

# Management's Discussion and Analysis

## Changes in the Scope of Consolidation

During the fiscal year ended March 31, 2009, the Anritsu Group added two subsidiaries to the scope of consolidation, Anritsu Precision Co., Ltd. and Anritsu Industrial Solutions (Thailand) Co., Ltd., and liquidated two consolidated subsidiaries, Anritsu FSC and NetTest (Hong Kong) Ltd. As a result, the Anritsu Group comprised 43 consolidated subsidiaries at the end of the fiscal year, unchanged from a year earlier.

## Sales and Income

In the field of communication networks, the shift to broadband with various systems and the move toward integration in wireline and wireless networks progressed, as did the numerous diverse services using these networks. In the field of mobile communications, investment in the development of Long-Term Evolution (LTE), a next-generation worldwide platform, has begun in earnest. While expansion of demand generated by new technologies and services is leading to the creation of new companies, the trend toward realignment and mergers among existing companies is accelerating.

In these conditions, the Anritsu Group worked toward the targets of the initial plan for the fiscal year by promoting measures to enhance profitability and strengthen competitiveness based on Management Innovation 2008, which restructures Anritsu's strategy for profitable growth. In addition, Anritsu established a base in Russia, a growth market, and introduced new products to the market including measuring instruments for research and development to promote LTE.

Moreover, in January, 2009 Anritsu implemented urgent management measures in response to increasingly cataclysmic changes in its operating environment brought on by the financial crisis and the deepening global economic recession. Committed to improving profitability for the fiscal year ending March 31, 2010 and beyond, Anritsu implemented measures including headcount reductions, integration of the production organization for the Test and Measurement segment in Japan and reorganization of production and development bases overseas.

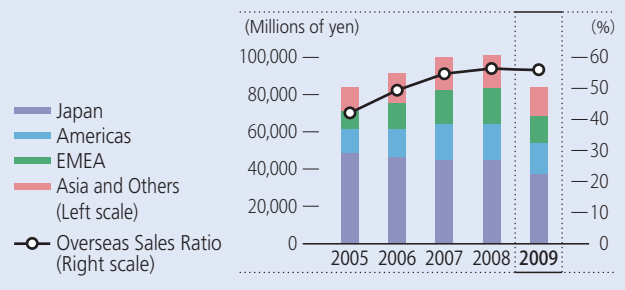
However, customers increasingly postponed or curtailed capital investment, especially in the core Test and Measurement segment in the second half. Consequently, for the fiscal year ended March 31, 2009, net sales decreased 16.5 percent to ¥83,940 million. Operating income decreased 83.1 percent year on year to ¥905 million due to the drop in sales in the Test and Measurement segment and the impact of the appreciation of the yen. Net loss totaled ¥3,541 million, compared with net loss of ¥3,901 million in the previous fiscal year, because Anritsu recognized loss on devaluation of inventories due to the application of "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan (ASBJ) Statement No. 9), and incurred business structure improvement expenses, including special retirement benefits, due to the implementation of the urgent management measures.

### Net Sales

For the fiscal year ended March 31, 2009, net sales decreased 16.5 percent, or ¥16,546 million, year on year to ¥83,940 million. Sales in all segments decreased as customers postponed or curtailed capital investment because of the global recession from the second half, and the appreciation of the yen also contributed to lower sales.

On a regional basis, sales decreased substantially in Europe and

### 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.

the Americas, where the impact of the recession was pronounced. In Asia, where demand for measuring instruments used in mobile handset manufacturing had been firm in China, sales decreased as demand for measuring instruments declined during the second half. In Japan, sales declined due to factors including waning demand for measuring instruments used in third-generation (3G) and 3.5-generation (3.5G) research and development and in mobile handset manufacturing. Consequently, overseas sales decreased 17.3 percent year on year to ¥46,481 million, and the ratio of overseas sales to net sales decreased 0.5 percentage points to 55.4 percent from 55.9 percent.

In comparison, sales in Japan decreased 15.4 percent year on year to ¥37,459 million. In the device business in the Services and Other segment, sales of optical communications devices in the video distribution market were strong. Moreover, overall demand for inspection equipment such as X-ray inspection systems remained solid due to heightened consciousness of food safety and security. However, higher sales in these businesses did not fully compensate for decreased sales in the Test and Measurement and the Information and Communications segments.

### Cost of Sales and Gross Profit

Cost of sales decreased 7.9 percent, or ¥4,469 million, compared with the previous fiscal year to ¥52,005 million, and the ratio of cost of sales to net sales increased 5.8 percentage points to 62.0 percent. The decrease in sales of the profitable Test and Measurement segment and loss on devaluation of inventories included in cost of sales as the result of the adoption of the new accounting standard for inventories were factors causing gross profit to decrease 27.4 percent, or ¥12,077 million, compared with the previous fiscal year to ¥31,935 million. The ratio of gross profit to net sales decreased 5.8 percentage points to 38.0 percent.

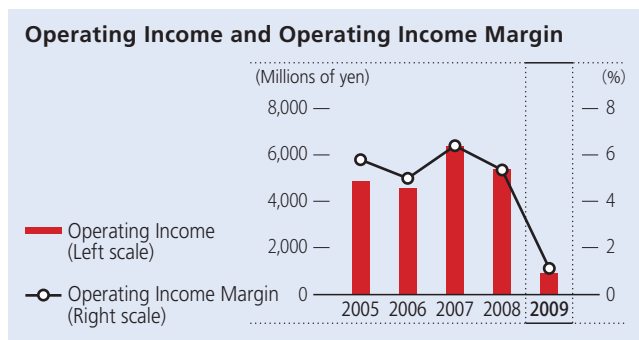
### Selling, General and Administrative (SG&A) Expenses and Operating Income

SG&A expenses decreased 19.7 percent year on year to ¥31,030 million. This decrease was the result of Anritsu's efforts to reduce costs through its urgent management measures, including the early rationalization of headcount in Europe and the Americas, work-sharing, reduction of director compensation and executive salaries, consolidation of operating bases, and reduction of testing research expenses.

Research and development expenses, which are included in cost of sales and SG&A expenses, decreased 17.1 percent compared with

the previous fiscal year to ¥11,704 million. The ratio of research and development expenses to net sales decreased 0.1 percentage point to 13.9 percent. As a result of the above, operating income decreased 83.1 percent, or ¥4,451 million, year on year to ¥905 million. The ratio of operating income to net sales decreased 4.2 percentage points to 1.1 percent. Of note, the reclassification of certain expenses from non-operating to operating expenses due to the application of the "Accounting Standard for Measurement of Inventories" reduced operating income by ¥886 million.

SG&A Expenses	(Millions of yen)		
	2009	2008	Change (%)
Salaries and bonuses	11,659	14,277	(18.3)
Advertising	1,184	2,003	(40.9)
Pensions	1,310	1,083	21.0
Travel and transportation	1,572	2,135	(26.4)
Depreciation	810	1,002	(19.1)
Testing research	5,700	7,444	(23.4)



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

Other expenses, net totaled ¥3,141 million, compared to ¥8,513 million for the previous fiscal year. Loss on devaluation of inventories totaled ¥1,358 million, compared to ¥3,221 million for the previous fiscal year, as a portion of loss on devaluation of inventories is now included in cost of sales due to the application of the "Accounting Standard for Measurement of Inventories." Moreover, management innovation implementation expenses totaling ¥1,156 million in the previous fiscal year and loss on disposal of inventories totaling ¥2,427 million in the previous fiscal year did not recur. Anritsu also recognized a gain on revision of retirement benefit plan totaling ¥1,202 million. However, Anritsu incurred business structure improvement expenses totaling ¥2,214 million in connection with the implementation of urgent management measures during the fiscal year ended March 31, 2009.

As a result of the above, loss before income taxes totaled ¥2,236 million, compared with loss before income taxes of ¥3,157 million for the previous fiscal year. Net loss totaled ¥3,541 million, compared with net loss of ¥3,901 million for the previous fiscal year. Net loss per share totaled ¥27.78, compared with net loss per share of ¥30.60 for the previous fiscal year.

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

	2009	2008	2007
Net Sales	100.0%	100.0%	100.0%
Cost of Sales	62.0	56.2	56.1
Gross Profit	38.0	43.8	43.9
SG&A Expenses	37.0	38.5	37.5
R&D Expenses	13.9	14.0	14.2
Net Income	—	—	1.4

### 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. 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.

#### Cash Dividends per Share

Based on the above policy, Anritsu regrettably decided not to pay a year-end cash dividend. Cash dividends therefore totaled ¥3.50 per share for the fiscal year ended March 31, 2009.

### 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 fiscal year ended March 31, 2009, segment sales decreased due to factors including waning demand in Japan for measuring instruments used in research and development of 3G and 3.5G services and mobile handset manufacturing. Moreover, previously strong demand in areas such as the United States dropped rapidly as customers postponed or curtailed capital investment because of the global recession from the second half. Moreover, the appreciation of the yen versus other currencies reduced sales.

Consequently, segment sales decreased 21.0 percent compared with the previous fiscal year to ¥57,449 million. Operating loss was ¥792 million, compared with operating income of ¥4,126 million for the previous fiscal year, as efforts to raise efficiency in R&D investment and SG&A expenses through implementation of Management Innovation 2008 did not fully offset the substantial decrease in net sales. The reclassification of certain items from other expenses to operating expenses due to the application of the "Accounting Standard for Measurement of Inventories" reduced segment operating income by ¥869 million.

The Test and Measurement segment accounts for approximately 70 percent of Anritsu Group net sales, and is divided 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.

In this sub-segment, with the proliferation of broadband network services, new services such as cloud computing are now being offered in addition to broadband services such as music and video downloading and internet protocol television (IPTV). Furthermore, internet access via mobile phones is growing rapidly. As a result, demand for higher-speed networks is rising with increasing data traffic, as is demand to curtail the resulting constant growth in electricity consumption to protect the environment. In backbone networks, with the start of full-scale construction of 40Gbps networks that respond to the rapid increase in high-speed traffic and optical networks aimed at reducing energy consumption, as well as full-fledged research and development for 100Gbps network equipment, demand for related measuring equipment is expected to increase. At the same time, establishment of NGN through IP networks is progressing worldwide, and Anritsu anticipates demand for related equipment due to the growth of this market.

In service assurance, increased demand is anticipated for solutions that ensure service quality due to the development of new services using networks as platforms. Demand for professional services is also expected in this market due to the shortage of network engineers.

The NGN and Infrastructure sub-segment is working to expand and stabilize business by providing comprehensive solutions from constructing and monitoring communications infrastructure to ensuring service quality in addition to research and development solutions for telecommunications equipment.

## 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 phone 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.

Amid the accelerating popularity of broadband services for mobile phones, full-scale development has begun for IC chipsets and mobile handsets supporting LTE, the 3.9 generation (3.9G) technology, as LTE services are expected to begin in each region in 2010 or later. Anritsu expects demand for related measuring equipment to expand as a result, and worked to increase orders by promptly launching new products for research and development of LTE handsets. Furthermore, the Company is working to enhance its portfolio of solutions for the LTE handset market and maintain and expand its market position by optimally employing the technologies gained in this process to continue developing and launching competitive products to meet expected demand for conformance testing of LTE handsets and measuring equipment for use in development. Mobile handset unit sales are expected to decrease in 2009 compared with the previous year. However, new demand is expected due to factors including stimulation of the handset manufacturing market by the start of 3G services in China. Anritsu will work to further expand business by accurately meet-

ing this demand with competitive products such as measuring equipment for manufacturing 3G handsets, including TD-SCDMA.

## 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 in the long term, but the short-term outlook is unclear due to the cutback in production of electronic components used in telecommunications equipment, automobiles and intelligent home appliances. Sales of handheld measuring instruments incorporating compact, high-density packaging and energy-saving technologies, an Anritsu strength, are growing even amid challenging market conditions. Anritsu will offer a wider range of applications for these markets, and work to further expand the business in this sub-segment by enhancing its lineup of network analyzers, spectrum analyzers and signal generators.

## Information and Communications

For the fiscal year ended March 31, 2009, sales of equipment such as remote monitoring systems for local governments were solid, but overall segment sales decreased substantially due to lower sales in the video monitoring systems business, where bidding is becoming more competitive. Consequently, segment sales decreased 9.5 percent compared with the previous fiscal year to ¥5,201 million. Segment operating income decreased 7.3 percent from the previous fiscal year to ¥71 million. Segment operating income decreased at a lower rate than segment sales due to successful efforts to be selective in accepting orders and reduce cost of sales.

The Information and Communications business accounts for about 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 or more of its sales tend to be concentrated in the fourth quarter.

In the government market, although investment related to disaster prevention and IP infrastructure development continues to increase, overall spending for public works projects is declining. In the private-sector market, demand is increasing for bandwidth controllers for maintaining Quality of Service (QoS) due to expansion of video distribution and other services.

To address these factors, the Anritsu Group will work to expand sales and improve profitability by offering high-quality solutions based on IP network technologies, an Anritsu Group strength, while further promoting its model of business cooperation with system integrators. The Information and Communications business is conducted by Anritsu Networks Co., Ltd., a wholly owned subsidiary of the Company.

## Industrial Automation

During the fiscal year ended March 31, 2009, overall demand for food inspection equipment, including detectors for foreign substances, was firm in the first half due to rising concern for food safety and security. In the second half, however, there was a growing move among food manufacturers in Japan and overseas in general to curtail capital

investment as a result of the global economic slowdown. Consequently, segment sales decreased 4.5 percent compared with the previous fiscal year to ¥12,981 million. Operating income decreased 26.8 percent to ¥597 million due to the decrease in sales and downward pressure on prices.

The Industrial Automation business accounts for about 15 percent of the Anritsu Group's net sales. Since approximately 80 percent of segment sales are made to food manufacturers, this segment is substantially influenced by economic growth rates and changes in consumer spending levels due to their impact on food manufacturers' business results. 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 high precision in detecting metal fragments and other alien materials in the food processing process. Promoting investment aimed at expanding market share in Asia, the United States and Europe resulted in an overseas sales ratio of approximately 30 percent.

Demand for quality control inspection solutions is expected to remain comparatively firm due to continuing interest among manufacturers as food safety and security incidents have occurred in Japan and overseas. However, concerns in this business include curtailed capital investment by food manufacturers in Japan and overseas against a background of uncertainty about the future of the economy, and a decline in cost competitiveness in overseas markets due to the strong yen. To address these factors, Anritsu will begin full-scale 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 by Anritsu Industrial Solutions Co., Ltd., a wholly owned subsidiary of the Company.

**Services and Others**

During the fiscal year ended March 31, 2009, demand was strong for optical communications devices for the video distribution market in the device business. In the precision measurement business, demand was firm for 3-D optical displacement sensors used in flat-panel display (FPD) inspection systems, but demand decreased for solder paste inspection systems used in high-density packaging lines because customers curtailed capital investment. As a result, segment sales decreased 1.3 percent compared with the previous fiscal year to ¥8,309 million. Operating income increased 3.6 percent compared with the previous fiscal year to ¥1,995 million. The precision measurement business is conducted as Anritsu Precision Co., Ltd., a wholly owned subsidiary of the Company established on April 1, 2008.

**Geographical Segments**

**Japan**

In the domestic Test and Measurement segment, demand waned for measuring instruments used in research and development of 3G and 3.5G services and mobile handset manufacturing. Moreover, sales of NGN-related test and measurement equipment decreased due to factors including reduced capital investment among customers because of the recession. In the Information and Communications segment, sales of equipment such as remote monitoring systems for local governments were solid, but overall segment sales decreased substantially due to lower sales in the video monitoring systems business, where bidding is becoming more competitive. In the Industrial Automation segment, overall demand for X-ray inspection systems and other food inspection equipment was firm, reflecting rising concern for food safety and security. In the Services and Others segment, demand was strong for optical communications devices for the video distribution market in the device business. In the precision measurement business, demand decreased for solder paste inspection systems because customers curtailed capital investment.

As a result, sales in Japan decreased 14.2 percent year on year to ¥43,056 million, and operating income decreased 98.5 percent to ¥37 million.

**Americas**

In the Test and Measurement segment, sales of handheld measuring instruments used in base station construction and maintenance were solid in the first half because of continued investment in wireless infrastructure. However, overall sales in the Americas decreased because telecom and other companies responded to the recession by curtailing capital investment in the second half.

As a result, sales in the Americas decreased 19.5 percent year on year to ¥16,443 million, and operating income decreased 22.9 percent to ¥2,675 million.

**Europe**

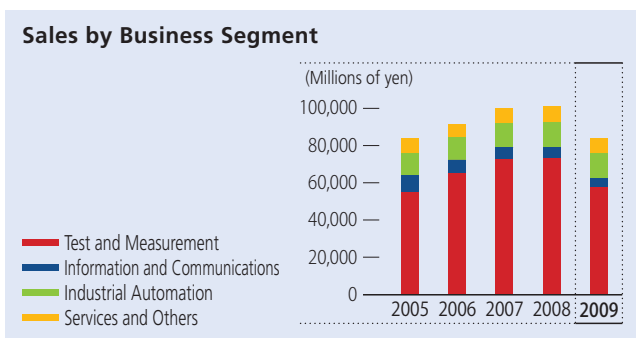
In the Test and Measurement segment, sales were comparatively solid in the General Purpose sub-segment. However, service assurance sales decreased substantially because telecom companies responded to the recession by curtailing, halting or postponing capital investment.

As a result, sales in Europe decreased 22.5 percent year on year to ¥14,931 million. Operating loss was ¥2,098 million, compared with operating loss of ¥1,925 million for the previous fiscal year.

**Asia and Others**

In the Test and Measurement segment, demand for measuring instruments used in manufacturing mobile handsets was firm in China during the first half. In the second half, however, sales decreased as the global recession led to restrained capital investment and overall demand stagnated, including demand for measuring instruments used in manufacturing mobile handsets. In the Industrial Automation segment, demand decreased in Southeast Asia for products such as checkweighers.

As a result, sales decreased 10.4 percent year on year to ¥9,510 million, and operating income decreased 72.4 percent to ¥120 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 deepening worldwide economic and financial crisis and concomitant contraction in credit 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. In addition, in the fiscal year ended March 31, 2008 Anritsu procured a ¥7,000 million long-term syndicated loan from multiple financial institutions that carries financial covenants. 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, 2009, Anritsu continued to reduce interest-bearing debt. Total interest-bearing debt as of March 31, 2009 decreased ¥3,404 million from a year earlier to ¥43,606 million. However, the net debt-to-equity ratio<sup>1</sup> increased to 0.67 from 0.57 at the previous fiscal year-end because net assets decreased. The debt-to-equity ratio<sup>2</sup> was 1.16, compared with 0.89 at the previous fiscal year-end.

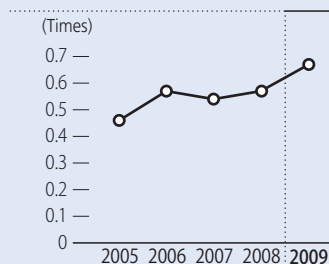
The Company will use increased cash flow generated by improvements in Anritsu Capital-cost Evaluation<sup>3</sup> and asset turnover as well as enhanced capital efficiency resulting from measures including an internal Group cash management system to make further reductions in interest-bearing debt, improve the net debt-to-equity ratio, enhance shareholders' equity and fortify its financial structure. At the end of March 2009, 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 - Reservation rights on common stock)

Note 2: Debt-to-equity ratio: Interest-bearing debt / (Net assets - Reservation rights on common stock)

Note 3: Anritsu Capital-cost Evaluation (ACE): Net operating profit after tax - Invested capital cost

### Net Debt-to-Equity Ratio



### Cash Flow

Cash and cash equivalents as of March 31, 2009 increased ¥1,853 million from the end of the previous fiscal year to ¥18,538 million. 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 ¥5,590 million from ¥3,878 million for the previous fiscal year.

Net cash provided by operating activities totaled ¥6,916 million, compared with ¥6,251 million in the previous fiscal year. Main factors included reduction of notes and accounts receivable-trade. In addition, Anritsu enhanced its effectiveness at reducing inventories through measures under Management Innovation 2008 to raise its efficiency in managing products used as demos for sales promotion. Depreciation and amortization was ¥3,181 million, a decrease of ¥167 million compared with the previous fiscal year.

Net cash used in investing activities was ¥1,326 million, compared with ¥2,373 million in the previous fiscal year. The primary factor was a reduction of ¥526 million year on year in acquisition of property, plant and equipment to ¥1,912 million.

Net cash used in financing activities was ¥3,848 million, compared with ¥6,625 million in the previous fiscal year. Primary uses of cash included payment of cash dividends and reduction of debt at overseas subsidiaries. In the fiscal year ended March 31, 2008, Anritsu issued the fourth series of unsecured bonds totaling ¥10,000 million and procured a syndicated loan totaling ¥7,000 million with the objective of repaying a ¥7,000 million syndicated loan and redeeming the third series of unsecured bonds totaling ¥15,000 million.

### Assets, Liabilities and Net Assets

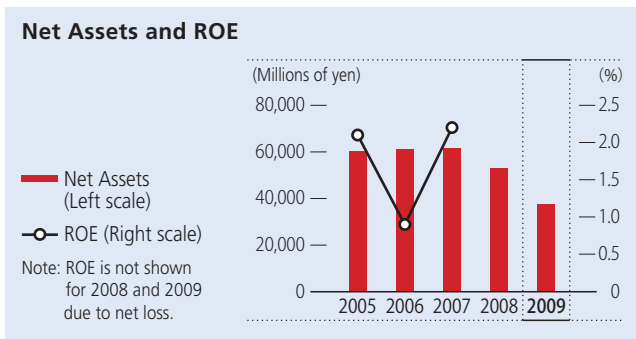
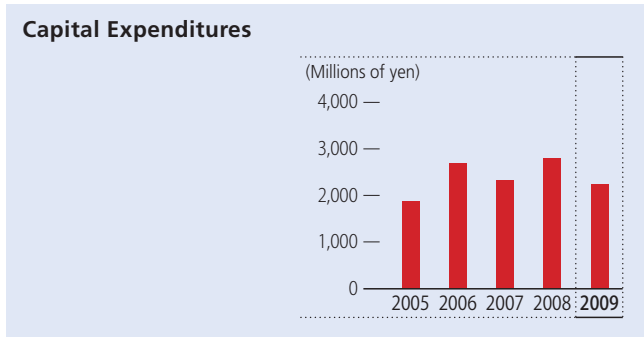
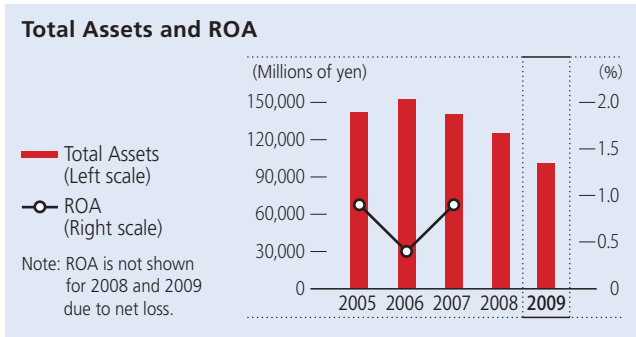
As of March 31, 2009, total assets decreased 19.2 percent, or ¥23,934 million, from a year earlier to ¥100,983 million. Primary factors included the application of "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No. 18), which reduced intangible fixed assets at overseas subsidiaries.

Current assets decreased 17.7 percent, or ¥13,373 million, from a year earlier to ¥62,286 million. Primary factors included a ¥7,188 million decrease in notes and accounts receivable - trade, and a ¥5,923 million decrease in inventories as a result of supply chain management process improvements and reduction of demonstration product assets among sales divisions.

The inventory turnover ratio improved to 5.7 times from 4.9 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 4.4 percent, or ¥959 million, from a year earlier to ¥20,987 million. Investments and other assets decreased 35.2 percent, or ¥9,602 million, from a year earlier to ¥17,710 million. Factors included an ¥8,995 million reduction in goodwill, net of amortization, due primarily to the one-time amortization of goodwill totaling ¥8,354 million from the acquisition of the Wiltron Company in the United States, and a ¥1,912 million reduction in other assets due to the one-time amortization of capitalized testing research expenses at Anritsu A/S.

As of March 31, 2009, total liabilities decreased 12.0 percent, or ¥8,614 million, from a year earlier to ¥63,458 million. Current liabilities increased 2.3 percent, or ¥627 million, from a year earlier to ¥28,062 million. The current ratio was 222.0 percent, compared to 275.8 percent a year earlier. Working capital totaled ¥34,224 million as of March



## 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, 2009 follows below.

	(Millions of yen)	
	2009	Ratio to Segment Sales (%)
Test and Measurement	¥ 8,762	15.3%
Information and Communications	351	6.8
Industrial Automation	1,078	8.3
Services and Others	340	4.1
Basic Research	1,172	—
<b>Total</b>	<b>¥11,704</b>	<b>13.9%</b>

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) MD8430A Signalling Tester: Development of a base station simulator for developing and verifying LTE handsets and chipsets

LTE\* is a 3.9G mobile communication system that will enable high-speed communication equivalent to fixed optical lines. Services using LTE are expected to begin in 2010 in Japan and the United States, and the world's telecom companies have indicated that they will adopt it as well. Anritsu has developed the MD8430A signalling tester to simulate LTE-capable base stations, which will help the world's telecom companies to begin offering LTE services.

Note 4: LTE: 3GPP is the abbreviation for the Third Generation Partnership Project, which promotes standards for next-generation mobile phone systems, while LTE is the abbreviation for Long-Term Evolution. The objective of LTE is the realization of high-speed communications with downlink faster than 100Mbit/s and uplink faster than 50Mbit/s, which is known as 3.9 Generation, or 3.9G.

31, 2009, compared to ¥48,224 million a year earlier.

Long-term liabilities decreased 20.7 percent, or ¥9,241 million, from a year earlier to ¥35,396 million. Long-term debt decreased ¥8,730 million from a year earlier to ¥32,004 million because ¥7,800 million in long-term debt pending repayment shifted to long-term debt due within one year under current assets. Total interest-bearing debt decreased ¥3,404 million from a year earlier to ¥43,606 million.

Net assets decreased 29.0 percent, or ¥15,320 million, from a year earlier to ¥37,525 million. The ratio of net assets to total assets was 37.1 percent, compared to 42.3 percent a year earlier.

## Capital Expenditures

For the fiscal year ended March 31, 2009, capital expenditures decreased 19.9 percent compared with the previous fiscal year to ¥2,236 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 communications, increasing network speed and the development of next-generation networks using IP networks. During the year ended March 31, 2009, 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)	
	2009	Change (%)
Test and Measurement	¥1,391	64.3%
Information and Communications	56	67.9
Industrial Automation	162	84.2
Services and Others	544	191.3
Sub-total	2,153	79.1
Eliminations or corporate	83	120.1
<b>Total</b>	<b>¥2,236</b>	<b>80.1%</b>

## 2) MT8820B/MT8815B Radio Communication Analyzer: Development of measurement software and videophone testing

Anritsu has strengthened the functionality of the MT8820B/8815B Radio Communication Analyzer to enhance its ability to handle TD-SCDMA,<sup>5</sup> which is one of the 3G mobile phone systems being promoted in China. A single unit enables both HSDPA<sup>6</sup> and videophone function testing, and raises efficiency in developing and manufacturing mobile handsets using the TD-SCDMA system.

Note 5: TD-SCDMA: A 3G mobile phone system that has been developed exclusively in China, TD-SCDMA is the acronym for time division synchronous code division multiple access. This communication system separates uplink and downlink on the same frequency using time-division duplexing (TDD) technology, and reassembles them using code division multiple access (CDMA) technology.

Note 6: HSDPA (High Speed Downlink Packet Access): a system for accelerating data downlink from base station to mobile handset for music and video downloads and other purposes.

## 2. Information and Communications

### Development of the EC27x0A Multi-Interface Controller

Compact and offering excellent environmental resistance, the EC27x0A Multi-Interface Controller incorporates various types of sensors that enable the construction of IP network monitoring systems. Networks have been moving toward IP in recent years, necessitating the incorporation of existing monitoring equipment into IP networks. However, the EC27x0A facilitates various monitoring systems ranging from meteorological systems that measure temperature, humidity and wind speed to systems for monitoring rivers and roads.

## 3. Industrial Automation

### Development of high-speed alien material inspection systems

Over the past several years society has become increasingly concerned about food safety and security, which has created demand for inspection equipment that goes beyond simply inspecting for alien materials in ways such as inspecting for missing items, underweight items and packaging problems.

During the fiscal year ended March 31, 2009, Anritsu enhanced its lineup with the KD74-h Series of X-ray inspection systems, which can detect minute metal particles as small as 0.2 mm, and the Super Mepoli III duw-h Series of metal detectors, which is three times more sensitive than previous models and offers superior detection consistency. Anritsu also moved to enhance support for the increasingly rigorous and diverse quality control among customers.

## Management Objectives and Indicators

Anritsu's target for the year ended March 31, 2009 was to become a highly profitable company with consolidated ACE of ¥5 billion and a ratio of consolidated operating income to net sales of 10 percent or higher. However, Anritsu's progress did not meet initial plans. Anritsu therefore initiated Management Innovation 2008 in January 2008 as management innovation measures to overcome the current conditions. Moreover, Anritsu also formulated urgent management measures in January 2009 to reduce fixed costs. While working to improve profitability and strengthen competitiveness, Anritsu will restructure its strategies for profitable growth.

## Outlook and Management Issues for the Year Ending March 31, 2010

For the year ending March 31, 2010, the global economy is expected to continue deteriorating. Anritsu will need to keep a careful watch on factors including financial system concerns and exchange rate trends and the resulting worsening of corporate profitability. In this severe market environment, the Anritsu Group will deploy the following measures.

In the Test and Measurement segment, Anritsu aims to raise profitability by implementing the measures in Management Innovation 2008 announced in January 2008 and the urgent management measures announced in January 2009. In the Mobile Handset sub-segment, Anritsu will focus on enhancing the lineup of measuring instruments used for LTE handsets, which are becoming mainstream. Anritsu will continue to 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. The Company will also take additional steps to reduce costs by increasing management efficiency through the integration of production organizations in Japan and overseas.

In the Information and Communications segment, Anritsu will work to increase profitability by boosting the competitiveness of its IP network solutions and strengthening cooperation with system integrators.

In the Industrial Automation segment, while strengthening cost-cutting to improve profitability, Anritsu aims to expand business by promoting a product strategy of higher added value and differentiation, as well as accelerating business development in overseas markets, including the beginning of full-scale overseas production.

Anritsu must appropriately manage and address risk factors that might inhibit the steady execution of these management plans, and transform them into a source of competitiveness. To do so, Anritsu will continuously improve its risk management system in coordination with the system of internal controls Anritsu is now energetically constructing in working to achieve management objectives.

Anritsu seeks to increase corporate value through sincere corporate activities, and proactively carries out its corporate social responsibility (CSR) program. While Anritsu believes that its most important CSR activities involve contributing to the creation of a safe, secure society through its products and services, it is also reviewing Anritsu Group activities in CSR areas including compliance, corporate governance, environmental protection, human rights and risk management as a means of further improving its management infrastructure. The Anritsu Group believes that consistently conducting CSR activities to become the kind of company it aspires to be will contribute to increasing the value of Anritsu to customers, shareholders, employees and all other stakeholders, and will thus support the achievement of management objectives.

Anritsu will work to expand sales by focusing on areas such as LTE and markets related to 3G in China, but forecasts that overall net sales will decrease because customers will continue to curtail capital investment in other test and measurement sectors. Anritsu's forecast for operating income incorporates the effect of fixed cost reductions under Management Innovation 2008 and the urgent management measures implemented in 2009.

As a result of the above, as of April 27, 2009 Anritsu forecasts that for the year ending March 2010, net sales will decrease 9.5 percent year on year to ¥76,000 million and operating income will increase 143.1 percent year on year to ¥2,200 million.

## 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, 2009.

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

The Anritsu Group works to deploy its well-developed technological capabilities to quickly provide leading-edge 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 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 next-generation networks (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.

The Test and Measurement segment derives a large percentage of its sales from the telecommunications market, and changes in capital investment among telecom companies, telecommunications equipment manufacturers and related electronic component manufacturers may affect results in this segment. The telecommunications industry is introducing new technologies to support rapid expansion in data traffic, but is also promoting shared network use and open networks to reduce capital investment and raise the efficiency of service development in response to the global recession. Moreover, demand for mobile communications measuring instruments, the cornerstone of earnings for the Anritsu Group, is affected by such factors as technological innovation in mobile phone services, penetration rate, the number of subscribers and changes in mobile handset replacement rate. In addition, Anritsu's earnings are affected by changes in development techniques in areas such as mobile handset software and platform creation, and also by intensified price competition for measuring instruments for production of mobile phones.

The Information and Communications segment has a high proportion of sales to government entities, and the scale and implementation status 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 are the changes in the competitive landscape of the telecommunications industry because of mergers, acquisitions and realignments actively taking place on a global scale due to the global recession that began in the United States. 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 55.4 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, 2009, 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.