Annual Report 2008

For the year ended March 31, 2008

GROWING VALUE ON A GLOBAL SCALE

Anritsu

Profile

Anritsu utilizes its "Original & High Level" technologies to provide measurement, quality assurance and information network solutions in the industrial electronics, security and other markets, with a focus on telecommunication networks and related markets. Anritsu will contribute to the realization of a safe, secure and comfortable society by creating better solutions together with its customers and partners. These solutions in turn will lead to improved customer value and creation of new demand.

Company Philosophy

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

Company Vision

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

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

Company Commitment

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

Contents

Forward-Looking Statements

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

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

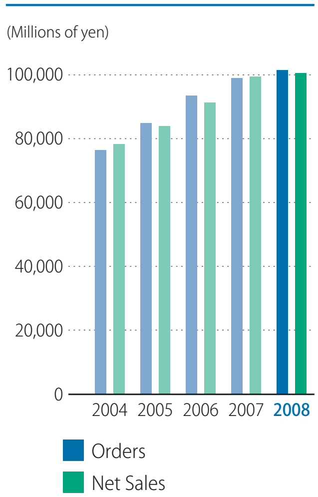
Financial Highlights

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31

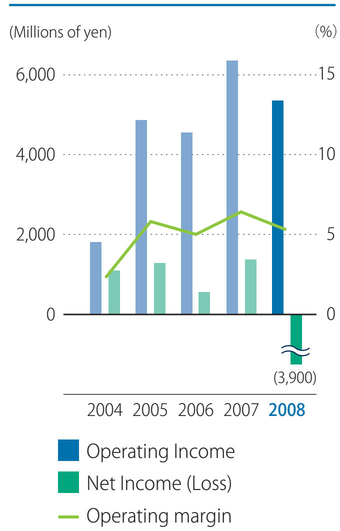
	Millions of yen			Change (%)	Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008/2007**	**2008**
For the year:					
Net sales	**¥100,486**	¥ 99,446	¥ 91,262	1.0 %	**$1,002,954**
Operating income	**5,356**	6,359	4,549	(15.8)	**53,458**
Net income (loss)	**(3,901)**	1,376	563	—	**(38,936)**
Depreciation and amortization	**3,373**	3,600	3,453	(6.3)	**33,666**
Capital expenditures	**2,791**	2,319	2,699	20.3	**27,857**
R&D expenses	**14,115**	14,072	12,509	0.3	**140,882**
At year-end:					
Total assets	**¥124,917**	¥140,395	¥152,359	(11.0)%	**$1,246,801**
Total net assets	**52,845**	61,619	60,940	(14.2)	**527,448**
Interest-bearing debt	**47,010**	53,033	65,590	(11.4)	**469,209**
Per share:	Yen			Change (%)	U.S. dollars (Note 1)
Net income (loss) (Note 2)					
Basic	**¥ (30.60)**	¥ 10.79	¥ 3.76	— %	**$ (0.31)**
Diluted	**—**	9.72	3.39	—	**—**
Cash dividends	**7.00**	7.00	7.00	—	**0.07**

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥100.19 to U.S. $1.00, the approximate exchange rate on March 31, 2008.
2. The computations of basic net income per share are based on the weighted average number of shares outstanding during the relevant year. Diluted net income per share is computed based on the average number of shares of common stock and contingent issuances of common stock from convertible bonds or warrants.

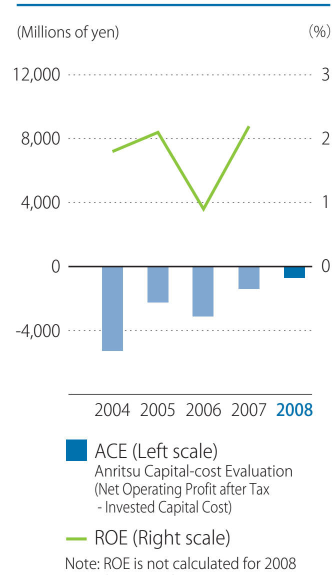
Orders/Net Sales



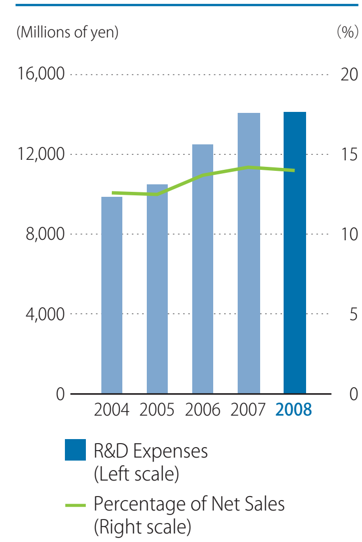
Operating Income/ Operating Margin/ Net Income (Loss)



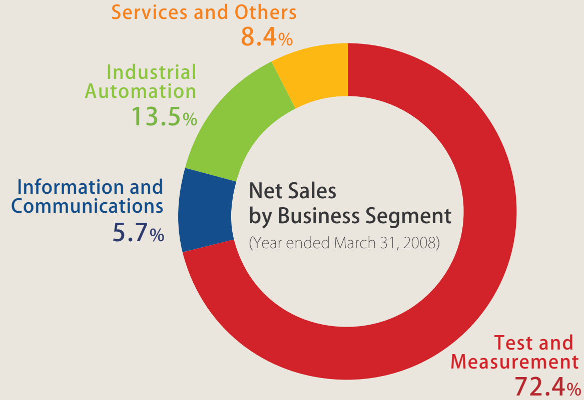
ACE/ROE

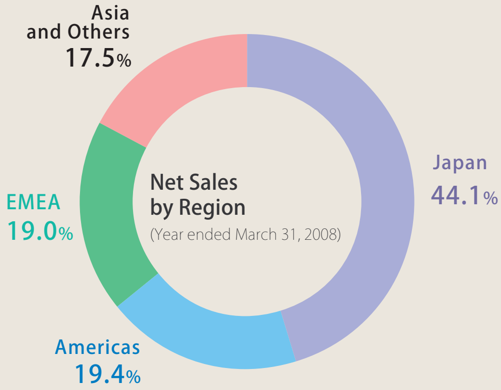


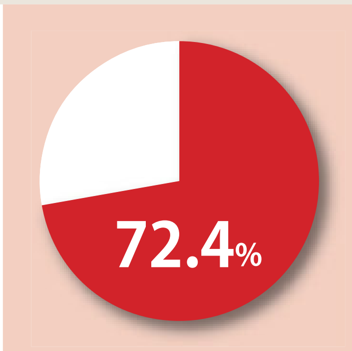
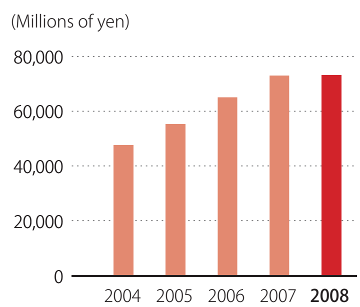
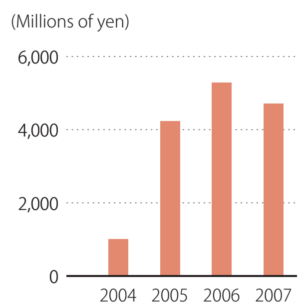
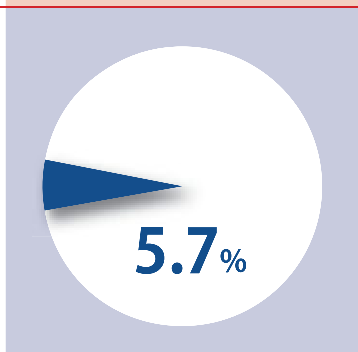
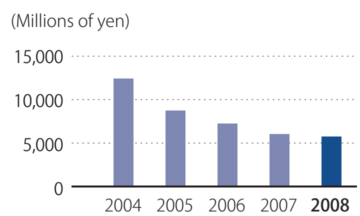
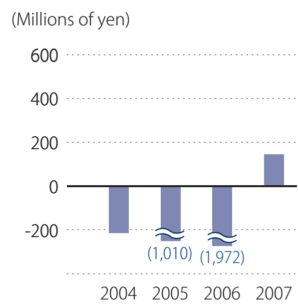
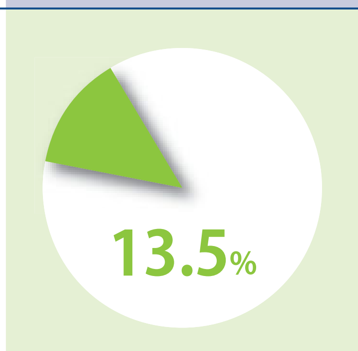
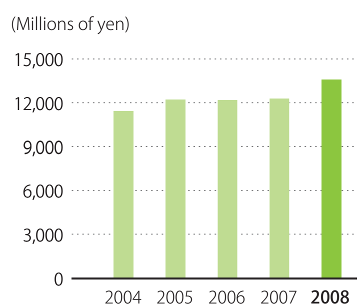
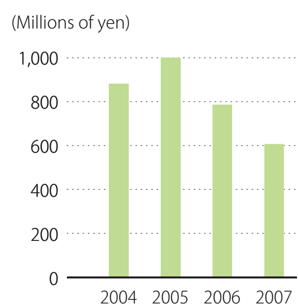
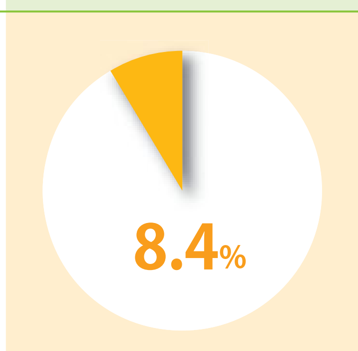
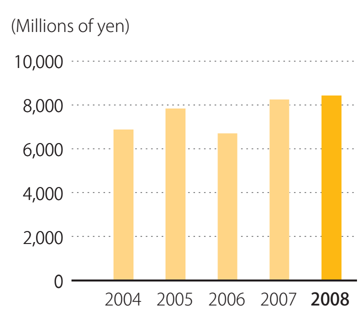
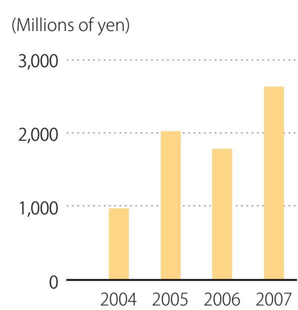
R&D Expenses/ Percentage of Net Sales



Anritsu at a Glance





	Percentage of Net Sales	Net Sales	Operating Income (Loss)
Test and Measurement			
Information and Communications			
Industrial Automation			
Services and Others			

Anritsu's Core Business: Test and Measurement

▶ NGN & Infrastructure	▶ Mobile Handset	▶ General Purpose
Next-generation networks (NGN) interconnect and integrate internet protocol (IP) networks, which are central to the accelerating shift to broadband, with various communication networks. Anritsu provides optimum solutions in this area based on advanced IP analysis technology, ultra-high-speed digital technology, wireless measuring technology and monitoring technology.	Addressing continuing advances in mobile telephones and mobile phone services, Anritsu uses wireless measuring technology, protocol analysis and global customer support to supply markets around the world with measurement solutions optimized for mobile handsets and their electronic components.	Anritsu provides a broad array of test and measurement solutions to the field of electronics, including for the design, production and evaluation of communication equipment related to communication networks and the electronic devices used in other electronic equipment.

Business Overview | **Major Product**

2008

Anritsu conducts business globally in its core Test and Measurement business with a focus on three fields:

1 NGN & Infrastructure
2 Mobile Handset
3 General Purpose

MS269x Series Signal Analyzers

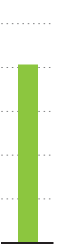
This measuring instrument series quickly and accurately analyzes next-generation wireless communication system equipment performance. The instruments can efficiently evaluate equipment at stages ranging from R&D to production and inspection, based on frequency analysis technologies.

2008

Through cooperation with major system integrators, Anritsu provides optimum system solutions for the establishment of safe and secure social infrastructure. We are also strengthening our presence in areas such as facility surveillance and video security systems and bandwidth controllers.

PureFlow® GS1 Bandwidth Control Equipment

The PureFlow® GS1 prevents packet loss by smoothing the flow of traffic over IP networks with a high degree of accuracy. It contributes to network communication quality and more efficient use of bandwidth.

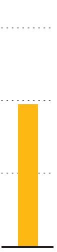


2008

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

KD7405AW X-ray Inspection System

This alien material inspection system is used mainly in food production lines. In addition to delivering the highest detection performance in the industry, it inspects the shape of products to detect chips, breaks and other irregularities while using mass conversion to simultaneously check for underweight or missing items.



2008

In addition to its main areas of business, Anritsu is active in the device business, precision measurement business and environment-related businesses, as well as distribution, employee welfare services, property rental and other businesses.

Solder Paste Inspection System MK5420A SOLLEAD

This system provides 3-D measurement of the volume of printed solder paste in printed circuit boards on surface mounting assembly lines, and checks for solder bridges and other irregularities with ultra-high speed and high accuracy.

Message from the Group CEO

The Anritsu Group will bolster its competitiveness and improve profitability by steadily implementing Management Innovation 2008.

Hiromichi Toda
Group CEO

Performance and Initiatives for the Year Ended March 31, 2008

In July 2006, Anritsu formulated a Mid-term Business Plan, Anritsu Global LP 2008, with the aim of becoming a company that contributes to the realization of a safe, secure, and comfortable society. Under the plan, the entire Anritsu Group is working to achieve profitable growth and an operating margin of 10 percent or more.

For the year ended March 31, 2008, the second year of the three-year Mid-term Business Plan, the Anritsu Group worked to expand the product lineup and strengthen its sales and customer support framework. However, net sales and operating income fell short of initial targets due to factors including delays in introducing new products and, since the beginning of 2008, notable customer restraint in capital investment due to the worsening business environment, as well as growing currency translation losses due to the weak dollar.

Responding to these circumstances, in the fiscal year ended March 31, 2008, Anritsu decided to implement Management Innovation 2008, a set of measures to improve profitability and bolster our competitiveness for the year ending March 31, 2009 and beyond. These measures include discontinuing unprofitable products and reforming inefficient divisions.

As a result, net sales increased 1.0 percent compared with the previous fiscal year to ¥100,485 million, operating income decreased 15.8 percent to ¥5,356 million and the operating margin was 5.3 percent. The Anritsu Group recorded a net loss of ¥3,900 million due to non-operating expenses that included losses on disposal and devaluation of inventories totaling ¥5,648 million and restructuring expense of ¥1,156 million.

Issues and Initiatives for the Year Ending March 31, 2009

We anticipate that the market environment for the information and communications network sector will remain severe for the year ending March 31, 2009 and beyond, but we will strive to improve profitability for the core Test and Measurement segment by steadily implementing Management Innovation 2008.

Measures Implemented in the Year Ended March 31, 2008	Initiatives for the Year Ending March 31, 2009
Expand the product lineup	**Implement Management Innovation 2008**
• Launched general purpose signal analysis measuring instruments	• Strengthen marketing capabilities focused on product planning center
• Expanded range of handheld measuring instruments	• Reduce costs by improving supply chain management (SCM)
• Strengthened functions of measuring instruments for mobile handsets	• Improve investment efficiency of R&D spending
Strengthen sales and customer support framework	**Launch new products that match market needs**
• Restructured operating framework for EMEA regions	• Launch new measuring products for next-generation mobile communications
• Established the Mexico office	• Strengthen functions of general purpose measuring instruments
Promote strategic businesses	**Promote strategic businesses**
• Expanded Service Assurance business	• Further expand Service Assurance business
Formulate and implement Management Innovation 2008	• Expand overseas business of Industrial Automation segment
• Discontinued unprofitable products and reformed inefficient divisions	• Start and expand a separate precision measurement business

In sales, Anritsu will continue to expand sales channels to move closer to its customers who operate globally and promote the launch of new products that match market needs through sharing development road maps with key customers.

For the year ending March 31, 2009, Anritsu thus plans net sales of ¥100,000 million, operating income of ¥4,500 million* and net income of ¥1,000 million.

*Note: Operating income represents a 16 percent decrease compared with the year ended March 31, 2008 because loss on devaluation of inventories will be included in cost of sales instead of other expenses beginning in the year to March 31, 2009.

Shareholder Return and Capital Policies

Anritsu's basic policy for returning profits to shareholders is to pay dividends from surplus funds, based on a commitment to increasing the ratio of dividends on consolidated equity (DOE) to reflect the level of income during the consolidated period while taking into general account factors such as the operating environment and the outlook for results in the year ending March 31, 2009 and beyond. Our policy is to make two dividend distributions annually, consisting of a fiscal year-end dividend by resolution of the General Meeting of Shareholders and an interim dividend approved by the Board of Directors.

To thank our shareholders for their continuing support, Anritsu paid total dividends of ¥7.00 per share, including an interim dividend of ¥3.50 per share, for the fiscal year ended March 31, 2008. Anritsu plans to maintain dividends at this level for the fiscal year ending March 31, 2009. The Company's policy on retained earnings is to use them in research and development and capital investment to respond to rapid technological innovation and changes in market structures.

We are counting on the continuing support and guidance of our shareholders.

July 2008

Hiromichi Toda

Hiromichi Toda
Group CEO

Interview with Group CEO Hiromichi Toda

In the midst of rapid market changes in the year ended March 31, 2008, we launched Management Innovation 2008 to bolster our competitiveness and improve future profitability. In the year ending March 31, 2009, we will restore profitability by firmly establishing the measures of this plan and providing timely, optimum solutions that meet market needs.

Hiromichi Toda
Group CEO

First, please explain the background and goals of Management Innovation 2008.

Amid rapid technological innovation and intensifying global competition, we must establish a cost-competitive structure that allows us to respond nimbly to changes in market needs, and expand market share and raise profitability by leveraging the strong products that result. Management Innovation 2008 comprises measures for just these purposes.

The market landscape for Anritsu's core business, test and measurement instruments for telecommunications, is changing significantly due to intensifying global competition and such fundamental changes to telecommunications as the shift to high-speed wireless services, including for mobile phones, progress in triple play and FMC[1] service integration resulting from the widening use of internet protocol (IP), and the migration to next-generation networks (NGN). Anritsu views these changes as substantial business opportunities, but to take advantage of them the Company needs the strength and structure to respond flexibly to the changes. For the last several years, the Company has achieved significant success in one of these areas of opportunity, the market for third-generation (3G) mobile system development and deployment. However, this market has matured, and we are seeking new changes that we can leverage in going to the next stage. To mitigate the risk of relying solely on businesses based on change, strong general-purpose products that satisfy a broad range of customer needs are needed to secure stable profitability. It is therefore important to have a supply chain management (SCM)[2] framework that supports our ability to meet customer needs globally and allows us to maintain cost competitiveness.

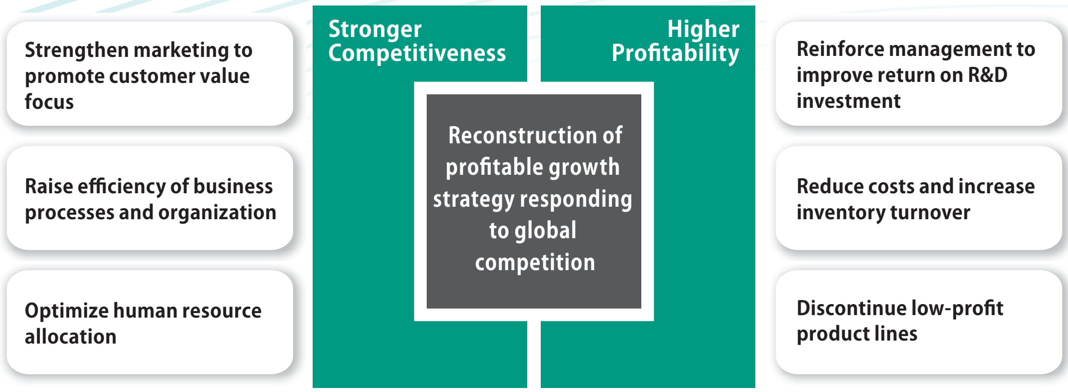
Until now, Anritsu had expanded the Test and Measurement segment through its two divisions in Japan, which met the respective needs of the wireline and wireless communication sectors, and a division in the United States that excels in measuring instruments with broad applicability in the microwave region.

However, as I stated earlier, our framework has become increasingly disadvantageous due to emerging demand for the development and provision of solutions that straddle these market divisions. As a result, under Management Innovation 2008 we have begun with combining the two measuring instrument divisions in Japan and related divisions into one. Our aim is to create a framework that uses resources effectively while producing optimum solutions. We are also strengthening the global responsiveness of all our business processes, positioning the Test and Measurement segment under the direct control of headquarters to enable smooth cooperation with the segment's subsidiaries, and effectuating overall management through the Management Strategy Center.

Note 1: Fixed-Mobile Convergence: Communication services that fuse wireline and mobile communications in ways such as enabling the use of a mobile phone as a wireless handset for a fixed-line phone.

Note 2: Supply Chain Management: Comprehensive management from receipt of orders and material procurement to inventory management and product delivery.

Outline of Management Innovation 2008



Could you please explain the organizational changes under Management Innovation 2008?

The two main management objectives of these innovation measures are bolstering competitiveness and improving profitability. To achieve them, Anritsu is focusing head-office functions on the measuring instruments business and aligning its organizational structure with business processes to facilitate rapid decision making and clarify responsibilities.

Specifically, we have reorganized the existing two Japanese measuring instruments divisions, the sales division and corporate division, into four major organizations by business process: Sales and CRM,[3] R&D, SCM, and Corporate.

We have placed the Marketing Division, including the Product Planning Center, within the Sales and CRM Group to promote thoroughly customer-centered product development, rather than the R&D-centered development that we have tended to have, and this has strengthened our framework for listening to customers and markets. We intend to establish an indispensable presence as a business partner to our customers, which will lead to strong product development that meets market needs.

In R&D, we have integrated units including the development departments of the two business divisions that extend overseas, and the research and development department of the R&D Center, into a single R&D Group. Concentrating the many resources that had been dispersed throughout the Group enables product development geared to time-to-market processes, as well as development process improvements and efficient management of development investments.

SCM integrates all divisions related to making products and delivering them to customers, including production planning, manufacturing engineering technology, quality assurance, material procurement and logistics. By integrating the SCM functions, we will create a production system with world-class competitiveness in terms of quality, cost and time to delivery, and will improve the inventory turnover ratio through production innovations, thus contributing to generation of cash flow.

Corporate is a framework of a select few strategic divisions that effectuate internal controls and governance and act as a strategic headquarters to raise corporate value.

The key point of the organizational realignment is that by gathering together the Test and Measurement segment's business divisions in the United States, Europe, the Middle East and Africa (EMEA) and Asia based on the segment's individual processes, we will be able to move more quickly. I believe that achieving total optimization of the Test and Measurement segment from a global perspective to raise its competitiveness and profitability is essential.

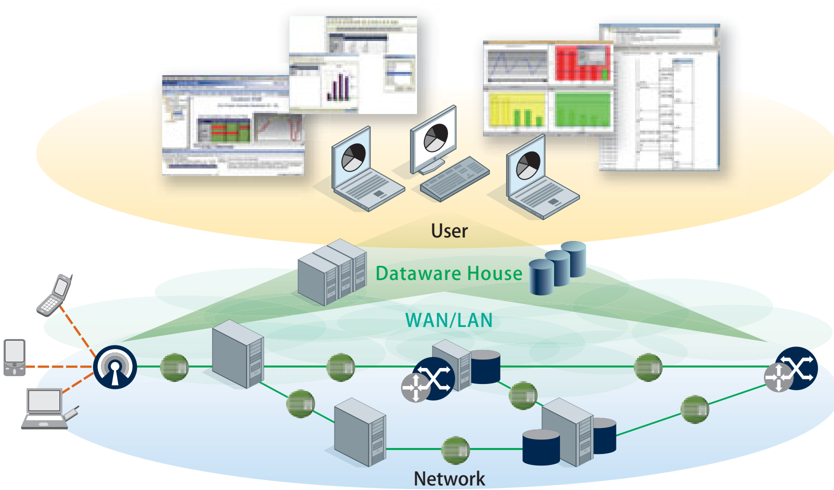
Note 3: Customer Relationship Management: A management technique that places importance on building relationships with customers to improve customer satisfaction.

What are some of the measures you are taking in other areas?

In the year ended March 31, 2008, we decided to discontinue unprofitable, comparatively old product lines. We disposed of their inventories and consolidated related departments to improve profitability. We also spun off Anritsu Precision Co., Ltd. on April 1, 2008 from the precision measuring instruments division of the Services and Others segment, aiming to optimize its management efficiency by clarifying responsibilities and speeding decision making through independent operation.

The Anritsu Group was able to improve profitability in the Service Assurance business for the year ended March 31, 2008, which was a key priority. What were the major activities in this area for the year, and what are the plans for its future growth?

Service Assurance Business Overview



Anritsu entered the service assurance business with the acquisition of the former NetTest A/S (now Anritsu A/S) in 2005, but at first the company was unable to establish an operational framework that would attract telecom customers throughout the world. For the year ended March 31, 2008, we made particularly good progress in the EMEA region, where we focused on building the operational framework. We grew sales substantially by aggressively expanding our business among Tier 1 telecom carriers.

Competition among network service providers to deliver the services, quality and price demanded by subscribers is intensifying, as raising customer satisfaction and operating networks efficiently have become major issues for them. I believe that demand in the service assurance business to resolve these issues will continue to rise.

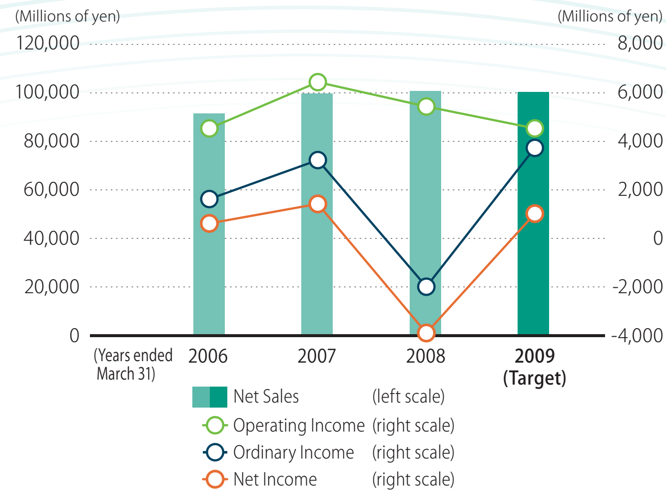
In the year ending March 31, 2009, we will continue to promote our Tier 1 strategy and strengthen our presence both in and outside the EMEA region. In preparation, in the year ended March 31, 2008, we established a central sales company for Latin America in Mexico. We expect this business will grow to become a pillar of the Anritsu Group.

What is the outlook for the year ending March 31, 2009, and what are your thoughts on achieving the mid-term management targets?

For the year ending March 31, 2009, the expansion of emerging economies is expected to continue supporting the global economy. However, numerous negative factors preclude optimism, including turbulence in world financial markets triggered by the U.S. subprime mortgage crisis; concerns about economic recession in the United States and its effect on Japan, Europe and other regions; foreign exchange trends; and rising oil and commodity prices and resulting deterioration of corporate profits.

In the Test and Measurement segment, Anritsu will concentrate on firmly establishing Management Innovation 2008 and producing results from it in order to achieve steady profits even in the absence of large sales growth. As a specific initiative, Anritsu sees substantial opportunity in and will focus on the field of measuring instruments for development of LTE[4] handsets, which is gaining momentum. In the NGN and Infrastructure sub-segment, we intend to expand the business by accurately meeting measur-

Performance Trends



ing instrument needs created by advances such as high-speed backbone networks and progress in IP networks. In the General Purpose sub-segment, we will offer optimum solutions in the market for measuring instruments for wireless components in car electronics, information appliances and other fields by aggressively adding functions that reflect market needs.

In the Information and Communications segment, Anritsu will focus on expanding private-sector business by boosting the competitiveness of its IP network solutions and strengthening relationships with system integrators. In addition, we will work to fortify our business foundation.

In the Industrial Automation segment, while strengthening cost-cutting to improve profitability, we will promote a product strategy of higher added value and differentiation. We are also aiming to expand by further accelerating business development in overseas markets.

As a result, in the year ending March 31, 2009, the Anritsu Group anticipates growth in the Service Assurance business and Industrial Automation segment, but also expects sales to decline in the Test and Measurement segment as customers restrain capital investment. Overall, Anritsu projects net sales of ¥100 billion, essentially unchanged from the previous year. While the measures of Management Innovation 2008 should improve profitability, the strong yen compared to the dollar will have a negative impact on earnings. In addition, a loss on devaluation of inventories, previously recorded as an other expense, will be included in cost of sales under a new accounting standard that took effect on April 1, 2008. Accordingly, Anritsu projects operating income of ¥4.5 billion, a decrease of 16 percent compared with the year ended March 31, 2008. The difference in inventories as of April 1, 2008 resulting from the application of the new accounting standard, totaling approximately ¥1.5 billion, will be recorded as an extraordinary loss, and is reflected in the performance forecast. As a result, Anritsu projects net income of ¥1.0 billion.

Anritsu is aiming to be a highly profitable company and has set an operating margin and return on equity of 10 percent or higher as medium-term targets. By implementing Management Innovation 2008 in the year ending March 31, 2009, I would like us to improve our corporate structure so it can generate profits even in an uncertain environment, and work vigorously on the next challenge of achieving our medium-term targets.

Note 4: Long-Term Evolution: Currently undergoing standardization, LTE is a wireless communications protocol that evolved from 3.5G.

Finally, please explain the Anritsu Group's CSR activities and initiatives.

The Anritsu Group believes that honest business practices enhance corporate value, and will globally expand corporate social responsibility (CSR) activities. Anritsu's CSR initiatives have been rated highly not only by research organizations in Japan and overseas, but also in customers' CSR audits. Anritsu intends to continue going beyond what it considers to be its primary CSR activity — contributing to the realization of a safe, secure, and comfortable society through its products and services — to once again review the activities of the entire Group in all areas of corporate social responsibility, including compliance, corporate governance, the environment, human rights and risk management. In doing so, we will strive to further improve the Group's management infrastructure.

Through these ongoing CSR activities, Anritsu hopes to raise its value for customers, shareholders, employees, business partners and all other stakeholders. I believe that this in turn will help us achieve our management goals.

SpecialFeature1

The Financial Strategy of Management Innovation 2008

Management Innovation 2008 is a reconstruction of our profitable growth strategy and comprises measures to bolster competitiveness and improve profitability. In this first feature article of the Annual Report, Chief Financial and Corporate Officer Hirokazu Hashimoto explains the initiatives of Management Innovation 2008 from a financial standpoint. In the second feature, officers will explain the newly organized business processes they manage.

Anritsu has reconstructed its profitable growth strategy through business process innovation and will steadily capture earnings opportunities to increase corporate value.

1. Reconstructing Strategies for Profitable Growth

The Anritsu Group's profitable growth strategy, which forms its basic management policy, is focused on balancing profits generated by current growth businesses with investment in future growth while raising corporate value. Although sales have grown continuously over the five years through March 2008, the operating margin has remained at 6 percent or lower.

During that time, the business units leading the Company in profitability were high-value-added product lines focused on the mobile communications market. Anritsu also aggressively invested in areas including an acquisition in August 2005 to enter the service assurance business, which assures network quality and which we expected to grow with progress in development of next-generation networks. In addition to the Test and Measurement segment, we also invested in such areas as the Industrial Automation segment, particularly in overseas markets, and in joint development of disaster mitigation solutions with a major system integrator in the Information and Communications segment, to prepare for our next leap forward. Although these investments have yielded results, we recognize that these are not yet sufficient nor emerging rapidly enough to meet shareholder and investor expectations.

2. Converting Business Change Risk to a Competitive Advantage

One theme in reconstructing Anritsu's strategies for profitable growth is improving the strength and stability of the Company's earnings structure. Leveraging our position as a market leader in the advanced communications network field, we are building an optimum business portfolio that incorporates more stable earnings sources. The rapid development of information and communications technologies is expanding business opportunities in leading-edge markets, but this also presents the risk of large fluctuations in business results. Management Innovation 2008 will change the Anritsu Group to a management structure with low earnings volatility risk, while aiming to establish and implement a business strategy that continually expands returns on investment and to optimize management of Group resources.

3. Innovating Business Processes

The second theme is reform of management structures that are not attaining adequate return on investment. To this end, we have implemented Key Performance Indicators (KPIs) and are thoroughly monitoring their progress in order to accelerate returns.

The business process targets and KPIs under the reorganization accompanying Management Innovation 2008 are as follows.

(1) Marketing

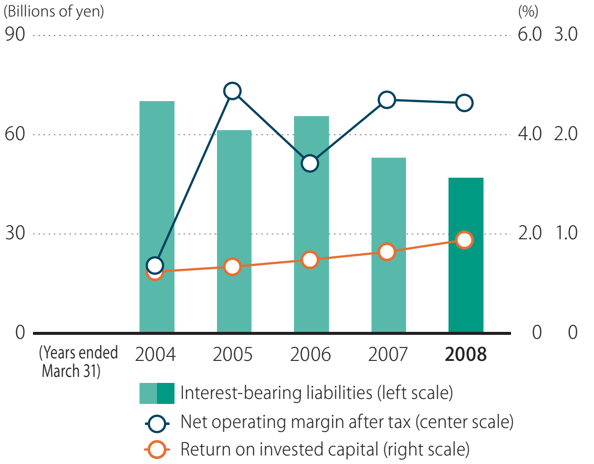
Anritsu will leverage its strengths in reorganizing its business portfolio into Strategic Business Units (SBUs) geared to market changes. We will take advantage of the special characteristics of individual SBUs to create a profitable overall structure.

(2) R&D

We will do away with the framework we have had, which was limited to manufacturing divisions, and create a structure that brings together R&D resources from Japan, the United States and Europe for the timely development of differentiated, high-quality products. We will work to improve return factors (RF) and net present value (NPV), which are investment decision criteria, as well as development ROI (gross profit / development investment cost), an investment efficiency

Hirokazu Hashimoto
Representative Director and
Executive Vice President
Chief Financial and Corporate Officer

Interest-bearing Liabilities and ACE Improvement Drivers



indicator, for individual accounting periods. Development ROI will be one condition used to determine total investment scale, and a general indicator for determining development project investment priority and the development portfolio for the fiscal year.

(3) Supply Chain Management

Ongoing improvement in supply chain management (SCM) is a major source of Company profits and cash flow. In particular, we have linked product design to sales policies and are promoting comprehensive cost reductions in component procurement and the manufacturing system to counteract factors including severe price competition in the maintenance market and falling prices for general purpose measuring instruments.

For the fiscal year ended March 31, 2008, we recorded a significant loss on the disposal of inventory due to the elimination of unprofitable product lines, but going forward we will rigorously manage product life cycles and will implement competitiveness evaluations in a timely manner based on clear product line withdrawal standards. Further, a new accounting standard for loss on devaluation of inventories, the lower of cost or market method, went into effect on April 1, 2008. As a result, we expect the cost of sales ratio to increase around 1.0-1.5 percent. We will work to reduce this and improve the cost of sales ratio through cost reduction activities and inventory management improvement.

(4) Sales and Management

Going forward, Anritsu will work to raise the efficiency of its sales operations by thoroughly managing cost of sales through both cost per order (sales companies' selling expenses / orders received) and selling expenses per sale (total selling expenses / net sales). Further, the Corporate division will streamline and simplify the organizational structure by absorbing the management department that had been part of the Test and Measurement segment, and will eliminate or improve the productivity of businesses that do not add value based on analysis of performance evaluations.

4. Increasing Corporate Value with ACE Drivers

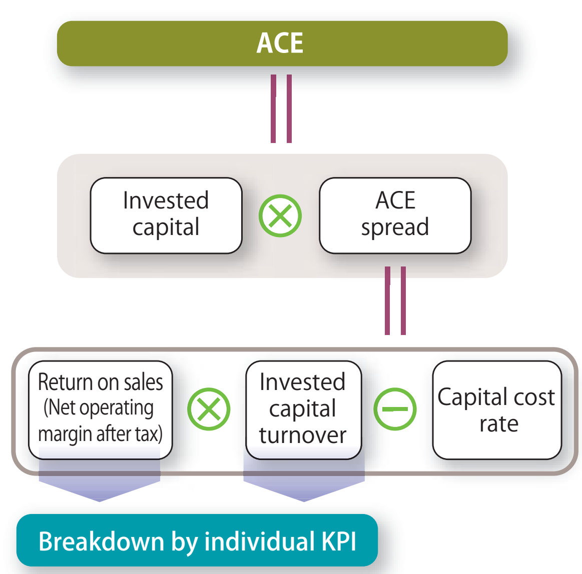
Anritsu positions improving ACE (Anritsu Capital-cost Evaluation), an indicator of corporate value, as a key management target.

We plan to make this improvement by increasing the after-tax operating margin and the invested capital turnover ratio. The factors driving ACE further break down as KPIs for individual business processes. We will work to improve profitability in core businesses by using the KPIs to innovate business processes.

Key themes in improving ACE from financial management will be reducing interest-bearing debt and increasing generation of cash flow to provide resources for that debt reduction. In addition to innovating business processes, we will work to maximize cash flow by efficiently using invested capital, especially working capital.

Anritsu will manage company-wide operations with a focus on generating cash flow to put ACE into the black, thus further increasing corporate value.

ACE (Anritsu Capital-cost Evaluation) Components



ACE: Invested capital × (Return on sales [Net operating margin after tax] × Invested capital turnover – Weighted-average capital cost rate)

Special Feature 2 Business Process Innovation

Sales & CRM

Management Innovation 2008 places marketing, sales and service functions together in one structure that supports close relationships with customers from product planning to maintenance. This will heighten our responsiveness to customers globally and augment our competitiveness.

Customer-Centered Product Planning

Management Innovation 2008 moves the product planning functions that had been under manufacturing divisions into sales divisions, creating a framework to accurately reflect customer needs in new products. We will work vigorously to offer solutions to customer issues so we can secure the top position in measuring instruments for LTE, NGN, and other fields that we expect to take off in fiscal 2008.

Promoting Strategic Sales Activities

Anritsu is highly sensitive not only to customer trends but also to the market, and is strengthening sales activities in areas including general purpose measuring instruments with broad demand and service assurance. In addition, we will efficiently deploy sales resources to meet wide-ranging demand for products such as development measuring instruments compatible with advanced communication systems, measuring instruments used in mobile handset manufacturing, and handheld measuring instruments used in installation and maintenance. In this way, we will pursue customer satisfaction throughout our global network.

Enhancing the Sales and Service Network

The Anritsu Group has established and begun operation of a central sales company for Latin America in Mexico. Following our establishment of a sales company in the United Arab Emirates to cover the Middle East, where capital investment is brisk, we advanced into the Russian market at the beginning of 2008. Anritsu will steadily capture growth opportunities in these regions and others including developing markets Brazil, China and India, while continuing its enhancement of sales and service networks in Japan, the Americas, EMEA, and the Asia-Pacific region.

Shigehisa Yamaguchi
Director and Senior Vice President
Chief Sales and CRM Strategy Officer

We will strive to become a global market leader by working even more closely with customers and offering solutions that exceed their expectations.

Anritsu accurately grasps customer needs through trade shows and other means and reflects them in product planning.

R&D

Takanori Sumi
Vice President
Chief Technology Officer

My mission is to use product planning proposals from sales and CRM to develop value-added products in a timely manner and maximize return on investment.

We have gathered the Anritsu Group's global development resources into a competitive development framework that is a source of profit. We are now taking on the challenge of developing leading-edge measurement solutions for LTE and NGN.

LTE: Timely Development of High-Value-Added Products

Building on its prior strengths in measuring instruments used in developing 3G and 3.5G mobile phones, Anritsu is actively involved in product planning of LTE, the next generation of mobile phones, from the standard selection stage. We will develop products in a timely manner by sharing development road maps with the world's major telecommunication equipment manufacturers.

NGN: Concentrating Development Resources

The Anritsu Group has integrated its development resources for the wireless measurement business, the optical and IP measurement business and other areas to enhance solutions for NGN, which will enable service integration including fixed-mobile convergence (FMC) and even encompass the broadcasting and video distribution businesses by strengthening video distribution functions. We are concentrating our global resources to increase the functionality of existing products and rapidly develop new products by creating synergy among our technologies, developing platform technologies and applying common and basic technologies. Further, we have strengthened general-purpose measuring instrument development to create a stable business platform.

Reviewing Development Investment Decision-Making

Anritsu employs development ROI (gross profit / development investment cost) as an additional measure toward efficient development investment and maximization of profit. We intend to appropriately manage total investment and maximize gross profit by not only making development investment with a long-term perspective, but also by selecting and focusing on a development theme for each fiscal year. We will further increase ROI by applying fundamental technologies at the integrated R&D Center under Management Innovation 2008 to raise the added value of measuring instruments.

Anritsu develops timely solutions by integrating development resources and optimizing development investment.

SCM

The Anritsu Group's overseas sales ratio is greatly increasing, and is around 70 percent for the core Test and Measurement segment. Under Management Innovation 2008, we are overhauling the production framework to bolster competitiveness in global markets. Previously dispersed SCM functions have been integrated.

Kohei Ono
Director and Senior Vice President
Chief SCM Strategy Officer

We will create a production system that is competitive in global markets and make it a source of profit. To fulfill this responsibility, we will work vigorously toward a manufacturing process that satisfies customers on quality, price and time to delivery.

Total Cost Reductions

Anritsu has established a new SCM Division under Management Innovation 2008 by integrating all SCM-related departments, from production planning to material procurement, quality management, and international logistics. Based on unified decision-making, we are executing an overall cost reduction strategy and pursuing SCM reform. For example, we plan to use optimal material procurement locations in America, Europe, and Asia through cooperation among procurement bases, and will consider production in optimal locations, including the use of electronic manufacturing services (EMS).

Generating Cash Flow by Reducing Inventories

Because information technology is constantly evolving, obsolescence of measuring instruments and their components is a business risk. The SCM Division focuses on improving the forecast of and preparation for orders in cooperation with the sales and CRM Group, and is working to further shorten delivery times through production reforms in order to create cash flow through inventory reduction.

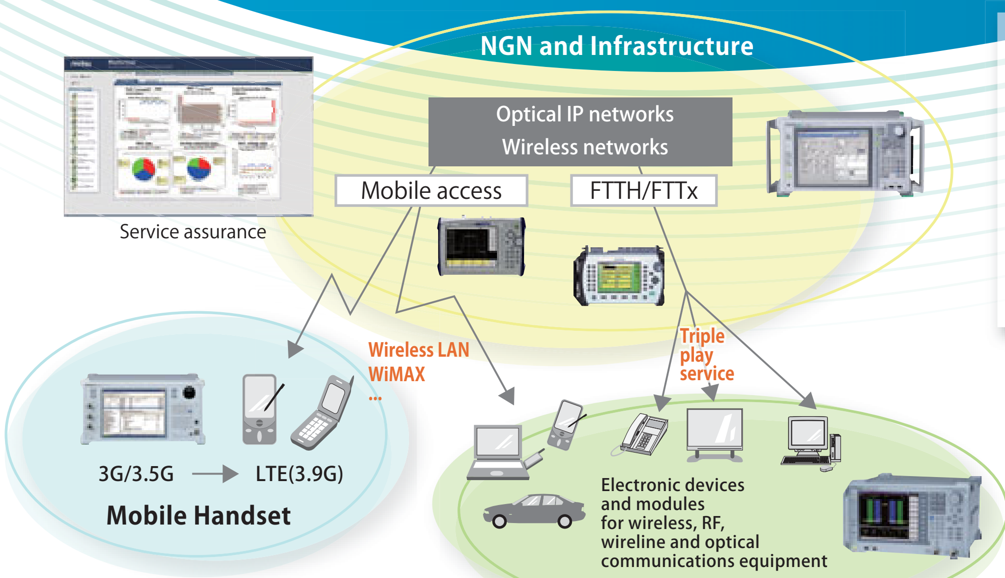
New Products

Anritsu delivers products that satisfy customers with their quality in an appropriate time to market (TTM). To this end, the SCM Division participates from the design stage, an upstream phase of product development, and provides the R&D division with accurate feedback based on the know-how it has acquired on the manufacturing floor, such as the selection of easy-to-use and optimal components. In addition, SCM thoroughly evaluates mass productivity in pilot production lines for the manufacturing of high-quality new products with appropriate TTM.

Anritsu will execute a cost reduction strategy through production re-engineering.

Review of Operations
Test and Measurement

The Test and Measurement segment offers cutting-edge wireline, wireless, and quality of service (QoS) solutions for globally expanding next-generation networks (NGN) and next-generation mobile telecommunication systems. It is also further strengthening the general purpose measurement business to ensure a foundation for profitability.



Test and Measurement: Three Business Sub-segments

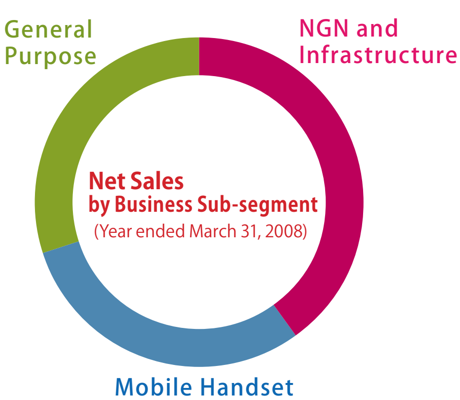
Segment Changes

Anritsu formerly divided the Test and Measurement segment into four sub-segments: Wireless Test and Measurement; Optical, Digital and IP Test and Measurement; General Purpose Test and Measurement; and Service Assurance. Starting from the year ended March 2008, this segment is classified into the three market areas shown to the left.

NGN and Infrastructure:
Infrastructure-related business of the former wireless sub-segment + optical, digital and IP + service assurance

Mobile Handset:
Mobile handset business of the former wireless sub-segment

General Purpose:
Former general purpose sub-segment



Business Trends and Review of the Year Ended March 31, 2008

In the telecom network market, the shift to ultra-high speed and large capacity is advancing for core networks due to the spread of both fixed-line and mobile broadband services such as IPTV.[1] In addition, access network construction, network quality improvements and various other initiatives for NGN construction are accelerating globally. However, business reorganizations and alliances in this area in response to intensifying competition are making customer trends less clear. In the second half of the year ended March 31, 2008, telecom operators and telecom equipment manufacturers restrained capital investment due to concerns about economic slowdown.

Under these conditions, demand was firm for measuring instruments for use in 3G and 3.5G mobile handset manufacturing in Japan and Asia, and for use in base station installation and maintenance in the United States. However, sales declined as demand for use in research and development in Japan and Europe subsided. In addition, NGN-related business and general purpose measuring instruments did not contribute to sales as expected due to the time needed to launch new products and customer restraint in capital investment.

The Group was able to increase sales in the Service Assurance business as it continued its Tier 1 strategy (an approach focusing on major telecom operators), yielding orders from major operators, especially in Europe.

As a result, segment sales were ¥72,717 million, a decrease of 0.2 percent compared with the previous fiscal year. This represents 72.4 percent of net sales for the entire Anritsu Group.

Despite the earnings improvement in the Service Assurance business, operating income was ¥4,126 million, a decrease of 12.5 percent, due to a delay in sales from new products expected to cover decreased profitability from measuring instruments for mobile handsets.

Note 1: IPTV: A television broadcasting service using IP networks.

Business Strategy and Outlook for the Year Ending March 31, 2009

Anritsu expects that the operating environment will remain severe for the Test and Measurement segment in the year ending March 31, 2009, due to factors including restrained capital investment resulting from concerns about recession in the industrialized countries. As a result, Anritsu projects segment sales of ¥71.5 billion (a year-on-year decrease of 1.7 percent) and operating income of ¥3.0 billion (a 27.3 percent decrease).[2] During the year, Anritsu will work to solidify the foundation for future profitability improvement by steadily implementing Management Innovation 2008. Anritsu will offer products and solutions that meet market needs by expanding sales of new products and continuing to grow the Service Assurance business in the NGN and Infrastructure sub-segment, bringing to market measuring instruments for use in Long-Term Evolution (LTE) development in the Mobile Handset sub-segment, and expanding applications in the General Purpose sub-segment.

Note 2: Operating income is expected to decrease because loss on devaluation of inventories, which was formerly reported as an other expense, is included in cost of sales as of the year ending March 31, 2009.

NGN and Infrastructure


Service assurance

Anritsu anticipates future growth in the NGN and Infrastructure field from solutions for telecom equipment makers' development and production, as well as in network construction, maintenance and service assurance for wireline and wireless telecom operators.

Broadband IP Network Measurement

The spread of music and video downloading, IPTV and similar services for consumers, as well as the expansion of broadband connectivity for enterprise applications, is increasing data traffic. With the start of full-scale construction of 40Gbps ultra-high-speed networks and research and development for 100Gbps backbone network equipment, demand for related measuring equipment is expected to increase. The cutting-edge technology necessary to develop test and measurement equipment in this field forms a high barrier to entry. However, Anritsu is working to bring to market in a timely manner its ultra-high-speed digital measurement technology and optical measurement technology. In addition, NGN construction through IP networks is progressing worldwide, and Anritsu anticipates demand for optical digital and IP measuring equipment due to the growth of this market.

Anritsu also has assembled a wide array of handheld measuring instruments that take advantage of its excellent compact and high-density packaging technology and energy-saving technology to meet demand for construction of diverse broadband access networks such as fiber optic communications, 3G, 3.5G, WiMAX[3] and digital broadcasting, and to increase profitability by responding to a wide range of customer requests.

Note 3: WiMAX (Worldwide Interoperability for Microwave Access): A standard for high-speed wireless access networks. WiMAX holds promise for providing wireless high-speed data transmission equal to that of wireline broadband access technologies such as ADSL and fiber optic cable.

Service Assurance

In the Service Assurance business, which monitors networks and analyzes service quality, high demand growth can be expected from telecom operators looking to create billing management based on service quality. Anritsu offers advanced network monitoring systems, focusing on major telecom operators. Enhanced sales teams specializing in the telecom operators not only in Europe but around the world will contribute to Anritsu's efforts to expand sales and profits.

MT9083A ACCESS Master

A field measuring instrument that can offer in one machine and on the spot the measurement functions required for optical fiber installation and maintenance, including optical pulse testing, optical loss testing, visible light source testing and IP testing.

Mobile Handset

Measurement of next-generation mobile handsets

In the mobile handset field, Anritsu offers measuring instruments with world-class added value for manufacturers of IC chips for use in mobile phones and for mobile phone manufacturers' research and development and production.

Anritsu provides measuring instruments utilizing the technologies it has accumulated from its close relationships with leading customers, along with global customer support. As a result, Anritsu's measuring instruments for development of 3G and 3.5G handsets and chipsets have established a position as the de facto standard.

In the second half of the year ending March 31, 2009, full-scale development of handsets supporting Long-Term Evolution (LTE), the 3.9 generation (3.9G) technology, is expected to begin as the current 3.5G development has almost completely matured. Anritsu's investment in measuring instruments for use in LTE handset development has already secured demand from leading-edge customers and will maintain the field as a pillar of profitability.

MD8470A
Signalling Tester

A base station simulator used in the development and inspection of mobile handsets that combines testing functions for voice calling, video calling, short message services (SMS), content downloading and other applications in one unit.

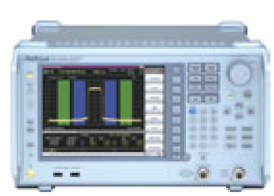
General Purpose

The General Purpose sub-segment offers measuring instruments widely used in the electronics industry, particularly for design, production and evaluation of electronic devices used for telecommunication equipment and other electronic equipment.

Demand in this sub-segment is expected to grow steadily due to the increasing use of electronic components in automobiles as well as communications and advances in intelligent home appliances. Anritsu has RF measurement technologies for microwave and millimeter wave communications. In addition to applying them in its core business area of telecommunications measuring instruments, Anritsu is also applying these technologies, together with a wide range of digital wireless technologies such as wireless LAN and digital broadcasting, in general purpose measuring instruments used in development and manufacturing of diverse electronic components and modules. Sales of handheld general purpose measuring instruments incorporating compact, high-density packaging and energy-saving technologies, an Anritsu strength, are growing steadily around the world, including the United States. Anritsu will offer a wider range of applications for these markets, which have different investment cycles from the telecommunications market. Expanding general purpose measuring instruments business in these markets will therefore help to stabilize Test and Measurement segment profitability.

General purpose measuring instruments

Anritsu's handheld measuring instruments provide radio-wave monitoring at NFL stadiums.



MS269x Series
Signal Analyzers

A signal measuring instrument series based on a high-performance spectrum analyzer with superior absolute amplitude accuracy, modulation accuracy and analysis bandwidth.

Information and Communications

The Information and Communications segment, in collaboration with system integrators, participates in the disaster prevention market for local governments by leveraging its IP network technologies, an area of strength for the Anritsu Group. The business is also developing private-sector demand, focusing on bandwidth control equipment for maintaining quality of service (QoS).

Business Trends and Review of the Year Ended March 31, 2008

The Information and Communications segment focuses on offering social infrastructure solutions to government and municipal offices in Japan. Although domestic public works spending is declining overall, investment related to disaster prevention and IP infrastructure continues to increase. In the private-sector market, demand is emerging for bandwidth control equipment to prevent network quality degradation due to growing traffic resulting from expansion of video distribution and other services.

For the fiscal year ended March 31, 2008, segment sales decreased 4.4 percent year on year to ¥5,749 million because private-sector demand could not compensate for the marked restraint in capital investment by government and municipal offices. Although Anritsu worked to reduce cost ratios for existing products, operating income decreased 48 percent year-on-year to ¥76 million due to investment to develop disaster mitigation solutions, the next new area for this business.

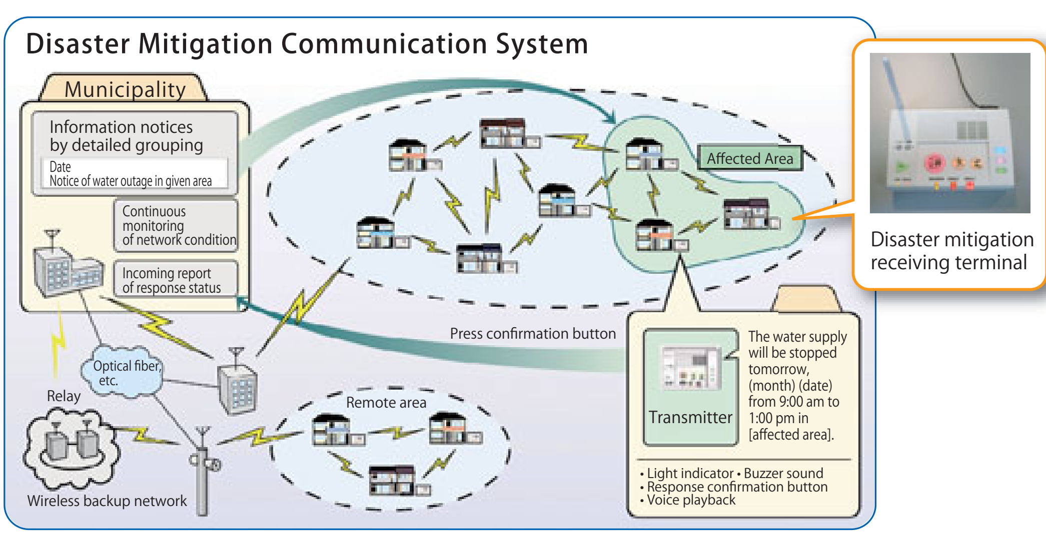
Business Strategy and Outlook for the Year Ending March 31, 2009

The Anritsu Group will continue working to provide social infrastructure solutions in cooperation with major system integrators. Specifically, we are currently developing receiving terminals as part of the collaboration with NTT DATA Corporation on a disaster mitigation communication system,* as announced in 2007, and plan field trials during the fiscal year ending March 31, 2009.

The business will carry out development and sales promotions activities focusing on video monitoring and distribution systems, IP access devices and bandwidth control equipment, which utilize its accumulated technologies, and will work to improve earnings while continuously reducing the cost ratio.

For the year ending March 31, 2009, Anritsu expects this business to achieve sales of ¥6,000 million, a 4.4 percent increase year on year, and operating income of ¥100 million, a 30.8 percent increase.

*Note: Disaster Mitigation Communication System: A two-way communication system that transmits emergency information and confirms safety when a disaster occurs.



Industrial Automation

The Industrial Automation segment is progressing in its strategy to increase the added value of its products and differentiate them, and is striving to grow the business by accelerating expansion in overseas markets. At the same time, it is working to further strengthen cost reduction initiatives and improve profitability.

X-ray Inspection System KD7405AW

This alien material inspection system inspects the shape of products to detect chips, breaks and other irregularities while using mass conversion to simultaneously check for missing items.

New Thai Production Facility

In addition to cutting Anritsu's manufacturing and distribution costs, this factory improves the supply chain in the ASEAN market.

Business Trends and Review of the Year Ended March 31, 2008

This segment's main products—checkweighers, X-ray inspection systems and metal detectors—are used in production and inspection equipment for the food industry, which accounts for 80 percent of sales, as well as in the pharmaceutical, cosmetics and other industries. Its core products, metal detectors and X-ray inspection systems, have achieved leading shares in the market for inspection systems due to their high speed and high precision in detecting metal fragments and other alien materials during food processing.

For the past several years, global awareness of food safety and security has been growing, and overseas inquiries about the Anritsu Group's quality control inspection equipment have been rising from regions including the Americas, Europe and Asia. At the same time, in addition to the rise in the procurement cost of metal materials such as stainless steel, the Group must deal with new concerns including restrained capital investment by domestic food manufacturers due to the rising cost of flour and other food ingredients and packaging materials.

As a result of factors including increased global demand for quality control inspection equipment, segment sales were ¥13,595 million, an increase of 10.6 percent compared with the previous fiscal year. Operating income was ¥814 million, an increase of 34.0 percent, due to successful cost reduction measures to offset rising prices of metal materials. The Anritsu Group made investments and strengthened sales activities to expand its market share in Asia, the Americas and Europe, resulting in an overseas sales ratio of approximately 30 percent.

Business Strategy and Outlook for the Year Ending March 31, 2009

This segment will continue striving for stable growth by strengthening overseas expansion. The Group aims to further increase the overseas sales ratio going forward through full-fledged entry into the European and North American markets, focused on X-ray inspection systems, while maintaining its high domestic market share. In addition, the Group established a new production facility in Thailand to improve its supply chain in the ASEAN markets, where demand is vigorous. We aim to expand in ASEAN countries while reducing production and distribution costs. Further, as an ongoing initiative we will strengthen the price competitiveness of this business segment by sharing and standardizing basic units and reducing costs.

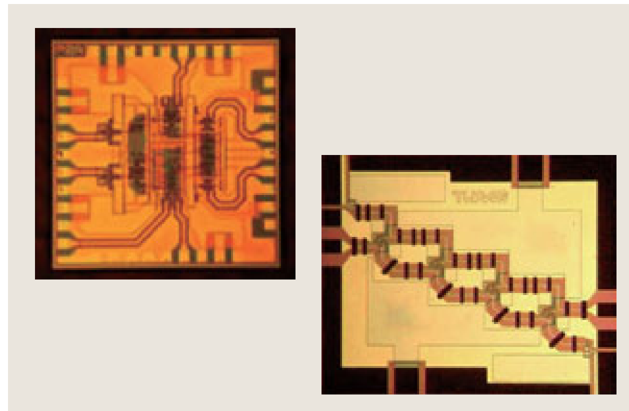
Anritsu projects that for the fiscal year ending March 31, 2009, segment sales will increase 6.7 percent year on year to ¥14,500 million and operating income will increase 22.7 percent to ¥1,000 million.

Research and Development

Anritsu seeks next-generation advanced technologies, so research and development and the strategy for the resulting intellectual property play a critical role as a source of its competitiveness. The Company develops key devices and creates high-value-added solutions based on its Original & High Level technologies.

Clean room for MMIC[1] research and development

Note 1: Microwave Monolithic Integrated Circuit



MMIC chips used in Anritsu products

Research and Development Structure

In implementing Management Innovation 2008, Anritsu has integrated the R&D Center, which performs functions including research and development of fundamental technologies and support for business divisions, with development departments that had been dispersed among domestic business divisions and other units. By gathering together these resources, Anritsu can offer timely solutions that meet customer needs, and has improved development investment efficiency.

Global R&D

Anritsu possesses various test and measurement technologies, including in wireless measurement, ultra-high-speed digital measurement, IP analysis, optical measurement, high-frequency measurement, signal monitoring, network traffic measurement, bandwidth control and alien material inspection. These technologies straddle development departments in Japan, the United States and Europe, which will share the application of component technologies and acquisition of new technologies as they develop new products globally.

Original and High-Level Technologies and Know-How

Anritsu's proprietary key devices and fundamental technologies are the source of its product differentiation, and the Anritsu Group is expanding the application of these technologies and know-how in its products. Recently, we have applied high-speed digital analysis technology in products and are equipping a variety of products with custom integrated circuits.[2] In software development, we are promoting development management through the use of external resources, and are applying our extensive technologies and know-how in hardware and software to develop competitive new products.

Note 2: Specially designed and manufactured chips for specific applications and products.

Strengthening Competitiveness through Our Intellectual Property Strategy

While aligning its business and R&D strategies, Anritsu is aiming to bolster its competitiveness and improve profitability by promoting broader awareness of intellectual property among employees. The Intellectual Property Department works closely with development departments in exchanging information from the product development stage. As a result, for the past several years, we have increased our number of patents held by around 10 percent annually. We will continue to effectively utilize our intellectual property and accumulated technologies and know-how as we move to bolster our competitiveness and increase corporate value.

Corporate Governance

Anritsu is working to upgrade its decision-making system and create an environment in which corporate governance can function effectively to enable a flexible and speedy response to changes in the operating environment and continuously raise corporate value.

Board of Directors

Anritsu has a corporate governance system centered on the Board of Directors and the Board of Corporate Auditors. With the introduction of the executive officer system in 2000, the Board of Directors streamlined its structure to promote faster decision-making through discussion among a small number of people. The Board of Directors discusses matters for resolution and reports, and also holds free discussions of medium-to-long-term management issues. As a rule, the Board of Directors meets once a month, and met 12 times in the year ended March 31, 2008. Attendance at meetings was virtually 100 percent. Outside director Akira Kiyota attended 11 meetings, actively contributing to discussion.

Anritsu separates the decision-making and supervisory functions of the Board of Directors from the business execution functions of the executive officers. Important matters related to business execution are deliberated upon and resolved at the Management Strategy Conference, which is chaired by the president. Matters to be resolved at Board of Directors meetings are discussed in advance at the Management Strategy Conference to enhance the deliberation. The Management Strategy Conference is held once or twice each month.

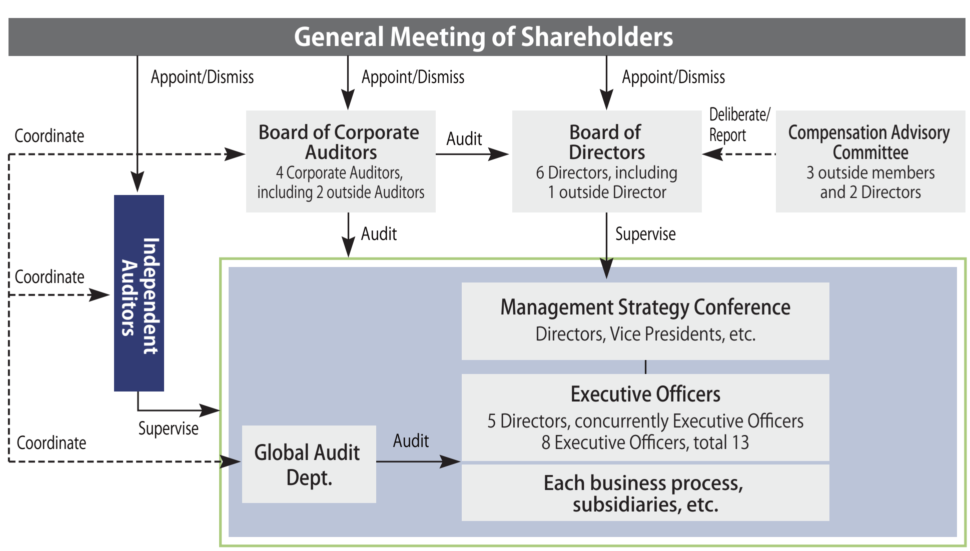
The Compensation Advisory Committee is an advisory body to the Board of Directors. The majority of its members are from outside the Company, raising the transparency of the compensation system and specific evaluations of directors, executive officers and senior corporate staff.

Auditing System

The Board of Corporate Auditors, composed of two full-time corporate auditors and two outside corporate auditors, conducts audits in accordance with audit policies determined by the Board of Corporate Auditors.

The full-time corporate auditors work to gather information through active participation in important internal meetings including Board of Directors Meetings and the Management Strategy Conference, while actively auditing Group companies in Japan and overseas.

The outside corporate auditors are Sukeaki Tatsuoka, formerly a judge and currently a lawyer and university professor; and Yasuo Matoi, who has extensive management experience as well as deep insight in the areas of taxation and accounting. Their auditing is thus based on a high level of expertise.



Internal Control System

To comprehensively understand and evaluate business risks affecting corporate growth and achievement of related management targets, and to manage such risks throughout the organization, Anritsu established a basic policy for internal controls, and is working to strengthen it. In addition, Anritsu has launched an internal control project aimed at establishing and improving the operation of internal controls over financial reporting. Steady progress in the fiscal year ended March 31, 2008 included carrying out focused educational activities for officers through surveys and task setting, while confirming the state of IT control through documentation of business processes and checklists.

Anritsu is working to establish an internal control system centered on the Internal Control Committee, while cooperating with the internal control departments of regional headquarters overseas in promoting ongoing improvement of the internal control system throughout the Anritsu Group. Moreover, by applying its internal control improvements to management innovation activities, Anritsu intends to create an organizational climate and framework that fosters commitment to management objectives.

Risk Management

Anritsu recognizes that its primary risks are in
1) risk relating to decision making and execution of duties,
2) risk of non-compliance with the laws,
3) risk in preserving the environment,
4) risk to product/service quality,
5) risk associated with export/import control,
6) risk to information security, and
7) risk of hazards.

Anritsu clearly identifies who is responsible for control of each risk and carries out risk analysis and evaluation. The Management Strategy Conference discusses risk as necessary and reports to the Board of Directors. In the event of an incident with the potential to seriously impact its operations, Anritsu will establish a risk response headquarters led by the president, based on its risk management rules, and work to minimize damage and resume business quickly. Anritsu has a disaster response system including a recovery plan to respond swiftly and appropriately in the event of a disaster.

Compliance

The Corporate Ethics Promotion Committee plans and carries out company-wide measures designed to promote sound corporate conduct. In the fiscal year ended March 31, 2008, Anritsu expanded the Compliance Reinforcement Week and Corporate Ethics Month campaigns and the Anritsu Group Code of Conduct to subsidiaries in Japan and overseas, and published the Case Study Sheet with explanations in a Q&A format. The Committee carried out additional measures including education activities through level-specific instruction and events promoting compliance, and the Ethics Survey to determine the degree of establishment of the compliance system and the ethical awareness level of employees.

In addition, Anritsu provides a Helpline that accepts reports, information and requests for advice from within the company, as well as outside legal counsel, to prevent ethical and legal violations and aim for a better work environment.

Assessment by External Organizations

Anritsu's corporate governance efforts are also evaluated highly by external organizations.

- Japan Corporate Governance Research Institute, Inc., Report on JCGIndex Survey 2007
  Anritsu placed 15th among 307 companies listed on the Tokyo Stock Exchange First Section that responded.
- Pension Fund Association (a corporate governance fund)
  Included in fund since November 2006 (72 companies as of May 2008)
  This fund invests in companies chosen for their excellent governance.

Directors, Corporate Auditors and Executive Officers (As of July 1, 2008)

Mark Evans Hirokazu Hashimoto Kohei Ono Hiromichi Toda Shigehisa Yamaguchi Akira Kiyota

Directors

Representative Director, President
Hiromichi Toda

Representative Director
Hirokazu Hashimoto

Director
Mark Evans

Director
Kohei Ono

Director
Shigehisa Yamaguchi

Director (Outside Director)
Akira Kiyota
Chairman of the Board,
Daiwa Securities Group Inc.

Corporate Auditors

Full-time Corporate Auditor
Koji Shoji

Full-time Corporate Auditor
Goro Saito

Outside Corporate Auditor
Sukeaki Tatsuoka
(Professor, Gakushuin
University, Graduate School of Law)

Outside Corporate Auditor
Yasuo Matoi
(Advisor, NEC Corporation
Outside Director, Meidensha
Corporation)

Executive Officers

*Concurrently serving as Board Member

Group CEO
Hiromichi Toda*

Executive Vice Presidents

Chief Financial and Corporate Officer
Hirokazu Hashimoto*

Chief Global Strategy Officer
Mark Evans*

Senior Vice Presidents

Chief SCM Strategy Officer
Kohei Ono*

Chief Japan Sales Officer
Tetsuji Kofuji

Chief Sales and CRM Strategy Officer
Shigehisa Yamaguchi*

Vice Presidents

Chief Human Resource and Administration Officer
Shoichi Shimamura

Deputy Chief Sales and CRM Strategy Officer
Frank Tiernan

Chief Business Planning Officer,
Chief Information Officer
Yasuyuki Oguma

Chief Marketing Officer
Kenji Tanaka

Chief Procurement Officer,
Chief Environmental Officer
Koichiro Takahashi

Expatriate Officer in Europe
(Executive Vice President of Anritsu A/S)
Toshihiro Kashiwagi

Chief Technology Officer
Takanori Sumi

Corporate Social Responsibility

The Anritsu Group's philosophy is to create corporate value with sincerity, harmony, and enthusiasm by providing Original & High Level solutions as a company whose growth and development are appreciated among all members of society.

CSR Activities

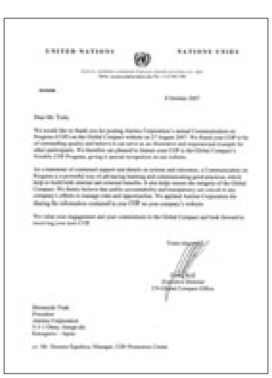
Anritsu established the CSR Promotion Committee as a group-wide organization to lead CSR activities, addressing critical objectives and resolving specific issues regarding CSR. The committee also promotes activities by enlisting the cooperation of those in charge of each area of CSR at Anritsu, including customer service/quality control, human rights, philanthropic activities and other functions, and of participating members from Group companies.

Anritsu drafted four CSR Goals for the medium-to-long term in 2007: 1) contribute to building a safe, secure and comfortable society; 2) maintain harmony with the global socio-economy; 3) promote global environmental protection; and 4) further social communications. While setting a clear direction for its CSR program, Anritsu continues proactive social contribution through its business activities.

Switches and routers made by Anritsu Networks Co., Ltd. were used in the communications system for the Hokkaido Toyako Summit held in July 2008. In addition, we are involved with NTT DATA Corporation in co-development of a two-way communication system for disaster mitigation with emergency alerting and safety verification functions.

Assessment by External Organizations

While promoting Group-wide CSR activities, Anritsu carries out communication activities to promote shareholder and investor understanding of the Company, including publication of the CSR Report as well as information disclosure and dialogue.



Notable COP letter from UN Global Compact

Anritsu was evaluated highly for its corporate ethics in Corporate CSR Global Top 350 Companies, a feature by Newsweek Japan, ranking 314th out of 1,900 companies in 23 countries.

In addition, Anritsu was the fourth Japanese company to be chosen for its Notable Communications on Progress (COP) in recognition of activities it carries out according to the ten principles of the United Nations Global Compact.*

Moreover, Anritsu received the Listed Company Award of the Year (Disclosure Award) from the Tokyo Stock Exchange for providing segment information, including sales by business segment and region, and other detailed materials on the Company website.

FY2007 Disclosure Award by Tokyo Stock Exchange

Daiwa Investor Relations Co., Ltd. Internet IR Site Award of Excellence (7 consecutive years)

While carrying out fair and timely information disclosure, Anritsu will work to give shareholders and investors a deeper understanding of the Company's activities by further enhancing the content of disclosure.

*Note: Global Compact: A collection of organizations supporting ten principles in the areas of human rights, labor, the environment and anti-corruption. Advocated by former UN Secretary General Kofi Annan at the World Economic Forum in January 1999, it was formally launched at the UN Headquarters in New York in July 2000.

CSR Report

Anritsu produces a CSR Report to promote better understanding of the Anritsu Group's CSR activities. The CSR report explains the Anritsu Group's initiatives and relationships with its stakeholders from various perspectives, including the environment, human rights, labor and contribution to communities.

http://www.anritsu.com/About.asp

Financial Section

11-YEAR SUMMARY OF SELECTED FINANCIAL DATA

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31

	2008	2007	2006	2005
For the year:				
Net sales	**¥100,486**	¥ 99,446	¥ 91,262	¥ 84,040
Cost of sales	**56,474**	55,787	55,205	53,666
Gross profit	**44,012**	43,659	36,057	30,374
Selling, general and administrative expenses	**38,656**	37,300	31,508	25,512
Operating income (loss)	**5,356**	6,359	4,549	4,862
Net income (loss)	**(3,901)**	1,376	563	1,280
Depreciation and amortization	**3,373**	3,600	3,453	3,400
Capital expenditures	**2,791**	2,319	2,699	1,870
R&D expenses	**14,115**	14,072	12,509	10,515
At year-end:				
Total assets	**¥124,917**	¥140,395	¥152,359	¥142,111
Net assets	**52,845**	61,619	60,940	—
Interest-bearing debt	**47,010**	53,033	65,590	61,384
Per share:				
Net income (loss)				
Basic	**¥(30.60)**	¥ 10.79	¥ 3.76	¥ 9.31
Diluted (Note 2)	**—**	9.72	3.39	8.22
Cash dividends	**7.00**	7.00	7.00	7.00
Total net assets	**414.16**	483.25	477.51	472.16
Key financial indicators:				
Operating income margin (%)	**5.3**	6.4	5.0	5.8
Return on equity (%)	**—**	2.2	0.9	2.1
Anritsu Capital-cost Evaluation (Note 3) (Millions of yen / thousands of U.S. dollars)	**(750)**	(1,397)	(3,121)	(2,230)
Return on assets (%)	**—**	0.9	0.4	0.9
Interest coverage ratio (times)	**6.5**	5.5	4.3	5.3
Dividend payout ratio (%) (Note 4)	**—**	64.9	186.2	75.2
Dividends on equity (%) (Note 5)	**1.6**	1.5	1.5	1.5

Notes:
1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥100.19 to U.S. $1.00, the approximate exchange rate on March 31, 2008.
2. The computations of basic net income (loss) per share are based on the weighted average number of shares outstanding during the relevant year. Diluted net income per share for 2000 is not presented since the result of the computation was anti-dilutive, and that for 2003 and 1999 is not presented due to net loss. Diluted net income per share is computed based on the average number of shares of common stock and contingent issuances of common stock from convertible bonds or warrants.
3. Anritsu introduced Anritsu Capital-cost Evaluation, an evaluation indicator, in the year ended March 31, 1999.
4. Dividend payout ratio: Total cash dividends / Net income
5. Dividends on equity: Total cash dividends / Net assets

Millions of yen							Thousands of U.S. dollars (Note 1)
2004	2003	2002	2001	2000	1999	1998	2008
¥ 78,396	¥ 78,554	¥131,578	¥159,056	¥115,068	¥113,268	¥128,946	**$1,002,954**
54,249	58,036	85,694	98,112	78,960	78,173	87,766	**563,669**
24,147	20,518	45,884	60,944	36,108	35,095	41,180	**439,285**
22,339	31,267	38,298	37,110	30,832	31,910	34,262	**385,827**
1,808	(10,749)	7,586	23,834	5,276	3,185	6,918	**53,458**
1,101	(32,761)	2,567	9,635	399	(725)	5,144	**(38,936)**
4,257	5,829	6,522	5,328	5,139	5,410	5,137	**33,666**
1,530	2,868	9,677	8,308	5,320	6,944	7,615	**27,857**
9,887	13,222	15,222	15,385	12,532	10,949	10,779	**140,882**
¥148,353	¥144,131	¥198,780	¥207,544	¥170,601	¥170,127	¥168,288	**$1,246,801**
—	—	—	—	—	—	—	**527,448**
70,033	63,164	73,179	45,038	44,027	51,121	41,058	**469,209**
Yen							U.S. dollars
¥ 8.38	¥ (256.90)	¥ 20.10	¥ 75.70	¥ 3.15	¥ (5.73)	¥ 40.67	**$ (0.31)**
7.77	—	18.81	68.02	—	—	36.74	**—**
4.50	—	9.00	12.00	4.50	9.00	9.00	**0.07**
470.28	467.21	737.78	732.94	676.71	678.49	677.59	**4.13**
% except where noted							
2.3	(13.7)	5.8	15.0	4.6	2.8	5.4	**5.3**
1.8	—	2.7	10.7	0.5	—	6.1	**—**
(5,283)	(15,563)	(3,770)	11,146	(1,862)	(3,794)	—	**(7,486)**
0.8	—	1.3	5.1	0.2	—	3.1	**—**
1.7	—	6.5	23.8	4.7	3.1	6.5	**6.5**
53.7	—	44.8	15.9	142.9	—	22.1	**—**
1.0	—	1.2	1.6	0.7	1.3	1.4	**1.6**

Management's Discussion and Analysis

Changes in the Scope of Consolidation

During the fiscal year ended March 31, 2008, the Anritsu Group liquidated two subsidiaries, NetTest do Mexico C.V. de SA and NetTest Co., Ltd. As a result, the Anritsu Group comprised 43 consolidated subsidiaries at the end of the fiscal year, down from 45 a year earlier.

Sales and Income

During the fiscal year ended March 31, 2008, in the information and communications network industry, both wireline and mobile communications moved toward broadband. Along with the development of a wide array of services that use broadband, various efforts to construct next-generation networks (NGN) accelerated worldwide. On the other hand, competition has intensified in this sector, resulting in business restructurings and mergers that have made customer trends harder to identify. Amid these conditions, the Anritsu Group worked to introduce new solutions and enhance its product lineup, as well as to strengthen its sales and customer support networks in each region. In addition, amid a marked trend among customers to restrain capital investments at the start of 2008, the Anritsu Group restructured its strategy for profitable growth and announced Management Innovation 2008, its plan to increase competitiveness and profitability in the fiscal year ending March 31, 2009 and beyond. The Anritsu Group decided to begin undertaking this plan by March 31, 2008, and has been shaping and executing concrete measures, including eliminating unprofitable products and reforming inefficient divisions.

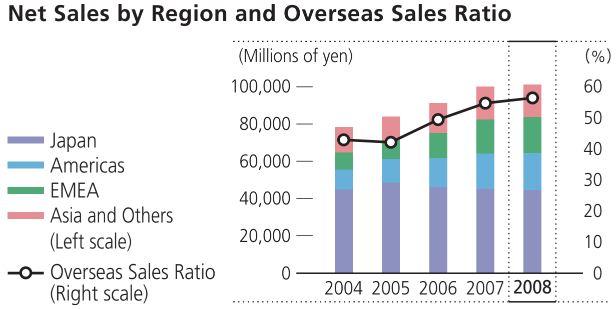
As a result, for the fiscal year ended March 31, 2008, net sales increased 1.0 percent year on year to ¥100,486 million. Operating income decreased 15.8 percent year on year to ¥5,356 million because of reduced profitability in every business segment except Industrial Automation. Moreover, as one result of Management Innovation 2008, loss on valuation of inventories and loss on disposal of inventories in other expenses increased substantially, and Anritsu also incurred restructuring expense in other expenses. Consequently, net loss for the year ended March 31, 2008 totaled ¥3,900 million.

Net Sales

For the fiscal year ended March 31, 2008, net sales increased 1.0 percent, or ¥1,040 million, year on year to ¥100,486 million. The Industrial Automation business segment performed strongly against a backdrop of increasing needs for food safety and security. Sales weakened in the core Test and Measurement business segment. Sales were brisk in the Service Assurance business in Europe, the Middle East and Africa (EMEA). However, in other Test and Measurement businesses, sales of new products were below forecast, particularly with the sharp appreciation of the yen in the second half of the fiscal year and rapidly increasing restraint in capital investment.

On a regional basis, sales increased 2.8 percent year on year in the Americas because of solid performance in the Test and Measurement business segment. In EMEA, Anritsu continued to execute the Tier I strategy initiated in the previous fiscal year, and sales increased 4.6 percent year on year. Overall, overseas sales increased 3.3 percent year on year to ¥56,205 million, and the ratio of overseas sales to net sales increased 1.2 percentage points to 55.9 percent from 54.7 percent. This ratio also increased in part because sales in Japan decreased 1.7 percent year on year to ¥44,281 million. Among various factors, while sales were firm in the Industrial Automation business segment centered on X-ray inspection systems, the demand cycle for highly profitable measuring instruments for use in developing mobile phones came to an end.

Net Sales by Region and Overseas Sales Ratio



Note: The former Europe segment has been changed to EMEA from the year ended March 31, 2007. In addition, Middle East and Africa, which had been part of the Asia and Others segment, are now included in the EMEA segment.

Cost of Sales and Gross Profit

Cost of sales increased 1.2 percent, or ¥687 million, compared with the previous fiscal year to ¥56,474 million, and cost of sales increased to 56.2 percent of net sales from 56.1 percent in the previous fiscal year. Customer restraint in capital investment and the sharp appreciation of the yen in the second half of the fiscal year strongly impacted cost of sales. However, Anritsu continued to reduce material costs and also reduced the research and development expenses that are included in cost of sales, with the result that cost reductions exceeded projections. Gross profit increased 0.8 percent, or ¥353 million, compared with the previous fiscal year to ¥44,012 million, and the ratio of gross profit to net sales decreased 0.1 percentage points to 43.8 percent.

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

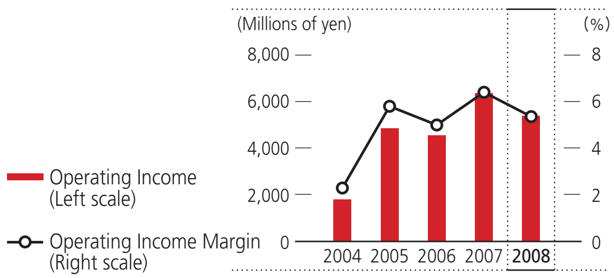
SG&A expenses increased 3.6 percent year on year to ¥38,656 million. Factors included increased personnel expenses due to expansion of the Anritsu Group's overseas sales network, and an increase in pension expenses. Research and development expenses, which are included in cost of sales and SG&A expenses, increased 0.3 percent compared with the previous fiscal year to ¥14,115 million. The ratio of research and development expenses to net sales decreased 0.2 percentage points to 14.0 percent.

As a result of the above, operating income decreased 15.8 percent, or ¥1,003 million, year on year to ¥5,356 million. The ratio of operating income to net sales decreased 1.1 percentage points to 5.3 percent.

SG&A Expenses (Millions of yen)

	2008	2007	Change (%)
Salaries and Bonuses	¥14,277	¥13,216	8.0%
Pensions	1,083	775	39.8
Advertising	2,003	1,800	11.2
Travel and Transportation	2,135	2,038	4.7
Depreciation	1,002	863	16.1
Testing Research	7,444	7,277	2.3

Operating Income and Operating Income Margin



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

Other expenses, net totaled ¥8,513 million, compared to ¥3,258 million for the previous fiscal year. Factors included efforts under Management Innovation 2008 to improve profitability and inventory turnover by eliminating low-profit products. As a result, loss on devaluation of inventories totaled ¥3,221 million, an increase of ¥2,109 million compared with the previous fiscal year. Moreover, loss on disposal of inventories totaled ¥2,247 million, compared to ¥542 million for the previous fiscal year. The Anritsu Group also incurred restructuring expense totaling ¥1,156 million.

As a result of the above, loss before income taxes totaled ¥3,157 million, compared with income before income taxes of ¥3,101 million for the previous fiscal year. Net loss totaled ¥3,901 million, compared with net income of ¥1,376 million for the previous fiscal year. Net loss per share totaled ¥30.60, compared with basic net income per share of ¥10.79 for the previous fiscal year.

Costs, Expenses and Income as a Percentage of Net Sales (%)

	2008	2007	2006
Net Sales	**100.0%**	100.0%	100.0%
Cost of Sales	**56.2**	56.1	60.5
Gross Profit	**43.8**	43.9	39.5
SG&A Expenses	**38.5**	37.5	34.5
R&D Expenses	**14.0**	14.2	13.7
Net Income	—	1.4	0.6

Shareholder Return Policies

Dividend Policy

Anritsu considers the return of profits to shareholders a management priority. Its basic policy for paying dividends from surplus funds is to increase the ratio of dividends on consolidated equity (DOE) to reflect the level of income during the consolidated period while taking into general account factors such as the operating environment and the outlook for results in the current fiscal year and beyond.

Cash Dividends per Share

Based on the above policy, Anritsu maintained cash dividends at ¥7.00 per share for the fiscal year ended March 31, 2008, unchanged from the previous fiscal year despite the net loss, to reward shareholders for their continuing support. The Anritsu Group will use internal capital resources to make capital investments and conduct research and development to respond to rapid advances in technology and changes in market structure.

Business Segments

The Anritsu Group classifies operations into the segments of Test and Measurement, Information and Communications, Industrial Automation, and Services and Others.

Test and Measurement

During the year ended March 31, 2008, segment sales increased substantially as the Anritsu Group continued to execute the Tier 1 strategy initiated in the previous fiscal year in the Service Assurance business, and received orders from leading telecom operators.

In the category of measuring instruments for third generation mobile communications (3G) and 3.5G services, demand was firm for use in mobile handset manufacturing, centered on Japan and Asia, and for handheld products for use in base station installation and maintenance primarily in the United States. However, sales declined overall as demand for use in research and development in Japan and Europe subsided. In addition, NGN-related business and general purpose measuring instruments did not contribute to sales as expected due to the time needed to launch new products and customer restraint in capital investment.

As a result, segment sales decreased 0.2 percent year on year to ¥72,718 million. Operating income decreased 12.5 percent to ¥4,126 million. While income in the Service Assurance business improved, segment operating income was impacted by delays in sales from new products expected to cover decreased profitability from measuring instruments for mobile handsets and the sharp appreciation of the yen.

The Test and Measurement segment, which accounts for approximately 70 percent of the Anritsu Group's net sales, was divided into four sub-segments through the year ended March 31, 2007: Wireless Test and Measurement; Optical, Digital and IP Test and Measurement; General Purpose Test and Measurement; and Service Assurance. Under Management Innovation 2008, however, the Anritsu Group now divides the Test and Measurement segment into three sub-segments: NGN and Infrastructure; Mobile Handset; and General Purpose.

1. NGN and Infrastructure

The NGN and Infrastructure sub-segment includes network construction, maintenance, monitoring and service quality assurance solutions for wireline and wireless service providers, and solutions for communication equipment manufacturers in areas including design, production and testing.

With the proliferation of broadband network services, new services are appearing not only for consumers, such as music and video downloading, IPTV, and social networking services (SNS), but also for enterprise applications. New markets are expanding due to the integration of wireline and wireless communications, as demand for high-speed data transfer rises with increasing data traffic. In addition, with the start of full-scale construction of 40Gbps ultra-high-speed networks and research and development for 100Gbps backbone network equipment, demand for related measuring equipment is expected to increase. Establishment of IP-based NGN is progressing worldwide, and Anritsu anticipates demand for related measuring equipment due to the growth of this market.

On the other hand, technological innovations such as these are prompting mergers and acquisitions between telecom operators, and lending uncertainty to investment trends, including scale and timing. In this environment, Anritsu will work to enhance its lineup of solutions to match the changing needs of major customers while carrying out efficient investment in development.

2. Mobile Handset

The Mobile Handset sub-segment includes measuring instruments for mobile phone acceptance testing by mobile phone service operators, and for design, production, function and performance verification, and maintenance of mobile handsets by manufacturers of mobile phones, IC chipsets and relevant components.

Demand in this sub-segment tends to be influenced by factors including technological innovations in mobile phone services, the degree of diffusion, and the number of new subscribers, new mobile phone models and mobile phones shipped. The number of mobile phone subscriber contracts in Japan was over 100 million at the end of December 2007. With a nearly 100 percent penetration rate, the market is essentially saturated. Moreover, a longer mobile phone replacement cycle is forecast for the Japanese market because service providers have been phasing out the use of mobile phones as a promotional incentive in revising rate plans since fall 2007. On the other hand, demand for mobile handsets is expected to continue growing worldwide as the number of subscribers in China, India and other markets continues to expand strongly.

Full-scale development is expected to begin for handsets supporting Long-Term Evolution (LTE), the 3.9 generation (3.9G) technology, as the current 3.5G technology has almost completely matured. A decrease in the number of customers due to mergers and acquisitions among handset manufacturers has intensified competition and increased pressure on prices. Based on these factors, Anritsu will focus development investment on measuring instruments for LTE handset development in order to meet cutting-edge needs in this area, and develop competitive products to serve the demand for measuring equipment used in LTE handset production that is expected to follow.

3. General Purpose

The General Purpose sub-segment includes measuring instruments widely used in the electronics industry, particularly for design, production and evaluation of electronic devices used in telecommunications network-related communications equipment and other electronic equipment.

Demand in this sub-segment is expected to grow steadily due to the increasing use of electronic components in automobiles as well as communications and advances in intelligent home appliances. Sales of handheld measuring instruments incorporating compact, high-density packaging and energy-saving technologies, an Anritsu strength, are also growing steadily in the United States and other parts of the world. Anritsu will offer a wider range of applications for these markets, and work to further expand business in this sub-segment by enhancing its lineup of network analyzers, spectrum analyzers, signal generators and products that incorporate several of these functions.

Information and Communications

During the fiscal year ended March 31, 2008, customers made conspicuous revisions to their capital investment plans, centered on public information systems. Private-sector sales of bandwidth control equipment weakened despite cooperation with system integrators and other approaches, and segment sales decreased 4.4 percent year on year to ¥5,749 million. Segment operating income decreased 47.5 percent year on year to ¥76 million. The Anritsu Group reduced costs for existing products, but made proactive investments to develop disaster mitigation solutions and build other new businesses.

The Information and Communications segment accounts for 6 percent of the Anritsu Group’s net sales. It is easily influenced by the budgets of the national and local governments because a high proportion of its sales are for delivery to the government market. In addition, because of the connection with customers’ budget implementation periods, approximately 50 percent of sales tend to be concentrated in the fourth quarter.

In the government market, although investment related to disaster prevention and IP infrastructure development is increasing, overall spending for public works projects continues to decline. In the private-sector market, demand is increasing for bandwidth control equipment for maintaining quality of service (QoS) of growing traffic resulting from expansion of video distribution and other services.

Looking forward, the Anritsu Group will expand revenues in the private-sector market and improve profitability by providing high-quality solutions based on its IP network technologies, an area of strength, while promoting its model of business cooperation with system integrators. The Information and Communication business is conducted as Anritsu Networks Co., Ltd., a wholly owned subsidiary of the Company.

Industrial Automation

During the year ended March 31, 2008, heightened concerns about food safety and security resulted in a sharp increase in demand for food inspection equipment, and domestic and overseas sales of X-ray inspection systems were strong. Overseas, sales of automatic checkweighers were robust. As a result, segment sales increased 10.6 percent year on year to ¥13,596 million. Segment operating income increased 34.0 percent year on year to ¥815 million because of increased sales and efforts to counter the sharp rise in the price of metal raw materials.

The Industrial Automation segment accounts for 14 percent of the Anritsu Group’s net sales. Since approximately 80 percent of segment sales are made to food manufacturers, this segment is influenced by the effect that the economic growth rate and changes in consumer spending levels have on food manufacturers. Its core products, metal detectors and X-ray inspection systems, have achieved the leading share in the market for inspection systems due to their high speed and precision in detecting metal fragments and other alien materials in the food processing process. Investment to expand market share in Asia, the United States and Europe resulted in an overseas sales ratio of approximately 30 percent.

Inquiries about the Anritsu Group’s quality control inspection solutions, especially from the Americas and Europe, are on the increase following food safety and security incidents in Japan and other countries. At the same time, in addition to the rise in the procurement cost of metals used as raw materials, the Group must deal with new concerns including restrained capital investment by domestic food manufacturers due to the rising cost of flour and other food raw materials and packaging materials. To address these factors, Anritsu will begin overseas production aimed at lowering production and distribution costs, and continue working to strengthen the price competitiveness of this business segment by commoditizing and standardizing basic units and reducing costs. The Industrial Automation business is conducted as Anritsu Industrial Solutions Co., Ltd., a wholly owned subsidiary of the Company.

Services and Others

This segment comprises devices, precision measurement, environmental, logistics, welfare services, real estate leasing and other businesses.

In the year ended March 31, 2008, segment sales increased 2.0 percent compared with the previous fiscal year to ¥8,423 million and segment operating income decreased 26.9 percent year on year to ¥1,926 million. Demand for optical communications devices waned in the video distribution market, but sales of low-cost existing products for metro networks increased. Other factors included expenses associated with efforts to improve quality control in the precision measuring instruments business.

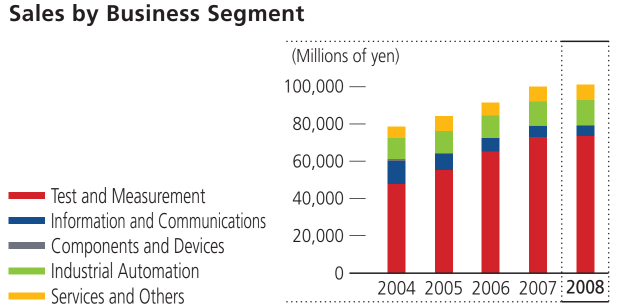
Geographical Segments

Japan

In the domestic test and measurement business, sales were firm of 3G and 3.5G measuring equipment to domestic mobile handset manufacturers for new handset models that can be used internationally. However, demand waned for highly profitable measuring instruments for use in research and development, and sales and operating income decreased. In addition, NGN development and general purpose measuring instruments did not contribute to sales as planned because of factors including the time needed to launch new products aimed at increasing profitability and restrained capital investment among customers.

The information and communications business was profitable even though customers made conspicuous adjustments to their capital investment plans, centered on public information systems, and private-sector sales of bandwidth control equipment weakened despite cooperation with system integrators and other approaches. In the industrial automation business, heightened concern about food safety and security resulted in higher sales, centered on X-ray inspection systems. In other businesses, in the device business waning demand for optical devices for the video distribution market caused sales to decline, but sales of low-cost existing products for metro networks increased. The Anritsu Group also incurred expenses associated with efforts to improve quality control in the precision measuring instruments business. Operating income in Japan decreased due to these and other factors.

Sales by Business Segment



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

As a result, sales in Japan increased 0.5 percent year on year to ¥50,167 million, and operating income decreased 51.6 percent to ¥2,497 million.

Americas

In the Test and Measurement segment, sales of handheld measuring instruments for installation and maintenance of base stations for mobile communications were solid. However, operating income decreased in the absence of the large-scale orders of the previous fiscal year. Sales of general purpose handheld measuring instruments for applications such as measuring radio waves were strong, but sales of other general purpose measuring instruments decreased.

As a result, sales in the Americas decreased 1.0 percent year on year to ¥20,438 million, and operating income decreased 14.8 percent to ¥3,471 million.

Europe

In the Test and Measurement segment, sales of 3G and 3.5G measuring equipment decreased due to waning demand for use in R&D. However, in the Service Assurance business, the Anritsu Group continued to execute the Tier 1 strategy initiated in the previous fiscal year, and received orders from major telecom operators. As a result, sales increased substantially and the operating loss narrowed.

As a result, sales in Europe increased 8.0 percent year on year to ¥19,267 million, and the operating loss decreased substantially to ¥1,925 million from ¥3,005 million for the previous fiscal year.

Asia and Others

In the Test and Measurement segment, demand for measuring instruments was impacted because full-scale demand for TD-SCDMA handsets in China has not yet developed and demand for measuring instruments for mass production of universal mobile telecommunication system (UMTS) handsets (3G for Europe and the Americas) has not reached expected levels. Demand for handheld measuring instruments for installation and maintenance of base stations and for measuring instruments for construction and maintenance of optical networks was stagnant. In the industrial automation business, demand remained solid in Southeast Asia for products such as specialized checkweighers.

As a result, sales decreased 4.0 percent year on year to ¥10,614 million, and operating income decreased 23.7 percent to ¥438 million.

Liquidity and Financial Condition

Fund Procurement and Liquidity Management

The Anritsu Group's funding requirements consist primarily of working capital such as material purchase costs and operating expenses incurred in product manufacturing, sales and marketing, as well as capital investment funds and research and development expenses. Anritsu supplements internal capital resources by directly and indirectly procuring funds from external sources to secure sufficient liquidity. In addition, despite a worldwide contraction in credit resulting from turbulence in financial markets triggered by the subprime mortgage problem in the United States, the Anritsu Group established a committed ¥15,000 million line of credit in April 2008 that will be available until March 2011, thus securing stable financing. Looking forward, while preparing for unforeseen financial risks, both domestic and overseas, in a dramatically changing market environment, the Anritsu Group will swiftly and flexibly meet its capital requirements for working capital, repayment of long-term borrowings and business growth.

In the year ended March 31, 2008, Anritsu continued to make progress in reducing interest-bearing debt. As a result, the balance of interest-bearing debt was ¥47,010 million, compared to ¥53,033 million at the end of the previous fiscal year. The net debt-to-equity ratio[1] was 0.57 times, compared with 0.54 times at the previous fiscal year-end. The debt-to-equity ratio[2] was 0.89 times, compared with 0.86 times at the previous fiscal year-end.

The Company will use increased cash flow generated by improvements in Anritsu Capital-cost Evaluation[3] and asset turnover as well as enhanced capital efficiency resulting from measures including an internal Group cash management system to make further reductions in interest-bearing debt, improve the net debt-to-equity ratio, enhance shareholders' equity and fortify its financial structure. At the end of March 2008, Rating and Investment Information, Inc. (R&I) rated Anritsu's short-term debt a-2, and its long-term debt BBB. Anritsu will continue working to enhance its financial stability in order to improve its debt rating.

Note 1: Net debt-to-equity ratio: (Interest-bearing debt - Cash and cash equivalents)/Net assets
Note 2: Debt-to-equity ratio: Interest-bearing debt/Net assets
Note 3: Anritsu Capital-cost Evaluation (ACE): Net operating profit after tax - Invested capital cost

Cash Flow

Cash and cash equivalents as of March 31, 2008 decreased ¥3,262 million from the end of the previous fiscal year to ¥16,685 million. The main factor was the reduction of interest-bearing debt.

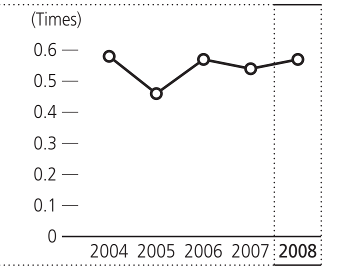
Free cash flow, defined as the sum of net cash provided by operating activities and net cash provided by or used in investing activities, increased to ¥3,878 million from ¥2,908 million for the previous fiscal year.

Net cash provided by operating activities totaled ¥6,251 million, compared with ¥2,488 million in the previous fiscal year. Main factors included more efficient deployment of working capital through means including reduction in inventories. Moreover, income taxes payable at U.S. subsidiaries decreased. Depreciation and amortization was ¥3,348 million, a decrease of ¥322 million compared with the previous fiscal year.

Net cash used in investing activities was ¥2,373 million. In the previous fiscal year, investing activities provided net cash of ¥420 million. This year-on-year change primarily reflected the absence of the proceeds from sale of marketable and investment securities of the previous fiscal year. Acquisition of property, plant and equipment totaled ¥2,438 million, an increase of ¥219 million compared with the previous fiscal year.

Net cash used in financing activities was ¥6,625 million, compared with ¥13,975 million in the previous fiscal year. One factor in the year-on-year change was the April 2007 repayment of a syndicated loan totaling ¥7,000 million. The Anritsu Group prepared for the January 2008 redemption of the third series of unsecured bonds totaling ¥15,000 million by issuing the fourth series of unsecured bonds totaling ¥10,000 million in September 2007, and by procuring a syndicated loan totaling ¥7,000 million in January 2008.

Net Debt-to-Equity Ratio



Assets, Liabilities and Net Assets

As of March 31, 2008, total assets decreased 11.0 percent, or ¥15,478 million, from a year earlier to ¥124,917 million. Current assets decreased 11.4 percent, or ¥9,733 million, from a year earlier to ¥75,659 million. Primary factors included a decrease in inventories reflecting the loss on devaluation of inventories and the loss on disposal of inventories incurred for the fiscal year.

The inventory turnover ratio improved to 4.9 times from 3.7 times for the previous fiscal year. One of the Anritsu Group's near-term objectives is to increase the inventory turnover ratio to 6.0 times.

Property, plant and equipment net of accumulated depreciation decreased 6.4 percent, or ¥1,513 million, from a year earlier to ¥21,946 million. Factors included a reduction in assets resulting from the restructuring of R&D divisions in connection with the discontinuation of certain products in the former Optical, Digital and IP Test and Measurement sub-segment. Investments and other assets decreased 13.4 percent, or ¥4,232 million, from a year earlier to ¥27,312 million. Factors included a reduction in goodwill based on international accounting standards through the one-time amortization of testing research expenses associated with the discontinuation of certain products in the network monitoring business.

As of March 31, 2008, total liabilities decreased 8.5 percent, or ¥6,704 million, from a year earlier to ¥72,072 million. Current liabilities decreased 46.3 percent, or ¥23,651 million, from a year earlier to ¥27,435 million. The decrease was the result of the redemption of the third series of unsecured bonds totaling ¥15,000 million and the repayment of the syndicated loan totaling ¥7,000 million. The current ratio was 275.8 percent, compared to 167.2 percent a year earlier. Working capital totaled ¥48,224 million as of March 31, 2008, compared to ¥34,305 million a year earlier.

Long-term liabilities decreased 61.2 percent, or ¥16,947 million, from a year earlier to ¥44,637 million. Long-term debt increased ¥16,283 million from a year earlier to ¥40,734 million because the Anritsu Group issued the fourth series of unsecured bonds totaling ¥10,000 million and procured a ¥7,000 million syndicated loan. Total interest-bearing debt decreased ¥6,023 million from a year earlier to ¥47,010 million.

Net assets decreased 14.2 percent, or ¥8,774 million, from a year earlier to ¥52,845 million. The ratio of net assets to total assets was 42.3 percent, compared to 43.9 percent a year earlier.

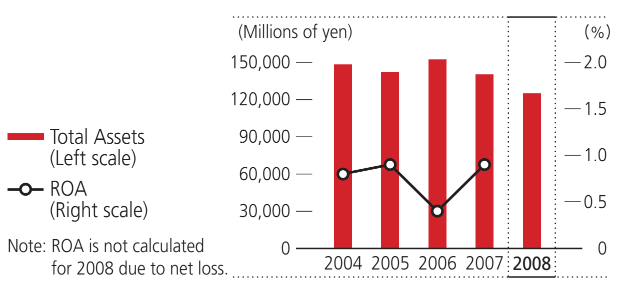
Capital Expenditures

For the fiscal year ended March 31, 2008, capital expenditures increased 20.3 percent compared with the previous fiscal year to ¥2,791 million. The Anritsu Group is concentrating resources in fields related to the ongoing evolution of communication network quality and high performance, including the integration of wireline and wireless communication networks, and the development of next-generation networks. During the year ended March 31, 2008, the Anritsu Group concentrated capital expenditures in the core Test and Measurement segment with the primary objectives of enhancing research and development efficiency and rationalizing its production network.

Overview of Capital Expenditures (Millions of yen)

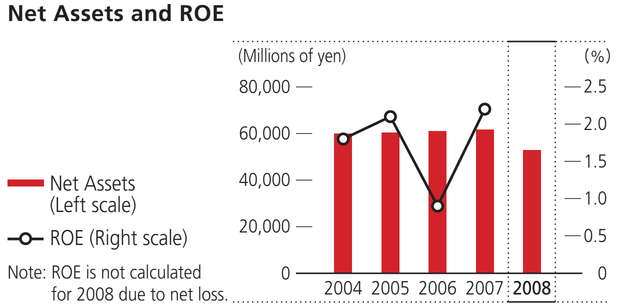
	2008	Change (%)
Test and Measurement	¥2,162	27.2%
Information and Communications	83	(30.5)
Industrial Automation	192	15.3
Services and Others	285	1.8
Sub-total	2,722	20.2
Eliminations or corporate	69	24.8
Total	¥2,791	20.3%

Total Assets and ROA



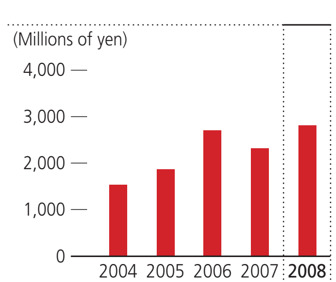
Note: ROA is not calculated for 2008 due to net loss.

Net Assets and ROE



Note: ROE is not calculated for 2008 due to net loss.

Capital Expenditures



Research and Development

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

An overview of research and development expenditures in the year ended March 31, 2008 follows below.

(Millions of yen)

	2008	Ratio to Segment Sales (%)
Test and Measurement	¥10,576	14.5%
Information and Communications	369	6.4
Industrial Automation	1,092	8.0
Services and Others	347	4.1
Basic Research	1,731	—
Total	¥14,115	14.0%

Note: The "Total" line shows the ratio to net sales.

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

1. Test and Measurement

1) MP1800A Signal Quality Analyzer: Development of 10G Ethernet, Optical Module, and Stressed Receiver Testing

With the increasingly large volume of web content, data transmission capacity is constantly expanding. This is leading to rapid development and production of optical modules for 10G Ethernet and transmission devices equipped with these modules. These conditions are creating a need for test environments with the high repeatability necessary to ensure stable interconnectivity of transmission devices. Anritsu has enhanced the functionality of the MP1800A Signal Quality Analyzer by enabling stressed receiver conformance testing,[4] which contributes to efficient test performance to secure interconnectivity.

Note 4: Stressed receiver conformance testing: Bit error rate testing of 10GbE optical modules and transmission devices by intentionally transmitting a faulty waveform.

2) MD1230B Data Quality Analyzer: Development of a Traffic Impairment Emulator

NGNs are leading communications and video distribution to migrate to IP. For real-time services such as video delivery, exemplified by IPTV, and communications that use Voice over IP (VoIP), raising QoS and quality of experience (QoE)[5] are key to providing high-quality, enjoyable services. High QoE is contingent upon stable operation of networks and transmission devices despite the various conditions that can stress or impair transmission. By enhancing the functions of the MD1230B Data Quality Analyzer, Anritsu has developed a traffic impairment emulator that enables the construction of effective QoE testing environments. It enables highly accurate reproduction of conditions that stress and impair networks, and provides an effective testing environment for communication and broadcast providers, transmission equipment manufacturers and others testing network equipment QoE.

Note 5: Quality of Experience: The perceived quality of service among users.

3) MS2690A/91A/92A Signal Analyzer: Development of Measurement Functions for LTE

With 3G now spreading globally, standardization is progressing for 3.9G, the next-generation communication system featuring even faster data transmission and fewer delays. Moreover, development of base stations, mobile phones, amplifiers, antennae and other equipment for LTE has begun, creating a growing need for the measuring instruments required for LTE technology development. Anritsu has launched the MS269XA series of signal analyzers for next-generation broadband wireless communication signal analysis, and has enhanced functionality by developing software for generating LTE signal waveform patterns and for fast, highly accurate measurement. The MS269XA is a one-box solution for testing transmission and reception performance of base stations, mobile phones and devices for LTE with a simple evaluation system that raises work efficiency. Moreover, its high-speed measurement enables high testing throughput during communication equipment production inspection, which contributes to lower manufacturing costs.

2. Information and Communications

Development of the EN5001A L2SW with an On-Board Elementary Stream (ES) Converter

The EN5001A L2SW with an on-board ES converter has six Fast Ethernet ports and one primary communication port and allows construction of wide-area LANs through existing synchronous digital hierarchy (SDH) transmission channels.

Networks are getting faster and covering wider areas, creating the need for centralized, low-cost monitoring of IP equipment installed in remote locations. The EN5001A L2SW responds to this need by using transmission channels to send maintenance information from remote measuring equipment used in the construction of wide-area LANs to the operations center.

3. Industrial Automation

Development of Quality Management and Control Systems

Given rising concerns about food safety and security, food manufacturers are focusing on strict control of the growing regions and raw materials that are part of the food production process as well as control of the food production processes themselves. To maintain quality, the scope of inspection is expanding from the shipment processes following packaging to raw material processing. Moreover, food manufacturers want quality inspection equipment tailored to the characteristics and shapes specific to their own products, which has resulted in striking diversification of customer needs.

Responding to these market conditions, Anritsu has expanded its product lineup and is developing products that respond to specific customer quality inspection needs.

Management Objectives and Indicators

Anritsu aims to maximize corporate value by managing its operations with a focus on consolidated cash flow. In addition, Anritsu uses an original metric, ACE (Anritsu Capital-cost Evaluation), to evaluate the results of each business to analyze the added value generated by capital invested.

During the year ended March 31, 2008, consolidated ACE was negative ¥750 million, compared to negative ¥1,397 million for the previous fiscal year. Anritsu did not have consolidated ROE for the year ended March 31, 2008 because of the net loss, while ROE was 2.2 percent for the previous fiscal year. The Anritsu Group is now restructuring under a strategy of generating profitable growth while enhancing competitiveness and profitability, and has set the medium-term targets of a consolidated operating margin of 10 percent or higher and ROE of 10 percent or higher.

Outlook and Management Issues for the Year Ending March 31, 2009

For the year ending March 31, 2009, expansion of emerging economies is expected to continue supporting the global economy. Ongoing turbulence in world financial markets, however, warrants attention to factors including concerns about economic recession in the United States, the effect that such a recession would have on Japan and Europe, foreign exchange trends and the worsening of corporate profits that would result. In this severe market environment, the Anritsu Group will deploy the following measures.

In the Test and Measurement segment, Anritsu will begin implementing the measures in Management Innovation 2008 announced in January 2008 to raise profitability. To further improve profitability in the Service Assurance business, Anritsu will promote the Tier 1 strategy and increase efforts outside of EMEA. In the Mobile Handset sub-segment, Anritsu will focus on enhancing measuring instruments used in the development of 3.9G LTE handsets, which is now well under way. In sales, Anritsu will continue to expand sales channels and promote the launch of new products that match market needs by getting closer to customers through sharing development road maps with key customers and strengthening its product planning ability.

In the Information and Communications segment, Anritsu will aggressively cultivate private-sector markets by boosting the competitiveness of its IP network solutions and strengthening relationships with system integrators. In addition, it will work to fortify its management foundation.

In the Industrial Automation segment, while strengthening cost-cutting to improve profitability, Anritsu aims to expand by promoting a product strategy of higher added value and differentiation while further accelerating business development in overseas markets

While steadily executing these business strategies, Anritsu will emphasize appropriate management of and response to risks and the shift to new sources of competitiveness. Anritsu will do so by refining and coordinating the internal control system that it is vigorously developing while continuously improving our risk management system and working to achieve its management targets.

The Anritsu Group believes that honest business practices enhance corporate value, and is energetically fulfilling its corporate social responsibility (CSR). The Anritsu Group goes beyond what it considers to be its primary CSR activity — contributing to the realization of a safe, secure society through its products and services — to review the activities of the entire Group in all areas of CSR, including compliance, corporate governance, the environment, human rights and risk management. Doing so will lead to further improvement of the Group's infrastructure.

In the core Test and Measurement segment, Anritsu anticipates sales growth in the Service Assurance business, but expects sales to decline in other Test and Measurement businesses due to restrained capital investment by customers. However, Anritsu expects sales growth to continue in the Industrial Automation segment. Overall, Anritsu projects that net sales will be essentially unchanged from the year ended March 31, 2008.

Anritsu expects the implementation of Management Innovation 2008 to enhance profitability. However, loss on devaluation of inventories, previously recorded in other income (expenses), will be included in cost of sales in accordance with a new accounting standard for inventory valuation effective April 1, 2008. The strong yen and weak dollar will also erode earnings. Consequently, Anritsu expects operating income for the year ending March 31, 2009 to decrease. In addition, Anritsu projects that it will recognize the difference in inventories at the beginning and the end of the fiscal year resulting from the application of the new accounting standard as a charge of approximately ¥1.5 billion included in other income (expenses).

Given the above factors, for the year ending March 31, 2009 Anritsu projects as of April 24, 2008 that net sales will decrease 0.5 percent year on year to ¥100.0 billion, operating income will decrease 16.0 percent year on year to ¥4.5 billion, and net income will total ¥1.0 billion, compared with the net loss of ¥3.9 billion in the year ended March 31, 2008.

Risk Information

The following are among the operational and management issues presented in this annual report that have the potential to materially affect investor decisions. Forward-looking statements reflect the Anritsu Group's judgment as of March 31, 2008.

(1) Inherent Risks in the Anritsu Group's Technology and Marketing Strategies

The Anritsu Group works to deploy its well-developed technological capabilities to provide products and services that offer value to customers. However, the rapid pace of technological innovation in the Anritsu Group's core information and communication markets and the Anritsu Group's ability to deliver products and services in a timely manner to meet the needs and wants of customers are factors that have the potential to exert a material impact on the Anritsu Group's results.
Amid advances in mobile phone and internet protocol (IP) technologies, an especially important point is the ability to provide customers with timely solutions based on an accurate understanding of trends in service and research and development investment for quadruple play services incorporating voice, video, internet and mobile, as well as Fixed-Mobile Convergence (FMC) and NGN.

(2) Market Fluctuation Risk

External factors including changes in the economy or market conditions and technological innovation affect the profitability of product lines the Group develops and have the potential to exert a significant material impact on the Anritsu Group's results.

In the Test and Measurement segment, economic conditions and consumption trends in countries worldwide influence changes in capital investment among telecom operators, telecommunications equipment manufacturers and electronic component manufacturers. In addition, the increasing sophistication and complexity of telecommunications services represented by quad play services, FMC and NGN are accelerating alliances and reorganization in the telecommunications industry, which is lending uncertainty to investment trends. Moreover, demand for mobile communications measuring instruments, the cornerstone of earnings for the Anritsu Group, is affected by such factors as the number of subscribers, penetration rate and technological innovation in mobile phone services, and earnings are also affected by the Company's response to factors such as changes in the food chain, as seen in areas such as System on Chip for mobile phones, and intensified price competition for measuring instruments for commercial scale production of mobile phones.

The Information and Communications segment has a high proportion of sales to government entities, and the scale and status of implementation of government and municipal budgets for disaster prevention and IP networks may exert a material impact on its performance.

In the Industrial Automation segment, sales to food manufacturers constitute about 80 percent of sales. Economic growth rates, consumer spending and raw material price trends have the potential to impact performance, capital investment and other issues among food manufacturers and materially influence this segment's performance.

(3) Global Business Development Risks

The Anritsu Group markets its products globally, and conducts business in the Americas, Europe, Asia and elsewhere. In particular, the overseas sales ratio for the Test and Measurement business is about 70 percent, and many customers likewise operate on a global scale. As a result, economic trends in countries worldwide, international conditions and progress in the Anritsu Group's global strategy have the potential to exert a material impact on earnings. Of particular importance is the increase in mergers, acquisitions and realignment among operators doing business globally and telecommunications equipment manufacturers, which is expected to continue amid the worldwide acceleration of the integration of information and communications and of FMC. Significant changes in capital investment resulting from this trend have the potential to exert a material impact on the Anritsu Group's operating results.

(4) Foreign Exchange Risk

The Anritsu Group's sales outside Japan account for 55.9 percent of consolidated net sales. The Anritsu Group hedges foreign exchange risk using instruments including forward foreign exchange contracts for foreign exchange transactions that occur upon collection of accounts receivable and other events. However, rapid changes in foreign exchange rates have the potential to exert a material impact on the Anritsu Group's performance.

(5) Long-term Inventory Obsolescence Risk

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

(6) Risk of Impairment of Goodwill

As of March 31, 2008, the balance sheets of the Anritsu Group included goodwill resulting from the acquisition of an overseas company in order to expand the scope of business of the Test and Measurement segment. The impact on earnings of the Test and Measurement business from changes in the global economy and markets, intensifying competition and other factors has the potential to cause the Group to recognize impairment of goodwill.

Consolidated Balance Sheets

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Assets			
Current assets:			
Cash	**¥ 17,385**	¥ 18,948	**$ 173,520**
Marketable securities (Note 4)	**—**	999	**—**
Notes and accounts receivable — trade	**27,616**	28,113	**275,636**
Allowance for doubtful accounts	**(419)**	(488)	**(4,182)**
Inventories (Note 5)	**20,652**	26,600	**206,128**
Deferred tax assets (Note 8)	**9,071**	9,324	**90,538**
Other current assets	**1,354**	1,896	**13,515**
Total current assets	**75,659**	85,392	**755,155**
Property, plant and equipment:			
Land	**4,398**	4,558	**43,897**
Buildings and structures	**44,891**	44,924	**448,059**
Machinery and equipment	**28,557**	30,497	**285,028**
Construction in progress	**158**	34	**1,577**
	78,004	80,013	**778,561**
Accumulated depreciation	**(56,058)**	(56,554)	**(559,517)**
Net property, plant and equipment	**21,946**	23,459	**219,044**
Investments and other assets:			
Investment securities (Note 4)	**1,613**	2,285	**16,099**
Goodwill, net of amortization	**12,518**	14,651	**124,943**
Long-term prepaid expense	**7,615**	7,490	**76,006**
Deferred tax assets (Note 8)	**1,849**	1,703	**18,455**
Other assets	**3,741**	5,444	**37,339**
Allowance for doubtful accounts	**(24)**	(29)	**(240)**
Total investments and other assets	**27,312**	31,544	**272,602**
Total assets	**¥124,917**	¥140,395	**$1,246,801**

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings (Note 6)	**¥ 6,208**	¥6,582	**$ 61,962**
Long-term debt due within one year (Note 6)	**68**	7,000	**679**
Notes and accounts payable — trade	**7,270**	7,477	**72,562**
Current portion of bonds	**—**	15,000	**—**
Accrued liabilities	**5,098**	6,199	**50,883**
Accrued expenses	**2,299**	2,401	**22,946**
Income taxes payable	**830**	1,275	**8,284**
Other current liabilities	**5,662**	5,152	**56,513**
Total current liabilities	**27,435**	51,086	**273,829**
Long-term liabilities:			
Long-term debt (Note 6)	**40,734**	24,451	**406,568**
Employees' severance and retirement benefits (Note 11)	**1,866**	1,741	**18,625**
Severance and retirement benefits for directors and corporate auditors	**33**	81	**329**
Accrued bonuses	**9**	48	**90**
Deferred tax liabilities (Note 8)	**865**	755	**8,634**
Other long-term liabilities	**1,130**	614	**11,278**
Total long-term liabilities	**44,637**	27,690	**445,524**
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 2008 and 2007	**14,050**	14,050	**140,234**
Additional paid-in capital	**23,000**	23,000	**229,564**
Retained earnings	**22,323**	27,117	**222,807**
Treasury stock, at cost	**(832)**	(825)	**(8,304)**
Net unrealized holding gains on securities	**184**	706	**1,837**
Deferred gain or loss on hedged transactions	**(23)**	(1)	**(230)**
Foreign currency translation adjustments	**(5,911)**	(2,442)	**(58,999)**
Reservation rights on common stock	**54**	14	**539**
Total net assets	**52,845**	61,619	**527,448**
Total liabilities and net assets	**¥124,917**	¥140,395	**$1,246,801**

Consolidated Statements of Operations

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Net sales (Note 15)	**¥100,486**	¥99,446	¥91,262	**$1,002,954**
Cost of sales (Note 15)	**56,474**	55,787	55,205	**563,669**
Gross profit	**44,012**	43,659	36,057	**439,285**
Selling, general and administrative expenses (Note 15)	**38,656**	37,300	31,508	**385,827**
Operating income (Note 15)	**5,356**	6,359	4,549	**53,458**
Other income (expenses):				
Interest and dividends income	**293**	434	104	**2,924**
Interest expenses	**(888)**	(1,235)	(980)	**(8,863)**
Foreign exchange gain (loss)	**(259)**	(465)	551	**(2,585)**
Amortization of bond issue costs	**—**	—	(16)	**—**
Gain on liquidation of subsidiary	**—**	167	—	**—**
Gain on expiration of warrants	**—**	160	—	**—**
Gain on sales of investment securities	**—**	1	1,648	**—**
Loss on disposal of inventories	**(2,427)**	(542)	(55)	**(24,224)**
Loss on devaluation of inventories	**(3,221)**	(1,112)	(1,566)	**(32,149)**
Loss on disposal of fixed assets	**(127)**	(122)	(159)	**(1,268)**
Gain on sales of property, plant and equipment	**74**	199	154	**739**
Loss on devaluation of investment securities	**(30)**	(40)	(332)	**(299)**
Special premium payment on the separation from pension fund	**—**	—	(44)	**—**
Restructuring expense	**(1,156)**	—	(1,023)	**(11,538)**
Special retirement benefits	**—**	(332)	—	**—**
Other, net	**(772)**	(371)	(803)	**(7,705)**
	(8,513)	(3,258)	(2,521)	**(84,968)**
Income (loss) before income taxes	**(3,157)**	3,101	2,028	**(31,510)**
Provision for income taxes (Note 8):				
Current	**436**	2,216	1,343	**4,351**
Deferred	**308**	(491)	122	**3,075**
	(3,901)	1,376	563	**(38,936)**
Net income (loss)	**¥ (3,901)**	¥ 1,376	¥ 563	**$ (38,936)**

	Yen			U.S. dollars
	2008	2007	2006	2008
Amount per share of common stock:				
Net income (loss):				
Basic	**¥(30.60)**	¥10.79	¥3.76	**$(0.31)**
Diluted	**—**	9.72	3.39	**—**
Cash dividends applicable to the year	**7.00**	7.00	7.00	**0.07**

See accompanying notes.

Consolidated Statements of Changes in Net Assets

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2008, 2007 and 2006

		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, 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 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 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
Cash dividends paid	**—**	**—**	**—**	**(892)**	**—**	**—**	**—**	**—**	**—**	**(892)**
Net income (loss)	**—**	**—**	**—**	**(3,901)**	**—**	**—**	**—**	**—**	**—**	**(3,901)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(10)**	**—**	**—**	**—**	**—**	**(10)**
Disposition of treasury stock	**—**	**—**	**—**	**—**	**3**	**—**	**—**	**—**	**—**	**3**
Net changes during the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**40**	**40**
Net unrealized holding gain on securities	**—**	**—**	**—**	**—**	**—**	**(522)**	**—**	**—**	**—**	**(522)**
Deferred gain or loss on hedged transactions	**—**	**—**	**—**	**—**	**—**	**—**	**(22)**	**—**	**—**	**(22)**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,469)**	**—**	**(3,469)**
Loss on sale of treasury stock	**—**	**—**	**—**	**(1)**	**—**	**—**	**—**	**—**	**—**	**(1)**
Balance at March 31, 2008	**128,037,848**	**¥14,050**	**¥23,000**	**¥22,323**	**¥(832)**	**¥ 184**	**¥(23)**	**¥(5,911)**	**¥54**	**¥52,845**

		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, 2007	128,037,848	$140,234	$229,564	$270,656	$(8,234)	$ 7,046	$ (10)	$(24,374)	$139	$615,021
Cash dividends paid	**—**	**—**	**—**	**(8,903)**	**—**	**—**	**—**	**—**	**—**	**(8,903)**
Net income (loss)	**—**	**—**	**—**	**(38,936)**	**—**	**—**	**—**	**—**	**—**	**(38,936)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(100)**	**—**	**—**	**—**	**—**	**(100)**
Disposition of treasury stock	**—**	**—**	**—**	**—**	**30**	**—**	**—**	**—**	**—**	**30**
Net changes during the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**400**	**400**
Net unrealized holding gain on securities	**—**	**—**	**—**	**—**	**—**	**(5,209)**	**—**	**—**	**—**	**(5,209)**
Deferred gain or loss on hedged transactions	**—**	**—**	**—**	**—**	**—**	**—**	**(220)**	**—**	**—**	**(220)**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(34,625)**	**—**	**(34,625)**
Loss on sale of treasury stock	**—**	**—**	**—**	**(10)**	**—**	**—**	**—**	**—**	**—**	**(10)**
Balance at March 31, 2008	**128,037,848**	**$140,234**	**$229,564**	**$222,807**	**$(8,304)**	**$ 1,837**	**$(230)**	**$(58,999)**	**$539**	**$527,448**

See accompanying notes.

Consolidated Statements of Cash Flows

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Cash flows from operating activities				
Net income (loss)	**¥ (3,901)**	¥ 1,376	¥ 563	**$ (38,936)**
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	**3,348**	3,670	3,630	**33,417**
Amortization expense of goodwill	**641**	641	325	**6,398**
Gain on sales of investment securities	**—**	(1)	(1,648)	**—**
Gain on sales of property, plant and equipment	**(74)**	(199)	(208)	**(739)**
Loss on devaluation of investment securities	**30**	40	332	**299**
Deferred income taxes	**308**	(491)	122	**3,074**
Other — net	**(112)**	(279)	(471)	**(1,118)**
Changes in assets and liabilities:				
Notes and accounts receivable — trade	**(1,590)**	1,218	(1,625)	**(15,870)**
Inventories	**4,962**	(1,790)	2,271	**49,526**
Other current assets	**335**	1,389	(1,069)	**3,344**
Notes and accounts payable — trade	**1,035**	(1,853)	111	**10,330**
Income taxes payable and receivable	**(290)**	629	(180)	**(2,895)**
Provision for retirement benefits	**1**	79	1,173	**10**
Other current liabilities	**(549)**	310	3,808	**(5,480)**
Other — net	**2,107**	(2,251)	(1,205)	**21,031**
Net cash provided by operating activities	**6,251**	2,488	5,929	**62,391**
Cash flows from investing activities				
Purchases of marketable securities and investment securities	**(3)**	(10)	(4)	**(30)**
Proceeds from sales of marketable securities and investment securities	**0**	2,854	33	**—**
Acquisition of property, plant and equipment	**(2,438)**	(2,219)	(2,448)	**(24,334)**
Proceeds from sales of property, plant and equipment	**133**	321	725	**1,327**
Payments for acquisition of newly consolidated subsidiaries	**—**	—	(7,948)	**—**
Net decrease (increase) in long-term loans receivable	**(2)**	0	2	**(20)**
Other — net	**(63)**	(526)	(1,305)	**(628)**
Net cash provided by (used in) investing activities	**(2,373)**	420	(10,945)	**(23,685)**
Cash flows from financing activities				
Proceeds from long-term debt	**7,640**	7,800	3,094	**76,255**
Payment of long-term debt	**(8,120)**	(4,168)	(1,967)	**(81,046)**
Proceeds from issue of bonds	**10,000**	—	—	**99,810**
Redemption of bonds	**(15,000)**	(14,793)	—	**(149,716)**
Net increase (decrease) in short-term borrowings	**(244)**	(1,965)	1,606	**(2,434)**
Payments on acquisition of treasury stock	**(10)**	(21)	(17)	**(100)**
Cash dividends paid	**(892)**	(829)	(956)	**(8,903)**
Other — net	**1**	1	1	**10**
Net cash provided by (used in) financing activities	**(6,625)**	(13,975)	1,761	**(66,124)**
Effect of exchange rate changes on cash and cash equivalents	**(515)**	144	381	**(5,140)**
Net decrease in cash	**(3,262)**	(10,923)	(2,874)	**(32,558)**
Cash at beginning of year	**19,947**	30,870	33,744	**199,092**
Cash at end of year (Note 3)	**¥ 16,685**	¥ 19,947	¥ 30,870	**$ 166,534**
Supplemental information of cash flows:				
Cash paid during the year for:				
Interest	**¥1,008**	¥ 1,291	¥ 1,066	**$10,061**
Income taxes	**(879)**	(1,943)	(1,773)	**(8,773)**
Cash received during the year for:				
Income taxes	**153**	355	252	**1,527**

See accompanying notes.

Notes to Consolidated Financial Statements

ANRITSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2008, 2007 and 2006

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in "the Financial Instruments and Exchange Act" 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 Financial Instruments and Exchange Act. 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, 2008, which was ¥100.19 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 (43 subsidiaries in 2008, 45 subsidiaries in 2007 and 2006). 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 is 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

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

Accrued bonuses to directors and corporate auditors

Accrued bonuses are stated at an estimated amount of the bonuses to be paid to directors and corporate auditors, based on their services for the current fiscal period.

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 operations for the year ended March 31, 2008.

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, 2008 and 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.

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.

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.

Change in depreciation method for tangible fixed assets

As of the current fiscal year the Company and its domestic consolidated subsidiaries have changed the depreciation method for tangible fixed assets acquired on or after April 1, 2007 based on the revised Corporation Tax Law in accordance with revisions to that law ((Partial Amendment to the Income Tax Law, March 30, 2007, Law No. 6) and (Partial Amendment to the Corporation Tax Enforcement Ordinance, March 30, 2007, Ordinance No. 83)).

As a result, gross profit and operating income decreased by ¥74 million and ¥86 million, respectively, and loss before income taxes increased by ¥86 million, in comparison with the figures derived using the conventional accounting method.

Additional information

Pursuant to an amendment to the Corporation Tax Law, after having fully depreciated tangible fixed assets acquired on and before March 31, 2007 up to 5% of the acquisition cost, based on the prior Corporation Tax Law, the Company and its domestic consolidated subsidiaries have depreciated the difference between 5% of the acquisition cost and the memorandum price, using a straight-line method over 5 years and expensed as "Depreciation and amortization." The straight-line depreciation starts from the next year, when the book value of tangible assets acquired on and before March 31, 2007 reaches 5% of the acquisition cost.

As a result, gross profit and operating income decreased by ¥178 million and ¥196 million, respectively, and loss before income taxes increased by ¥196 million each in comparison with the figures derived using the conventional depreciation method.

Reclassification and restatement

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2008 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2008	2008
Cash	**¥17,385**	**$173,520**
Time deposits due over three months	**(700)**	**(6,986)**
	¥16,685	**$166,534**

4. SECURITIES

The following table summarizes acquisition costs and book values of securities with fair value as of March 31, 2008:

	Millions of yen		
Year ended March 31, 2008	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with fair value exceeding book value:			
Equity securities	**¥911**	**¥1,153**	**¥242**
	¥911	**¥1,153**	**¥242**

	Thousands of U.S. dollars		
Year ended March 31, 2008	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with fair value exceeding book value:			
Equity securities	**$9,093**	**$11,508**	**$2,415**
	$9,093	**$11,508**	**$2,415**

The following table summarizes book values of securities without fair value as of March 31, 2008:

	Millions of yen
	Book value
Available-for-sale securities:	
Non-listed equity securities	**¥214**
	¥214

	Thousands of U.S. dollars
	Book value
Available-for-sale securities:	
Non-listed equity securities	**$2,136**
	$2,136

Total sales of available-for-sale securities in the year ended March 31, 2008, amounted to ¥41,575 million ($414,962 thousand) and the net gains amounted to ¥18 million ($180 thousand).

The following table summarizes acquisition costs and book values of securities with fair value as of March 31, 2007:

	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

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

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	¥ —	¥ —	¥ —

Total sales of available-for-sale securities in the year ended March 31, 2007, amounted to ¥16,603 million and the net gains amounted to ¥9 million.

5. INVENTORIES

Inventories at March 31, 2008 and 2007, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Finished goods	**¥ 9,019**	¥ 9,487	**$ 90,019**
Raw materials and supplies	**6,430**	9,940	**64,178**
Work in process	**5,203**	7,173	**51,931**
	¥20,652	¥26,600	**$206,128**

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings consisted principally of bank loans. Short-term bank loans at March 31, 2008 and 2007, were represented by overdrafts, generally matured in the period up to six months. The annual interest rates of short-term bank loans ranged from 1.27% to 6.66% at March 31, 2008 and 2007.

Long-term debt at March 31, 2008 and 2007, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
1.85% unsecured bonds due 2008	**¥ —**	¥ 15,000	**$ —**
0.0% unsecured bonds with stock acquisition rights convertible into common stock at ¥1,070 ($11) per share due 2010	**15,000**	15,000	**149,716**
1.87% unsecured bonds due 2012	**10,000**	—	**99,810**
Unsecured bank loans due to 2009 and 2010 at interest rates ranging from 3.5% to 6.1%	**997**	1,641	**9,951**
1.79% unsecured bank loans due to 2007	**—**	7,000	**—**
Unsecured bank loans due to 2009, 2010 and 2012 at interest rates ranging from 1.5% to 4.0%	**7,805**	7,810	**77,902**
Unsecured bank loans due to 2009 at interest rates ranging from 0.9% to 1.6%	**7,000**	—	**69,868**
Total	**40,802**	46,451	**407,247**
Less current portion	**(68)**	(22,000)	**(679)**
	¥40,734	¥ 24,451	**$406,568**

At March 31, 2008, 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, 2008, are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 68	$ 679
2010	23,492	234,475
2011	236	2,356
2012	10,006	99,870
2013	7,000	69,867
2014	—	—
Thereafter	—	—

7. STOCK OPTION PLAN

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

Date of resolution	2007 Plan June 27, 2007	2006 Plan June 28, 2006
Grantees	Company's directors, certain employees and subsidiaries' directors	Company's directors, certain employees and subsidiaries' directors
Type of stock	Common stock	Common stock
Number of shares granted	213,000	229,000
Exercise price	¥566	¥624
Exercisable period	August 14, 2009 - August 13, 2012	August 15, 2008 - August 14, 2011

	2007 Plan	2006 Plan
Non-vested (number of shares)		
Outstanding at the beginning of the year	—	229,000
Granted during the year	213,000	—
Forfeited during the year	—	—
Vested during the year	—	—
Outstanding at the end of the year	213,000	229,000
Vested (number of shares)		
Outstanding at the beginning of the year	—	—
Vested during the year	—	—
Exercised during the year	—	—
Forfeited during the year	—	—
Outstanding at the end of the year	—	—
Weighted-average market price	—	—
Fair evaluated price	92	¥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 year ended March 31, 2008, 2007 and 2006.

Significant components of deferred tax assets and liabilities as of March 31, 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Inventories	**¥ 11,220**	¥ 9,928	**$ 111,987**
Net operating loss carried forward	**5,836**	7,102	**58,249**
Software	**2,387**	2,225	**23,825**
Accrued expenses	**997**	1,055	**9,951**
Investment securities on affiliated companies	**689**	689	**6,877**
Investment securities	**571**	590	**5,699**
Research and development expenses	**508**	34	**5,070**
Others	**699**	789	**6,977**
Subtotal deferred tax assets	**22,907**	22,412	**228,635**
Valuation allowance	**(11,630)**	(10,735)	**(116,079)**
Total deferred tax assets	**11,277**	11,677	**112,556**
Deferred tax liabilities			
Retirement benefits	**951**	965	**9,492**
Net unrealized holding gains on securities	**59**	194	**589**
Others	**279**	308	**2,785**
Subtotal deferred tax liabilities	**1,289**	1,467	**12,866**
Net deferred tax assets	**¥ 9,988**	¥ 10,210	**$ 99,690**

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, 2007.

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

Difference between the normal effective tax rate and the Companies' effective tax rate is not presented due to loss before income taxes for the year ended March 31, 2008.

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 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. 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, 2008, 2007 and 2006. 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, 2008 and 2007, the Company had no important transaction with NEC Corporation which owned 22.01% of the shares of the Company.

The Company has no outstanding balance of receivable due from NEC Corporation as of March 31, 2008, 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, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation	**¥ 31,478**	¥ 31,343	**$ 314,183**
Unrecognized actuarial differences	**(10,660)**	(6,265)	**(106,398)**
Less fair value of pension assets	**(26,535)**	(30,798)	**(264,847)**
Allowance for employees' severance and pension benefits	**(5,717)**	(5,720)	**(57,062)**
Prepaid pension expense	**7,583**	7,461	**75,686**
Allowance for directors' severance and pension benefits	**33**	81	**329**
	¥ 1,899	¥ 1,822	**$ 18,953**

Included in the consolidated statements of income for the years ended March 31, 2008 and 2007 was severance and pension benefit expense comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service costs-benefits earned during the year	**¥ 835**	¥ 878	**$ 8,334**
Interest cost on projected benefit obligation	**744**	757	**7,426**
Expected return on plan assets	**(758)**	(699)	**(7,566)**
Amortization of actuarial gains or losses	**995**	810	**9,931**
Amortization of prior service cost	**—**	(302)	**—**
Severance and pension benefit expense	**¥1,816**	¥1,444	**$18,125**

For the years ended March 31, 2008 and 2007, 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 comprises four subsections, which are shareholders' equity, accumulated gains (losses) from valuation and translation adjustments, share subscription rights and minority interests. Under the Corporation Law (the "Law") 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 Law, 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 Law, 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 26, 2008, the shareholders approved cash dividends amounting to ¥446 million ($4,452 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the shareholders.

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, 2008, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2008	2008
Within one year	**¥ 817**	**$ 8,155**
After one year	**1,483**	**14,802**
	¥2,300	**$22,957**

Lease expenses under non-capitalized finance leases for the years ended March 31, 2008, 2007 and 2006 aggregated approximately ¥174 million ($1,737 thousand), ¥210 million and ¥221 million, respectively.

Contingent liabilities at March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2008	2008
Loan guarantees and items of a similar nature		
Employees	**¥1,002**	**$10,001**

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, 2008, 2007 and 2006 were ¥14,115 million ($140,882 thousand), ¥14,072 million and ¥12,509 million, respectively.

15. SEGMENT INFORMATION

Information by industry segment for the years ended March 31, 2008, 2007 and 2006 is as follows:

	Millions of yen						
Year ended March 31, 2008	Test and Measurement	Information and Communications	Industrial Automation	Services and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	**¥72,718**	**¥5,749**	**¥13,596**	**¥ 8,423**	**¥100,486**	**¥ —**	**¥100,486**
Inter-segment	**176**	**5**	**35**	**3,241**	**3,457**	**(3,457)**	**—**
Total	**72,894**	**5,754**	**13,631**	**11,664**	**103,943**	**(3,457)**	**100,486**
Operating expenses	**68,768**	**5,678**	**12,816**	**9,738**	**97,000**	**(1,870)**	**95,130**
Operating income	**¥ 4,126**	**¥ 76**	**¥ 815**	**¥ 1,926**	**¥ 6,943**	**¥(1,587)**	**¥ 5,356**
Identifiable assets	**¥80,561**	**¥7,551**	**¥10,565**	**¥16,480**	**¥115,157**	**¥ 9,760**	**¥124,917**
Depreciation and amortization	**2,242**	**99**	**176**	**628**	**3,145**	**228**	**3,373**
Capital expenditures	**2,162**	**83**	**192**	**285**	**2,722**	**69**	**2,791**

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	¥25,796	¥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, 2008	Thousands of U.S. dollars Test and Measurement	Information and Communications	Industrial Automation	Services and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	**$725,801**	**$57,381**	**$135,702**	**$ 84,070**	**$1,002,954**	**$ —**	**$1,002,954**
Inter-segment	**1,757**	**50**	**349**	**32,349**	**34,505**	**(34,505)**	**—**
Total	**727,558**	**57,431**	**136,051**	**116,419**	**1,037,459**	**(34,505)**	**1,002,954**
Operating expenses	**686,376**	**56,672**	**127,917**	**97,196**	**968,161**	**(18,665)**	**949,496**
Operating income	**$ 41,182**	**$ 759**	**$ 8,134**	**$ 19,223**	**$ 69,298**	**$(15,840)**	**$ 53,458**
Identifiable assets	**$804,082**	**$75,367**	**$105,450**	**$164,487**	**$1,149,386**	**$ 97,415**	**$1,246,801**
Depreciation and amortization	**22,377**	**988**	**1,757**	**6,268**	**31,390**	**2,276**	**33,666**
Capital expenditures	**21,579**	**828**	**1,916**	**2,845**	**27,168**	**689**	**27,857**

Information by geographic area for the years ended March 31, 2008, 2007 and 2006 is as follows:

Year ended March 31, 2008	Millions of yen Japan	Americas	Europe	Asia and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	**¥ 50,167**	**¥ 20,438**	**¥19,267**	**¥10,614**	**¥100,486**	**¥ —**	**¥100,486**
Inter-segment	**14,811**	**9,633**	**4,859**	**618**	**29,921**	**(29,921)**	**—**
Total	**64,978**	**30,071**	**24,126**	**11,232**	**130,407**	**(29,921)**	**100,486**
Operating expenses	**62,481**	**26,600**	**26,051**	**10,794**	**125,926**	**(30,796)**	**95,130**
Operating income (loss)	**¥ 2,497**	**¥ 3,471**	**¥ (1,925)**	**¥ 438**	**¥ 4,481**	**¥ 875**	**¥ 5,356**
Identifiable assets	**¥111,007**	**¥33,696**	**¥15,204**	**¥ 4,993**	**¥164,900**	**¥(39,983)**	**¥124,917**

Year ended March 31, 2007	Japan	Americas	Europe	Asia and Others	Total	Eliminations or corporate	Consolidated
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	¥(26,166)	¥152,390

	Thousands of U.S. dollars						
Year ended March 31, 2008	Japan	Americas	Europe	Asia and Others	Total	Eliminations or corporate	Consolidated
Net sales:							
Outside customers	**$ 500,719**	**$203,992**	**$192,304**	**$105,939**	**$1,002,954**	**$ —**	**$1,002,954**
Inter-segment	**147,829**	**96,148**	**48,498**	**6,168**	**298,643**	**(298,643)**	**—**
Total	**648,548**	**300,140**	**240,802**	**112,107**	**1,301,597**	**(298,643)**	**1,002,954**
Operating expenses	**623,625**	**265,496**	**260,016**	**107,735**	**1,256,872**	**(307,376)**	**949,496**
Operating income (loss)	**$ 24,923**	**$ 34,644**	**$ (19,214)**	**$ 4,372**	**$ 44,725**	**$ 8,733**	**$ 53,458**
Identifiable assets	**$1,107,965**	**$336,321**	**$151,752**	**$ 49,835**	**$1,645,873**	**$(399,072)**	**$1,246,801**

Overseas sales for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			
Year ended March 31, 2008	Americas	EMEA	Asia and Others	Total
Overseas sales	**¥19,558**	**¥19,093**	**¥17,554**	**¥ 56,205**
Consolidated net sales	**—**	**—**	**—**	**100,486**
Percentage of consolidated net sales	**19.4%**	**19.0%**	**17.5%**	**55.9%**

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%

	Thousands of U.S dollars			
Year ended March 31, 2008	Americas	EMEA	Asia and Others	Total
Overseas sales	**$195,209**	**$190,568**	**$175,207**	**$ 560,984**
Consolidated net sales	**—**	**—**	**—**	**1,002,954**
Percentage of consolidated net sales	**19.4%**	**19.0%**	**17.5%**	**55.9%**

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 “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.

16. FINANCIAL INFORMATION OF THE COMPANY

The following summarizes the non-consolidated financial position of the Company at March 31, 2008 and 2007, and the results of operations for each of the three years in the period ended March 31, 2008.

Non-Consolidated Balance Sheet (Supplementary Information)

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
ASSETS			
Current assets:			
Cash	**¥ 10,433**	¥11,999	**$ 104,132**
Notes and accounts receivable — trade	**17,064**	19,323	**170,316**
Allowance for doubtful accounts	**(163)**	(238)	**(1,627)**
Marketable securities	**—**	999	**—**
Inventories	**10,904**	15,897	**108,833**
Deferred tax assets — current	**7,395**	6,693	**73,810**
Other current assets	**2,075**	2,776	**20,711**
Total current assets	**47,708**	57,449	**476,175**
Property, plant and equipment:			
Land	**492**	493	**4,911**
Building and structures	**24,981**	24,599	**249,336**
Machinery and equipment	**12,082**	12,361	**120,591**
Accumulated depreciation	**(28,445)**	(27,942)	**(283,911)**
Net property, plant and equipment	**9,110**	9,511	**90,927**
Investments and other assets:			
Investment securities	**54,183**	53,724	**540,802**
Long-term loans receivable	**7,015**	7,545	**70,017**
Deferred tax assets — non-current	**—**	208	**—**
Other assets	**7,096**	7,829	**70,826**
Allowance for doubtful accounts	**(2)**	(10)	**(20)**
Total investments and other assets	**68,292**	69,296	**681,625**
Total assets	**¥125,110**	¥136,256	**$1,248,727**

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings	**¥ 1,040**	¥ 870	**$ 10,380**
Long-term debt due within one year	**—**	22,000	**—**
Notes and accounts payable — trade	**6,943**	8,096	**69,298**
Accrued liabilities	**4,024**	3,776	**40,164**
Accrued expenses	**1,013**	1,225	**10,111**
Income taxes payable	**68**	163	**679**
Other current liabilities	**7,667**	7,081	**76,524**
Total current liabilities	**20,755**	43,211	**207,156**
Long-term liabilities:			
Long-term debt	**39,000**	22,000	**389,260**
Retirement benefits for directors and corporate auditors	**19**	70	**190**
Deferred tax liabilities — non-current	**345**	—	**3,443**
Other long-term liabilities	**250**	255	**2,496**
Total long-term liabilities	**39,614**	22,325	**395,389**
Net assets:			
Common stock	**14,050**	14,050	**140,234**
Additional paid-in capital	**23,000**	23,000	**229,564**
Legal reserve	**2,468**	2,468	**24,633**
Retained earnings	**25,845**	31,325	**257,960**
Net unrealized holding gains on securities	**179**	689	**1,787**
Deferred gain or loss on hedged transactions	**(23)**	(1)	**(230)**
Reservation rights on common stock	**54**	14	**538**
Treasury stock, at cost	**(832)**	(825)	**(8,304)**
Total net assets	**64,741**	70,720	**646,182**
Total liabilities and net assets	**¥125,110**	¥136,256	**$1,248,727**

Non-Consolidated Statements of Operations (Supplementary Information)

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Sales	**¥49,648**	¥50,193	¥48,288	**$495,538**
Cost of sales	**36,813**	35,502	35,563	**367,432**
Gross profit	**12,835**	14,691	12,725	**128,106**
Selling, general and administrative expenses	**12,373**	11,967	11,631	**123,495**
Operating income	**462**	2,724	1,094	**4,611**
Other income (expenses):				
Interest and dividends income	**619**	773	814	**6,178**
Interest expenses	**(509)**	(545)	(567)	**(5,080)**
Foreign exchange gain (loss)	**(474)**	(38)	67	**(4,731)**
Loss on disposal of inventories	**(2,374)**	(304)	(184)	**(23,695)**
Gain on sales of property, plant and equipment	**42**	—	—	**419**
Gain on sales of investment securities	**—**	1	1,648	**—**
Loss on devaluation of investment securities	**(30)**	(40)	(332)	**(299)**
Gain on expiration of warrants	**—**	160	—	**—**
Loss on devaluation of inventories	**(2,458)**	(945)	(1,283)	**(24,533)**
Restructuring expense	**—**	—	(814)	**—**
Management innovation implementation expenses	**(44)**	—	—	**(439)**
Reversal of bad debt reserve	**113**	—	—	**1,128**
Other, net	**(349)**	73	(530)	**(3,484)**
	(5,464)	(865)	(1,181)	**(54,536)**
Income (loss) before income taxes	**(5,002)**	1,859	(87)	**(49,925)**
Provision for income taxes:				
Current	**(409)**	(390)	(501)	**(4,082)**
Deferred	**(6)**	54	585	**(60)**
Net income (loss)	**¥ (4,587)**	¥ 2,195	¥ (171)	**$ (45,783)**

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, 2008 and 2007, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended March 31, 2008, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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 26, 2008

Major Subsidiaries As of July 1, 2008

Japan	Principal Businesses	Paid-in Capital (Millions of yen)	Anritsu's Share of Voting Rights (%)
Anritsu Industrial Solutions Co., Ltd.	Manufacture, marketing and maintenance of industrial automation equipment	1,350	100
Anritsu Networks Co., Ltd.	Manufacture, marketing and maintenance of information and communications equipment	355	100
Tohoku Anritsu Co., Ltd.	Manufacture of measuring instruments and information and communications equipment	250	100
Anritsu Customer Services Co., Ltd.	Calibration, repair and maintenance of measuring instruments	100	100
Anritsu Devices Co., Ltd.	Manufacture of optical devices	90	100
Anritsu Precision Co., Ltd.	Development and manufacture of precision measuring instruments	80	100
Anritsu Engineering Co., Ltd.	Development of software	40	100
Anritsu Kousan Co., Ltd.	Management of facilities, welfare services and production of catalogs and other materials	20	100
Anritsu Real Estate Co., Ltd.	Real estate leasing	20	100
Anritsu Techmac Co., Ltd.	Manufacture and marketing of processed products and unit assembly articles	10	100
Anritsu Pro Associe Co., Ltd.	Operation of shared services center	10	100

Americas		Principal Businesses	Paid-in Capital	Anritsu's Share of Voting Rights (%)
Anritsu U.S. Holding, Inc.	U.S.A.	Holding company for overseas subsidiaries	US$9 thousand	100
Anritsu Company	U.S.A.	Development, manufacture, marketing and maintenance of measuring and other instruments	US$12,471 thousand	100*
Anritsu Instruments Company	U.S.A.	Manufacture of measuring and other instruments	US$2,900 thousand	100*
Anritsu Industrial Solutions U.S.A. Inc.	U.S.A.	Marketing and maintenance of industrial automation equipment	US$5 thousand	100*
Anritsu Electronics, Ltd.	Canada	Marketing and maintenance of measuring and other instruments	CA$100	100*
Anritsu Eletrônica Ltda.	Brazil	Marketing and maintenance of measuring and other instruments	BRL 569 thousand	100*
Anritsu Company S.A. de C.V.	Mexico	Marketing and maintenance of measuring and other instruments	MXN$50 thousand	100*

EMEA		Principal Businesses	Paid-in Capital	Anritsu's Share of Voting Rights (%)
Anritsu A/S	Denmark	Development, manufacture, marketing and maintenance of measuring and other instruments	DKK 30 million	100
Anritsu EMEA Ltd.	U.K.	Marketing and maintenance of measuring and other instruments	£1,502 thousand	100
Anritsu Ltd.	U.K.	Development of measuring and other instruments	£20 thousand	100*
Anritsu Industrial Solutions Europe Ltd.	U.K.	Marketing and maintenance of industrial automation equipment	£50 thousand	100*
Anritsu GmbH	Germany	Marketing and maintenance of measuring and other instruments	EURO 2,837 thousand	100*
Anritsu S.A.	France	Marketing and maintenance of measuring and other instruments	EURO 1,000 thousand	100*
Anritsu Instruments S.A.S.	France	Development and manufacture of measuring and other instruments	EURO 37 thousand	100*
Anritsu S.p.A.	Italy	Marketing and maintenance of measuring and other instruments	EURO 260 thousand	100*
Anritsu Solutions S.p.A.	Italy	Development of measuring and other instruments	EURO 150 thousand	100*
Anritsu AB	Sweden	Marketing and maintenance of measuring and other instruments	SEK 800 thousand	100*

Asia & Others		Principal Businesses	Paid-in Capital	Anritsu's Share of Voting Rights (%)
Anritsu Company Ltd.	China	Marketing and maintenance of measuring and other instruments	HKD 43,700 thousand	100
Anritsu Electronics (Shanghai) Co., Ltd.	China	Maintenance of measuring and other instruments	CNY 8,480 thousand	100*
Anritsu Industrial Solutions (Shanghai) Co., Ltd.	China	Marketing and maintenance of industrial automation equipment	US$250 thousand	100*
Anritsu Corporation, Ltd.	Korea	Marketing and maintenance of measuring and other instruments	KRW 1,450 million	100*
Anritsu Company, Inc.	Taiwan	Marketing and maintenance of measuring and other instruments	TWD 78 million	100*
Anritsu Pte. Ltd.	Singapore	Marketing and maintenance of measuring and other instruments	SGD 600 thousand	100*
Anritsu Industrial Solutions (Thailand) Co., Ltd.	Thailand	Manufacture and maintenance of industrial automation equipment	THB 30 million	100*
Anritsu Pty. Ltd.	Australia	Marketing and maintenance of measuring and other instruments	A$820 thousand	100*

* Indicates indirect ownership.

Investor Information As of March 31, 2008

Head Office: **ANRITSU CORPORATION**
5-1-1 Onna, Atsugi-shi, Kanagawa,
243-8555 Japan
Tel: +81-46-223-1111
URL: http://www.anritsu.com

Established: March 1931

Paid-in Capital: ¥14.0 billion

Number of Employees: 3,963 (Consolidated)
1,074 (Non-consolidated)

Stock Listing: Tokyo (Ticker Symbol No: 6754)

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

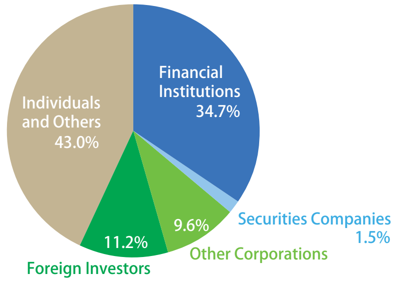
Number of Shareholders: 17,262

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

Authorized Shares: 400,000,000

Issued Shares: 128,037,848

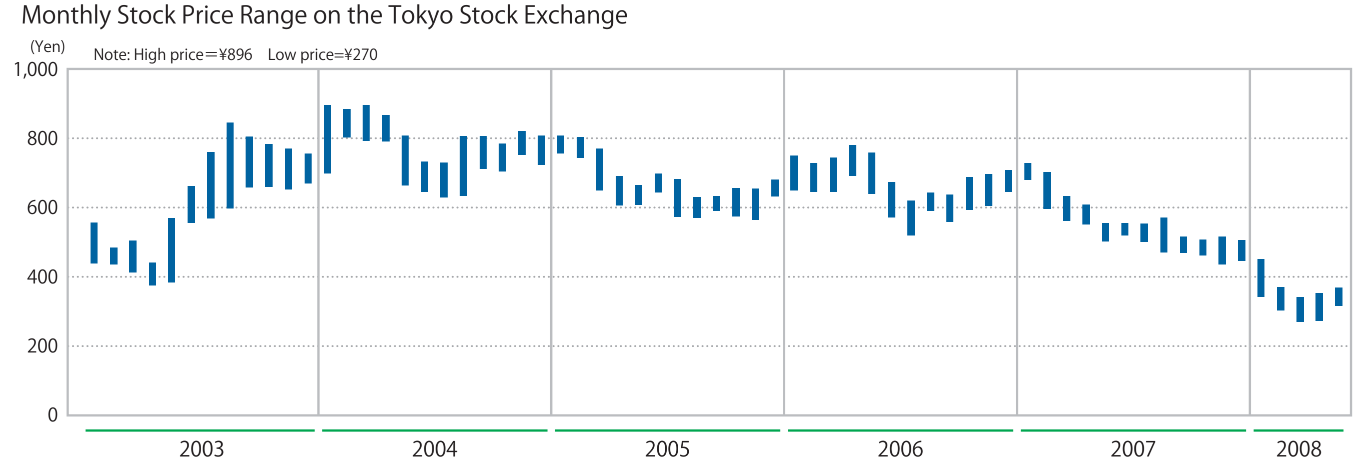
Breakdown of Shareholders:



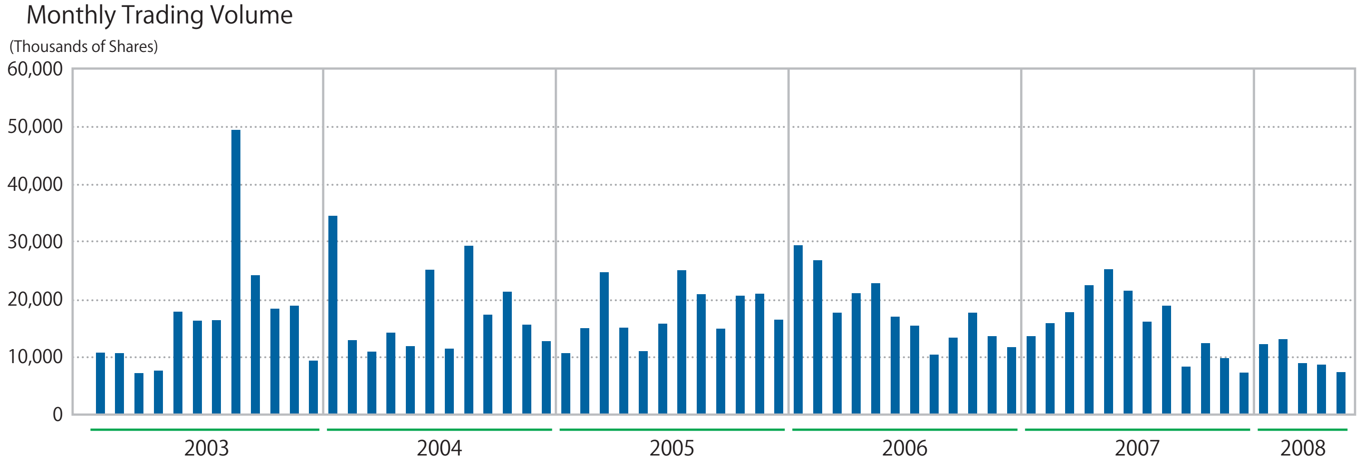
Major Shareholders:

Shareholder Name	Number of Shares (thousands)	Percentage of Total Shares Outstanding
Japan Trustee Services Bank, Ltd. (Trust Account from The Sumitomo Trust & Banking Co., Ltd., NEC Retirement Benefit Trust Account)	19,200	15.00
NEC Corporation	8,312	6.49
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,057	3.17
Morgan Stanley & Co. International PLC	3,168	2.47
Mitsui Sumitomo Insurance Co., Ltd.	2,964	2.32
Japan Trustee Services Bank, Ltd. (The Sumitomo Trust & Banking Co., Ltd. Retirement Benefit Trust Account)	2,500	1.95
Japan Trustee Services Bank, Ltd. (Trust Account)	2,359	1.84
Sumitomo Life Insurance Company	2,314	1.81
Goldman Sachs International	1,817	1.42
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	1,566	1.22

Monthly Stock Price Range on the Tokyo Stock Exchange



Monthly Trading Volume



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