

In its Test and Measurement business, which aims to be a global market leader in telecommunications measurement solutions, the Anritsu Group is preparing for the coming next generation network (NGN) age, where mobile communications networks and wireline networks will converge. As we reinforce our core businesses and restructure other businesses, the synergy generated with the recently added Anritsu A/S will further solidify our “profitable growth” strategy.



Hiromichi Toda
President

In the year ended March 31, 2006, healthy growth in sales of the Test and Measurement business and the acquisition of NetTest A/S (now Anritsu A/S) led to net sales of ¥91,262 million, an 8.6 percent increase compared with the previous fiscal year. However, operating income dropped 6.4 percent to ¥4,549 million, largely because of expanded losses in the Information and Communications business. Please discuss the main environmental factors that affected results in the past fiscal year, and what measures Anritsu implemented.

The past year was Anritsu's 110th anniversary and my first year as president of the Company, making it a momentous year for Anritsu and a significant one for me. In October 2005 we held a private show, TECHNO PLAZA 2005, in Tokyo and Osaka to commemorate the Company's 110th year in business, which allowed us to reaffirm our position as a company that has grown with the history of electronics. The event also gave us a good opportunity to remind our customers about the Anritsu Group's business fields.

• Review of the Test and Measurement Business

Mark Evans became general manager of the Test and Measurement business in 2005, and has strengthened the worldwide business operations he presides over. The benefits from this became apparent, and solid demand continued for measuring instruments used in development of third generation (3G) and 3.5G mobile communications services by mobile phone handset manufacturers in Japan and overseas. In addition, demand for handheld measuring instruments for installation and maintenance of mobile phone base stations was strong worldwide, particularly in the North American market. As a result, sales in this business increased 17.9 percent and operating income climbed 24.9 percent.

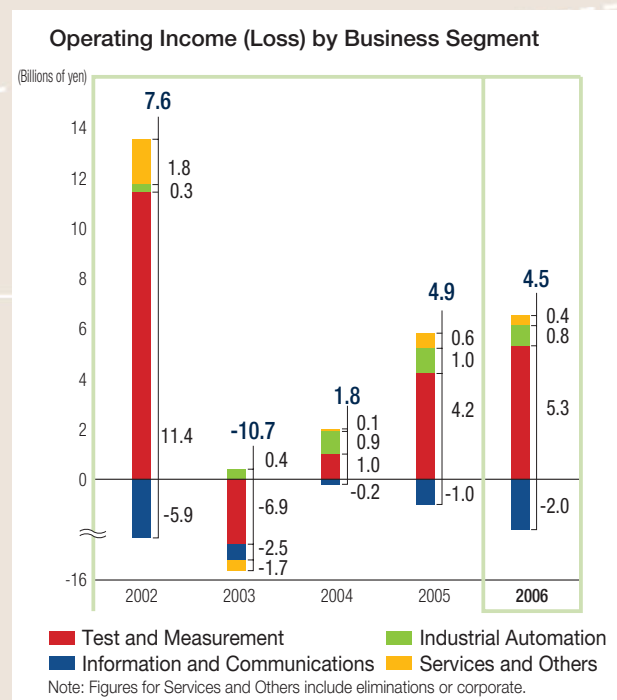
In the history of Anritsu's globalization, the acquisition of U.S. measuring instrument manufacturer Wiltron Company in 1990 was a major step, but more time was required to create synergy between Anritsu's domestic and overseas operations. In the last several years, however, we have responded to the challenge by building up the expertise and fostering the human resources needed to develop as a true global company.

Because of this experience, our integration with NetTest A/S (now Anritsu A/S), a medium-sized manufacturer of measuring instruments based in Denmark, is progressing

smoothly at a faster pace. We made this acquisition in August 2005 for the purpose of entering the service assurance business, which supports the improvement of network performance and service quality with a view to the construction of the coming next generation network (NGN) society. This will allow us to establish "service assurance" as a fourth pillar of the Test and Measurement business, in addition to wireless test and measurement, which includes testers for mobile phone handset development, manufacturing and maintenance, and testers for wireless infrastructure installation and maintenance; general purpose RF/microwave test and measurement, including testers for development and manufacturing of wireless equipment and electronic components; and IP network test and measurement, including testers for the development and manufacture of optical, digital and IP communication devices.

• Review of the Information and Communications Business

The operating loss in the Information and Communications business increased substantially in the past fiscal year due to the trend toward smaller long-term budgets of government agencies, the main customer segment of this business, and our delay in developing private-sector markets. There was a time when this business created one of



Anritsu's eras through the development and manufacture of radio equipment for marine vessels, public telephones, telemeter systems and other products. As the infrastructure of society has shifted to optical and digital technology, the routers, switches and other telecommunication devices for which we invested in development because we expected them to be key products, as well as the telecommunication systems that use them, have not shown the results we expected. Because the market for network-related equipment is expected to be large, though highly competitive, and because we had invested in the launch of this business with high expectations for it, we were slow to make cut-backs for business restructuring. Consequently, rather than taking our previous approach of trying to improve profitability by dealing with individual issues, we have made drastic management structure reforms by shifting to a profit structure that is focused more clearly on business areas with good growth potential. By March 2006, we had already begun reducing fixed costs through personnel downsizing and other measures. In April, we made a fresh start based on carefully examined break-even sales, under an organization in which resources are optimized for the scale of this business. In July, we separated the Information and Communications business and transferred it to a wholly owned subsidiary, Anritsu Technics Co., Ltd. (now Anritsu Networks Co., Ltd.). This move is aimed at promoting the independent viability of this business and speeding up decision making in order to make the Information and Communications business profitable.

• Review of the Industrial Automation Business

This business, which is operated by Anritsu Industrial Solutions Co., Ltd., a wholly owned subsidiary of Anritsu, has a leading position in the field of metal detectors and X-ray inspection systems capable of high-speed, high-accuracy detection of foreign substances such as metal and bone fragments introduced in the food production process. With the trend of rising food safety needs in recent years, this business has been stable, with operating margins in the 6 percent range even as sales have been virtually flat.

A focus in this business going forward will be expanding sales of new products that can not only detect foreign materials but also measure the shape, mass and quantity of detected objects. We will also aggressively develop our overseas business infrastructure to expand sales in overseas markets.



Please summarize the new three-year business plan that started in the fiscal year beginning April 2006.

In the past, our Mid-term Business Plan was based on a three-year rolling plan that we reviewed each year. However, the significance of the rolling plan tended to be overemphasized, which diluted our commitment to numerical targets. For the new Mid-term Business Plan, which targets the year ending March 2009, we are promoting awareness in the company that the original targets are baselines that must be reached.

In this plan, we have set our target vision of Anritsu as “a company that contributes to the realization of a safe, secure and comfortable society.” This ties in with the philosophy of the Japanese government’s “u-Japan” initiative, which aims to realize a ubiquitous network society by 2010, and is based on the Anritsu Group’s wish to contribute toward the realization of the ubiquitous network society in the field of information and communications. The Anritsu Group is also fulfilling the mission of protecting food safety through its Industrial Automation business. We have incorporated these as objectives that symbolically define the Anritsu Group’s corporate activities. As for management indicators in the new Mid-term Business Plan, we will steadily implement our profitable growth strategy with net sales of ¥120 billion, operating income of ¥12.5 billion, Anritsu Capital-cost Evaluation (ACE)¹ of ¥5 billion, and return on equity of 10% as targets for the year ending March 2009.

To achieve these targets, we have set three fundamental policies:

- Globally provide quick service and support that exceeds customer expectations;
- Strengthen core businesses with prioritized allocation of resources; and
- Build new businesses that reflect emerging market trends.

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

1) Globally provide quick service and support that exceeds customer expectations

Since the time of our former President Akira Shiomi, Anritsu has adopted the “Intelligent Solution Creator” business model. We originate all of our ideas by asking what the customer is looking for. Based on what the customer expects and the problem they want us to solve, we anticipate what we need to do to exceed the customer’s wishes and then provide solutions. This is the fundamental concept of the “Intelligent Solution Creator” model. We intend to strengthen this system globally.

To strengthen our global operations, in April 2006 we established Anritsu EMEA Limited, a central sales company in the United Kingdom, which will build a cost-effective sales organization and support development of the Test and Measurement business in Europe, the Middle East and Africa.

2) Strengthen core businesses with prioritized allocation of resources

Anritsu’s strength is offering measuring instruments involved in information and communication in various layers, including simulations ranging from measurement of the physical layers to application layers. The instruments cover the diverse devices under test (DUTs) that make up communication networks, from communication systems to terminals, modules and electronic components. We are also adding the service assurance business, centered on Anritsu A/S, in which we provide solutions to assure the communication quality of networks. We intend to focus on these as our core businesses.

These fields are very broad, and systems are becoming ever more complex. This means that unless we carefully identify the parts of these fields in which we can fully exercise Anritsu’s strengths, and concentrate our resources

accordingly, we will have difficulty creating solutions that consistently exceed customer expectations. However, by maintaining a customer-focused attitude and acting from a global perspective, I believe we can offer solutions that will surely exceed the expectations of customers.

After I took office as president, I said that my vision of the core business supporting Anritsu is to be the best in the world in test and measurement solutions that assure the quality of the elements (devices, equipment and systems) that will make up the NGN, and the services provided using it. In measuring instrument solutions for development of 3G/3.5G mobile phones, we have captured the global number-one position by actively participating from the formulation stage of global standards and building relationships with customers. I want Anritsu to draw on this experience to also attain the global number-one position in the NGN, in which the communication network infrastructure will be integrated by IP. We will focus the awareness of the entire company on achieving this goal.

3) Build new businesses that reflect emerging market trends

In the past, there was a time when we were called “Anritsu, The Leader of Optical Technologies.” Later, when core networks were changing to high-speed digital technology, Anritsu was proud to consistently deliver cutting-edge solutions. During the last several years, as mobile phone systems shifted from 2G to 3G, we have provided solutions with a focus on 3G mobile phones. Now we are mobilizing Anritsu’s technological capabilities for the next stage. Realizing the NGN vision I mentioned earlier will require testing of the equipment and components to be used. While this is the area of greatest strength for the Anritsu Group, we must respond to the increasing sophistication of IP and

Anritsu began its new Mid-Term Business Plan at the start of fiscal 2006. Our goal is to be a company that contributes to the realization of a safe, secure and comfortable society. We will work toward achieving the goals of this medium-term business plan by steadily implementing our strategies for profitable growth.

high-speed digital technology. In the service assurance business, we want to expand the business domain from real-time monitoring systems to management of subscriber satisfaction with communication service quality, and offer solutions positioned as Service Quality Management (SQM).

To lay the foundation for these growth drivers of the next fiscal year, we established the Technology Center in April 2006 to coordinate basic research with the businesses of the future, and to shape a system that will strongly back up promotion of more strategic research and development. With the Technology Center and the development departments of business divisions working in close cooperation to fulfill their respective roles, we expect to create many solutions that target the NGN. In addition, we established the Incubation Department in the Core Technology R&D Center to promote new business projects already under way and to clarify the process of linking the results obtained in basic research to real businesses. Our objective is to encourage research and development that is always conscious of how R&D will lead to new businesses.

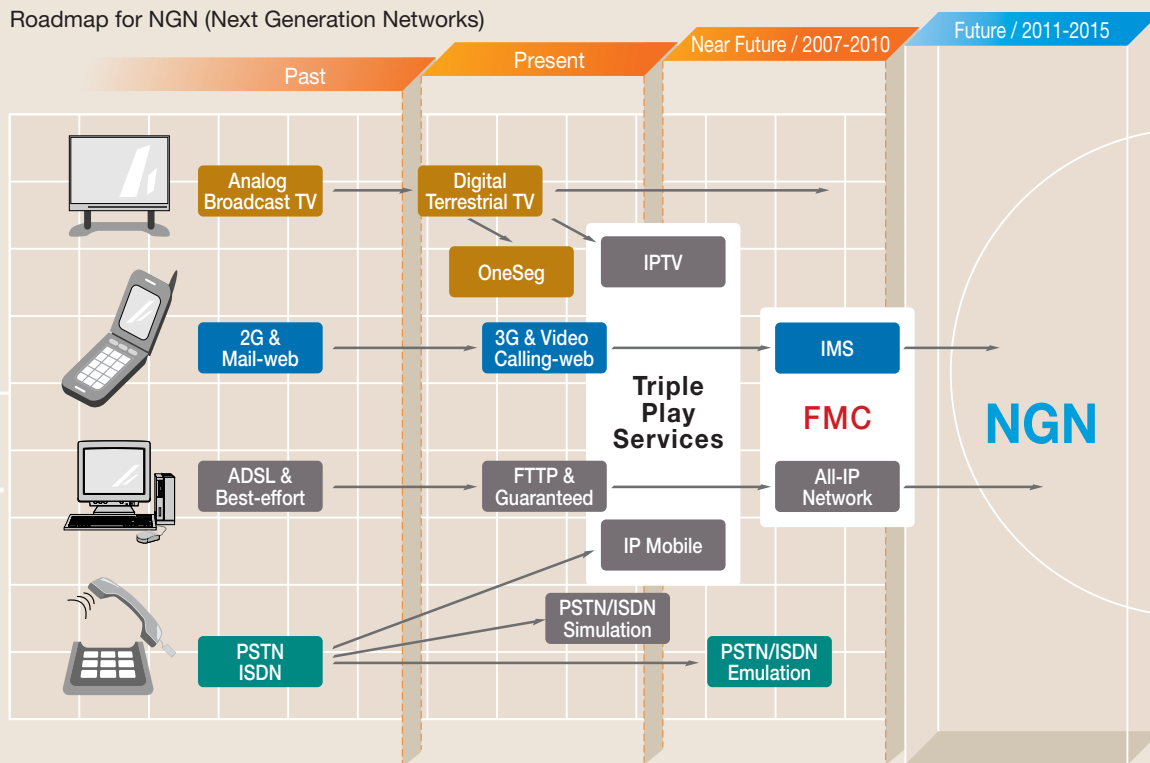
In areas that are not directly linked to the Information and Communications business, we can leverage our optical

and telecommunications technologies to offer unique solutions that other companies cannot match. If these solutions can play a part in realizing a safe, secure and comfortable society, then we naturally should implement them, and we will constantly look for the seeds of new businesses.

Anritsu A/S, which was added to consolidation in October 2005, had an operating loss in the past fiscal year due to forward investment to improve the organizational framework for the company's integration and to shore up its business foundation. Please discuss the scenario in which this company will contribute to profits by creating synergy.

We finished integrating business divisions and sales organizations and reducing overlapping functions by March 2006 as planned. This fiscal year, as phase two of the integration process, we will share and apportion the development roadmap and efficiently allocate engineering and manufacturing resources. Specifically, we will restructure optical and digital measuring instrument manufacturing operations in the United States and concentrate these functions at Tohoku Anritsu Co., Ltd., a subsidiary in Japan. For optical

Roadmap for NGN (Next Generation Networks)



ADSL: Asynchronous Digital Subscriber Line / FMC: Fixed Mobile Convergence / FTTP: Fiber To-The-Premises / IMS: IP Multimedia Subsystem / ISDN: Integrated Services Digital Network / PSTN: Public Telephone Switched Network

and digital related marketing functions, we will further enhance cooperation with our IP Network Measurement Division in Japan, and work to expand our presence in North America, the world's largest market.

Anritsu has high-speed digital, optical, RF/microwave, mobile communications protocol, IP and other technologies, and its strength lies in testing and measurement that extends from components used mainly in telecommunications systems to equipment. At the same time, Anritsu A/S is strong in quality assurance technology for entire networks. By combining these technologies, we will be able to offer total solutions for the systems, services and operations that will form the NGN that is expected to develop in the years ahead. Anritsu A/S will still post a loss in the first half of this fiscal year, due in part to expenses from integration work and investment to expand solution functions. However, excluding straight-line amortization of goodwill, we expect it to turn profitable during the second half.

Approval of 3G licenses in China is still behind schedule. What is the status of Anritsu's activities in the 3G market in China?

We have already made progress such as commercializing a signalling tester for TD-SCDMA² development, which has created many expectations from the Chinese side as well. To achieve the government's goal of providing 3G services by the time the 2008 Beijing Olympics are held, the infrastructure will need to be in place in the near future. Signs of the launch are gradually starting to appear. Anritsu also has high technological capabilities for W-CDMA and CDMA2000, and we will work to build our brand so that Anritsu will be recognized as a 3G leader in China, which is known as "the world's factory."

(Note 2) TD-SCDMA: An international 3G standard developed by China

Please describe Anritsu's main tasks and performance outlook for the year ending March 2007.

This year, we will advance development of test and measurement solutions that support digital wireless convergence for the NGN. First, we will retain our global number-one position in 3G and 3.5G development solutions and conformance test systems that support standards including HSDPA³, HSUPA⁴ and TD-SCDMA.

Next, in the field of wireless communications, new technologies and demand other than 3G are emerging one after



another, such as UWB⁵ and WiMAX⁶. Anritsu will also contribute to cutting-edge technology in the area of measuring instrument solutions for mobile WiMAX development.

Another key area is digital broadcasting. Anritsu will provide test and measurement solutions for infrastructure that support DVB-T/H⁷, a digital terrestrial broadcasting standard in use in more than a dozen countries, primarily in Europe. In January 2006, we commercialized the world's first handheld tester that includes signal analysis functions for DVB-T/H digital terrestrial broadcasting and spectrum analyzer functions, and can make the necessary measurements for checking reception and performing maintenance on broadcasting equipment.

We plan to establish seamless measurement technology centered on IP technology in these integrated fields of 3G/3.5G, WiMAX and digital broadcasting.

In addition, as part of our efforts for the NGN, we will develop measurement solutions for all-IP broadband and high-speed core networks. Currently, the maximum data speed of core networks is 10Gbps, but with the spread of broadband service, core network capacity will also have to expand, and speeds up to 40Gbps are being planned. We are working on developing measurement equipment compatible with this 40Gbps speed.

As these examples indicate, we are strengthening R&D for the continuing growth of the Test and Measurement business. By doing this, while eliminating the losses in the Information and Communications business, we are deter-

mined to steadily build the foundation for profitable growth.

For the year ending March 2007, we project net sales of ¥98.0 billion (a 7.4 percent increase year-on-year) and operating income of ¥6.5 billion (a 42.9 percent increase). We will work toward these as the first step toward our baseline figures for the year ending March 2009, the target of the new Mid-term Business Plan.

(Note 3) HSDPA (High Speed Downlink Packet Access): A standard that enables faster data transmission speeds in 3G mobile phone system W-CDMA downlink. The improved version of the 3G system, called 3.5G, has a transmission speed more than five times faster.

(Note 4) HSUPA (High Speed Uplink Packet Access): A standard that enables faster data transmission speeds in W-CDMA and HSDPA uplink

(Note 5) UWB (Ultra Wideband): A system for short-range, high-speed data transmission using ultra-wideband, low-power radio waves at microwave frequencies

(Note 6) WiMAX (Worldwide Interoperability for Microwave access): A standard for high-speed wireless networks that cover an area the size of a city. It is promising as an alternative to popular wireline broadband access technologies such as ADSL and optical cable.

(Note 7) DVB-T/H: A digital terrestrial broadcasting format used in Europe and elsewhere. DVB-T (Terrestrial) is for fixed reception, and DVB-H (Handheld) is for mobile terminals.

Anritsu has an active CSR program that includes participation in the recently announced UN Global Compact⁸. Please discuss the company's planned CSR activities and corporate governance.

Last year we expanded the breadth of our environmental report to a CSR report that covers the philosophies and activities related to the Anritsu Group's CSR activities. The Action Plan and other initiatives described in the report are updated yearly, and it is important that they are really of use to society. Certainly we contribute through our main business. But for our employees, for example, who constitute an important stakeholder group, we need to take further steps to create an employee-friendly workplace, such as studying support measures that address social issues like the low birth rate.

As for corporate governance, we started inviting outside directors last year. I feel that they have been extremely helpful because they point out various issues in Board meetings from a perspective that is completely different from that of company insiders, and we have learned a lot from them. They also bring objective viewpoints to corporate governance.

In April this year, we established the Internal Control Improvement Center to expedite improvement of internal controls. While management has gained a greater degree of

freedom with the enactment of the new Corporation Law, there are also demands for stronger internal control systems. Of course, we will meet the legal requirements that are being planned, such as Japan's corporate reform law, which will obligate listed companies to evaluate and audit their internal controls for financial reporting. In addition, we will work to increase the level of transparency and clarity of business processes by making improvements to the efficiency of internal operations and legal compliance issues that we become aware of in the course of analyzing and evaluating current processes.

(Note 8) Global Compact: Advocated by the United Nations, the Global Compact is a group of organizations that support 10 principles concerning human rights, labor, the environment and anti-corruption.

Cash dividends per share for the fiscal year totaled ¥7.00, the same as in the previous fiscal year. What is your basic line of thinking as to how to return profits to shareholders through achievement of the new Mid-term Business Plan?

Our basic policy for shareholder returns is to make dividend payments based on the condition of consolidated net income, while also considering factors such as the business environment, the outlook for results in the next term, and the consolidated payout ratio.

In the past fiscal year, net income was ¥563 million. As a result of our comeback in the fourth quarter, we were able to avoid a loss, but given the level of profit, the dividend for the period reflects our decision to meet our shareholders' expectations to the fullest extent possible.

Our proposition is to reinforce the Company's strengths and raise Anritsu's corporate value through execution of the new Mid-term Business Plan, and thereby increase operating income.

The next three years up to March 2009 will be a crucial period for the Anritsu Group, and we are determined to steadily implement our profitable growth strategy. I hope that our shareholders will take notice of the medium-term vision that the Anritsu Group is pursuing, and respond with their continuing support.

July 2006



Hiromichi Toda
President