service providers. We will concentrate on initiatives such as these to enhance profitability.

In the **Industrial Automation** business, sales are strong due to recent increased public demand for food safety. In the year ended March 31, 2005, overseas sales accounted for 20 percent of sales in this business, and Anritsu is optimizing its overseas operations to support further expansion. Also in this period, Anritsu added to its previously established subsidiary in China with aggressive investment including establishment of subsidiaries in the United States and United Kingdom, and a representative office in Thailand. Established as original sales bases separate from the Test and Measurement business, these bases will expand the number of major global customers by providing products including X-ray inspection systems essential for food safety and security.

In the **Services and Others** business, we are conducting the precision measurement business and environment-related business as special projects in the internal venture organization. The precision measurement business handles production and sales of quality inspection equipment for the electronic packaging and liquid crystal production processes. A solder paste inspector used for three-dimensional measurement of printed solder paste in the surface mounting process of electronic components can detect problems including solder insufficiency, excess and bridging with high speed and accuracy. Against the backdrop of increasing speed, capacity and compactness in telecommuni-

Example of PureFlow™ FS10 in Use



cations devices, further growth in Japan and Asia is expected.

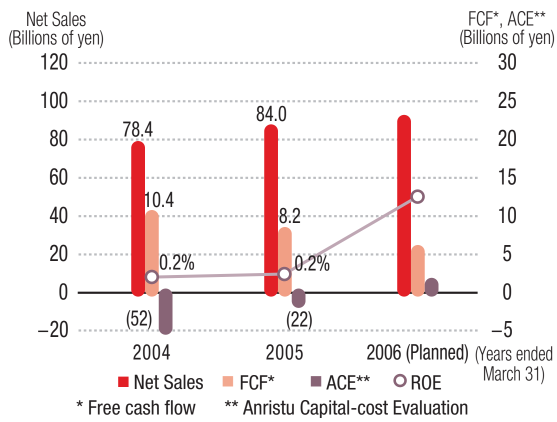
The laser gas detector co-developed with a major gas company is a portable, remote gas detector that uses a semiconductor laser. The device detects and measures methane gas with high speed and sensitivity simply by irradiating the measured area with a laser beam. By easily pinpointing methane gas emission sources, this device permits efficient understanding of methane gas diffusion, which is key to efforts to reduce it. Amid increasing worldwide efforts to cut greenhouse gases, this is a field in which Anritsu will make significant contributions to environmental preservation.

Anritsu will create pillars of businesses that will become new sources of profit by promoting these special projects.

Financial Strategy

Anritsu's management focuses on consolidated cash flows with the aim of maximizing corporate value. In addition, we use Anritsu Capital-cost Evaluation (ACE), a proprietary indicator for determining the rate of return on invested capital, to evaluate the performance of each group and focus on capital efficiency. We introduced ACE in the year ended March 31, 2001 under a policy positioning returns above cost of capital as the primary management indicator in enhancing corporate value.

Rising Corporate Value



Despite improvement of ¥3,052 million compared to the previous fiscal year, we failed to return to profitability on an ACE basis in the year ended March 31, 2005, with ACE totaling negative ¥2,230 million. Other major management indicators including consolidated ROE, consolidated free cash flow and net debt-to-equity ratio[8] improved substantially. While the speed of improvement is certainly not rapid, these indicators show that our measures to increase corporate value are producing results. We will continue to improve our financial structure through measures including enhancement of shareholders' equity, reduction of interest-bearing debt and improvement of cash flow generation.

In the year ending March 31, 2006, we will strengthen the global strategy of the Test and Measurement business to increase sales and solidify our profit structure, in addition to achieving positive ACE. In the year ending March 31, 2007, we aim to enhance corporate value by building a profit structure with a consolidated operating margin over 10 percent.

Anritsu's basic policy on shareholder returns is to pay cash dividends based on the state of consolidated net income and other factors, including the operating environment, performance forecasts for the next period and beyond, and the ratio of dividends to consolidated equity. Expanding operating income is crucial. In order to raise the ratio of dividends to consolidated equity, we will therefore concentrate on developing and selling high-value-added products such as 3G measuring instruments.

Note 8. Net debt-to-equity ratio: (Interest-bearing debt – cash and cash equivalents) / shareholders' equity

Note 9. NPV: Net present value

Hirokazu Hashimoto

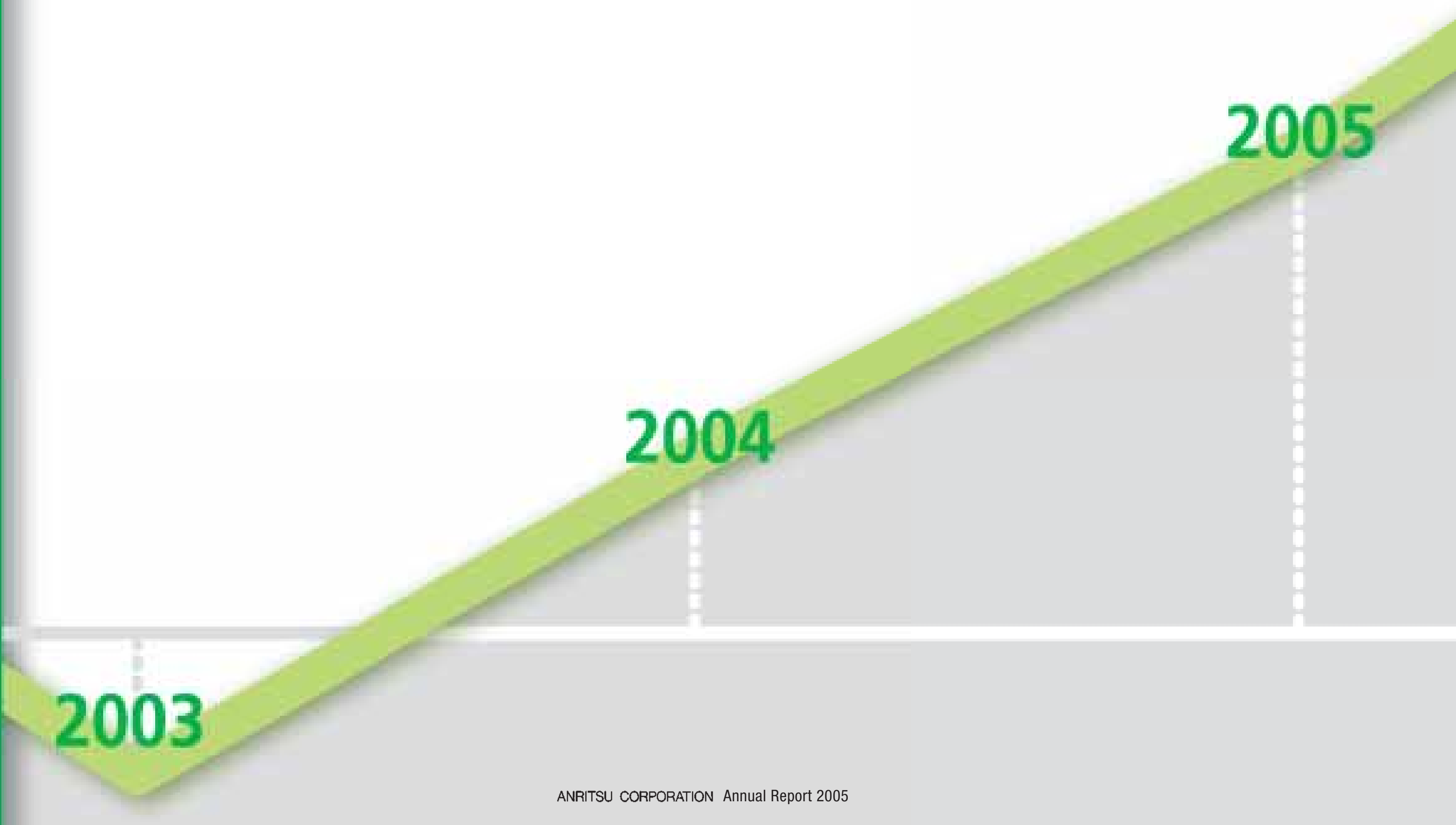
**Executive Vice President,
Senior Manager of Control and Accounting Dept.
Chief Administrative Officer**

In order to bring a steady management focus to capital efficiency (capital cost) and cash flows, Anritsu must ensure that the significance of these is fully understood company-wide. A key to this effort is taking management indicators such as daily work efficiency improvement indexes and investment decision indicators and breaking them down and linking them to management indicators to make them easier to understand. For example, one standard we use for making investment decisions in product development planning is NPV[9]. This is calculated by subtracting the present value of the amount invested from the present value of the future cash flows we expect to obtain from this product development using cost of capital as the discount rate.

In addition to introducing a stock option plan for executives at Anritsu and its subsidiaries, we also introduced phantom stock options as a long-term incentive system for middle management. This plan incorporates improvement in cash flow and ACE, and serves as an indicator for increased corporate value, which determines the price of the phantom shares. Through these measures, we will work to maximize corporate value throughout the Anritsu Group.

How We’ll Stay Ahe

Internet protocol (IP) converged networks that use IP to combine wireless and wireline communications are becoming a reality. The Anritsu Group uses its comprehensive strengths in wireless, wireline and IP technologies to bring communication networks together and contribute to the creation of the ubiquitous network society.



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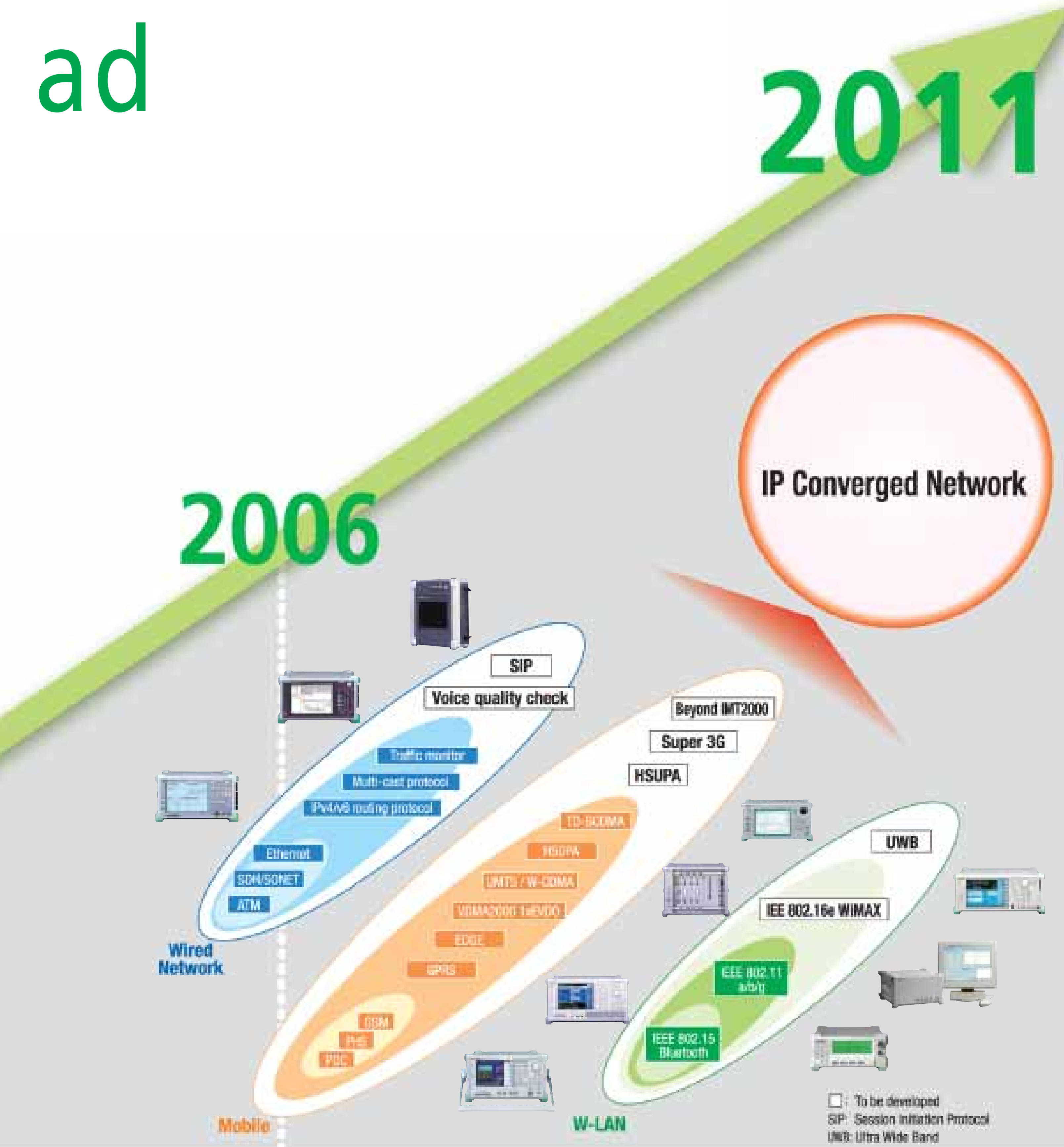


2011
2006
IP Converged Network
SIP
Voice quality check
Traffic monitor
Multi-cast protocol
IPv4/v6 routing protocol
Ethernet
SDH/SONET
ATM
Wired Network
Beyond IMT2000
Super 3G
HSUPA
TD-SCDMA
HSDPA
UMTS / W-CDMA
CDMA2000 1xEVDO
EDGE
GPRS
GSM
PHS
PDC
Mobile
UWB
IEE 802.16e WiMAX
IEEE 802.11 a/b/g
IEEE 802.15 Bluetooth
W-LAN
: To be developed
SIP: Session Initiation Protocol
UWB: Ultra Wide Band

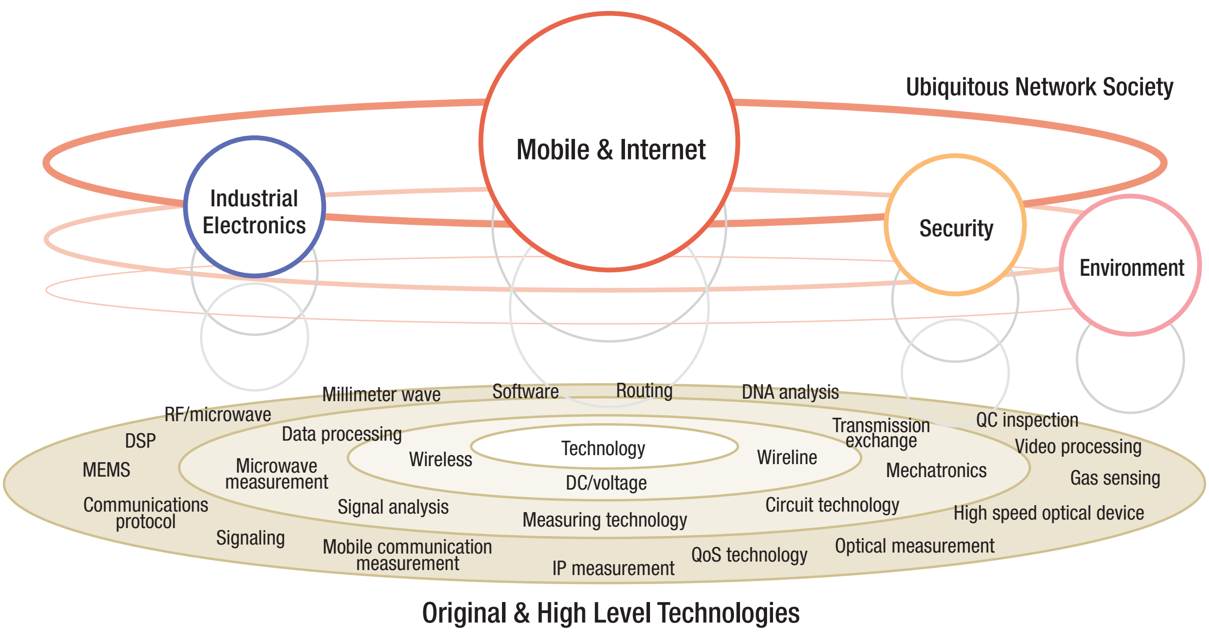
Anritsu Research and Development

Anritsu has created numerous products with its "Original & High Level" technologies. Our current core Test and Measurement business consists primarily of measuring instruments for wireless communications, particularly 3G, but also includes RF technology and modulation analysis using digital signal processing, which are elemental technologies in this segment. These technologies were all developed at Anritsu's research laboratories through the basic technologies we have accumulated. In addition, we are developing measuring instruments for wireless data transmission, including wireless LAN and WiMAX, and plan to undertake development aimed at fourth-generation (4G) mobile communications. In the IP network market, we are developing IP testers for wireline networks including fiber optic and IP measuring instruments for FTTx applications.

Anritsu is one of the few measuring instrument manufacturers in the world that has wireless, wireline and IP technologies. We are reinforcing research and development to prepare for the expected full-fledged arrival of the IP Converged Network, which integrates wireless and wireline communications through IP technology.

Business Domains and Core Technologies

To contribute to the development of the ubiquitous network society, Anritsu will provide solutions in the fields of electronics, information networks and measurement to the mobile & Internet, industrial electronics, security and environmental measurement markets by utilizing "Original & High Level" technologies.



Anritsu invests 10 to 13 percent of its annual net sales in research and development. The R&D Center, which conducts basic research for next-generation technologies, and the business divisions, which develop the products that Anritsu brings to market, conduct Anritsu's research and development. In our core Test and Measurement business, divisions in Japan, the United States and the United Kingdom collaborate to develop products. Anritsu recognizes that continued development investment and foresight are extremely important, particularly in the area of information and telecommunications, where technology evolves at a rapid pace and the risk of technology becoming obsolete is high.

Anritsu values its dialogue with global customers, as they are the market leaders in the world of technology, where grasping technological trends is critical. Feedback from these customers is reflected in our research and development activities. The Strategic Marketing Division incorporates the views of customers in its development roadmap, which charts emerging market trends. It shares this technology development roadmap with key customers while conducting development currently focused on 3G, 3.5G and the IP Converged Network technologies. Anritsu will continue to research technologies that keep us at the forefront of the times, and deliver products that match customer needs.

Development in the Test and Measurement business is decided by the quarterly development conference on the medium-term research strategy proposed by the Strategic Marketing Division and by the related monthly product development meetings of the product divisions. We use NPV as one evaluation standard in product development decisions, and always consider a product's marketability and return.

We will continue to conduct high-value-added research and development, the source of our competitive advantage, as we aim to increase Anritsu's corporate value.

Determined to Achieve New Growth

I have long worked in the Test and Measurement business, which has always led innovation in the Anritsu Group. This fiscal year, my first as President of Anritsu, I will remain thoroughly committed to winning recognition of our Test and Measurement business as a global market leader among customers and business partners worldwide as quickly as possible. In addition, I want to establish Anritsu as a global brand by using the transformation model of the Test and Measurement business as a prototype to apply similar processes to other businesses and develop them into pillars of earnings.

The Anritsu Group will continue working to contribute to the development of the ubiquitous network society for greater safety, security and comfort, while conducting management focused on increasing corporate value.

Corporate Social Responsibility (CSR)

Anritsu operates under the management philosophy of contributing to the creation of an affluent ubiquitous network society by providing "Original & High Level" products and services, with sincerity, harmony and enthusiasm. We are aware of our social influence as a corporation, and believe that responding to stakeholder concerns and expectations is important. For this reason, we actively contribute to the creation of a sustainable society as a good corporate citizen with a strong social conscience.

CSR Activities in Anritsu's Core Businesses

Anritsu operates in numerous businesses that contribute to society. The Test and Measurement business has long contributed to the development of an affluent network society. The Information and Communications business and the Industrial Automation business also contribute to society; respectively, they provide services including river and road video surveillance systems, and safety and security solutions for consumers through product quality management systems in the food and pharmaceutical industries. Anritsu aims to maximize the value of its social contributions by always developing these businesses from the standpoint of CSR.

An image distribution system used in earthquake relief efforts in Yamakoshi, Niigata Prefecture, Japan in 2004

CSR Promotion Structure

Anritsu created the CSR Promotion Committee in November 2004 to maximize total corporate value by promoting unified CSR activities not only in core businesses but throughout the Group. The President acts as the CSR Promotion Committee Chair to ensure that top management leads CSR activities. Anritsu strengthened its internal structure by reorganizing the Risk Management Center within the CSR/Risk Management Promotion Center in order to promote unification of various divisional activities. To make these activities as effective as possible, Anritsu established CSR Promotion Teams with members from related divisions in the Anritsu Group in charge of areas including compliance, customer satisfaction and quality, human rights and social contributions. Each team assesses and analyzes activities from the standpoint of CSR, and reports to the CSR Promotion Committee on areas that Anritsu should improve. In addition, the teams also promote implementation of action plans based on the policy of the committee.

Since 2000, Anritsu has been publishing the *Anritsu Environmental Report* reporting on the environmental activities of the Group. Beginning in 2005, Anritsu will include this information in a new CSR Report. Please refer to this report for further information on Anritsu's CSR activities.

CSR Report

Compliance Structure

In order to communicate the policies guiding its corporate activities to society, in April 2005 the Anritsu Group established the “Anritsu Group Charter of Corporate Behavior,” which articulates Anritsu’s management philosophy, vision and policy. In addition to specifying actions for implementation, the charter clarifies the roles and responsibilities of top management, and states that the stance of management is the most important element in preventing corporate misconduct and dealing with its aftermath in the event that it does occur. In connection with establishment of this charter, Anritsu also revised the “Anritsu Group Code of Conduct.” Anritsu is implementing these codes at all Group companies, including those overseas, to enhance awareness of compliance issues and promote common values. Working to promote sound corporate activities in compliance with ethics and laws, Anritsu has taken measures including establishing a helpline that provides a venue for internal reports, messages and consultation; conducting periodic surveys and in-house training of all employees; and establishing a Compliance Reinforcement Promotion Week.

On April 7, 2005, Anritsu was found to be in violation of the Antimonopoly Law by the Fair Trade Commission of Japan in connection with an order from the Ministry of Land, Infrastructure and Transport for construction of information display panels. The Anritsu Group will work in unison to regain public trust by preventing the recurrence of such an incident in the future through various measures including thorough implementation of the aforementioned policies, strengthened auditing and improvement of the internal control system.

Environmental Activities

Anritsu pursues the idea of sincerity, harmony and enthusiasm, aims to develop and produce goods that do not damage the environment, and contributes to the creation of an affluent society in which humans can coexist with nature.

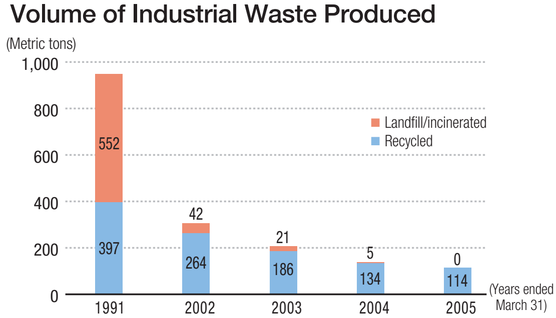
In the development of eco-products, a core focus of environmental management, Anritsu works to reduce environmental impact from the design stage. In addition, Anritsu is expanding the number of eco-products that meet Anritsu standards by promoting activities to provide top-level environmentally friendly products for energy conservation, resource conservation and clean energy.

In environmental conservation activities, another core focus, we are implementing measures and steadily achieving goals in the areas of energy conservation, waste reduction, resource conservation and risk management measures, and are working to establish eco-factories and eco-offices with the participation of all employees. As a result of these measures, the Anritsu Group achieved zero emissions[10] (average recycling rate of 99.9 percent) at its domestic development and production bases.

Note 10. Anritsu defines “zero emissions” as less than 1 percent of total waste sent to landfill disposal.

For further details:
http://www.anritsu.co.jp/E/environment/

Volume of Industrial Waste Produced



Socially Responsible Investment (SRI) Index

As of April 1, 2005, Anritsu is listed in the FTSE4Good Global Index for socially responsible investment (SRI) of the U.K.-based FTSE Group, and the Morningstar MS-SRI Index of Morningstar Japan K.K.

The FTSE4Good Global Index is world renowned as an index of highly trusted companies that fulfill their social responsibilities. Companies are selected based on their environmental preservation measures, their corporate policies in areas such as ethics and employment, and the content of their social contribution activities. The Morningstar MS-SRI Index was the first SRI index in Japan, and rates the stocks of 150 listed companies in Japan that Morningstar Japan K.K. judges to make excellent contributions to society.

FTSE4Good Index Series

MS-SRI モーニングスター社会的責任投資株価指数 Morningstar Socially Responsible Investment Index

Corporate Governance

Anritsu aims to continuously increase its corporate value by strengthening corporate governance in all of its global business activities. In addition to fulfilling its responsibility to explain its operations through proactive information disclosure including investor relations activities, Anritsu will continue working to create a management framework that can respond flexibly and quickly to changes in the operating environment. Through these activities, Anritsu aims to enhance the quality and transparency of management.

Corporate Governance Structure and Policy Implementation

Anritsu clearly separated the functions and responsibilities of directors and executive officers by introducing an executive officer system in 2000. Important management matters are decided through full discussion at the monthly Management Strategy Conference, which is overseen by the Board of Directors, thereby contributing to fast, appropriate business operations and enhanced supervision functions of management.

Anritsu established the Compensation Advisory Committee to advise the Board of Directors. In addition, the Internal Auditing Department has been conducting internal audits of its management system in order to strengthen checks and balances. To promote programs aimed at enhancing risk management functions, Anritsu established a CSR/Risk Management Promotion Center, and is also strengthening auditing companywide by assigning auditing functions to departments and committees as needed. For example, the Security Trade Control Department is in charge of routine monitoring of export control.

The following chart below provides an overview of Anritsu business execution and oversight.

Compensation Advisory Committee

The Compensation Advisory Committee was established in March 2004 to provide recommendations to the Board of Directors in order to raise the transparency and objectivity of executives' compensation and to strengthen accountability. It currently consists of five members – three are either corporate executives or university professors from outside the Company, and two are directors of Anritsu – who discuss the system and level of compensation for directors, executive officers and senior corporate staff.

Appointment of Independent Outside Directors

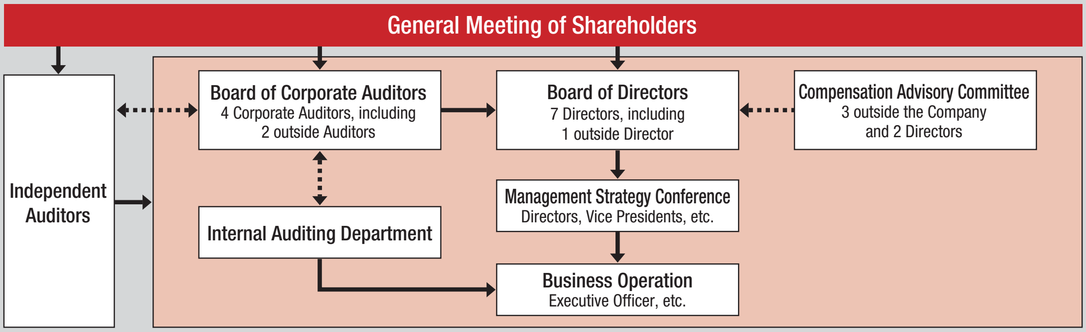
Since establishing an Advisory Board under the Board of Directors in 2000, Anritsu has received various advice from outside experts with a broad, international perspective concerning Anritsu's business areas, management strategies, operating environment and management indicators. This advice has led to numerous results in areas such as enhancement of corporate governance and promotion of global management. Anritsu dissolved the Advisory Board in October 2004, as it had achieved its initial objectives. Upon consideration of a new corporate governance structure to strengthen management oversight, Anritsu selected one independent outside director at its General Meeting of Shareholders held in June 2005.

The outside director selected, Akira Kiyota, was previously President, Daiwa Securities SMBC Co., Ltd., and is currently Deputy Chairman of the Board, Daiwa Securities Group Inc., and Chairman of the Institute & Director, Daiwa Institute of Research Ltd.

Chairman of the Board

Anritsu redefined the role of Chairman of the Board, and President Akira Shiomi was selected and appointed Chairman of the Board at a meeting of the Board of Directors after the General Meeting of Shareholders.

Akira Shiomi will work to enhance corporate value from the perspective of strengthening corporate governance.



Directors, Corporate Auditors and Executive Officers

From left (seated): Akira Shiomi, Hiromichi Toda, Akira Kiyota
From left (standing): Kohei Ono, Hirokazu Hashimoto, Mark Evans, Shigehisa Yamaguchi

Directors

Akira Shiomi
Representative Director,
Chairman of the Board

Hiromichi Toda
Representative Director, President

Hirokazu Hashimoto
Director

Mark Evans
Director

Kohei Ono
Director

Shigehisa Yamaguchi
Director

Akira Kiyota
Director (Outside Director)
Deputy Chairman of the Board, Daiwa Securities Group Inc., and Chairman of the Institute & Director, Daiwa Institute of Research Ltd.

Corporate Auditors

Hideo Sekine
Full-time Corporate Auditor

Koji Shoji
Full-time Corporate Auditor

Yasuyuki Shibata
Outside Corporate Auditor

Kenji Seo
Outside Corporate Auditor

Executive Officers

President

Hiromichi Toda*

Executive Vice Presidents

Hirokazu Hashimoto*
Senior Manager of Accounting and Control Dept., Chief Administrative Officer, Legal Dept., CSR/Risk management Promotion Center, Security Trade Control Dept.

Mark Evans*
General Manager of Measurement Business Group, Senior Manager of Globalization Center

Senior Vice President

Kohei Ono*
General Manager of Corporate Strategy Center, Senior Manager of Special Project Support Department, Chief of all engineering operations, IT Strategy Dept., Core Technology R&D Center, Optical Devices R&D Center, Intellectual Property Promotion Dept., Precision Measurement Business Promotion Division, PureFlow™ Business Promotion Division

Vice Presidents

Goro Saito
General Manager of Strategic Marketing Division, Senior Manager of China Business Center

Tetsuji Kofuji
General Manager of Sales Division, Assistant General Manager of Measurement Business Group

Shoichi Shimamura
Human Resources Development Dept., Administration Dept., Internal Auditing Dept.

Shigehisa Yamaguchi*
General Manager of Global Business Division

Frank Tiernan
President of Anritsu Company (U.S.A.)

Paul Hunter
President of Anritsu Ltd. (U.K.)

Masanori Yoshida
General Manager of System Solutions Division

Yasuyuki Oguma
General Manager of IP Network Division

Kenji Tanaka
General Manager of Wireless Measurement Division

Koichiro Takahashi
Senior Manager of Environmental Promotion Center, Senior Manager of Manufacturing Process Dept., Chief of all manufacturing operations, Procurement Dept.

*Concurrently serving as Board Member

Brief personal history of new Representative Director

Hiromichi Toda

Date of Birth: October 9, 1947

Business Career:

April 1971	Joined Anritsu Corporation
Dec. 1986	Manager of 3rd Section, 1st Engineering Dept. Measurement Division
April 1993	Moved to Anritsu Wiltron Sales Company (U.S.A.)
June 1997	Senior Manager, 3rd Development Dept. Measurement Division
June 2000	General Manager, Wireless Comm. Division Measurement Solutions
July 2002	Vice President, President of Wireless Measurement Solutions
April 2003	Vice President, General Manager, Wireless Measurement Division Measurement Business Center
April 2004	Senior Vice President, General Manager, Measurement Business Center
June 2004	Director, Senior Vice President General Manager, Measurement Business Center
April 2005	Director, Executive Deputy President
June 2005	Representative Director, President

Financial Section

10-YEAR SUMMARY OF SELECTED FINANCIAL DATA

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31

	2005	2004	2003	2002
For the year:				
Net sales	**¥ 84,040**	¥ 78,396	¥ 78,554	¥131,578
Cost of sales	**53,666**	54,249	58,036	85,694
Gross profit	**30,374**	24,147	20,518	45,884
Selling, general and administrative expenses	**25,512**	22,339	31,267	38,298
Operating income (loss)	**4,862**	1,808	(10,749)	7,586
Net income (loss)	**1,280**	1,101	(32,761)	2,567
Depreciation and amortization	**3,400**	4,257	5,829	6,522
Capital expenditures	**1,870**	1,530	2,868	9,677
R&D expenses	**10,515**	9,887	13,222	15,222
At year-end:				
Total assets	**¥142,111**	¥148,353	¥144,131	¥198,780
Total shareholders' equity	**60,309**	60,012	59,618	94,171
Interest-bearing debt	**61,384**	70,033	63,164	73,179

	2005	2004	2003	2002
Per share:				
Net income (loss)				
Basic	**¥ 9.31**	¥ 8.38	¥ (256.90)	¥ 20.10
Diluted (Note 2)	**8.22**	7.77	—	18.81
Cash dividends	**7.00**	4.50	—	9.00
Total shareholders' equity	**472.16**	470.28	467.21	737.78
Key financial indicators:				
Operating income margin (%)	**5.8**	2.3	(13.7)	5.8
Return on equity (%)	**2.1**	1.8	—	2.7
Anritsu Capital-cost Evaluation (Note 3) (Millions of yen / thousands of U.S. dollars)	**(2,230)**	(5,283)	(15,563)	(3,770)
Return on assets (%)	**0.9**	0.8	—	1.3
Interest coverage ratio (times)	**5.3**	1.7	—	6.5
Dividend payout ratio (%) (Note 4)	**68.6**	45.3	—	44.8
Dividends on equity (%)	**1.5**	0.8	—	1.2

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥107.32 to U.S. $1.00, the approximate exchange rate on March 31, 2005
2. 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 2000 is not presented since the result of the computation was anti-dilutive, and that for 2003 and 1999 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.
3. Anritsu introduced Anritsu Capital-cost Evaluation, an evaluation indicator, in the year ended March 31, 1999.
4. Dividend payout ratio: Total cash dividends / Net income (Non-consolidated)

	Millions of yen					Thousands of U.S. dollars (Note 1)
2001	2000	1999	1998	1997	1996	**2005**
¥159,056	¥115,068	¥113,268	¥128,946	¥124,487	¥ 99,804	**$ 783,079**
98,112	78,960	78,173	87,766	85,988	70,647	**500,056**
60,944	36,108	35,095	41,180	38,499	29,157	**283,023**
37,110	30,832	31,910	34,262	28,813	22,869	**237,719**
23,834	5,276	3,185	6,918	9,686	6,288	**45,304**
9,635	399	(725)	5,144	3,065	3,030	**11,927**
5,328	5,139	5,410	5,137	4,888	4,105	**31,681**
8,308	5,320	6,944	7,615	5,484	3,871	**17,425**
15,385	12,532	10,949	10,779	10,406	8,242	**97,978**
¥207,544	¥170,601	¥170,127	¥168,288	¥160,141	¥144,059	**$1,324,180**
93,743	85,678	85,904	85,789	81,555	71,307	**561,955**
45,038	44,027	51,121	41,058	36,842	32,445	**571,971**
	Yen					U.S. dollars
¥ 75.70	¥ 3.15	¥ (5.73)	¥ 40.67	¥ 24.85	¥ 25.60	**$ 0.09**
68.02	—	—	36.74	22.24	23.77	**0.08**
12.00	4.50	9.00	9.00	9.00	8.50	**0.07**
732.94	676.71	678.49	677.59	646.51	601.84	**4.40**
	% except where noted					
15.0	4.6	2.8	5.4	6.9	6.3	**5.8**
10.7	0.5	—	6.1	4.0	4.3	**2.1**
11,146	(1,862)	(3,794)	—	—	—	**(20,779)**
5.1	0.2	—	3.1	2.0	2.1	**0.9**
23.8	4.7	3.1	6.5	6.1	3.6	**5.3**
15.9	142.7	—	22.1	36.2	33.2	**68.6**
1.7	0.7	1.3	1.4	1.5	1.4	**1.5**

Management's Discussion and Analysis

Anritsu provides solutions in the fields of electronics, information and telecommunications and measurement to the mobile and Internet, industrial electronics, security and environment-related markets to contribute to the development of the ubiquitous network society.

Changes in the Scope of Consolidation

During the fiscal year ended March 31, 2005, Anritsu added two companies to the scope of consolidation, resulting in 30 consolidated subsidiaries. The two companies added were Anritsu Industrial Solutions USA Inc. in the United States and Anritsu Industrial Solutions Europe Ltd. in the United Kingdom. Anritsu established these two overseas subsidiaries with the aim of expanding sales in overseas industrial equipment markets.

Sales and Income

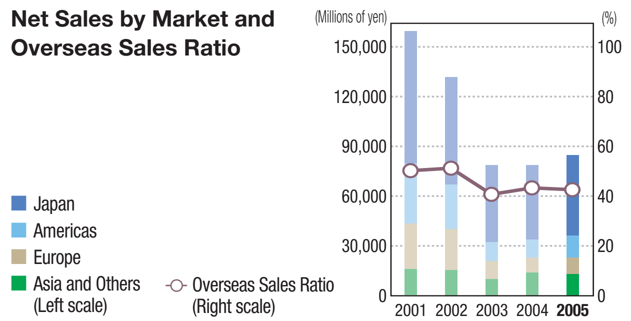
For the fiscal year ended March 31, 2005, consolidated net sales increased 7.2 percent year-on-year to ¥84,040 million. Operating income increased 168.9 percent, or ¥3,054 million, to ¥4,862 million. Income before income taxes increased 11.0 percent year-on-year, or ¥206 million, to ¥2,078 million. As a result, net income increased 16.3 percent year-on-year, or ¥179 million, to ¥1,280 million. Of note, Anritsu generated net income in the year ended March 31, 2004 by recording extraordinary gains through the sale of real estate assets including the former head office building. In contrast, for the year ended March 2005 Anritsu generated higher net income because of income growth in its primary businesses.

Net Sales

For the fiscal year ended March 31, 2005, consolidated net sales increased 7.2 percent, or ¥5,644 million, year-on-year to ¥84,040 million. A primary factor supporting the increase was a 15.9 percent year-on-year increase in sales in the Anritsu Group's core Test and Measurement segment.

By market, domestic sales increased 8.6 percent year-on-year to ¥48,644 million as a result of the increase in sales in the Test and Measurement segment. Overseas sales increased 5.3 percent to ¥35,396 million. In China, tighter government fiscal policy and delays in the issue of licenses in the third-generation (3G) mobile phone business caused telecommunications companies to restrain capital investment. These and other factors caused sales in Asian markets to decrease 6.6 percent year-on-year, but growth in sales of 15.6 percent in the Americas and 11.4 percent in Europe resulted in overall growth in overseas sales. Overseas sales decreased to 42.1 percent of net sales from 42.9 percent for the previous fiscal year.

Net Sales by Market and Overseas Sales Ratio



Cost of Sales and Gross Profit

Although net sales increased, cost of sales decreased 1.1 percent, or ¥583 million, compared to the previous fiscal year to ¥53,666 million. Cost of sales was 63.9 percent of net sales, compared to 69.2 percent for the previous fiscal year. Factors in the decrease included successful efforts to further reduce cost of sales through supply chain management (SCM) and manufacturing innovations. Gross profit increased 25.8 percent compared to the previous fiscal year to ¥30,374 million. The ratio of gross profit to net sales improved 5.3 percentage points to 36.1 percent.

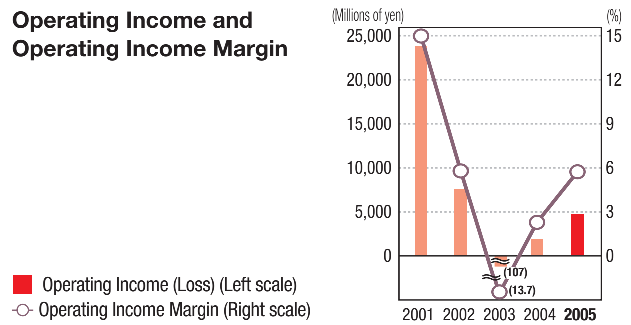
Selling, General and Administrative (SG&A) Expenses and Operating Income

SG&A expenses increased 14.2 percent compared to the previous fiscal year to ¥25,512 million as a result of the increase in net sales. Research and development expenses, which are included in general and administrative expenses and production expenses, increased 6.4 percent to ¥10,515 million, and decreased to 12.5 percent of net sales compared to 12.6 percent for the previous fiscal year. As a result, operating income increased a substantial 168.9 percent, or ¥3,054 million, year-on-year to ¥4,862 million. Operating income represented 5.8 percent of net sales, compared to 2.3 percent for the previous fiscal year.

Overview of SG&A Expenses (Millions of yen)

	2005	2004	Change (%)
Salaries and bonuses	**¥9,683**	¥8,733	10.9%
Advertising	**1,391**	1,333	4.3
Pensions	**921**	1,011	(9.0)
Travel and transportation	**1,532**	1,170	30.9
Depreciation	**516**	625	(17.4)
Research and development	**3,939**	3,859	2.0

Operating Income and Operating Income Margin



Other Income (Expenses), Income before Income Taxes, and Net Income

Other expenses, net totaled ¥2,784 million, compared to other income, net of ¥64 million for the previous fiscal year. A primary factor in the year-on-year change was the absence of the one-time gains on the sale of the head office building and the Toda plant totaling ¥4,857 million in the previous fiscal year. The gain from transfer of retirement benefits totaling ¥2,573 million in the previous fiscal year was also a one-time gain that did not recur in the year ended March 31, 2005. Offsetting the absence of these one-time gains, losses on disposal and devaluation of inventories decreased to ¥1,479 million from ¥5,509 million in the previous fiscal year because of successful efforts to reduce inventory. In addition, foreign exchange loss decreased to ¥88 million.

As a result of the above, income before income taxes increased 11.0 percent, or ¥206 million, year-on-year to ¥2,078 million. Net income increased 16.3 percent, or ¥179 million, year-on-year to ¥1,280 million. Basic net income per share increased to ¥9.31 from ¥8.38 for the previous fiscal year.

Costs, Expenses and Income as Percentages of Net Sales

	2005	2004	2003
Net sales	**100.0%**	100.0%	100.0%
Cost of sales	**63.9**	69.2	73.9
Gross profit	**36.1**	30.8	26.1
SG&A expenses	**30.3**	28.5	39.8
R&D expenses	**12.5**	12.6	16.8
Net income (loss)	**1.5**	1.4	(41.7)

Shareholder Return Policies

Dividend Policy

Distributing returns to shareholders is one of Anritsu's management priorities. Based on consolidated net income, Anritsu distributes profits taking into account various factors, including the operating environment, the outlook for the coming fiscal year and the ratio of dividends to consolidated shareholders' equity.

Cash Dividends per Share

Based on the above policy, Anritsu increased cash dividends by ¥2.50 compared to the previous fiscal year to ¥7.00 per share for the fiscal year ended March 31, 2005.

The Anritsu Group will use internal capital resources to make capital investments and conduct research and development to respond to rapid advances in technology and changes in market structure.

Share Repurchases

The General Meeting of Shareholders held on June 25, 2004 voted to change Anritsu's Articles of Incorporation to allow the Board of Directors to conduct share repurchases as per the Commercial Code Article 211-3-1, item 2.

Industry Segments

The Anritsu Group classifies operations into the segments of Information and Communications, Test and Measurement, Industrial Automation, and Services and Others. The Anritsu Group reported separate segment results for Components and Devices until March 31, 2004, but now reports these results as part of Services and Others. This change allows more accurate presentation of the status of the Anritsu Group's businesses, as the Components and Devices segment has been reorganized to supply optical devices and fundamental technologies for Anritsu Group products, and provide Groupwide basic research. Segment data for previous fiscal years has been restated to reflect the change in segment reporting and permit year-on-year comparison.

Information and Communications

The Information and Communications segment accounts for 10.4 percent of total net sales. Government entities make up a large proportion of sales in this business, which is therefore materially influenced by government and municipal budgets. Approximately 60 percent of sales in this business are concentrated in the fourth quarter, reflecting budget execution among government entities.

Consolidated net sales in this segment for the fiscal year ended March 31, 2005 decreased 29.6 percent year-on-year to ¥8,726 million. A significant proportion of government budgets were allocated to reconstruction efforts following natural disasters during the fiscal year, which reduced sales to government entities centered on video distribution systems. Operating loss expanded to ¥1,010 million from ¥215 million for the previous fiscal year.

In the future, the Anritsu Group will work to improve its earnings structure by reducing its conventional reliance on government demand in ways such as expanding in private-sector markets. Concurrently, the Anritsu Group will also aggressively shift its product mix toward video distribution solutions and other products.

Test and Measurement

Consolidated net sales in this segment for the fiscal year ended March 31, 2005 increased 15.9 percent year-on-year to ¥55,245 million. Sales of mobile phone measuring instruments increased, and income from IP network communication measuring instruments improved. In addition, the Anritsu Group worked to increase customer support overseas. Operating income increased a substantial 322.2 percent year-on-year to ¥4,236 million.

Sales in the Test and Measurement segment account for 65.7 percent of total net sales. The Test and Measurement business is structured to provide versatile measuring instruments that are broadly used throughout the field of electronics. Applications in the IP network communications field include design, manufacturing, testing, repair and maintenance for wireline network service providers and telecommunications equipment manufacturers. Applications in the mobile communications field include design, manufacturing, testing, repair and maintenance for communications companies that offer mobile phone services and manufacturers of mobile phones, components related to mobile phones such as integrated circuit (IC) chipsets, and base stations. General purpose applications include design, manufacturing and evaluation of electronic devices used in equipment related to telecommunications networks and other electronic equipment.

Measuring instruments for mobile communications is among the Anritsu Group's most important businesses. The Anritsu Group has developed highly competitive products for use in providing 3G service. However, demand in this area is influenced by technological innovation in mobile phone services including communication protocols, as well as the speed of adoption and number of subscribers. Recent trends include the ongoing convergence of wireless and wireline communication networks with the advent of the ubiquitous network society, the increasing sophistication of technology, services and handsets, and expanding need for integration. Advanced measuring instruments applications are increasing as a result.

During the fiscal year ended March 31, 2005, NTT Docomo began full-scale provision of the 3G service that it initiated in October 2001. Investment in development and mass-production among Japanese handset manufacturers was therefore very strong. In addition, demand rose for measuring instruments for the 3.5 generation (3.5G) HSDPA service scheduled to become available in the United States in 2005 and in Japan in 2006. The need for measuring instruments for application software to raise productivity also increased among customers developing handsets. However, while service providers in European countries introduced 3G service in concert, growth in subscribers remained lackluster. In addition, China is the world's largest mobile phone subscriber market and the largest producer of mobile terminals, but the matter of when 3G licenses would be issued remained unresolved. This was among factors that delayed the full-scale sale of measuring instruments for 3G mobile communications. Despite these changes in regions around the world, overall sales of measuring instruments for mobile communications expanded significantly.

Sales of general purpose measuring instruments were impacted by weakness in the digital consumer appliance market and lower demand related to electronic components. However, demand was firm for handheld compact measuring instruments for base station construction and maintenance. Sales of measuring instruments for IP networks were about the same as in the previous fiscal year. Anritsu expects this field to expand due to the shift from long-distance telecommunications lines to medium-distance telecommunications lines and subscriber-based communication networks.

Looking forward, the Anritsu Group will continue to build its core Test and Measurement business by making the investments required to offer solutions that provide outstanding customer value in overseas markets and improve customer support. The Anritsu Group's goal is to establish global market leadership.

Industrial Automation

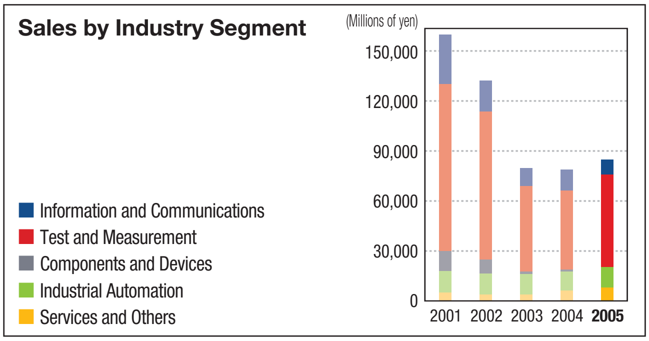
Sales in the Industrial Automation segment for the fiscal year ended March 31, 2005 increased 6.9 percent year-on-year to ¥12,234 million. Operating income increased 13.6 percent to ¥1,002 million. The Industrial Automation segment accounts for 14.6 percent of total net sales. Sales to food manufacturers account for 80 percent of total sales, and the level of economic growth and consumer spending influences food manufacturers and Anritsu results.

Demand related to food safety has increased in recent years, which has resulted in firm growth for Anritsu's highly competitive metal detectors and X-ray inspection systems used in food processing. The Anritsu Group has therefore targeted steady annual growth in this business of approximately 7 percent for net sales and 8 percent for operating income. This business generates approximately 20 percent of its sales overseas. The Anritsu Group aims to expand sales in markets outside Japan and is preparing the systems needed to further develop overseas business. The Anritsu Group is also investing to expand market share in regions worldwide by establishing sales bases that are separate from those of the Test and Measurement business. During the fiscal year ended March 31, 2005, the Anritsu Group added subsidiaries in the United States and the United Kingdom to the subsidiary established in China during the previous fiscal year, and also established a representative office in Thailand.

Services and Others

This segment includes the components and devices business, the precision measurement business, environment-related operations, logistics, welfare services, real estate leasing and other businesses. The Anritsu Group changed its segment classifications at the start of the fiscal year ended March 31, 2005 and moved the components and devices business to the Services and Others segment.

Growth in various areas, including precision measurement for quality testing of electronic packaging and liquid crystal production processes and methane gas detectors resulted in segment sales of ¥7,835 million, which was a 13.8 percent increase compared to the total of sales in the Components and Devices and Services and Others segments in the previous fiscal year. On the same basis, operating income increased 108.1 percent compared with the previous fiscal year to ¥2,023 million due to improved profitability in the device business.



Note: From the year ended March 31, 2005, "Components and Devices" is included as part of "Services and Others."

Geographical Segments

Japan

In Japan, 3G service continued to spread. In the first half of the fiscal year, demand increased substantially for measuring instruments for mass production of 3G handsets and for simple measuring instruments for service use at sales outlets. Moreover, the service area of terrestrial digital broadcasting is expanding steadily, which is increasing demand for related measuring instruments, and demand for equipment for measuring liquid crystal coating thickness in the manufacture of flat panel displays also rose. As a result, sales in Japan increased 5.6 percent year-on-year to ¥53,678 million, and operating income increased 92.9 percent year-on-year to ¥3,612 million.

Americas

The large U.S. mobile phone service provider Cingular Wireless began providing W-CDMA and HSPDA service during 2005. Moreover, global telecommunications companies began providing 3G service, which has spurred research and development of chipsets for 3G handsets and 3G and 3.5G service among manufacturers of handsets and chipsets. Demand was therefore firm for products including signaling testers and conformance test systems. In addition, sales of general purpose measuring instruments were also solid because of active investment throughout the electronics manufacturing industry. As a result, sales in the Americas increased 19.0 percent year-on-year to ¥13,651 million, and operating income increased 355.3 percent year-on-year to ¥1,407 million.

Europe

Mobile communication companies began providing 3G service, and investment in infrastructure was strong, which resulted in demand for measuring instruments for base stations. In addition, handset manufacturers conducted aggressive research and development for 3G and 3.5G services, which resulted in solid sales of the Anritsu Group's measuring instruments for development. As a result, sales in Europe increased 13.4 percent year-on-year to ¥10,104 million. Operating loss narrowed to ¥185 million from ¥455 million for the previous fiscal year.

Asia and Others

In Asia, investment among handset manufacturers remained firm in some areas, including Taiwan and Korea. Sales of measuring instruments for research and development and for manufacturing therefore remained solid. However, in China the government tightened fiscal policies and the issue of licenses for 3G service was delayed, which caused telecommunications companies to restrain capital investment. Growth in sales of measuring instruments for manufacturing 3G handsets was therefore lower than projected at the start of the fiscal year. In addition, the number of telecommunications companies offering 3G service in Europe expanded favorably, but the number of subscribers was lower than expected. The expansion in demand that Asian handset manufacturers expected therefore did not materialize, and so demand did not increase for measuring instruments for handset production. As a result, sales decreased 8.0 percent year-on-year to ¥6,607 million, and operating income decreased 7.2 percent year-on-year to ¥231 million.

Liquidity and Financial Condition

Fund Procurement and Liquidity Management

The Anritsu Group's capital requirements consist primarily of working capital for purchases of materials and other operating expenses incurred in manufacturing and selling products, and funds for capital investment and research and development expenditures. Anritsu secures sufficient capital from internal capital resources or by directly and indirectly procuring funds from external sources.

As of March 31, 2005, cash and cash equivalents totaled ¥33,744 million. This was approximately 4.8 times average monthly net sales, indicating that Anritsu has ample cash on hand to meet its liquidity requirements. Management believes that preparing against domestic and overseas financial uncertainty is important in an operating environment characterized by significant change, and seeks to maintain ready access to working capital and capital to fund business growth.

In addition, the Anritsu Group established a three-year committed ¥15,000 million line of credit, thus securing stable long-term liquidity. The Anritsu Group has also been repaying short- and long-term debt, particularly overseas, to improve its balance sheet. As a result, the net debt-to-equity ratio (see Note 11 below) improved substantially to 0.46 times as of March 31, 2005 from 0.58 times a year earlier. The Anritsu Group operates a cash management system that covers domestic companies and one that covers European companies to concentrate capital and deploy it efficiently while reducing interest-bearing debt.

As of March 31, 2005, Rating and Investment Information, Inc., a Japanese credit rating agency, rated Anritsu's short-term debt a-2 and its long-term debt BBB. The rating on Anritsu's long-term debt was lowered from A- to BBB in December 2002, but this has not had any material effect on fund procurement. Anritsu is working to restore its A- rating by improving the stability of its financial structure through means such as enhancing shareholders' equity, reducing interest-bearing debt and increasing its ability to generate cash.

For the year ended March 31, 2005, loss on devaluation of inventories and loss on disposal of inventories totaled ¥1,479 million. The Anritsu Group operates at the leading edge of telecommunications technology, and is therefore subject to the risk that technological innovation and advances in service will render inventory held for long periods obsolete. The Anritsu Group's policy for nullifying this risk is to recognize devaluation of products and work in process over set time periods. The Anritsu Group is working to manage inventory even more efficiently through manufacturing innovation and through supply chain management. Inventory turnover, defined as net sales divided by inventories at the balance sheet date, was 3.4 times for the year ended March 31, 2005, and the Anritsu Group's goal is to raise inventory turnover to 5.0 times.

Note 11. Net debt-to-equity ratio: (interest-bearing debt – cash and cash equivalents)/shareholders' equity

Cash Flow

Cash and cash equivalents as of March 31, 2005 decreased ¥1,486 million from a year earlier to ¥33,744 million. A primary factor in the decrease was that Anritsu funded reduction in interest-bearing debt using cash provided by operating activities.

Free cash flow, defined as the sum of net cash provided by operating activities and net cash provided by or used in investing activities, totaled ¥8,231 million, compared to ¥10,374 million in the previous fiscal year. However, free cash flow for the year ended March 31, 2004 would have totaled ¥4,680 million after excluding the sale of the former head office building and other assets.

Net cash provided by operating activities totaled ¥9,277 million, compared to ¥5,953 million in the previous fiscal year. Net cash provided by operating activities represented 11.0 percent of net sales. The increase in net cash provided by operating activities was the result of the increase in operating income and further improvement in income before income taxes from core operations. The Anritsu Group also continued to raise the efficiency of working capital deployment. Depreciation and amortization decreased ¥667 million compared to the previous fiscal year to ¥3,754 million.

Net cash used in investing activities totaled ¥1,046 million. In the previous fiscal year, investing activities provided net cash totaling ¥4,421 million, although this included proceeds from the sale of the former head office building and other assets totaling ¥5,694 million. The Anritsu Group continued to be selective in the acquisition of property, plant and equipment, which totaled ¥1,338 million.

Net cash used in financing activities totaled ¥9,872 million, In the previous fiscal year, financing activities provided net cash totaling ¥8,568 million, primarily because of the issue of ¥15,000 million in convertible bonds with stock acquisition rights. The year-on-year change was primarily the result of the use of ¥8,847 million to repay short- and long-term debt at a U.S. subsidiary and other Group companies. As a result, the net debt-to-equity ratio decreased to 0.46 times from 0.58 times at the previous fiscal year-end.

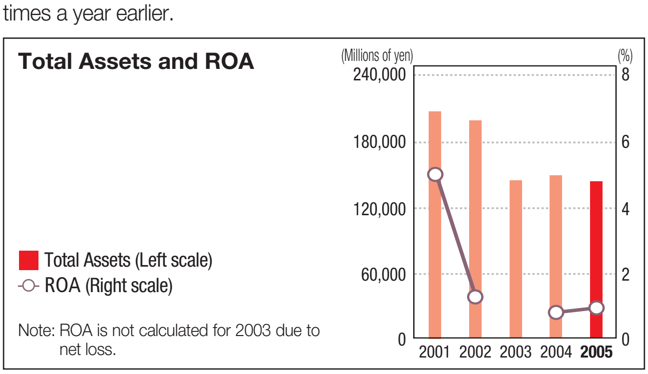
Assets, Liabilities and Shareholders' Equity

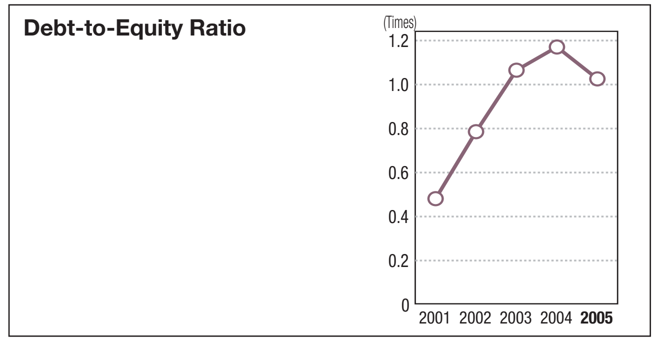
As of March 31, 2005, total assets decreased 4.2 percent, or ¥6,242 million, from a year earlier to ¥142,111 million. Current assets decreased 2.6 percent, or ¥2,441 million, from a year earlier to ¥92,121 million. Property, plant and equipment decreased 8.5 percent, or ¥2,328 million, from a year earlier to ¥25,159 million.

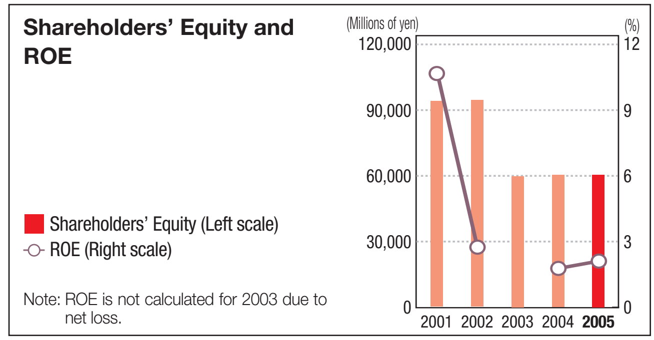
As of March 31, 2005, total liabilities decreased 7.4 percent, or ¥6,538 million, from a year earlier to ¥81,802 million. Current liabilities increased 7.1 percent, or ¥1,586 million, from a year earlier to ¥24,063 million, primarily because of an increase in accrued liabilities. The Anritsu Group changed its method for handling notes and accounts payable by initiating the use of factoring for a portion of notes and accounts payable beginning with the year ended March 31, 2005. Compared to the former method, the change reduced notes and accounts payable - trade by ¥2,077 million and increased other current liabilities by ¥2,077 million. Long-term liabilities decreased 12.3 percent, or ¥8,123 million, from a year earlier to ¥57,739 million.

Long-term debt decreased ¥8,532 million from a year earlier due to repayment of debt. Total interest-bearing debt decreased 12.3 percent from a year earlier to ¥61,384 million. Working capital totaled ¥68,058 million, compared to ¥72,085 million a year earlier.

Shareholders' equity increased 0.5 percent from a year earlier to ¥60,309 million. The ratio of shareholders' equity to total assets was 42.4 percent, compared to 40.5 percent a year earlier. The debt-to-equity ratio (see Note 12 below) was 1.02 times, compared to 1.17 times a year earlier.







Note 12. Debt-to-equity ratio: Interest-bearing debt/shareholders' equity

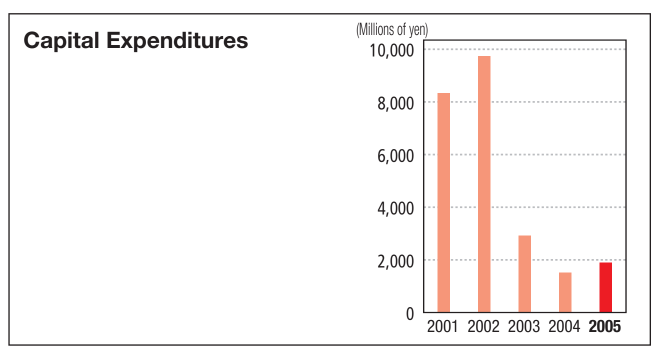
Capital Expenditures

For the fiscal year ended March 31, 2005, capital expenditures increased 22.2 percent compared to the previous fiscal year to ¥1,870 million. Anritsu is emphasizing investment of management resources in the IP network business to respond to the trends toward IP and wireless telecommunications. However, during the past fiscal year Anritsu focused on the Test and Measurement business in investing in new product development and reducing cost of sales to respond to technological innovations and sales competition.

Overview of Capital Expenditures

(Millions of yen)

	2005	Change (%)
Information and Communications	¥ 188	121.2%
Test and Measurement	1,213	23.1
Industrial Automation	182	(15.3)
Services and Other	185	44.5
Sub-total	1,768	25.1
Eliminations or corporate	102	(12.8)
Total	¥1,870	22.2



Research and Development

The Anritsu Group conducts research and development under the Group corporate philosophy of developing "Original & High Level" products that contribute to the realization of an affluent ubiquitous network society. The Anritsu Group is promoting new product research and development with a focus on leading-edge technology fields including IP networks and mobile communication systems.

An overview of research and development expenditures in the year ended March 31, 2005 follows below. Investment in research and development in the components and devices business now included in the Services and Other segment totaled ¥23 million for the year ended March 31, 2005.

(Millions of Yen)

	2005	Change (%)
Information and Communications	¥ **461**	5.3%
Test and Measurement	**7,234**	13.1
Industrial Automation	**913**	7.5
Services and Other	**368**	4.7
Basic research	**1,539**	—
Total	**10,515**	12.5

The results of research and development in each business segment are outlined below.

1. Information and Communications
Development of Fair Share PureFlow™ FS10, a Bandwidth Management Product that Optimizes Bandwidth to Solve Traffic Congestion

In recent years, Internet access channels have steadily moved to broadband, and peer-to-peer (P2P) communication in which users connect directly and exchange large files over extended periods has become increasingly common. This has caused congestion that interferes with other users' communication, which has been a problem because of the inability to allocate uniform service to each user. Previously, only high-priced bandwidth controllers that used complicated methods to identify the traffic appropriating bandwidth and detect and eliminate misappropriation were able to deal with this problem. The Anritsu Group has developed a completely new bandwidth management product that does not eliminate P2P or other applications. Instead, it constantly allocates channel bandwidth based on the number of users connected, thus contributing to the efficient use of telecommunication service providers' channels.

2. Test and Measurement
Development of the MG3700A Vector Signal Generator

The wireless communication technology that will enable the advent of the ubiquitous network society continues to advance. Examples include mobile-centric service, in which mobile phones and wireless LANs converge, and the projected start of digital broadcasting services for mobile phones in 2006. Another example is the adaptation of medium-distance wireless communications such as Bluetooth and wireless LANs for personal computers and home electronics.

These circumstances created strong demand among digital system developers for a signal generator that could output a digital modulation signal for use with a diverse array of wireless systems. Anritsu has met this demand by developing the MG3700A Vector Signal Generator, a stand-alone unit that can output digital modulation signals for a broad range of wireless systems. The MG3700A Vector Signal Generator has a built-in base-band generator and can output a signal with a RF modulation bandwidth as large as 120 MHz. As a result, it can be used for 4G mobile communication systems which use wideband digital modulation signals exceeding 100 MHz.

3. Industrial Automation
Development of the KD7337AW Large-Scale X-ray Inspection System

Concern about food safety has increased demand for even more stringent quality control in food production processes. Anritsu Industrial Solutions Co., Ltd. has responded by delivering and supplying metal detectors, which use advanced magnetic sensing technology to provide industry-leading metal contaminant detection; and X-ray alien material inspection systems, which use original X-ray technology and image processing technology.

The recently developed KD7337AW X-ray inspection system has a large portal that is 690 mm wide and 250 mm tall that enables alien material contaminant inspection of products in large packages that was formerly difficult. Conventionally, inspection of products in large packages was insufficient and initial setup and cleaning after use were problematic because they required extensive labor. The KD7337AW, however, uses newly developed image processing algorithms to enhance alien material detection sensitivity. At the same time, it offers automatic setup functions and is easier to clean, making it simple, highly sensitive alien material inspection equipment.

Change in Policy Regarding Severance and Retirement Benefits for Directors and Auditors

In June 2004, the Anritsu Group's Board of Directors and Board of Auditors resolved to abolish the internal system of severance and retirement benefits for directors and auditors and to terminate such payments in the future. The Anritsu Group therefore intends to use the reserve for severance and retirement benefits for directors and auditors as of March 31, 2005 to meet obligations to directors and auditors incurred prior to the above resolution. The effect of the abolition of the system of severance and retirement benefits for directors and auditors on the statements of income is not material. In addition, the Anritsu Group provides for bonuses for officers by funding a reserve in the amount projected to be paid at the end of the current fiscal year during each evaluation period.

Management Objectives and Indicators

Anritsu seeks to maximize its corporate value by managing its operations with a focus on consolidated cash flow. In addition, the Company emphasizes asset efficiency and uses an original metric, Anritsu Capital-cost Evaluation (ACE) to evaluate return on capital invested. Anritsu also uses ACE as an indicator to evaluate the performance of each business unit.

For the year ended March 31, 2005, consolidated ACE was negative ¥2,230 million, an improvement of ¥3,052 million compared to the previous fiscal year. Consolidated return on equity was 2.1 percent, compared to 1.8 percent for the previous fiscal year. Free cash flow totaled ¥8,231 million, compared to ¥10,374 million for the previous fiscal year. Thus Anritsu has continued the progress begun in the previous fiscal year toward improvement in each of its primary management indicators.

For the year ending March 31, 2006, Anritsu will strengthen its global business strategy to expand net sales and steadily improve its earnings structure. In addition, Anritsu will implement programs to improve its ability to generate cash while working to raise its corporate value and achieve positive ACE. Anritsu aims to achieve a consolidated operating margin of 10 percent or higher by March 31, 2007.

Risk Information

Risk Associated with the Anritsu Group's Technology and Marketing Strategy

The Anritsu Group works to deploy its well-developed technological capabilities to provide products and services that offer value to customers. However, technological change is rapid in the Anritsu Group's core information and communications markets. As a result, inability to deliver timely solutions that increase customer value or incidents that preclude sufficient support for customer needs and wants among telecommunications companies and telecommunications equipment manufacturers have the potential to impact the Anritsu Group's financial performance.

Market Fluctuation Risk

External factors including changes in economic and market conditions and technological innovation have the potential to exert a material impact on the Anritsu Group's product lines and performance.

The Test and Measurement business is subject to the impact of changes in capital investment requirements among telecommunications companies, telecommunications equipment manufacturers and electronic component manufacturers as a result of economic growth and consumption trends in countries around the world. Moreover, the number of subscribers to, speed of adoption of and technological innovation in mobile phone services, including telecommunication systems, influence demand for mobile communication measuring instruments.

Other factors that may influence earnings include changes in the mobile handset value chain such as the trend toward system on chip and intensifying price competition for measuring instruments for mass-production of mobile handsets. In the general purpose measuring instruments market, economic conditions and consumption trends in countries worldwide influence changes in capital investment among telecommunications companies, telecommunications equipment manufacturers and electronic component manufacturers. The Information and Communications business has a high proportion of sales to governmental entities, and government and municipal budgets may exert a material impact on its performance. In the Industrial Automation business, sales to food manufacturers constitute 80 percent of sales. Economic growth rates and consumer spending have the potential to impact performance, capital investment and other issues among food manufacturers and materially influence Anritsu's results.

Global Business Development Risks

The Anritsu Group markets its products globally, and aggressively conducts business in the Americas, Europe, Asia and elsewhere with the goal of enhancing its customer support capabilities. Overseas sales account for 56 percent of sales in the Test and Measurement segment, and many customers operate on a global scale. As a result, economic trends in countries worldwide, international conditions and progress in the Anritsu Group's global strategy have the potential to exert a material impact on earnings. Of particular note, the Chinese market is becoming the world's factory and is growing strongly. Capital investment trends among Chinese telecommunications carriers and telecommunications equipment manufacturers have become an important element influencing the Anritsu Group's performance.

Foreign Exchange Risk

The Anritsu Group's sales outside Japan account for a relatively high 42.1 percent of consolidated net sales. The Anritsu Group hedges the risk of foreign exchange transactions that occur upon collection of accounts receivable and other events using forward foreign exchange contracts and other instruments, and hedges risks associated with the borrowings of overseas subsidiaries using currency swaps and other instruments. However, rapid changes in foreign exchange rates have the potential to exert a material impact on the Anritsu Group's earnings and financial condition.

Long-term Inventory Obsolescence Risk

The Anritsu Group works to provide products and services that precisely meet customer needs and wants. However, particularly in the measuring instruments market, product lines are subject to rapid changes in technology, which can easily result in product obsolescence and cause inventory held for long periods to lose value. These factors have the potential to exert a material impact on the Anritsu Group's financial condition.

Financial Condition Risk

In the fiscal year ended March 31, 2003, Anritsu concluded an agreement for a syndicated loan (see Note 13 below) that was funded by several financial institutions. The outstanding balance of this loan totaled ¥9,800 million as of March 31, 2005. A financial covenant as outlined below was added to this syndicated loan agreement, under which the lenders may call the loan should any of the following occur:

① If the Anritsu Group's long-term credit rating drops to BB+ or lower, the equivalent of two ranks lower than the current BBB rating;

② If consolidated shareholders' equity falls below ¥46,100 million (shareholders' equity as of March 31, 2005 was ¥60,309 million);

③ If the Anritsu Group records an operating loss for two consecutive fiscal years.

Note 13: Syndicated loan: a method of procuring funds in which multiple financial institutions cooperate in a syndicate to meet large-scale fund procurement needs. The loan extended is structured as a single contractual obligation.

Warning from Fair Trade Commission

On April 7, 2005, the Anritsu Group received a warning from the Fair Trade Commission of Japan under Article 48, section 2 of the Act Concerning Prohibition of Private Monopolization and Maintenance of Fair Trade, in connection with an order for construction of information display panels placed by the Ministry of Land, Infrastructure and Transport. The Board of Directors took up the issue of this warning at its meeting of April 15, 2005, and acknowledged it on April 27. The Anritsu Group will prevent recurrence by implementing thorough employee education and training covering legal compliance and corporate ethics, and will also work to make business activities more fair and transparent by establishing countermeasures including a system for periodic audits. Penalties such as fines that may result from this incident have the potential to exert a material impact on the Anritsu Group's performance.

Management Issues for the Year to March 31, 2006

The global economy is expected to continue growing. The domestic economy, however, has decelerated, and factors such as trends in the foreign currency market and crude oil prices remain unclear. In the mobile communications market, which is critical to the Anritsu Group, delays in China and elsewhere in the full-scale start of 3G service, intensifying competition, and other factors indicate that the Anritsu Group's operating environment will remain unpredictable.

The Anritsu Group will respond to these conditions during the year ending March 31, 2006 by implementing its strategy of profitable growth. The current fiscal year will be key as the new Anritsu takes up the challenge of strong, sustained growth.

In the core Test and Measurement segment, the Anritsu Group's goal for the medium to long term is to take a leadership position in the telecommunication test and measurement market. To achieve this goal, the Anritsu Group will strengthen cooperation among divisions in Japan, the United States and the United Kingdom, while adding sales engineers to its sales organizations in Japan, the Americas, Europe, Asia and Oceania. The Anritsu Group will also promote the creation of an efficient management structure. Organic adjustment among development, manufacturing and sales will further strengthen global operations. In particular, the Anritsu Group will further enhance its marketing and technical support system to create even closer relationships with customers. The Anritsu Group will also promote strategies to flexibly accommodate market change. With the goal of increasing customer value, the Anritsu Group will develop its "Intelligent Solution Creator" business model.

In addition, the Anritsu Group will emphasize investment to maintain its competitive advantage in the telecommunication test and measurement business. In the Information and Communication segment, the Anritsu Group will work to improve profitability by increasing its penetration in the private-sector market for video distribution solutions. Moreover, the Anritsu Group will move forward in transforming special projects created through its in-company entrepreneurial organizations into businesses to create new sources of earnings and nurture them into core operations.

In addition, the Anritsu Group will reduce inventories, cost of sales and operating expenses in promoting management with an emphasis on cash flow. Corporate social responsibility (CSR), strengthening the business risk management system and other initiatives will also be part of efforts to renew and develop the Anritsu Group's operating foundation to increase corporate value.

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

Year ended March 31, 2005	Information and Communications	Test and Measurement	Industrial Automation	Services and Others	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars						
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:

Year ended March 31, 2005	Japan	Americas	Europe	Asia and Others	Total	Eliminations or corporate	Consolidated
	Millions of yen						
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

Major Subsidiaries

As of March 31, 2005

Japan

Japan	Business Description	Paid-in Capital (Millions of yen)	Anritsu's Share of Voting Rights (%)
Anritsu Industrial Solutions Co., Ltd.	Manufacture and marketing of industrial automation equipment	1,350	100
Tohoku Anritsu Co., Ltd.	Manufacture of information and communications equipment and measuring instruments	250	100
Anritsu Customer Services Co., Ltd.	Calibration, repair and maintenance of measuring instruments	100	100
Anritsu Devices Co., Ltd.	Manufacture of optical devices	90	100
Anritsu Technics Co., Ltd.	Repair and maintenance of communications equipment	45	100
Anritsu Engineering Co., Ltd.	Development of software	40	100
Anritsu Kousan Kabushiki Kaisha	Welfare services and production of catalogs and other materials	20	100
Anritsu Real Estate Co., Ltd.	Real estate financing	20	100
Anritsu Techmac Co., Ltd.	Manufacture and marketing of processed products and unit assembly articles	10	100
Anritsu Pro Associe Co., Ltd.	Shared services center	10	100

Americas

Americas	Business Description	Paid-in Capital	Anritsu's Share of Voting Rights (%)
U.S.A. Anritsu U.S. Holding Inc.	Holding company for overseas subsidiaries	US$8 thousand	100
U.S.A. Anritsu Company	Manufacture and marketing of measuring and other instruments	US$15,131 thousand	100*
U.S.A. Anritsu Industrial Solutions USA Inc.	Marketing of measuring and other instruments	US$5 thousand	100*
Canada Anritsu Electronics, Ltd.	Marketing of measuring and other instruments	CA$100	100*
Brazil Anritsu Eletrônica Ltda.	Marketing of measuring and other instruments	BRL 569 thousand	100*

Asia & Pacific

Asia & Pacific	Business Description	Paid-in Capital	Anritsu's Share of Voting Rights (%)
China Anritsu Company Ltd.	Marketing and procurement of measuring and other instruments	HKD 43,700 thousand	100*
China Anritsu Electronics (Shanghai) Co., Ltd.	Customer support for measuring and other instruments	CNY 4,966 thousand	100*
China Anritsu Industrial Solutions (Shanghai) Co., Ltd.	Marketing and procurement of industrial machinery	US$250 thousand	100*
Korea Anritsu Corporation, Ltd.	Marketing of measuring and other instruments	KRW 1,450 million	100*
Taiwan Anritsu Company Incorporated	Marketing of measuring and other instruments	TWD 78 million	100*
Singapore Anritsu Private Ltd.	Marketing and procurement of measuring and other instruments	SGD 600 thousand	100*
Australia Anritsu Proprietary Ltd.	Marketing of measuring and other instruments	A$820 thousand	100*

Europe

Europe	Business Description	Paid-in Capital	Anritsu's Share of Voting Rights (%)
U.K. Anritsu Limited	Manufacture and marketing of measuring and other instruments	£12 thousand	100*
U.K. Anritsu Industrial Solutions Europe Ltd.	Marketing of industrial automation equipment	£50 thousand	100*
Germany Anritsu GmbH	Marketing of measuring and other instruments	EURO 2,837 thousand	100*
France Anritsu S.A.	Marketing of measuring and other instruments	EURO 1,000 thousand	100*
Italy Anritsu S.p.A.	Marketing of measuring and other instruments	EURO 260 thousand	100*
Sweden Anritsu Aktiebolag	Marketing of measuring and other instruments	SEK 800 thousand	100*

* Indicates indirect ownership

Investor Information

As of March 31, 2005

Head Office:
ANRITSU CORPORATION
1800 Onna, Atsugi-shi, Kanagawa,
243-8555 Japan
TEL: +81 46 223 1111
E-mail: investors@zy.anritsu.co.jp
URL: http://www.anritsu.co.jp

Established: March 1931

Paid-in Capital: ¥14.0 billion

Number of Employees: 3,610 (Consolidated)
1,194 (Non-consolidated)

Stock Listing: Tokyo (Ticker Symbol No: 6754)

Transfer Agent: The Sumitomo Trust & Banking Co., Ltd.
4-4, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8233 Japan

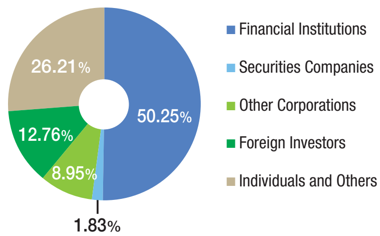
Number of Shareholders: 14,707

Rating: Rating and Investment Information, Inc.
Long-Term BBB
Short-Term a-2

Authorized Shares: 400,000,000

Issued Shares: 128,037,848

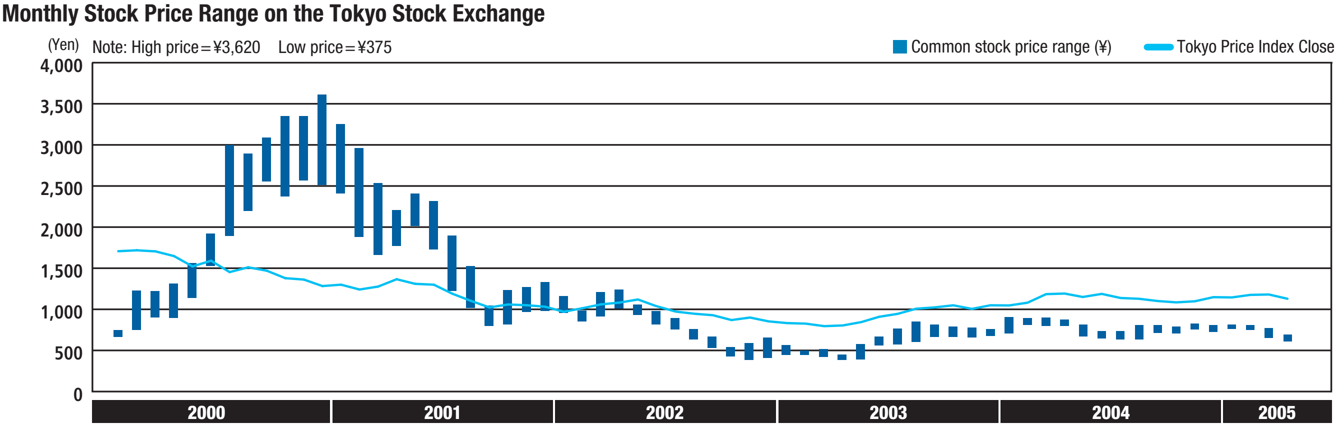
Breakdown of Shareholders:



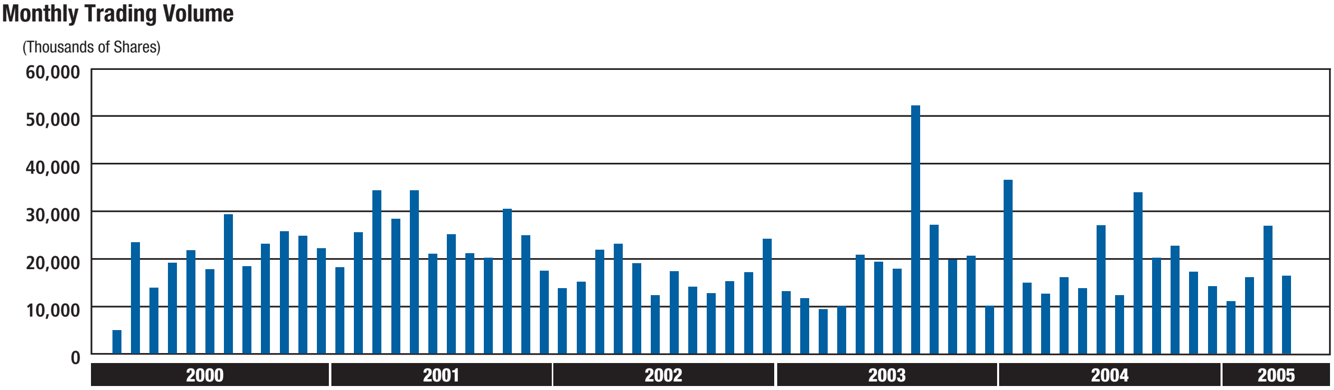
Major Shareholders:

Shareholder Name	Number of Shares (thousands)	Percentage of Total Shares Outstanding
Japan Trustee Services Bank, Ltd. (Trust Account from The Sumitomo Trust & Banking Co., Ltd., NEC Retirement Benefit Trust Account)	19,200	15.00
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,189	7.96
Japan Trustee Services Bank, Ltd. (Trust Account)	10,112	7.90
NEC Corporation	8,312	6.49
UFJ Trust Bank Limited. (Trust Account A)	3,724	2.91
Mitsui Sumitomo Insurance Company	2,964	2.32
Japan Trustee Services Bank, Ltd. (The Sumitomo Trust & Banking Co., Ltd. Retirement Benefit Trust Account)	2,500	1.95
Sumitomo Life Insurance Company	2,314	1.81
The Chase Manhattan Bank, N.A. London	1,917	1.50
Japan Securities Finances Co., Ltd.	1,889	1.48

Monthly Stock Price Range on the Tokyo Stock Exchange



Monthly Trading Volume



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