Management's Discussion and Analysis

The Anritsu Group has adopted IFRS since the fiscal year ended March 31, 2013 and prepared consolidated financial statements in conformity with IFRS in fiscal 2013, 2014, 2015, and 2016.

The Scope of Consolidation

The Anritsu Group comprised 42 consolidated subsidiaries at the end of the fiscal year.

Revenue and Profit

During the fiscal year ended March 31, 2016, while the zero-interest-rate policy was lifted under the economic recovery trend in the U.S., the outlook for the global economy remained uncertain due to adverse elements including an increase of geopolitical risk in the Middle East and Europe, decelerating economic growth in China, along with a decline in oil prices. In Japan, despite the continuation of economic stimulus measures through monetary/fiscal policies, including the introduction of negative interest rates, concerns about economic prospects have been mounting mainly due to increasing overseas risks, including the slowdown of the Chinese economy, and sharp fluctuations in the foreign exchange market in the fourth quarter.

In the field of communication networks, mobile broadband services are spreading, and as a result, data traffic over networks is continuing to increase. In response, LTE (Long-Term Evolution) and LTE-Advanced, a further expanded LTE, have become widely used, and demand for development of protocol conformance testing, operator acceptance testing and comprehensive transmitting/receiving testing of mobile devices has increased. Furthermore, there is a movement toward standardization also with respect to fifth-generation (5G) mobile systems, the next-generation communications systems, and a wide range of industries are pursuing development of new service applications that utilize the IoT (Internet of Things).

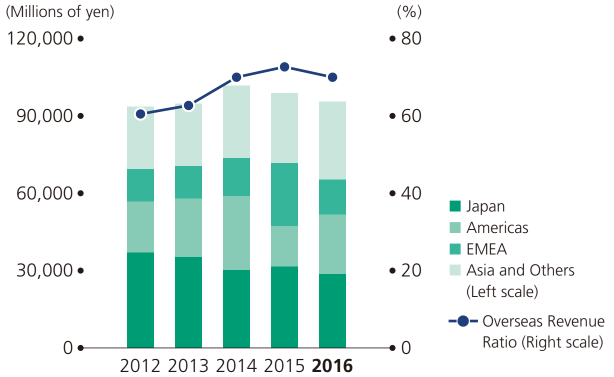
As just described, although the business environment surrounding the Anritsu Group is under a medium-to-long term growth trend, in the current mobile-related market, while continued growth is expected in some emerging markets, growth of the overall market has slowed down as the commoditization of smartphones progressed. As a result, earnings of customers varied, which resulted in developments such as restructurings announced and carried out by some major chip and device vendors, and differences in investment appetite were observed.

Amid such business environment, the Anritsu Group worked to build up a platform for business expansion by carrying out strategic investments mainly in the areas of development of new products and enhancing competitiveness in the offering of solutions.

Revenue

During the fiscal year ended March 31, 2016, there was growth in orders/sales in the Products Quality Assurance business primarily in the Japanese convenience store market. However, in the Test and Measurement business, while demand relating to the development and manufacture of optical modules in the field of core and metro networks that respond to an increase in data traffic remained strong, there was a contraction in the smartphone manufacturing market in Asia and accompanying restraints on investments by major players and a decline in demand for base station construction in the North American market. Consequently, revenue and profit in the Test and Measurement business decreased compared with the previous fiscal year. As a result, orders decreased 6.4% compared with the previous fiscal year, to ¥94,589 million, and revenue decreased 3.3%, to ¥95,532 million.

Revenue by Region and Overseas Revenue Ratio



Cost of Sales and Gross Profit

Cost of sales increased ¥409 million, or 0.9%, to ¥46,557 million. Cost of sales as a percentage of total revenue was 48.7%, down 2.0% compared with the previous fiscal year. Gross profit decreased ¥3,717 million, or 7.1%, to ¥48,975 million. The gross margin amounted to 51.3%.

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

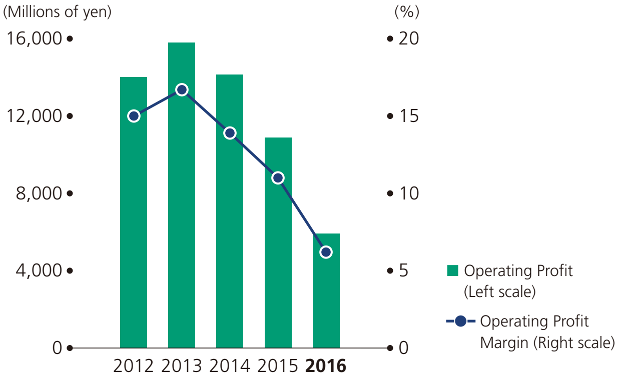
SG&A expenses increased 0.1% over the previous fiscal year, to ¥29,621 million.

Research and development (R&D) expenses dropped 0.9%, to ¥12,820 million, reaching 13.4% of consolidated total revenue. As a result of the above factors, operating profit declined 45.8%, or ¥4,985 million, to ¥5,898 million. The operating margin was 6.2%.

SG&A Expenses

Year ended March 31	Millions of yen 2016	2015	YoY (%)
Personnel expenses	**¥19,286**	¥18,340	5.2
Travel and transportation expenses	**1,861**	1,985	(6.2)
Advertising expenses	**1,750**	1,892	(7.5)
Depreciation and amortization expenses	**1,131**	1,004	12.6
Others	**5,593**	6,385	(12.4)

Operating Profit and Operating Profit Margin



Profit before Tax and Profit

Profit before tax decreased 53.1% compared with the previous fiscal year, to ¥5,435 million. The effective corporate income tax rate was 30.7%. Profit decreased 52.2% compared with the previous fiscal year, to ¥3,768 million, and profit attributable to owners of parent decreased ¥4,107 million, or 52.2%, compared with the previous fiscal year, to ¥3,768 million. Comprehensive income fell ¥11,265 million, to ¥634 million, and basic earnings per share were ¥27.38.

Cost of Sales, Expenses, and Profit as a Percentage of Revenue

Year ended March 31	% 2016	2015	2014
Revenue	**100.0**	100.0	100.0
Cost of sales	**48.7**	46.7	46.0
Gross profit	**51.3**	53.3	54.0
SG&A expenses	**31.0**	30.0	28.1
R&D expenses	**13.4**	13.1	12.0
Profit	**3.9**	8.0	9.1

Shareholder Return Policies

Dividend Policy

The Company's basic policy for returning profits to its shareholders is to distribute profits in accordance with its consolidated performance and by taking into account the total return ratio. With regard to dividends, while taking the basic approach of raising dividends on equity (DOE) in accordance with the increase in consolidated profits for the fiscal year, the Company aims at a consolidated dividend payout ratio of 30% or more. The Company's basic policy is to make distributions of dividends, twice a year, consisting of a fiscal year-end dividend and an interim dividend by resolution of the General Meeting of Shareholders and by approval of the Board of Directors. The Company intends to carry out the purchase of treasury stock appropriately as necessary, by taking into account its financial situation, the trends in stock prices, and other factors, in an effort to execute capital policies that respond flexibly to changes in the corporate environment.

Cash Dividends per Share

The Company's basic policy is to apply retained earnings to research and development and capital investment in order to respond to rapid technological advances and changes in the market structure. Anritsu plans to pay a year-end dividend of ¥12.0 per share as initially scheduled, and total dividends will be ¥24.0 per share for the fiscal year ended March 31, 2016.

Business Segments

The Anritsu Group classifies operations into the segments of Test and Measurement, Products Quality Assurance, and Others.

Test and Measurement

This segment develops, manufactures, and sells measuring instruments and systems for a variety of communications applications, and service assurance, to telecom operators, manufacturers of related equipment, and maintenance and installation companies around the world. During the fiscal year ended March 31, 2016, while demand for measuring instruments for optical/digital devices was strong in Asia, in the mobile market, withdrawal from business and restrained investment by customers continued. Meanwhile, communications carriers in North America have restrained capital investment, including construction of LTE networks, thereby revenue in the Test and Measurement business decreased compared with the previous fiscal year. In order to deal with these circumstances, the Anritsu Group implemented measures to streamline the corporate organizations, and restructuring expenses were recorded in overseas subsidiaries. Consequently, segment revenue decreased 7.8% compared with the previous fiscal year, to ¥67,730 million, and operating profit decreased 47.4%, to ¥4,706 million. The Test and Measurement business, which accounts for 71% of the Anritsu Group's revenue, is divided into the following 3 sub-segments.

1. Mobile

The Mobile 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, including smartphones, IC chipsets, and relevant components. Demand in this sub-segment tends to be influenced by factors including the technological innovations in mobile phone services, market penetration, the number of new subscribers as well as new entries in and withdrawals from the market by mobile phone and chipset manufacturers, and the number of models and shipments of mobile phones and chipsets. Currently a variety of mobile broadband services offered through mobile phones that support LTE are available around the world. Leading telecom operators and mobile phone and chipset manufacturers are pursuing research and development of LTE-Advanced, the most-advanced communications system, with the aim of providing more-sophisticated and high-quality services. Moreover, mobile communications technology is also used for in-vehicle telecom handsets, and research and development for new services is progressing. Driven by these efforts, there is ongoing demand for leading-edge measuring solutions related to measuring systems that perform conformance testing and interoperability testing. In addition, demand for test and measurement is emerging in basic research and development of 5G. Meanwhile, smartphones which have rapidly come into widespread use are showing a slowdown in market growth as demand in China has run its course and the commoditization of smartphones progressed. Against the backdrop of such market changes, there is demand for more-efficient measuring instruments for device manufacturing.

Anritsu will continue to develop and launch competitive leading-edge measuring solutions, as well as accurately conduct development portfolio management, to strengthen the revenue base.

2. Network Infrastructure

The Network Infrastructure sub-segment includes network construction maintenance, monitoring and service quality assurance solutions for wireline and wireless service providers, and solutions for communications equipment manufacturers in areas including design, production, and testing. In this sub-segment, with the popularity of broadband networks, service offerings including not only music and video distribution but also cloud computing services are increasing. Accompanying this growth, data traffic continues to expand rapidly, and advanced telecom operators and equipment manufacturers pursuing higher-speed networks are commercializing 100Gbps services and concentrating on research and development of 400Gbps network equipment. Moreover, efficiently dense base station networks are being promoted by integrating and using wireline and wireless network technology in order to improve connectivity from mobile phones. During the fiscal year ended March 31, 2016, although the decreasing trend in demand for base station construction in the North American market was observed, along with the change in the market trend, demand is growing for measuring solutions that optimize wireline and wireless technology depending on the intended use. Furthermore, mainly owing to the increase in data centers supporting cloud services, the market for high-speed data communications equipment is expanding. Along with this, research and development and the manufacturing market of high-speed optical communications modules are active, creating additional demand for related measuring solutions.

Anritsu is working to expand 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.

3. Electronics

The Electronics 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 tends to be impacted by the scale of production of electronic components and products used in telecommunications equipment, intelligent home appliances, and automobiles. Expansion of mobile broadband services and the use of the IoT (Internet of Things), such as smart meters, are driving growth in demand for measuring solutions for development and manufacturing of wireless modules for a broad array of applications. Furthermore, various wireless systems have been digitalized for effective use of frequency resources. Demand for measuring solutions for manufacturing and maintenance of new systems is also steadily growing. Anritsu will work to further expand the business in this sub-segment by offering a wider range of solutions for the electronics market.

Products Quality Assurance

The Products Quality Assurance business accounts for 20% of the Anritsu Group's revenue. Since more than 80% of segment revenue is generated from food manufacturer customers, this segment is substantially influenced by the impact of the economic growth rate and changes in consumer spending, which would affect results of food manufacturers' businesses. Core products include highly precise checkweighers for high-speed food processing lines, automatic electronic weighing equipment as well as X-ray and other inspection systems that detect and remove metal fragments, stones, and other alien materials in food processing with high precision.

During the fiscal year under review, domestic and overseas markets continued firm, and we captured renewal demand for facilities needed along with the introduction of new products mainly in the Japanese convenience store market, thereby increasing revenues significantly. In addition, continuous investment aimed at expanding our global market share resulted in a 15% increase in segment overseas revenue compared with the previous fiscal year mainly due to the contribution of the expansion of the customer base in North America. Demand for quality control inspection solutions is expected to remain firm in every region of the world, as interest among food manufacturers remains high. To meet this demand, Anritsu will develop and deliver new products and quality assurance solutions, and will optimize its supply chain, including overseas production, in order to expand our businesses and increase profitability. In addition, to maintain its competitiveness globally, Anritsu allocated resources to R&D investments and sales promotion activities.

As a result of these initiatives, total revenues amounted to ¥18,892 million (an increase of 16.6% over the previous fiscal year) and operating income was ¥1,195 million (an increase of 45.0%).

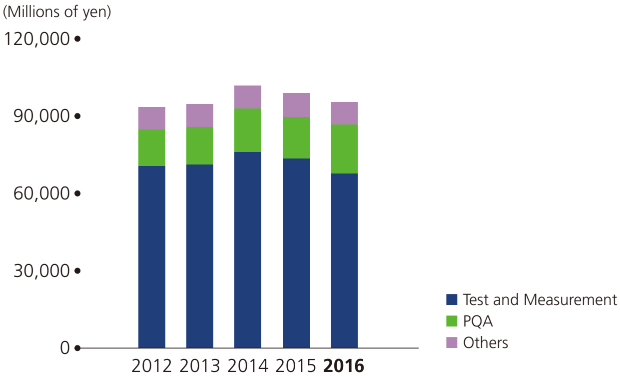
From the fiscal year ended March 31, 2016, this segment has changed its name from the former "Industrial Automation" to "Products Quality Assurance".

Others

This segment comprises information and communications, devices, logistics, welfare services, real estate leasing, and other businesses.

Consolidated sales of this segment amounted to ¥8,910 million (a 3.1% decline year on year), and operating profit was ¥575 million (a 70.7% decline year on year). The principal reason for the decrease in profit compared with the previous year was the recognition of the reversal of an impairment loss in the previous year.

Revenue by Business Segment



Liquidity and Financial Condition

Fund Procurement and Liquidity Management

The Anritsu Group's funding requirements are mainly for working capital to purchase materials and cover expenses incurred in the manufacturing, sales, and marketing of products; for capital investments; and for research and development expenses. In addition, during the fiscal year ended March 31, 2016, funds were required for the construction of the Global Headquarters Building. The Group secures sufficient funding to cover these requirements from retained earnings, bank borrowings, and straight bonds. To ensure stability in funding, the Anritsu Group arranged for a commitment line of ¥10 billion in March 2014, which is effective through March 2017.

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, regular repayment of long-term borrowings, and business growth.

During the fiscal year ended March 31, 2016, as a result of issuing bonds and bank loan repayment, as of March 31, 2016, the balance of interest-bearing debt (excluding lease payables) was ¥22.0 billion (compared with ¥16.1 billion at the end of the previous fiscal year), and the debt-to-equity ratio was 0.29 (compared with 0.20 at the end of the previous fiscal year). And the net debt-to-equity ratio was negative 0.20 (compared with negative 0.24 at the end of the previous fiscal year). In addition, the average turnover ratio on the end-of-period balance of inventories to revenue was 5.1 times.

The Company will utilize increased cash flow generated by improvements in ACE (achievement of net operating profit after tax less an adjustment for the cost of capital) and CCC as well as enhanced capital efficiency resulting from measures including an internal Group cash management system to make further reductions in interest-bearing debt, and improve the debt-to-equity ratio, enhancing shareholders' equity and fortifying its financial structure.

At the end of March 2016, Rating and Investment Information, Inc. (R&I) has rated Anritsu's short-term debt a-1 and its long-term debt A-. Anritsu will continue working to enhance its financial stability in order to improve its debt rating.

Notes: 1. ACE (Anritsu Capital-cost Evaluation): Net operating profit after tax – Cost of capital
2. Debt-to-equity ratio: Interest-bearing debt / Equity attributable to owners of parent
3. Net debt-to-equity ratio: (Interest-bearing debt – Cash and cash equivalents) / Equity attributable to owners of parent
4. CCC: Cash Conversion Cycle

Cash Flow

In the fiscal year ended March 31, 2016, cash and cash equivalents (hereafter, "net cash") increased ¥2,476 million from the end of the previous fiscal year, to ¥37,392 million.

Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was a positive ¥1,153 million (compared with a positive ¥1,534 million in the previous fiscal year).

Conditions and factors for each category of cash flow for the fiscal year are as follows.

• Cash Flows from Operating Activities

Net cash provided by operating activities was ¥10,196 million (in the previous fiscal year, operating activities provided net cash of ¥7,583 million). The main factor was an increase in recording profit before tax and a decrease in trade and other receivables while there was a decrease in payment of income taxes. Depreciation and amortization expense was ¥3,970 million, an increase of ¥598 million compared with the previous fiscal year.

• Cash Flows from Investing Activities

Net cash used in investing activities was ¥9,043 million (in the previous fiscal year, investing activities used net cash of ¥6,049 million). This was primarily due to acquisition of property, plant and equipment, including construction of the Global Headquarters Building.

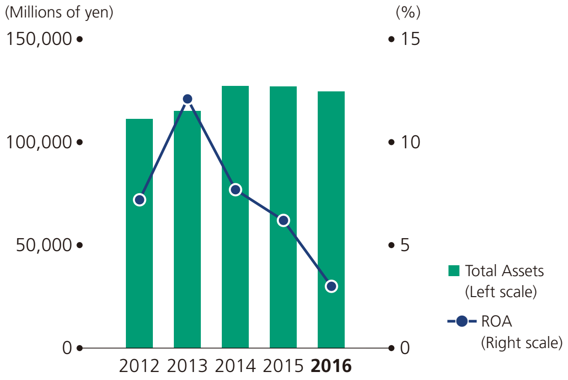
• Cash Flows from Financing Activities

Net cash provided by financing activities was ¥2,451 million (in the previous fiscal year, financing activities used net cash of ¥11,235 million). The cash increase was mainly due to proceeds from issuing bonds of ¥8,000 million and proceeds from long-term borrowings of ¥3,000 million. On the other hand, the cash decrease was mainly due to repayment of long-term borrowings of ¥5,000 million and payment of cash dividends totaling ¥3,297 million (in the same period of the previous fiscal year, cash dividends were ¥3,153 million).

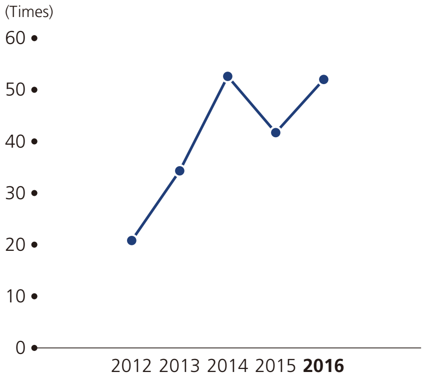
Assets, Liabilities, and Equity

Assets, liabilities, and equity as of March 31, 2016 were as follows. Total assets decreased ¥2,268 million compared with the end of the previous fiscal year, to ¥124,625 million. While trade and other receivables decreased, cash and cash equivalents increased. Total liabilities increased ¥535 million compared with the end of the previous fiscal year, to ¥48,762 million. This was mainly due to the increases of bonds and borrowings and employee benefits in non-current liabilities, while there were decreases of bonds and borrowings and trade and other payables in current liabilities. Total equity decreased ¥2,802 million compared with the end of the previous fiscal year, to ¥75,863 million. This was mainly due to decreases of retained earnings and other components of equity. As a result, the equity attributable to owners of parent to total assets ratio was 60.8%, compared with 62.0% at the end of the previous fiscal year.

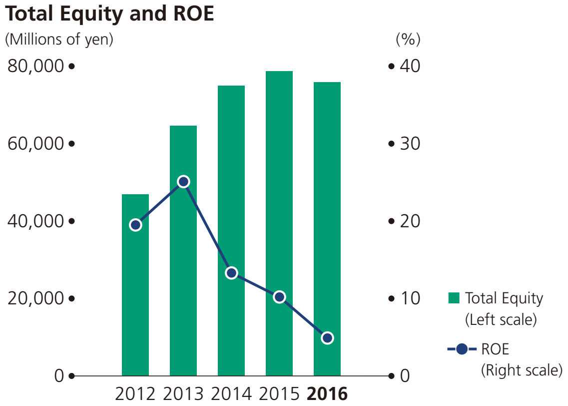
Total Assets and ROA



Interest Coverage Ratio



Total Equity and ROE



Capital Expenditures

The Anritsu Group is investing management resources principally in the fields of improving network quality and performance along with the trends toward fusion of wired and wireless communication, faster network transmission, and larger volumes. During the consolidated fiscal year under review, Anritsu implemented investments to develop new products and reduce manufacturing costs to cope with technological innovation and sales competition, mainly in its core Test and Measurement business.

The breakdown of investments is shown in the following table. (Figures for tangible fixed assets and intangible assets are on a received basis. Figures exclude development costs of intangible assets. Figures do not include consumption taxes, etc.) In the core Test and Measurement business, investments were implemented to develop new products and reduce manufacturing costs to cope with technological innovation and sales competition.

In the PQA business, investments were made mainly for the purpose of improving efficiency in the manufacturing environment and providing support for marketing activities.

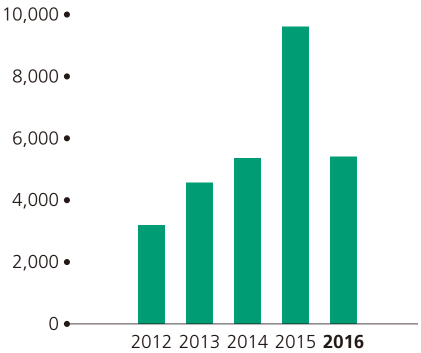
Among other businesses, in the Information and Communications business, investments were made mainly in the development of new products, improvements in the assessment environment, and improvement in quality. Anritsu also made investments in the IT infrastructure aimed at improving the repair and maintenance processes.

Overview of Capital Expenditures

	Millions of yen		YoY (%)
Year ended March 31	**2016**	2015	
Test and Measurement	**¥4,693**	¥9,041	51.9
PQA	**358**	295	121.6
Subtotal	**5,051**	9,336	54.1
Others	**348**	277	125.9
Total	**¥5,399**	¥9,613	56.9

Capital Expenditures

(Millions of yen)



Research and Development

The Anritsu Group conducts R&D related to the development of "Original & High Level" products and services in its R&D centers in Japan, the Americas, and Europe, with the aim of contributing to the realization of global societies that are"safe, secure, and prosperous."

In the Test and Measurement segment, Anritsu Company (United States), Anritsu Ltd. (United Kingdom), Anritsu A/S (Denmark), Anritsu Solutions S.r.l. (Italy), and Anritsu Solutions SK, s.r.o. (Slovakia) are working together to further realize synergies among their technologies through supplementing and complementing each other's technological strengths.

The PQA segment is conducting R&D within Anritsu Infivis Co., Ltd. Accompanying the application of the International Financial Reporting Standards (IFRS), the Anritsu Group capitalized certain of its development investments and presented these amounts among intangible assets. The breakdown of R&D investments during the fiscal year, including those presented in intangible assets, is shown below.

Research and Development

	Millions of yen		% of revenue
Year ended March 31	**2016**	2015	
Test and Measurement	**¥ 9,822**	¥10,189	10.3
PQA	**1,902**	1,708	2.0
Others	**796**	611	0.8
Basic Research	**570**	858	0.6
Total	**¥13,090**	¥13,366	13.7

Principal results of R&D programs in each business segment are as follows.

Business Segment	Model	Product	Application	Contribution
Test and Measurement	MD8430A	Additional functions incorporated Signaling test compatible with 4x4/8x2 MIMO Fading Simulator	Virtual test environment for cutting-edge mobile networks	Contributes to improving quality and early commercialization of latest smartphones that operate on LTE-Advanced
	MT8821C	New products Radio Communication Analyzer with LTE-Advanced/3G/2G	Is installed with RF sending and receiving functions for handset and base station simulator functions	For use in development of LTE-Advanced/3G/2G handset
	MS2840A	New products Signal Analyzer	Greatly improves near-phase noise functions of spectrum analyzers for use in development and manufacturing of narrow band wireless equipment and devices	Can be used in the development and manufacturing of microwave and milli-wave wireless equipment and 79GHz band car-mounted radar sets as well as various kinds of oscillator devices, etc., that require functions for near-phase SSB noise
PQA	KWS9001 Series	New products Capsule Checkweigher	Used for quality assurance through detection of foreign matter in pharmaceuticals	Contributes to pharmaceuticals safety and security
Others	PureFlow WSX NF7601A	Traffic Accelerator	For increasing compatibility with large-scale networks and conformance with overseas safety standards	Offers safe and secure communications environment worldwide, leading in the cloud environment

Management Objectives and Indicators

To attain its management vision of "continuous growth with sustainable superior profits," the Anritsu Group had prepared its ANRITSU 2020 VISION, which has a time horizon of 10 years (that began in 2010) and announced a medium-term milestone plan entitled Mid-term Business Plan GLP2017 (a three-year plan that ends in fiscal 2017) on April 27, 2015, which is based on ANRITSU 2020 VISION. The principal management targets under this plan are shown in the following table. However, with structural changes in the smartphone market as a backdrop, the operating environment has substantially changed from the time of formulation of GLP2017. Although we set a consolidated revenue target of ¥120.0 billion for FY2017, the management targets for FY2017 aim at a revenue growth rate of 7% or higher based on FY2015 results and the FY2016 plan, and set a target for profit by operating margin. Each business will strive to continue strengthening the profit structure going forward to achieve the initially planned operating margin target as soon as possible.

		Billions of yen	
Year ended March 31	2015 (Actual)	**2016 (Actual)**	2016 (Forecast)
Revenue	98.8	**95.5**	97.0
Operating profit	10.9	**5.9**	7.2
Profit	7.9	**3.8**	5.3
ACE	2.5	**(0.6)**	—
ROE (%)	10	**5**	7

Outlook and Management Issues for the Year Ending March 31, 2017

During the fiscal year ending March 31, 2017, the global economy is expected to recover in the United States. However, growing uncertainties over trends in the Chinese economy, rising geopolitical risks mainly in the Middle East, and market turbulence due to negative interest rate policies in Japan and Europe have made the future unpredictable. In addition, there is a need for constant and appropriate responses to technological innovations, changes in the market environment and competitive relationships, and trends in the financial situation. In this market environment, the Anritsu Group will undertake the following measures. In the core Test and Measurement business, the Anritsu Group will strive to achieve the full-year forecast by expanding sales in the network infrastructure market and actively investing in the next-generation IoT/5G business while strengthening the revenue base of the mobile market. In the mobile market, the Anritsu Group will continue to provide solutions for LTE-Advanced (CA: Carrier Aggregation, MIMO: Multiple-Input and Multiple-Output, etc.) and strengthen the development of emerging markets in an effort to secure revenue. In the network infrastructure market, in order to acquire the network reshaping market which is expanding due to the explosive increase in demand for mobile data traffic and data centers as a result of expansion of service, we will reinforce competitiveness.

We will continue to actively make investments for the purpose of seizing business opportunities in the IoT/5G market, which is expected to grow over the medium-to-long term. The PQA business will maintain a stable revenue base in the Japanese market as a market leader and strive to expand market share in the growing overseas markets. In order to reinforce competitiveness in the overseas markets, we will enhance and expand the global supply chain system.

The performance forecast for the year ending March 31, 2017 is shown as below.

The Anritsu Group is planning on growth in revenue. In the Test and Measurement business, revenue is expected to remain at the same level with the fiscal year ended March 31, 2016. In the PQA business, revenue is expected to increase in both the Japanese and overseas markets. The outlook for operating profit and profit shows increases from the fiscal year ended March 31, 2016.

Risk Information

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

The Anritsu Group works to deploy its well-developed technological capabilities to promptly provide cutting-edge products and services that offer value to customers. However, the rapid pace of technological innovation in the Anritsu Group's core information and communications 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 financial condition and operating results.

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 financial condition and operating results. Because a high percentage of Test and Measurement segment revenue is in the telecommunications market, capital investment trends among telecom operators, telecommunications equipment manufacturers, and electronic component manufacturers have the potential to exert a material effect on business results. Telecom operators are progressively adopting technologies to handle rapid increases in data traffic even as they curtail capital investment.

However, they are also increasingly adopting shared open network use in order to increase service development efficiency. Moreover, business results for the mobile communications measuring instrument field, the cornerstone of earnings for the Anritsu Group, are affected by changes in technological innovation in mobile phone services, the number of subscribers, and the replacement ratio for mobile phones. Business results are also affected by factors such as changes in development methods as seen in the shift to mobile phone software platforms and response to intensifying price competition in measuring instruments used in handset production. In the PQA business, sales to food manufacturers constitute approximately 80% of revenue. Economic growth rates, consumer spending, and raw material price trends have the potential to impact performance and capital investment, and other issues among food manufacturers materially influence its 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 including both the Test and Measurement business and the PQA business is about 70%, and many customers likewise operate on a global scale. As a result, economic trends in countries worldwide, changes in international conditions, compliance with required laws and regulations, and progress in the Anritsu Group's global strategy have a potential to exert a material impact on the Group's financial position and results of operations. In addition, global-scale mergers, acquisitions, and realignment in the telecommunications industry are changing the competitive landscape. Significant changes in capital investment trends that result have the potential to exert a material impact on the Anritsu Group's financial condition and operating results.

4. Foreign Exchange Risk

The Anritsu Group's sales outside Japan account for approximately 70% of consolidated revenue. 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 financial condition and operating results.

5. Long-Term Inventory Obsolescence Risk

The 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 and operating results.

6. Risk Related to Deferred Tax Assets

The Anritsu Group applies deferred tax accounting and recognizes deferred tax assets. Calculation of deferred tax assets is based on projections that include estimates of future taxable profit, and the actual benefit may differ from the projection. If the tax benefits based on the estimate of future taxable profit are judged to be unavailable, these deferred tax assets are written down, which has the potential to exert a material impact on the Anritsu Group's financial condition and operating results.

7. Risk related to Defined-Benefit Pension Plan

The amounts of retirement benefit payments and obligations incurred in connection with employee defined-benefit pension plans of the parent company and certain of its subsidiaries are calculated based on assumptions, including discount rates, made for actuarial calculations and the expected return on such pension plan assets. If the discount rates and other assumptions, which were made for the actuarial calculations of the expected amount of obligations under these defined-benefit pension plans, undergo change, this has the potential to exert a material impact on the Anritsu Group's financial condition and operating results.

8. Impact of Revisions, Etc., in Accounting Standards

The Anritsu Group voluntarily adopted its financial statements in conformity with IFRS. However, if, in the future, new accounting principles, tax laws, etc., are applied and/or changes are made in such regulations, this has the potential to exert a material impact on the Anritsu Group's financial condition and operating results.

9. Risk of Natural Disasters and Other Unexpected Events

The Anritsu Group operates production and sales activities globally. Consequently, the occurrence of major earthquakes or other natural disaster, fire, war, acts of terrorism or violence could exert a material impact on the Anritsu Group's financial condition and operating results by disrupting the business activities of the Anritsu Group or its suppliers and customers due to damage to key facilities, or by causing political or economic instability.