# Consolidated Balance Sheets

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2006 and 2005

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash | **¥ 24,172** | ¥ 31,845 | **$ 205,754** |
| Marketable securities (Note 4) | **7,603** | 1,900 | **64,717** |
| Notes and accounts receivable — trade | **28,813** | 23,379 | **245,259** |
| Allowance for doubtful accounts | **(516)** | (326) | **(4,392)** |
| Inventories (Note 5) | **24,467** | 24,811 | **208,265** |
| Deferred tax assets (Note 8) | **8,750** | 8,492 | **74,481** |
| Other current assets | **2,774** | 2,020 | **23,614** |
| **Total current assets** | **96,063** | 92,121 | **817,698** |
| **Property, plant and equipment:** | | | |
| Land | **4,553** | 4,516 | **38,756** |
| Buildings and structures | **44,686** | 43,938 | **380,371** |
| Machinery and equipment | **31,538** | 31,308 | **268,453** |
| Construction in progress | **—** | 82 | **—** |
| | **80,777** | 79,844 | **687,580** |
| Accumulated depreciation | **(56,310)** | (54,685) | **(479,316)** |
| **Net property, plant and equipment** | **24,467** | 25,159 | **208,264** |
| **Investments and other assets:** | | | |
| Investment securities (Note 4) | **2,560** | 4,091 | **21,791** |
| Goodwill, net of amortization | **15,245** | 8,953 | **129,767** |
| Long-term prepaid expense | **7,581** | 8,625 | **64,530** |
| Deferred tax assets (Note 8) | **1,386** | 1,415 | **11,798** |
| Other assets | **5,161** | 1,804 | **43,930** |
| Allowance for doubtful accounts | **(73)** | (57) | **(621)** |
| **Total investments and other assets** | **31,860** | 24,831 | **271,195** |
| **Total assets** | **¥152,390** | ¥142,111 | **$1,297,157** |

See accompanying notes.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities:** | | | |
| Short-term borrowings (Note 6) | **¥ 7,990** | ¥ 5,031 | **$ 68,012** |
| Long-term debt due within one year (Note 6) | **17,393** | 1,410 | **148,051** |
| Notes and accounts payable — trade | **9,341** | 7,305 | **79,511** |
| Accrued liabilities | **6,143** | 3,712 | **52,290** |
| Accrued expenses | **2,470** | 2,400 | **21,025** |
| Income taxes payable | **391** | 946 | **3,328** |
| Other current liabilities | **4,248** | 3,259 | **36,160** |
| **Total current liabilities** | **47,976** | 24,063 | **408,377** |
| **Long-term liabilities:** | | | |
| Long-term debt (Note 6) | **40,207** | 54,943 | **342,245** |
| Employees' severance and retirement benefits (Note 11) | **1,765** | 1,551 | **15,024** |
| Severance and retirement benefits for directors and corporate auditors | **90** | 90 | **766** |
| Accrued bonuses | **36** | 126 | **306** |
| Deferred tax liabilities (Note 8) | **694** | 584 | **5,907** |
| Other long-term liabilities | **651** | 445 | **5,541** |
| **Total long-term liabilities** | **43,443** | 57,739 | **369,789** |
| **Commitments and contingent liabilities** (Note 13) | | | |
| **Minority interests** | **—** | — | **—** |
| **Shareholders' equity** (Note 12)**:** | | | |
| Common stock, no par value | | | |
| Authorized — 400,000,000 shares | | | |
| Issued — 128,037,848 shares in 2006 and 2005 | **14,050** | 14,050 | **119,595** |
| Additional paid-in capital | **23,000** | 23,000 | **195,778** |
| Retained earnings | **26,654** | 27,414 | **226,881** |
| Net unrealized holding gains on securities | **708** | 822 | **6,027** |
| Foreign currency translation adjustments | **(2,636)** | (4,188) | **(22,438)** |
| Treasury stock, at cost | **(805)** | (789) | **(6,852)** |
| **Total shareholders' equity** | **60,971** | 60,309 | **518,991** |
| **Total liabilities and shareholders' equity** | **¥152,390** | ¥142,111 | **$1,297,157** |

# Consolidated Statements of Income

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2006, 2005 and 2004

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| **Net sales** (Note 15) | **¥91,262** | ¥84,040 | ¥78,396 | **$776,830** |
| Cost of sales (Note 15) | **55,205** | 53,666 | 54,249 | **469,910** |
| **Gross profit** | **36,057** | 30,374 | 24,147 | **306,920** |
| Selling, general and administrative expenses (Note 15) | **31,508** | 25,512 | 22,339 | **268,199** |
| **Operating income** (Note 15) | **4,549** | 4,862 | 1,808 | **38,721** |
| **Other income (expenses):** | | | | |
| Interest and dividends income | **104** | 86 | 148 | **885** |
| Interest expenses | **(980)** | (939) | (1,139) | **(8,342)** |
| Foreign exchange gain (loss) | **551** | (88) | (642) | **4,690** |
| Amortization of bond issue costs | **(16)** | (16) | (56) | **(136)** |
| Gain on sales of investment securities | **1,648** | 2 | 950 | **14,028** |
| Loss on disposal of inventories | **(55)** | (295) | (1,285) | **(468)** |
| Loss on devaluation of inventories | **(1,566)** | (1,184) | (4,224) | **(13,330)** |
| Loss on disposal of fixed assets | **(159)** | (101) | (267) | **(1,353)** |
| Gain on sales of property, plant and equipment | **154** | 548 | 4,857 | **1,311** |
| Loss on disposal of software | **—** | (356) | (564) | **—** |
| Gain from transfer of retirement benefits | **—** | — | 2,573 | **—** |
| Loss on devaluation of investment securities | **(332)** | (159) | (2) | **(2,826)** |
| Special premium payment on the separation from pension fund | **(44)** | — | — | **(375)** |
| Restructuring expense | **(1,023)** | — | — | **(8,708)** |
| Other, net | **(803)** | (282) | (285) | **(6,834)** |
| | **(2,521)** | (2,784) | 64 | **(21,458)** |
| **Income before income taxes** | **2,028** | 2,078 | 1,872 | **17,263** |
| Provision for income taxes (Note 8): | | | | |
| Current | **1,343** | 691 | 944 | **11,432** |
| Deferred | **122** | 107 | (173) | **1,039** |
| | **563** | 1,280 | 1,101 | **4,792** |
| **Minority interests** | **—** | 0 | 0 | **—** |
| **Net income** | **¥ 563** | ¥ 1,280 | ¥ 1,101 | **$ 4,792** |

| | Yen | | | U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| **Amount per share of common stock:** | | | | |
| Net income: | | | | |
| Basic | **¥3.76** | ¥9.31 | ¥8.38 | **$0.03** |
| Diluted | **3.39** | 8.22 | 7.77 | **0.03** |
| Cash dividends applicable to the year | **7.00** | 7.00 | 4.50 | **0.06** |

# Consolidated Statements of Shareholders' Equity

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2006, 2005 and 2004

| | | 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, 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) |
| Net income | **—** | **—** | **—** | **563** | **—** | **—** | **—** |
| Net unrealized holding gain on securities | **—** | **—** | **—** | **—** | **(114)** | **—** | **—** |
| Adjustments from translation of foreign currency financial statements | **—** | **—** | **—** | **—** | **—** | **1,552** | **—** |
| Treasury stock | **—** | **—** | **—** | **—** | **—** | **—** | **(16)** |
| Cash dividends paid | **—** | **—** | **—** | **(956)** | **—** | **—** | **—** |
| Bonuses to directors and corporate auditors | **—** | **—** | **—** | **(92)** | **—** | **—** | **—** |
| Loss on sale of the treasury stock | **—** | **—** | **—** | **(0)** | **—** | **—** | **—** |
| Decrease by accounting change in foreign subsidiary | **—** | **—** | **—** | **(275)** | **—** | **—** | **—** |
| **Balance at March 31, 2006** | **128,037,848** | **¥14,050** | **¥23,000** | **¥26,654** | **¥ 708** | **¥(2,636)** | **¥(805)** |

| | | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|---|
| | 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, 2005** | 128,037,848 | $119,595 | $195,778 | $233,350 | $6,997 | $(35,649) | $(6,716) |
| Net income | **—** | **—** | **—** | **4,792** | **—** | **—** | **—** |
| Net unrealized holding gain on securities | **—** | **—** | **—** | **—** | **(970)** | **—** | **—** |
| Adjustments from translation of foreign currency financial statements | **—** | **—** | **—** | **—** | **—** | **13,211** | **—** |
| Treasury stock | **—** | **—** | **—** | **—** | **—** | **—** | **(136)** |
| Cash dividends paid | **—** | **—** | **—** | **(8,138)** | **—** | **—** | **—** |
| Bonuses to directors and corporate auditors | **—** | **—** | **—** | **(780)** | **—** | **—** | **—** |
| Loss on sale of the treasury stock | **—** | **—** | **—** | **(2)** | **—** | **—** | **—** |
| Decrease by accounting change in foreign subsidiary | **—** | **—** | **—** | **(2,343)** | **—** | **—** | **—** |
| **Balance at March 31, 2006** | **128,037,848** | **$119,595** | **$195,778** | **$226,881** | **$6,027** | **$(22,438)** | **$(6,852)** |

# Consolidated Statements of Cash Flows

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2006, 2005 and 2004

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| **Cash flows from operating activities:** | | | | |
| Net income | **¥ 563** | ¥ 1,280 | ¥ 1,101 | **$ 4,792** |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | |
| Depreciation and amortization | **3,630** | 3,754 | 4,421 | **30,899** |
| Amortization expense of goodwill | **325** | — | — | **2,766** |
| Gain on sales of investment securities | **(1,648)** | (2) | (950) | **(14,028)** |
| Gain on sales of property, plant and equipment | **(208)** | (548) | (4,899) | **(1,771)** |
| Loss on devaluation of investment securities | **332** | 159 | 2 | **2,826** |
| Deferred income taxes | **122** | 108 | (173) | **1,038** |
| Other — net | **(471)** | 538 | 634 | **(4,009)** |
| **Changes in assets and liabilities:** | | | | |
| Notes and accounts receivable — trade | **(1,625)** | 1,024 | (2,390) | **(13,832)** |
| Inventories | **2,271** | 1,274 | 8,682 | **19,331** |
| Other current assets | **(1,069)** | (707) | 649 | **(9,099)** |
| Notes and accounts payable — trade | **111** | (990) | 518 | **945** |
| Income taxes payable and receivable | **(180)** | (46) | 906 | **(1,532)** |
| Provision for retirement benefits | **1,173** | 970 | (1,149) | **9,985** |
| Other current liabilities | **3,808** | 2,145 | (2,148) | **32,414** |
| Other — net | **(1,205)** | 318 | 749 | **(10,257)** |
| **Net cash provided by operating activities** | **5,929** | 9,277 | 5,953 | **50,468** |
| **Cash flows from investing activities:** | | | | |
| Purchases of marketable securities and investment securities | **(4)** | (3) | (939) | **(34)** |
| Proceeds from sales of marketable securities and investment securities | **33** | 3 | 1,015 | **281** |
| Acquisition of property, plant and equipment | **(2,448)** | (1,338) | (1,305) | **(20,838)** |
| Proceeds from sales of property, plant and equipment | **725** | 576 | 5,694 | **6,171** |
| Payments for acquisition of newly consolidated subsidiaries | **(7,948)** | — | — | **(67,654)** |
| Net decrease in long-term loans receivable | **2** | 5 | 14 | **17** |
| Other — net | **(1,305)** | (289) | (58) | **(11,108)** |
| **Net cash provided by (used in) investing activities** | **(10,945)** | (1,046) | 4,421 | **(93,165)** |
| **Cash flows from financing activities:** | | | | |
| Proceeds from long-term debt | **3,094** | — | 1,200 | **26,336** |
| Payment of long-term debt | **(1,967)** | (8,497) | (1,696) | **(16,743)** |
| Proceeds from issue of bonds | **—** | — | 15,000 | **—** |
| Redemption of bonds | **—** | — | (5,000) | **—** |
| Net increase (decrease) in short-term borrowings | **1,606** | (350) | (873) | **13,670** |
| Payments on acquisition of treasury stock | **(17)** | (21) | (15) | **(145)** |
| Cash dividends paid | **(956)** | (1,020) | — | **(8,138)** |
| Other — net | **1** | 16 | (48) | **9** |
| **Net cash provided by (used in) financing activities** | **1,761** | (9,872) | 8,568 | **14,989** |
| **Effect of exchange rate changes on cash and cash equivalents** | **381** | 155 | (549) | **3,243** |
| **Net increase (decrease) in cash** | **(2,874)** | (1,486) | 18,393 | **(24,465)** |
| **Increase in cash due to addition of consolidated subsidiaries** | **—** | — | 10 | **—** |
| **Cash at beginning of year** | **33,744** | 35,230 | 16,827 | **287,232** |
| **Cash at end of year** (Note 3) | **¥30,870** | ¥33,744 | ¥35,230 | **$262,767** |
| **Supplemental information of cash flows:** | | | | |
| Cash paid during the year for: | | | | |
| Interest | **¥ 1,066** | ¥ 942 | ¥ 1,141 | **$ 9,074** |
| Income taxes | **(1,773)** | (924) | (1,570) | **(15,092)** |
| Cash received during the year for: | | | | |
| Income taxes | **252** | 186 | 1,531 | **2,145** |

# Notes to Consolidated Financial Statements

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2006, 2005 and 2004

**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.

Effective from the year ended March 31, 2006, the Company and its domestic subsidiaries adopted 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 the 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). There is no impact on profit due to adoption of this standard.

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, 2006, which was ¥117.48 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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Consolidation**

The consolidated financial statements include the accounts of Anritsu Corporation (the "Company") and all its subsidiaries (45 subsidiaries in 2006, 30 subsidiaries in 2005 and 28 subsidiaries in 2004). With regard to Anritsu A/S (former NetTest) and its 15 subsidiaries, the Company acquired Anritsu A/S's stock constructively in the end of 1st half of fiscal year 2005, and their operating results for 6 months, from October 1, 2005 to March 31, 2006 were consolidated. Intercompany account balances and transactions have been eliminated.

Investments in a significant affiliated company is accounted for by the equity method.

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

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.

**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**

Effective the year ended March 31, 2006, the Company changed its method of accounting for differences between the cost and the underlying net equity at fair value of investments in a consolidated subsidiary ("Goodwill") to amortizing this amount by the straight-line method over the estimated recovery periods not exceeding twenty-year period of the respective investments. The Company, in prior year, amortized Goodwill by the straight-line method five-year period.

Goodwill arising from the acquisition of NetTest (current Anritsu A/S) is amortized over nine-year period.

The effect of this change was to increase operating income and income before income taxes by ¥259 million (US$2,205 thousand) for the year ended 31, 2006.

Goodwill, 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, 2006 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.

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 income. 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. The Company and its domestic subsidiaries have adopted consolidated tax system since April 1, 2005.

**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 per share are based on the weighted average number of shares outstanding during the relevant year.

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, 2006 consisted of the following:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash | ¥24,172 | $205,754 |
| Time deposits with maturities not exceeding three months | 6,698 | 57,013 |
| | ¥30,870 | $262,767 |

Assets and liabilities of the newly consolidated subsidiary, Anritsu A/S, by acquisition of shares, related acquisition cost and net payment for acquisition of shares are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2006 | 2006 |
| Current assets | ¥ 5,050 | $ 42,986 |
| Fixed assets | 3,086 | 26,268 |
| Consolidation differences | 5,846 | 49,761 |
| Current liabilities | (4,053) | (34,499) |
| Long-term liabilities | (1,237) | (10,529) |
| Acquisition cost of shares | 8,692 | 73,987 |
| Cash and cash equivalents of the acquired company | (744) | (6,333) |
| Net payment for acquisition of newly consolidated subsidiary | ¥ 7,948 | $ 67,654 |

## 4. SECURITIES

The following tables summarize acquisition costs and book values of securities with fair value as of March 31, 2006 and 2005:

| | Millions of yen | | |
|---|---|---|---|
| Year ended March 31, 2006 | Acquisition cost | Book value | Difference |
| Available-for-sale securities: | | | |
| Securities with fair value exceeding book value: | | | |
| Equity securities | ¥ 906 | ¥2,099 | ¥1,193 |
| Corporate bonds | 905 | 905 | 0 |
| | ¥1,811 | ¥3,004 | ¥1,193 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| Year ended March 31, 2006 | Acquisition cost | Book value | Difference |
| Available-for-sale securities: | | | |
| Securities with fair value exceeding book value: | | | |
| Equity securities | $ 7,712 | $17,867 | $10,155 |
| Corporate bonds | 7,703 | 7,703 | 0 |
| | $15,415 | $25,570 | $10,155 |

The following table summarizes book values of securities without fair value as of March 31, 2006:

| | Millions of yen |
|---|---|
| | Book value |
| Available-for-sale securities: | |
| Non-listed equity securities | ¥ 296 |
| Commercial paper | 6,698 |
| | ¥6,994 |

| | Thousands of U.S. dollars |
|---|---|
| | Book value |
| Available-for-sale securities: | |
| Non-listed equity securities | $ 2,520 |
| Commercial paper | 57,014 |
| | $59,534 |

Maturities of available-for-sale securities at March 31, 2006 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 | ¥ 905 | ¥— | ¥— | ¥— |
| Others | 6,698 | — | — | — |

| | 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 | $ 7,703 | $— | $— | $— |
| Others | 57,014 | — | — | — |

Total sales of available-for-sale securities in the year ended March 31, 2006, amounted to ¥17,678 million ($150,477 thousand) and the net gains amounted to ¥1,650 million ($14,045 thousand).

| | 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 |

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 |

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 | — | — | — |

Total sales of available-for-sale securities in the year ended March 31, 2005, amounted to ¥10,754 million and the net gains amounted to ¥3 million.

**5. INVENTORIES**

Inventories at March 31, 2006 and 2005, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Finished goods | **¥ 7,789** | ¥ 6,944 | **$ 66,301** |
| Raw materials and supplies | **8,698** | 9,662 | **74,038** |
| Work in process | **7,980** | 8,205 | **67,926** |
| | **¥24,467** | ¥24,811 | **$208,265** |

### 6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings consisted principally of bank loans. Short-term bank loans at March 31, 2006 and 2005 were represented by overdrafts, generally matured in the period up to six months. The annual interest rates of short-term bank loans ranged from 0.85% to 5.98% at March 31, 2006 and 2005.

Long-term debt at March 31, 2006 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| 1.85% unsecured bonds due 2008 | **¥ 15,000** | ¥15,000 | **$ 127,681** |
| 0.65% unsecured convertible bonds convertible into common stock at ¥1,476 ($13) per share due 2006 | **14,793** | 14,793 | **125,919** |
| 0.0% unsecured bonds with stock acquisition rights convertible into common stock at ¥1,070 ($9) per share due 2010 | **15,000** | 15,000 | **127,681** |
| Unsecured bank loans due to 2009 at interest rates ranging from 5.5% to 5.6% | **3,207** | — | **27,298** |
| Unsecured bank loans due to 2006 and 2007 at interest rates ranging from 1.7% to 1.8% | **9,600** | 11,000 | **81,716** |
| Other long-term obligations | **—** | 560 | **—** |
| Total | **57,600** | 56,353 | **490,295** |
| Less current portion | **(17,393)** | (1,410) | **(148,051)** |
| | **¥ 40,207** | ¥54,943 | **$ 342,244** |

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 employees of Anritsu Company as part of their remuneration at fair market value. At March 31, 2006, 5,000 warrants were outstanding and will expire on November 30, 2006.

At March 31, 2006, 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, 2006, are as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2007 | ¥ 17,393 | $ 148,051 |
| 2008 | 22,000 | 187,266 |
| 2009 | 3,207 | 27,297 |
| 2010 | — | — |
| 2011 | 15,000 | 127,681 |
| 2012 | — | — |
| Thereafter | — | — |

### 7. STOCK OPTION PLAN

(1) 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.

(2) 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.

(3) 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.

(4) At the annual meeting of shareholders held on June 23, 2005, the Company's directors, certain employees, subsidiaries' directors, and subsidiaries' employees were granted options in the amount of not more than 204,000 to purchase a maximum of 204 common of the Company, per individual, the option exercise price is ¥700 per share. The option is exercisable between July 1, 2007 and June 30, 2010.

(5) At the annual meeting of shareholders held on June 28, 2006, 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 200,000 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 within 2 years after grant date to 5 years after grant date.

## 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 years ended March 31, 2006 and 2005 and approximately 42% for the year ended March 31, 2004.

Significant components of deferred tax assets and liabilities as of March 31, 2006 and 2005, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Deferred tax assets: | | | |
| Net operating loss carried forward | **¥ 8,647** | ¥ 7,743 | **$ 73,604** |
| Inventories | **8,763** | 8,351 | **74,591** |
| Software | **2,527** | 2,031 | **21,510** |
| Accrued expenses | **971** | 928 | **8,265** |
| Investment securities | **586** | 857 | **4,988** |
| Others | **1,446** | 1,091 | **12,308** |
| Subtotal deferred tax assets | **22,940** | 21,001 | **195,266** |
| Valuation allowance | **(12,123)** | (9,776) | **(103,192)** |
| Total deferred tax assets | **10,817** | 11,225 | **92,074** |
| Deferred tax liabilities: | | | |
| Retirement benefits | **779** | 1,355 | **6,631** |
| Net unrealized holding gains on securities | **485** | 562 | **4,128** |
| Others | **177** | — | **1,507** |
| Subtotal deferred tax liabilities | **1,441** | 1,917 | **12,266** |
| Net deferred tax assets | **¥ 9,376** | ¥ 9,308 | **$ 79,808** |

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, 2006 and 2005

| | 2006 | 2005 |
|---|---|---|
| Normal effective tax rate | **41%** | 41% |
| Increase (Decrease) in valuation allowance for temporary differences | **54** | (28) |
| Increase (Decrease) of valuation allowance for net-operating loss carried forward | **(51)** | 3 |
| Permanent differences of the Company and its consolidated subsidiaries | **16** | 0 |
| Taxes nonrelated to taxable income such as taxation on per capita basis | **8** | 6 |
| Difference in the effective tax rate for consolidated subsidiaries | **7** | — |
| Difference in the amount of tax estimation | **(4)** | 11 |
| Others | **1** | 5 |
| The Company's effective tax rate | **72%** | 38% |

## 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, 2006, 2005 and 2004.

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

## 10. RELATED PARTY TRANSACTION

During the year ended March 31, 2006 and 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, 2006 and 2005.

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.

**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, 2006 and 2005 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Projected benefit obligation | **¥ 31,836** | ¥ 31,017 | **$ 270,991** |
| Unrecognized actuarial differences | **(6,054)** | (13,752) | **(51,532)** |
| Less fair value of pension assets | **(31,580)** | (24,235) | **(268,812)** |
| Allowance for employees' severance and pension benefits | **(5,798)** | (6,970) | **(49,353)** |
| Prepaid pension expense | **7,563** | 8,521 | **64,377** |
| Allowance for directors' severance and pension benefits | **90** | 90 | **766** |
| | **¥ 1,855** | ¥ 1,641 | **$ 15,790** |

Included in the consolidated statement of income for the years ended March 31, 2006 and 2005 was severance and pension benefit expense comprising the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Service costs-benefits earned during the year | **¥ 865** | ¥ 852 | **$ 7,363** |
| Interest cost on projected benefit obligation | **741** | 749 | **6,307** |
| Expected return on plan assets | **(591)** | (560) | **(5,031)** |
| Amortization of actuarial gains or losses | **1,611** | 1,681 | **13,713** |
| Amortization of prior service cost | **—** | (124) | **—** |
| Severance and pension benefit expense | **¥2,626** | ¥2,598 | **$22,352** |

For the years ended March 31, 2006 and 2005, 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.

**12. SHAREHOLDERS' EQUITY**

Under the Japanese laws and regulations, the entire amount of payment for new shares is required to be designated as common stock, although, generally, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Japanese Company Law ("the Law") became effective on May 1, 2006, and, at the same time, the Japanese Commercial Code ("the Code") was repealed.

Under the Code, companies were required to set aside an amount equal to at least 10% of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock. Under the Law, in cases when dividends are paid, an amount equal to 10% of the dividends or the excess of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve, whichever is the smaller, must be set aside as additional paid-in-capital or legal earnings reserve. Under the Code, additional paid-in-capital and legal earnings reserve were available for distribution by the resolution of the shareholders' meeting as long as the total amount of legal earnings reserve and additional paid-in-capital remained equal to or exceeded 25% of common stock. Under the Law, even when the total amount of additional paid-in-capital and legal earnings reserve is less than 25% of common stock, additional paid-in-capital and legal earnings reserve may be available for dividends if there are sufficient distributable surplus.

Under the Code, legal earnings reserve and additional paid-in-capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or may be capitalized by a resolution of the Board of Directors. Under the Law, both of those appropriations require a resolution of the shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Japanese laws and regulations.

At the annual meeting of shareholders held on June 28, 2006, the shareholders resolved cash dividends and directors' and corporate auditors' bonuses amounting to ¥383 million (US$3,260 thousand) and ¥30 million (US$255 thousand), respectively. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2006. Such appropriations will be recognized in the period when they are resolved.

**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, 2006, were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Within one year | **¥ 900** | **$ 7,661** |
| After one year | **1,785** | **15,194** |
| | **¥2,685** | **$22,855** |

Lease expenses under non-capitalized finance leases for the years ended March 31, 2006, 2005 and 2004 aggregated approximately ¥221 million ($1,881 thousand), ¥244 million and ¥244 million, respectively.

Contingent liabilities at March 31, 2006 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Loan guarantees and items of a similar nature | | |
| Employees | **¥1,163** | **$9,900** |

**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, 2006, 2005 and 2004 were ¥12,509 million (US$106,478 thousand), ¥10,515 million and ¥9,887 million, respectively.

## 15. SEGMENT INFORMATION

Information by industry segment for the years ended March 31, 2006, 2005 and 2004 is as follows:

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| Year ended March 31, 2006 | Test and Measurement | Information and Communications | Industrial Automation | Services and Others | Total | Eliminations or corporate | Consolidated |
| Net sales: | | | | | | | |
| Outside customers | **¥65,113** | **¥ 7,239** | **¥12,198** | **¥ 6,712** | **¥ 91,262** | **¥ —** | **¥ 91,262** |
| Inter-segment | **17** | **20** | **54** | **3,357** | **3,448** | **(3,448)** | **—** |
| Total | **65,130** | **7,259** | **12,252** | **10,069** | **94,710** | **(3,448)** | **91,262** |
| Operating expenses | **59,840** | **9,231** | **11,465** | **8,281** | **88,817** | **(2,104)** | **86,713** |
| Operating income (loss) | **¥ 5,290** | **¥ (1,972)** | **¥ 787** | **¥ 1,788** | **¥ 5,893** | **¥ (1,344)** | **¥ 4,549** |
| Identifiable assets | **¥90,512** | **¥11,477** | **¥10,328** | **¥14,277** | **¥126,594** | **¥25,796** | **¥152,390** |
| Depreciation and amortization | **1,938** | **293** | **123** | **959** | **3,313** | **140** | **3,453** |
| Capital expenditures | **1,889** | **241** | **144** | **388** | **2,662** | **37** | **2,699** |

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

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

| Year ended March 31, 2006 | Test and Measurement | Information and Communications | Industrial Automation | Services and Others | Total | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| | Thousands of U.S. dollars | | | | | | |
| Net sales: | | | | | | | |
| Outside customers | **$554,248** | **$ 61,619** | **$103,830** | **$ 57,133** | **$ 776,830** | **$ —** | **$ 776,830** |
| Inter-segment | **145** | **170** | **460** | **28,575** | **29,350** | **(29,350)** | **—** |
| Total | **554,393** | **61,789** | **104,290** | **85,708** | **806,180** | **(29,350)** | **776,830** |
| Operating expenses | **509,363** | **78,575** | **97,591** | **70,489** | **756,018** | **(17,909)** | **738,109** |
| Operating income (loss) | **$ 45,030** | **$(16,786)** | **$ 6,699** | **$ 15,219** | **$ 50,162** | **$ (11,441)** | **$ 38,721** |
| Identifiable assets | **$770,446** | **$ 97,693** | **$ 87,913** | **$121,527** | **$1,077,579** | **$219,578** | **$1,297,157** |
| Depreciation and amortization | **16,496** | **2,494** | **1,047** | **8,163** | **28,200** | **1,192** | **29,392** |
| Capital expenditures | **16,079** | **2,051** | **1,226** | **3,303** | **22,659** | **315** | **22,974** |

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 and ¥1,571 million respectively, and operating income decreased by ¥388 million 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, ¥545 million and ¥39 million respectively, for the year ended March 31, 2005.

Information by geographic area for the years ended March 31, 2006, 2005 and 2004 is as follows:

| | Japan | Americas | Europe | Asia and Others | Total | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| | Millions of yen | | | | | | |
| **Year ended March 31, 2006** | | | | | | | |
| Net sales: | | | | | | | |
| Outside customers | **¥ 50,371** | **¥17,288** | **¥14,077** | **¥ 9,526** | **¥ 91,262** | **¥ —** | **¥ 91,262** |
| Inter-segment | **11,320** | **7,738** | **2,039** | **488** | **21,585** | **(21,585)** | **—** |
| Total | **61,691** | **25,026** | **16,116** | **10,014** | **112,847** | **(21,585)** | **91,262** |
| Operating expenses | **57,989** | **22,839** | **18,117** | **9,580** | **108,525** | **(21,812)** | **86,713** |
| Operating income (loss) | **¥ 3,702** | **¥ 2,187** | **¥ (2,001)** | **¥ 434** | **¥ 4,322** | **¥ 227** | **¥ 4,549** |
| Identifiable assets | **¥119,139** | **¥37,705** | **¥16,252** | **¥ 5,460** | **¥178,556** | **¥(26,166)** | **¥152,390** |
| **Year ended March 31, 2005** | | | | | | | |
| 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 |

| | Thousands of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| Year ended March 31, 2006 | Japan | Americas | Europe | Asia and Others | Total | Eliminations or corporate | Consolidated |
| Net sales: | | | | | | | |
| Outside customers | **$ 428,762** | **$147,157** | **$119,825** | **$81,086** | **$ 776,830** | **$ —** | **$ 776,830** |
| Inter-segment | **96,357** | **65,867** | **17,356** | **4,154** | **183,734** | **(183,734)** | **—** |
| Total | **525,119** | **213,024** | **137,181** | **85,240** | **960,564** | **(183,734)** | **776,830** |
| Operating expenses | **493,608** | **194,408** | **154,213** | **81,546** | **923,775** | **(185,666)** | **738,109** |
| Operating income (loss) | **$ 31,511** | **$ 18,616** | **$ (17,032)** | **$ 3,694** | **$ 36,789** | **$ 1,932** | **$ 38,721** |
| Identifiable assets | **$1,014,122** | **$320,948** | **$138,338** | **$46,476** | **$1,519,884** | **$(222,727)** | **$1,297,157** |

Overseas sales for the years ended March 31, 2006, 2005 and 2004 were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| Year ended March 31, 2006 | Americas | Europe | Asia and Others | Total |
| Overseas sales | **¥15,414** | **¥13,470** | **¥16,223** | **¥45,107** |
| Consolidated net sales | **—** | **—** | **—** | **91,262** |
| Percentage of consolidated net sales | **16.9%** | **14.8%** | **17.7%** | **49.4%** |
| Year ended March 31, 2005 | | | | |
| 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% |

| | Thousands of U.S dollars | | | |
|---|---|---|---|---|
| Year ended March 31, 2006 | Americas | Europe | Asia and Others | Total |
| Overseas sales | **$131,205** | **$114,658** | **$138,092** | **$383,955** |
| Consolidated net sales | **—** | **—** | **—** | **776,830** |
| Percentage of consolidated net sales | **16.9%** | **14.8%** | **17.7%** | **49.4%** |

## 16. FINANCIAL INFORMATION OF THE COMPANY

The following summarizes the non-consolidated financial position of the Company at March 31, 2006 and 2005, and the results of operations for each of the three years in the period ended March 31, 2006.

**Non-Consolidated Balance Sheets (Supplementary information)**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| ASSETS | 2006 | 2005 | 2006 |
| **Current assets:** | | | |
| Cash | **¥ 17,477** | ¥ 28,528 | **$ 148,766** |
| Notes and accounts receivable—trade | **19,240** | 17,760 | **163,773** |
| Allowance for doubtful accounts | **(259)** | (225) | **(2,205)** |
| Marketable securities | **7,604** | 1,900 | **64,726** |
| Inventories | **15,135** | 16,415 | **128,830** |
| Deferred tax assets—current | **6,741** | 6,748 | **57,380** |
| Other current assets | **6,150** | 1,206 | **52,349** |
| **Total current assets** | **72,088** | 72,332 | **613,619** |
| **Property, plant and equipment:** | | | |
| Land | **493** | 493 | **4,196** |
| Buildings and structures | **24,352** | 23,706 | **207,286** |
| Machinery and equipment | **13,865** | 14,627 | **118,020** |
| Accumulated depreciation | **(28,653)** | (28,764) | **(243,897)** |
| **Net property, plant and equipment** | **10,057** | 10,062 | **85,605** |
| **Investments and other assets:** | | | |
| Investment securities | **43,081** | 35,947 | **366,709** |
| Long-term loans receivable | **11,114** | 16,959 | **94,603** |
| Deferred tax assets—non-current | **—** | 404 | **—** |
| Other assets | **8,507** | 9,200 | **72,413** |
| Allowance for doubtful accounts | **(53)** | (78) | **(451)** |
| **Total investments and other assets** | **62,649** | 62,432 | **533,274** |
| **Total assets** | **¥144,794** | ¥144,826 | **$1,232,498** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | 2006 | 2005 | 2006 |
| **Current liabilities:** | | | |
| Short-term borrowings | **¥ 870** | ¥ 870 | **$ 7,406** |
| Long-term debt due within one year | **18,193** | 1,400 | **154,860** |
| Notes and accounts payable—trade | **7,193** | 6,697 | **61,227** |
| Accrued liabilities | **4,243** | 4,033 | **36,117** |
| Accrued expenses | **1,184** | 1,249 | **10,078** |
| Income taxes payable | **122** | 164 | **1,038** |
| Other current liabilities | **6,144** | 4,030 | **52,298** |
| **Total current liabilities** | **37,949** | 18,443 | **323,024** |
| **Long-term liabilities:** | | | |
| Long-term debt | **37,000** | 55,193 | **314,947** |
| Retirement benefits for directors and corporate auditors | **70** | 78 | **596** |
| Deferred tax liabilities—non current | **97** | — | **826** |
| Other long-term liabilities | **280** | 416 | **2,383** |
| **Total long-term liabilities** | **37,447** | 55,687 | **318,752** |
| **Shareholders' equity:** | | | |
| Common stock | **14,050** | 14,050 | **119,595** |
| Additional paid-in capital | **23,000** | 23,000 | **195,778** |
| Legal reserve | **2,468** | 2,468 | **21,008** |
| Retained earnings | **29,989** | 31,156 | **255,269** |
| Net unrealized holding gains on securities | **696** | 811 | **5,924** |
| Treasury stock, at cost | **(805)** | (789) | **(6,852)** |
| **Total shareholders' equity** | **69,398** | 70,696 | **590,722** |
| **Total liabilities and shareholders' equity** | **¥144,794** | ¥144,826 | **$1,232,498** |

## Non-Consolidated Statements of Operations (Supplementary information)

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| **Net sales** | **¥48,288** | ¥49,669 | ¥47,503 | **$411,032** |
| Cost of sales | **35,563** | 36,638 | 37,875 | **302,715** |
| **Gross profit** | **12,725** | 13,031 | 9,628 | **108,317** |
| Selling, general and administrative expenses | **11,631** | 11,138 | 9,420 | **99,004** |
| **Operating income** | **1,094** | 1,893 | 208 | **9,313** |
| **Other income (expenses):** | | | | |
| Interest and dividends income | **814** | 1,161 | 773 | **6,929** |
| Interest expenses | **(567)** | (586) | (757) | **(4,826)** |
| Foreign exchange gain (loss) | **67** | 83 | (332) | **570** |
| Loss on disposal of inventories | **—** | (216) | (1,243) | **—** |
| Gain on sale of head office building and TODA plant | **—** | — | 4,857 | **—** |
| Gain on sales of property, plant and equipment | **—** | 162 | — | **—** |
| Gain on sales of investment securities | **1,648** | 2 | 950 | **14,028** |
| Loss on devaluation of investment securities | **(332)** | (159) | (2) | **(2,826)** |
| Gain from transfer of retirement benefits plan | **—** | — | 2,165 | **—** |
| Loss on devaluation of inventories | **(1,467)** | (1,175) | (4,042) | **(12,487)** |
| Restructuring expense | **(814)** | — | — | **(6,929)** |
| Loss on disposal of fixed assets | **—** | — | (564) | **—** |
| Other, net | **(530)** | (4) | (367) | **(4,512)** |
| | **(1,181)** | (732) | 1,438 | **(10,053)** |
| **Income (loss) before income taxes** | **(87)** | 1,161 | 1,646 | **(740)** |
| **Provision for income taxes:** | | | | |
| Current | **(501)** | 3 | 112 | **(4,265)** |
| Deferred | **585** | (142) | 267 | **4,980** |
| **Net income (loss)** | **¥ (171)** | ¥ 1,300 | ¥ 1,267 | **$ (1,455)** |