Consolidated Balance Sheets

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
ASSETS			
Current assets:			
Cash	**¥ 18,948**	¥ 24,172	**$ 160,454**
Marketable securities (Note 4)	**999**	7,603	**8,460**
Notes and accounts receivable — trade	**28,113**	28,813	**238,064**
Allowance for doubtful accounts	**(488)**	(516)	**(4,132)**
Inventories (Note 5)	**26,600**	24,467	**225,252**
Deferred tax assets (Note 8)	**9,324**	8,750	**78,955**
Other current assets	**1,896**	2,769	**16,056**
Total current assets	**85,392**	96,058	**723,109**
Property, plant and equipment:			
Land	**4,558**	4,553	**38,598**
Buildings and structures	**44,924**	44,686	**380,422**
Machinery and equipment	**30,497**	31,538	**258,252**
Construction in progress	**34**	—	**288**
	80,013	80,777	**677,560**
Accumulated depreciation	**(56,554)**	(56,310)	**(478,906)**
Net property, plant and equipment	**23,459**	24,467	**198,654**
Investments and other assets:			
Investment securities (Note 4)	**2,285**	2,560	**19,350**
Goodwill, net of amortization	**14,651**	15,245	**124,066**
Long-term prepaid expense	**7,490**	7,581	**63,426**
Deferred tax assets (Note 8)	**1,703**	1,386	**14,421**
Other assets	**5,444**	5,135	**46,100**
Allowance for doubtful accounts	**(29)**	(73)	**(245)**
Total investments and other assets	**31,544**	31,834	**267,118**
Total assets	**¥140,395**	¥152,359	**$1,188,881**

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings (Note 6)	**¥ 6,582**	¥ 7,990	**$ 55,737**
Long-term debt due within one year (Note 6)	**7,000**	17,393	**59,277**
Notes and accounts payable — trade	**7,477**	9,341	**63,316**
Current portion of bonds	**15,000**	—	**127,022**
Accrued liabilities	**6,199**	6,143	**52,494**
Accrued expenses	**2,401**	2,470	**20,332**
Income taxes payable	**1,275**	391	**10,797**
Other current liabilities	**5,152**	4,248	**43,627**
Total current liabilities	**51,086**	47,976	**432,602**
Long-term liabilities:			
Long-term debt (Note 6)	**24,451**	40,207	**207,054**
Employees' severance and retirement benefits (Note 11)	**1,741**	1,765	**14,743**
Severance and retirement benefits for directors and corporate auditors	**81**	90	**686**
Accrued bonuses	**48**	36	**406**
Deferred tax liabilities (Note 8)	**755**	694	**6,393**
Other long-term liabilities	**614**	651	**5,199**
Total long-term liabilities	**27,690**	43,443	**234,481**
Commitments and contingent liabilities (Note 13)			
Net assets (Note 12)**:**			
Common stock, no par value			
Authorized — 400,000,000 shares			
Issued — 128,037,848 shares in 2007 and 2006	**14,050**	14,050	**118,977**
Additional paid-in capital	**23,000**	23,000	**194,767**
Retained earnings	**27,117**	26,654	**229,630**
Treasury stock, at cost	**(825)**	(805)	**(6,986)**
Net unrealized holding gains on securities	**706**	708	**5,978**
Deferred gain or loss on hedged transactions	**(1)**	(31)	**(8)**
Foreign currency translation adjustments	**(2,442)**	(2,636)	**(20,679)**
Reservation rights on common stock	**14**	—	**119**
Total net assets	**61,619**	60,940	**521,798**
Total liabilities and net assets	**¥140,395**	¥152,359	**$1,188,881**

Consolidated Statements of Income

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
Net sales (Note 15)	**¥99,446**	¥91,262	¥84,040	**$842,120**
Cost of sales (Note 15)	**55,787**	55,205	53,666	**472,410**
Gross profit	**43,659**	36,057	30,374	**369,710**
Selling, general and administrative expenses (Note 15)	**37,300**	31,508	25,512	**315,861**
Operating income (Note 15)	**6,359**	4,549	4,862	**53,849**
Other income (expenses):				
Interest and dividends income	**434**	104	86	**3,675**
Interest expenses	**(1,235)**	(980)	(939)	**(10,458)**
Foreign exchange gain (loss)	**(465)**	551	(88)	**(3,938)**
Amortization of bond issue costs	**—**	(16)	(16)	**—**
Gain on liquidation of subsidiary	**167**	—	—	**1,414**
Gain on expiration of warrants	**160**	—	—	**1,355**
Gain on sales of investment securities	**1**	1,648	2	**8**
Loss on disposal of inventories	**(542)**	(55)	(295)	**(4,590)**
Loss on devaluation of inventories	**(1,112)**	(1,566)	(1,184)	**(9,417)**
Loss on disposal of fixed assets	**(122)**	(159)	(101)	**(1,033)**
Gain on sales of property, plant and equipment	**199**	154	548	**1,685**
Loss on disposal of software	**—**	—	(356)	**—**
Loss on devaluation of investment securities	**(40)**	(332)	(159)	**(339)**
Special premium payment on the separation from pension fund	**—**	(44)	—	**—**
Restructuring expense	**—**	(1,023)	—	**—**
Special allowance for retirement	**(332)**	—	—	**(2,810)**
Other, net	**(371)**	(803)	(282)	**(3,141)**
	(3,258)	(2,521)	(2,784)	**(27,589)**
Income before income taxes	**3,101**	2,028	2,078	**26,260**
Provision for income taxes (Note 8):				
Current	**2,216**	1,343	691	**18,765**
Deferred	**(491)**	122	107	**(4,157)**
	1,376	563	1,280	**11,652**
Minority interests	**—**	—	0	**—**
Net income	**¥ 1,376**	¥ 563	¥ 1,280	**$ 11,652**

	Yen			U.S. dollars (Note 1)
	2007	2006	2005	2007
Amount per share of common stock:				
Net income:				
Basic	**¥10.79**	¥3.76	¥9.31	**$0.09**
Diluted	**9.72**	3.39	8.22	**0.08**
Cash dividends applicable to the year	**7.00**	7.00	7.00	**0.06**

Consolidated Statements of Changes in Net Assets

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2007, 2006 and 2005

		Millions of yen								
	Number of shares issued	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Net unrealized holding gains (losses) on securities	Deferred gain or loss on hedged transactions	Foreign currency translation adjustments	Reservation rights on common stock	Total
Balance at March 31, 2004	128,018,848	¥14,043	¥22,993	¥27,188	¥(773)	¥1,001	¥(52)	¥(4,440)	¥—	¥59,960
Cash dividends paid	—	—	—	(1,020)	—	—	—	—	—	(1,020)
Bonuses to directors and corporate auditors	—	—	—	(32)	—	—	—	—	—	(32)
Net income	—	—	—	1,280	—	—	—	—	—	1,280
Purchases of treasury stock	—	—	—	—	(21)	—	—	—	—	(21)
Disposition of treasury stock	—	—	—	—	5	—	—	—	—	5
Net unrealized holding gain on securities	—	—	—	—	—	(179)	—	—	—	(179)
Deferred gain or loss on hedged transactions	—	—	—	—	—	—	(29)	—	—	(29)
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	—	252	—	252
Loss on sale of the treasury stock	—	—	—	(2)	—	—	—	—	—	(2)
Exercise of stock option	19,000	7	7	—	—	—	—	—	—	14
Balance at March 31, 2005	128,037,848	¥14,050	¥23,000	¥27,414	¥(789)	¥ 822	¥(81)	¥(4,188)	¥—	¥60,228
Cash dividends paid	—	—	—	(956)	—	—	—	—	—	(956)
Bonuses to directors and corporate auditors	—	—	—	(92)	—	—	—	—	—	(92)
Net income	—	—	—	563	—	—	—	—	—	563
Purchases of treasury stock	—	—	—	—	(17)	—	—	—	—	(17)
Disposition of treasury stock	—	—	—	—	1	—	—	—	—	1
Net unrealized holding gain on securities	—	—	—	—	—	(114)	—	—	—	(114)
Deferred gain or loss on hedged transactions	—	—	—	—	—	—	50	—	—	50
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	—	1,552	—	1,552
Loss on sale of the treasury stock	—	—	—	(0)	—	—	—	—	—	(0)
Decrease by accounting change in foreign subsidiary	—	—	—	(275)	—	—	—	—	—	(275)
Balance at March 31, 2006	128,037,848	¥14,050	¥23,000	¥26,654	¥(805)	¥ 708	¥(31)	¥(2,636)	¥—	¥60,940
Cash dividends paid	**—**	**—**	**—**	**(829)**	**—**	**—**	**—**	**—**	**—**	**(829)**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(83)**	**—**	**—**	**—**	**—**	**—**	**(83)**
Net income	**—**	**—**	**—**	**1,376**	**—**	**—**	**—**	**—**	**—**	**1,376**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(21)**	**—**	**—**	**—**	**—**	**(21)**
Disposition of treasury stock	**—**	**—**	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**1**
Net changes during the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**14**	**14**
Net unrealized holding gain on securities	**—**	**—**	**—**	**—**	**—**	**(2)**	**—**	**—**	**—**	**(2)**
Deferred gain or loss on hedged transactions	**—**	**—**	**—**	**—**	**—**	**—**	**30**	**—**	**—**	**30**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**194**	**—**	**194**
Loss on sale of the treasury stock	**—**	**—**	**—**	**(1)**	**—**	**—**	**—**	**—**	**—**	**(1)**
Balance at March 31, 2007	**128,037,848**	**¥14,050**	**¥23,000**	**¥27,117**	**¥(825)**	**¥ 706**	**¥ (1)**	**¥(2,442)**	**¥14**	**¥61,619**

		Thousands of U.S. dollars (Note 1)								
	Number of shares issued	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Net unrealized holding gains (losses) on securities	Deferred gain or loss on hedged transactions	Foreign currency translation adjustments	Reservation rights on common stock	Total
Balance at March 31, 2006	128,037,848	$118,977	$194,767	$225,709	$(6,816)	$5,995	$(263)	$(22,321)	$ —	$516,048
Cash dividends paid	**—**	**—**	**—**	**(7,020)**	**—**	**—**	**—**	**—**	**—**	**(7,020)**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(703)**	**—**	**—**	**—**	**—**	**—**	**(703)**
Net income	**—**	**—**	**—**	**11,652**	**—**	**—**	**—**	**—**	**—**	**11,652**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(178)**	**—**	**—**	**—**	**—**	**(178)**
Disposition of treasury stock	**—**	**—**	**—**	**—**	**8**	**—**	**—**	**—**	**—**	**8**
Net changes during the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**119**	**119**
Net unrealized holding gain on securities	**—**	**—**	**—**	**—**	**—**	**(17)**	**—**	**—**	**—**	**(17)**
Deferred gain or loss on hedged transactions	**—**	**—**	**—**	**—**	**—**	**—**	**255**	**—**	**—**	**255**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,642**	**—**	**1,642**
Loss on sale of the treasury stock	**—**	**—**	**—**	**(8)**	**—**	**—**	**—**	**—**	**—**	**(8)**
Balance at March 31, 2007	**128,037,848**	**$118,977**	**$194,767**	**$229,630**	**$(6,986)**	**$5,978**	**$ (8)**	**$(20,679)**	**$119**	**$521,798**

Consolidated Statements of Cash Flows

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
Cash flows from operating activities				
Net income	**¥ 1,376**	¥ 563	¥ 1,280	**$ 11,652**
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	**3,670**	3,630	3,754	**31,078**
Amortization expense of goodwill	**641**	325	—	**5,428**
Gain on sales of investment securities	**(1)**	(1,648)	(2)	**(8)**
Gain on sales of property, plant and equipment	**(199)**	(208)	(548)	**(1,685)**
Loss on devaluation of investment securities	**40**	332	159	**339**
Deferred income taxes	**(491)**	122	108	**(4,158)**
Other — net	**(279)**	(471)	538	**(2,363)**
Changes in assets and liabilities:				
Notes and accounts receivable — trade	**1,218**	(1,625)	1,024	**10,314**
Inventories	**(1,790)**	2,271	1,274	**(15,158)**
Other current assets	**1,389**	(1,069)	(707)	**11,762**
Notes and accounts payable — trade	**(1,853)**	111	(990)	**(15,691)**
Income taxes payable and receivable	**629**	(180)	(46)	**5,326**
Provision for retirement benefits	**79**	1,173	970	**669**
Other current liabilities	**310**	3,808	2,145	**2,625**
Other — net	**(2,251)**	(1,205)	318	**(19,061)**
Net cash provided by operating activities	**2,488**	5,929	9,277	**21,069**
Cash flows from investing activities				
Purchases of marketable securities and investment securities	**(10)**	(4)	(3)	**(85)**
Proceeds from sales of marketable securities and investment securities	**2,854**	33	3	**24,168**
Acquisition of property, plant and equipment	**(2,219)**	(2,448)	(1,338)	**(18,791)**
Proceeds from sales of property, plant and equipment	**321**	725	576	**2,718**
Payments for acquisition of newly consolidated subsidiaries	**—**	(7,948)	—	**0**
Net decrease in long-term loans receivable	**0**	2	5	**0**
Other — net	**(526)**	(1,305)	(289)	**(4,453)**
Net cash provided by (used in) investing activities	**420**	(10,945)	(1,046)	**3,557**
Cash flows from financing activities				
Proceeds from long-term debt	**7,800**	3,094	—	**66,051**
Payment of long-term debt	**(4,168)**	(1,967)	(8,497)	**(35,295)**
Redemption of bonds	**(14,793)**	—	—	**(125,269)**
Net increase (decrease) in short-term borrowings	**(1,965)**	1,606	(350)	**(16,640)**
Payments on acquisition of treasury stock	**(21)**	(17)	(21)	**(178)**
Cash dividends paid	**(829)**	(956)	(1,020)	**(7,020)**
Other — net	**1**	1	16	**9**
Net cash provided by (used in) financing activities	**(13,975)**	1,761	(9,872)	**(118,342)**
Effect of exchange rate changes on cash and cash equivalents	**144**	381	155	**1,219**
Net decrease in cash	**(10,923)**	(2,874)	(1,486)	**(92,497)**
Cash at beginning of year	**30,870**	33,744	35,230	**261,411**
Cash at end of year (Note 3)	**¥ 19,947**	¥ 30,870	¥33,744	**$ 168,914**
Supplemental information of cash flows:				
Cash paid during the year for:				
Interest	**¥ 1,291**	¥ 1,066	¥ 942	**$ 10,932**
Income taxes	**(1,943)**	(1,773)	(924)	**(16,454)**
Cash received during the year for:				
Income taxes	**355**	252	186	**3,006**

Notes to Consolidated Financial Statements

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2007, 2006 and 2005

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 certain expanded disclosure and the inclusion of the consolidated statements of changes in net assets for 2006) 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. Certain 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 is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118.09 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 2007, 45 subsidiaries in 2006, and 30 subsidiaries in 2005). There are no minority interests in the balance sheet because all consolidated subsidiaries are wholly owned by the Company. 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 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 net assets. 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 and negative goodwill are amortized by the straight-line method over the estimated recovery periods not exceeding a twenty-year period of the respective investments.

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

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.

Accrued bonuses to directors and corporate auditors

Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Directors' Bonus" (Statement No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005), (collectively, the "New Accounting Standards").

The new accounting standard requires that directors' bonuses be accounted for as an expense of the accounting period in which such bonuses were accrued.

The adoption of the New Accounting Standards had no significant impact on the consolidated statements of income for the year ended March 31, 2007.

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 a 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, 2007 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.

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 a 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 statements 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.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

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 net assets 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.

Accounting standard for stock options

Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Stock-Based Compensation" (Statement No. 8 issued by the Accounting Standards Board of Japan on December 27, 2005) and the implementation guidance for the accounting standard for statement of Stock-Based compensation (the Financial Accounting Standard Implementation Guidance No. 11 issued by the Accounting Standards Board of Japan on May 31, 2006), (collectively, the "Additional New Accounting Standards").

The adoption of the New Accounting Standards had no significant impact on the consolidated statements of income for the years ended March 31, 2007.

Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, and the shareholders' equity sections.

Under the New Accounting Standards, the following items are presented differently compared to the previous presentation. The net assets section includes unrealized gains (losses) on hedging derivatives, net of taxes. Under the previous presentation rules, companies were required to present unrealized gains (losses) on hedging derivatives in the assets or liabilities section without considering the related income tax effects. Reservation rights on common stock are required to be included in the net assets section under the New Accounting Standards. Under the previous presentation rules, companies were required to present reservation rights on common stock in the current liabilities section.

The consolidated balance sheet as of March 31, 2006 has been restated to conform to the 2007 presentation. There were no effects on total assets or total liabilities from applying the New Accounting Standards to the balance sheet as of March 31, 2006.

The adoption of the New Accounting Standards had no impact on the consolidated statements of income for the years ended March 31, 2007 and 2006.

Accounting standard for statement of changes in net assets

Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Statements of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statements of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statements of changes in net assets for 2006 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

Reclassification and restatement

Certain prior year amounts have been reclassified to conform to the current year presentation.

Also, as described in Notes 2 Accounting Standard for Presentation of Net Assets in the Balance Sheet and Notes 2 Accounting Standard for Statements of Changes in Net Assets, the consolidated balance sheet for 2006 has been adapted to conform to new presentation rules of 2007. Also, in lieu of the consolidated statement of shareholders' equity for the year ended March 31, 2006, which was prepared on a voluntary basis for inclusion in the 2006 consolidated financial statements, the Company prepared the consolidated statement of changes in net assets for 2006 as well as for 2007.

These reclassifications had no impact on previously reported results of operations or retained earnings.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2007 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Cash	**¥18,948**	**$160,454**
Time deposits with maturities not exceeding three months	**999**	**8,460**
	¥19,947	**$168,914**

4. SECURITIES

The following tables summarize acquisition costs and book values of securities with fair value as of March 31, 2007 and 2006:

	Millions of yen		
Year ended March 31, 2007	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with fair value exceeding book value:			
Equity securities	**¥909**	**¥1,809**	**¥900**
	¥909	**¥1,809**	**¥900**

	Thousands of U.S. dollars		
Year ended March 31, 2007	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with fair value exceeding book value:			
Equity securities	**$7,698**	**$15,319**	**$7,621**
	$7,698	**$15,319**	**$7,621**

The following table summarizes book values of securities without fair value as of March 31, 2007:

	Millions of yen
	Book value
Available-for-sale securities:	
Non-listed equity securities	**¥ 284**
Commercial paper	**999**
	¥1,283

	Thousands of U.S. dollars
	Book value
Available-for-sale securities:	
Non-listed equity securities	**$ 2,405**
Commercial paper	**8,460**
	$10,865

Maturities of available-for-sale securities at March 31, 2007 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	**¥999**	**¥—**	**¥—**	**¥—**

	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	**$8,460**	**$—**	**$—**	**$—**

Total sales of available-for-sale securities in the year ended March 31, 2007, amounted to ¥16,603 million ($140,596 thousand) and the net gains amounted to ¥9 million ($76 thousand).

The following table summarizes acquisition costs and book values of securities with fair value as of March 31, 2006:

	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

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

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	—	—	—

Total sales of available-for-sale securities in the year ended March 31, 2006, amounted to ¥17,678 million and the net gains amounted to ¥1,650 million.

5. INVENTORIES

Inventories at March 31, 2007 and 2006, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished goods	**¥ 9,487**	¥ 7,789	**$ 80,337**
Raw materials and supplies	**9,940**	8,698	**84,173**
Work in process	**7,173**	7,980	**60,742**
	¥26,600	¥24,467	**$225,252**

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings consisted principally of bank loans. Short-term bank loans at March 31, 2007 and 2006, were represented by overdrafts, generally matured in the period up to six months. The annual interest rates of short-term bank loans ranged from 1.31% to 6.31% at March 31, 2007 and 2006.

Long-term debt at March 31, 2007 and 2006, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
1.85% unsecured bonds due 2008	**¥ 15,000**	¥ 15,000	**$ 127,022**
0.65% unsecured convertible bonds convertible into common stock at ¥1,476 ($13) per share due 2006	**—**	14,793	**—**
0.0% unsecured bonds with stock acquisition rights convertible into common stock at ¥1,070 ($9) per share due 2010	**15,000**	15,000	**127,022**
Unsecured bank loans due to 2009 at interest rates ranging from 6.0% to 6.1%	**1,641**	3,207	**13,896**
Unsecured bank loans due to 2006 and 2007 at interest rates ranging from 1.7% to 1.8%	**7,000**	9,600	**59,277**
Unsecured bank loans due to 2009 and 2012 at interest rates ranging from 1.5% to 4.0%	**7,810**	—	**66,136**
Total	**46,451**	57,600	**393,353**
Less current portion	**(22,000)**	(17,393)	**(186,299)**
	¥ 24,451	¥ 40,207	**$ 207,054**

At March 31, 2007, the number of common stock issuable upon full conversion of outstanding convertible bonds and exercise of outstanding warrants was 14,019 thousand shares.

The annual maturities of long-term debt at March 31, 2007, are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥22,000	$186,299
2009	1,641	13,897
2010	7,800	66,051
2011	—	—
2012	15,010	127,106
2013	—	—
Thereafter	—	—

7. STOCK OPTION PLAN

The Company had the following stock option plans in accordance with the Law:

	2006 Plan	2005 Plan	2002 Plan
Date of resolution	June 28, 2006	June 23, 2005	June 25, 2002
Grantees	Company's directors, certain employees and subsidiaries' directors	Company's directors, certain employees and subsidiaries' directors	Company's directors, certain employees and subsidiaries' directors
Type of stock	Common stock	Common stock	Common stock
Number of shares granted	229,000	204,000	309,000
Exercise price (yen)	¥624	¥700	¥707
Exercisable period	August 15, 2008 - August 14, 2011	July 1, 2007 - June 30, 2010	July 1, 2004 - June 30, 2007

	2006 Plan	2005 Plan	2002 Plan
Non-vested (number of shares)			
Outstanding at the beginning of the year	—	204,000	—
Granted during the year	229,000	—	—
Forfeited during the year	—	—	—
Vested during the year	—	—	—
Outstanding at the end of the year	229,000	204,000	—
Vested (number of shares)			
Outstanding at the beginning of the year	—	—	290,000
Vested during the year	—	—	—
Exercised during the year	—	—	—
Forfeited during the year	—	—	—
Outstanding at the end of the year	—	—	290,000
Weighted-average market price (yen)	—	—	—
Fair evaluated price (yen)	¥151	—	—

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, 2007, 2006 and 2005.

Significant components of deferred tax assets and liabilities as of March 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Inventories	**¥ 9,928**	¥ 8,763	**$ 84,071**
Net operating loss carried forward	**7,102**	8,647	**60,141**
Software	**2,225**	2,527	**18,842**
Accrued expenses	**1,055**	971	**8,934**
Investment securities on affiliated companies	**689**	—	**5,835**
Investment securities	**590**	586	**4,996**
Others	**823**	1,446	**6,968**
Subtotal deferred tax assets	**22,412**	22,940	**189,787**
Valuation allowance	**(10,735)**	(12,123)	**(90,905)**
Total deferred tax assets	**11,677**	10,817	**98,882**
Deferred tax liabilities:			
Retirement benefits	**965**	779	**8,172**
Net unrealized holding gains on securities	**194**	485	**1,643**
Others	**308**	177	**2,608**
Subtotal deferred tax liabilities	**1,467**	1,441	**12,423**
Net deferred tax assets	**¥ 10,210**	¥ 9,376	**$ 86,459**

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 years ended March 31, 2007 and 2006.

	2007	2006
Normal effective tax rate	**41%**	41%
Decrease in valuation allowance for net-operating loss carried forward	**(42)**	(51)
Permanent differences of the Company and its consolidated subsidiaries	**35**	16
Difference in the amount of tax estimation	**18**	(4)
Difference in the effective tax rate for consolidated subsidiaries	**(11)**	7
Taxes nonrelated to taxable income such as taxation on a per capital basis	**11**	8
Increase in valuation allowance for temporary differences	**4**	54
Others	**0**	1
The Company's effective tax rate	**56%**	72%

9. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

The Companies utilize derivative financial instruments such as foreign currency forward 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 non-performance 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. 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, 2007, 2006 and 2005. The Companies did not have any foreign currency option transactions at the balance sheet date.

10. RELATED PARTY TRANSACTION

During the years ended March 31, 2007 and 2006, the Company had no important transaction with NEC Corporation which owned 21.68% of the shares of the Company.

The Company has no outstanding balance of receivable due from NEC Corporation as of March 31, 2007 and 2006.

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, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligation	**¥ 31,343**	¥ 31,836	**$ 265,416**
Unrecognized actuarial differences	**(6,265)**	(6,054)	**(53,053)**
Less fair value of pension assets	**(30,798)**	(31,580)	**(260,801)**
Allowance for employees' severance and pension benefits	**(5,720)**	(5,798)	**(48,438)**
Prepaid pension expense	**7,461**	7,563	**63,181**
Allowance for directors' severance and pension benefits	**81**	90	**686**
	¥ 1,822	¥ 1,855	**$ 15,429**

Included in the consolidated statement of income for the years ended March 31, 2007 and 2006 was severance and pension benefit expense comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service costs-benefits earned during the year	**¥ 878**	¥ 865	**$ 7,435**
Interest cost on projected benefit obligation	**757**	741	**6,410**
Expected return on plan assets	**(699)**	(591)	**(5,919)**
Amortization of actuarial gains or losses	**810**	1,611	**6,859**
Amortization of prior service cost	**(302)**	—	**(2,557)**
Severance and pension benefit expense	**¥1,444**	¥2,626	**$12,228**

For the years ended March 31, 2007 and 2006, 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. NET ASSETS

As described in Note 2 Accounting Standard for Presentation of Net Assets in the Balance Sheet, net assets comprise four subsections, which are owners' equity, accumulated gains (losses) from valuation and translation adjustments, share subscription rights and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, 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.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount 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 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 could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

At the annual shareholders' meeting held on June 27, 2007, the shareholders approved cash dividends amounting to ¥446 million (US$3,776 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they are approved by the shareholders.

13. COMMITMENTS AND CONTINGENT LIABILITIES

The Company 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, 2007, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Within one year	**¥ 744**	**$ 6,300**
After one year	**1,458**	**12,347**
	¥2,202	**$18,647**

Lease expenses under non-capitalized finance leases for the years ended March 31, 2007, 2006 and 2005 aggregated approximately ¥210 million (US$1,778 thousand), ¥221 million and ¥244 million, respectively.

Contingent liabilities at March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Loan guarantees and items of a similar nature:		
Employees	**¥1,171**	**$9,916**

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, 2007, 2006 and 2005 were ¥14,072 million (US$119,163 thousand), ¥12,509 million and ¥10,515 million, respectively.

15. SEGMENT INFORMATION

Information by business segment for the years ended March 31, 2007, 2006 and 2005 is as follows:

	Millions of yen						
Year ended March 31, 2007	Test and Measurement	Information and Communications	Industrial Automation	Services and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	**¥72,883**	**¥6,011**	**¥12,295**	**¥ 8,257**	**¥ 99,446**	**¥ —**	**¥ 99,446**
Inter-segment	**63**	**7**	**45**	**3,745**	**3,860**	**(3,860)**	**—**
Total	**72,946**	**6,018**	**12,340**	**12,002**	**103,306**	**(3,860)**	**99,446**
Operating expenses	**68,228**	**5,872**	**11,732**	**9,368**	**95,200**	**(2,113)**	**93,087**
Operating income	**¥ 4,718**	**¥ 146**	**¥ 608**	**¥ 2,634**	**¥ 8,106**	**¥ (1,747)**	**¥ 6,359**
Identifiable assets	**¥94,875**	**¥8,756**	**¥ 9,994**	**¥16,741**	**¥130,366**	**¥10,029**	**¥140,395**
Depreciation and amortization	**2,359**	**104**	**142**	**727**	**3,332**	**268**	**3,600**
Capital expenditures	**1,700**	**118**	**167**	**279**	**2,264**	**55**	**2,319**

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	¥25,765	¥152,359
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, 2007	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	**$617,182**	**$50,902**	**$104,116**	**$ 69,920**	**$ 842,120**	**$ —**	**$ 842,120**
Inter-segment	**533**	**59**	**381**	**31,714**	**32,687**	**(32,687)**	**—**
Total	**617,715**	**50,961**	**104,497**	**101,634**	**874,807**	**(32,687)**	**842,120**
Operating expenses	**577,763**	**49,725**	**99,348**	**79,328**	**806,164**	**(17,893)**	**788,271**
Operating income	**$ 39,952**	**$ 1,236**	**$ 5,149**	**$ 22,306**	**$ 68,643**	**$(14,794)**	**$ 53,849**
Identifiable assets	**$803,413**	**$74,147**	**$ 84,630**	**$141,765**	**$1,103,955**	**$ 84,926**	**$1,188,881**
Depreciation and amortization	**19,976**	**881**	**1,202**	**6,156**	**28,215**	**2,270**	**30,485**
Capital expenditures	**14,396**	**999**	**1,414**	**2,363**	**19,172**	**466**	**19,638**

Information by geographic area for the years ended March 31, 2007, 2006 and 2005 is as follows:

Year ended March 31, 2007	Japan	Americas	Europe	Asia and Others	Total	Eliminations or corporate	Consolidated
	Millions of yen						
Net sales:							
Outside customers	**¥ 49,903**	**¥20,646**	**¥17,839**	**¥11,058**	**¥ 99,446**	**¥ —**	**¥ 99,446**
Inter-segment	**14,021**	**9,231**	**4,017**	**554**	**27,823**	**(27,823)**	**—**
Total	**63,924**	**29,877**	**21,856**	**11,612**	**127,269**	**(27,823)**	**99,446**
Operating expenses	**58,761**	**25,804**	**24,861**	**11,038**	**120,464**	**(27,377)**	**93,087**
Operating income (loss)	**¥ 5,163**	**¥ 4,073**	**¥ (3,005)**	**¥ 574**	**¥ 6,805**	**¥ (446)**	**¥ 6,359**
Identifiable assets	**¥123,331**	**¥37,732**	**¥17,755**	**¥ 5,698**	**¥184,516**	**¥(44,121)**	**¥140,395**

Year ended March 31, 2006	Japan	Americas	Europe	Asia and Others	Total	Eliminations or corporate	Consolidated
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	¥(26,135)	¥152,359

Year ended March 31, 2005	Japan	Americas	Europe	Asia and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	¥ 53,678	¥13,651	¥10,104	¥6,607	¥ 84,040	¥ —	¥ 84,040
Inter-segment	9,463	5,956	1,936	409	17,764	(17,764)	—
Total	63,141	19,607	12,040	7,016	101,804	(17,764)	84,040
Operating expenses	59,529	18,200	12,225	6,785	96,739	(17,561)	79,178
Operating income (loss)	¥ 3,612	¥ 1,407	¥ (185)	¥ 231	¥ 5,065	¥ (203)	¥ 4,862
Identifiable assets	¥109,703	¥31,705	¥ 7,317	¥3,755	¥152,480	¥(10,369)	¥142,111

Year ended March 31, 2007	Thousands of U.S. dollars						
	Japan	Americas	Europe	Asia and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	$ 422,584	$174,833	$151,063	$93,640	$ 842,120	$ —	$ 842,120
Inter-segment	118,732	78,169	34,016	4,692	235,609	(235,609)	—
Total	541,316	253,002	185,079	98,332	1,077,729	(235,609)	842,120
Operating expenses	497,595	218,511	210,526	93,471	1,020,103	(231,832)	788,271
Operating income (loss)	$ 43,721	$ 34,491	$ (25,447)	$ 4,861	$ 57,626	$ (3,777)	$ 53,849
Identifiable assets	$1,044,381	$319,519	$150,351	$48,252	$1,562,503	$(373,622)	$1,188,881

Overseas sales for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			
Year ended March 31, 2007	Americas	EMEA	Asia and Others	Total
Overseas sales	¥19,023	¥18,252	¥17,117	¥54,392
Consolidated net sales	—	—	—	99,446
Percentage of consolidated net sales	19.1%	18.4%	17.2%	54.7%
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	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%

	Thousands of U.S dollars			
Year ended March 31, 2007	Americas	EMEA	Asia and Others	Total
Overseas sales	$161,089	$154,560	$144,949	$460,598
Consolidated net sales	—	—	—	842,120
Percentage of consolidated net sales	19.1%	18.4%	17.2%	54.7%

The name of overseas sales of "Europe" is changed to "EMEA." And, the areas of the Middle East and Africa, which were previously included in the "Asia and Others" segment, are included in the "EMEA" segment from the year ended March 31, 2007. These changes are due to the unification of the business activities of the areas of the Middle East and Africa, based on a reorganization of foreign subsidiaries. As a result of this change, net sales of "EMEA" and "Asia and Others" for the year ended March 31, 2006 were ¥14,115 million and ¥15,578 million, respectively. If this reclassification is applied to the year ended March 31, 2005, sales of "EMEA" and "Asia and Others" were ¥10,621 million and ¥12,383 million, respectively.

16. FINANCIAL INFORMATION OF THE COMPANY

The following summarizes the non-consolidated financial position of the Company at March 31, 2007 and 2006, and the results of operations for each of the three years in the period ended March 31, 2007.

Non-Consolidated Balance Sheets (Supplementary information)

	Millions of yen		Thousands of U.S. dollars
ASSETS	2007	2006	2007
Current assets:			
Cash	**¥ 11,999**	¥ 17,477	**$ 101,609**
Notes and accounts receivable—trade	**19,323**	19,240	**163,629**
Allowance for doubtful accounts	**(238)**	(259)	**(2,015)**
Marketable securities	**999**	7,604	**8,460**
Inventories	**15,897**	15,135	**134,618**
Deferred tax assets—current	**6,693**	6,741	**56,677**
Other current assets	**2,776**	6,145	**23,507**
Total current assets	**57,449**	72,083	**486,485**
Property, plant and equipment:			
Land	**493**	493	**4,175**
Buildings and structures	**24,599**	24,352	**208,307**
Machinery and equipment	**12,361**	13,865	**104,674**
Accumulated depreciation	**(27,942)**	(28,653)	**(236,616)**
Net property, plant and equipment	**9,511**	10,057	**80,540**
Investments and other assets:			
Investment securities	**53,724**	43,081	**454,941**
Long-term loans receivable	**7,545**	11,114	**63,892**
Deferred tax assets—non-current	**208**	—	**1,761**
Other assets	**7,829**	8,481	**66,298**
Allowance for doubtful accounts	**(10)**	(53)	**(85)**
Total investments and other assets	**69,296**	62,623	**586,807**
Total assets	**¥136,256**	¥144,763	**$1,153,832**

LIABILITIES AND NET ASSETS	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars 2007
Current liabilities:			
Short-term borrowings	**¥ 870**	¥ 870	**$ 7,367**
Long-term debt due within one year	**22,000**	18,193	**186,299**
Notes and accounts payable—trade	**8,096**	7,193	**68,558**
Accrued liabilities	**3,776**	4,243	**31,976**
Accrued expenses	**1,225**	1,184	**10,373**
Income taxes payable	**163**	122	**1,380**
Other current liabilities	**7,081**	6,144	**59,963**
Total current liabilities	**43,211**	37,949	**365,916**
Long-term liabilities:			
Long-term debt	**22,000**	37,000	**186,299**
Retirement benefits for directors and corporate auditors	**70**	70	**593**
Deferred tax liabilities—non-current	**—**	97	**—**
Other long-term liabilities	**255**	280	**2,159**
Total long-term liabilities	**22,325**	37,447	**189,051**
Net assets:			
Common stock	**14,050**	14,050	**118,977**
Additional paid-in capital	**23,000**	23,000	**194,767**
Legal reserve	**2,468**	2,468	**20,899**
Retained earnings	**31,325**	29,989	**265,263**
Net unrealized holding gains on securities	**689**	696	**5,834**
Deferred gain or loss on hedged transactions	**(1)**	(31)	**(8)**
Reservation rights on common stock	**14**	—	**119**
Treasury stock, at cost	**(825)**	(805)	**(6,986)**
Total net assets	**70,720**	69,367	**598,865**
Total liabilities and net assets	**¥136,256**	¥144,763	**$1,153,832**

Non-Consolidated Statements of Operations (Supplementary information)

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Net sales	**¥50,193**	¥48,288	¥49,669	**$425,040**
Cost of sales	**35,502**	35,563	36,638	**300,635**
Gross profit	**14,691**	12,725	13,031	**124,405**
Selling, general and administrative expenses	**11,967**	11,631	11,138	**101,338**
Operating income	**2,724**	1,094	1,893	**23,067**
Other income (expenses):				
Interest and dividends income	**773**	814	1,161	**6,546**
Interest expenses	**(545)**	(567)	(586)	**(4,615)**
Foreign exchange gain (loss)	**(38)**	67	83	**(322)**
Loss on disposal of inventories	**—**	—	(216)	**—**
Gain on sales of property, plant and equipment	**—**	—	162	**—**
Gain on sales of investment securities	**1**	1,648	2	**8**
Loss on devaluation of investment securities	**(40)**	(332)	(159)	**(339)**
Gain on expiration of warrants	**160**	—	—	**1,355**
Loss on devaluation of inventories	**(1,249)**	(1,467)	(1,175)	**(10,577)**
Restructuring expense	**—**	(814)	—	**—**
Other, net	**73**	(530)	(4)	**619**
	(865)	(1,181)	(732)	**(7,325)**
Income (loss) before income taxes	**1,859**	(87)	1,161	**15,742**
Provision for income taxes:				
Current	**(390)**	(501)	3	**(3,303)**
Deferred	**54**	585	(142)	**457**
Net income (loss)	**¥ 2,195**	¥ (171)	¥ 1,300	**$ 18,588**

Independent Auditors' Report

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF ANRITSU CORPORATION:

We have audited the accompanying consolidated balance sheets of Anritsu Corporation and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2007, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

(1) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2006, Anritsu Company and consolidated domestic subsidiaries adopted new accounting standards for the presentation of net assets in the balance sheet.

(2) As discussed in Note 15 to the consolidated financial statements, the name of overseas sales of "Europe" is changed to "EMEA." And, the areas of the Middle East and Africa, which were previously included in the "Asia and Others" segment, are included in the "EMEA" segment from the year ended March 31, 2007. These changes are due to the unification of the business activities of the areas of the Middle East and Africa, based on a reorganization of foreign subsidiaries.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 27, 2007