

Message from the Group CEO



Anritsu Is Pursuing Innovation Crossing Solution Boundaries to Achieve the 2020 VISION of “Continuous Growth with Sustainable Superior Profits”

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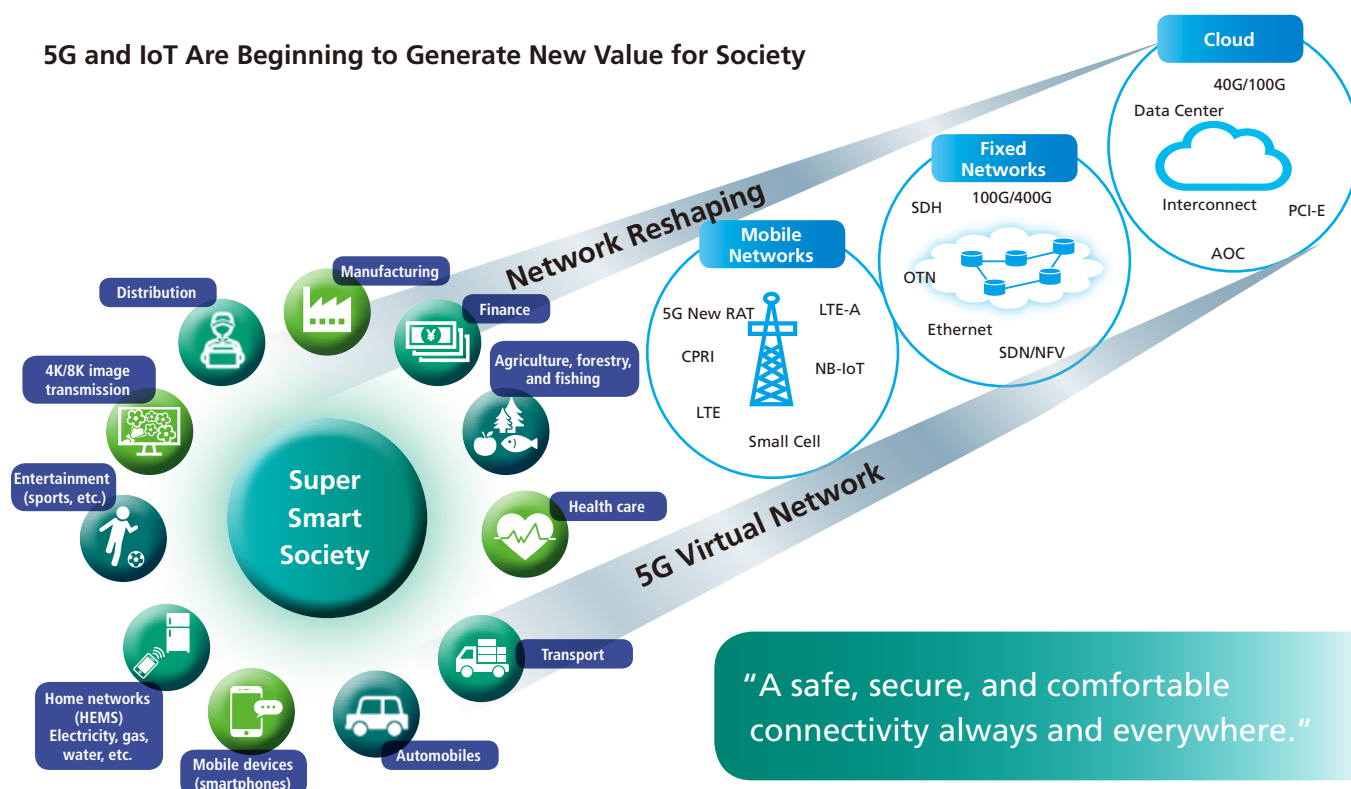
Advances in mobile broadband services and the Internet of Things (IoT) are beginning to generate new value for society. Fiscal 2016 (ended March 31, 2017) was marked by concrete efforts to accelerate the standardization and commercialization of next-generation 5G wireless technology. Going forward, we can expect a proliferation of investment plans aimed at achieving new transformations in society utilizing 5G and IoT, such as the Super Smart Society and Industry 4.0. The Anritsu Group has steadily built a track record of success as a leading test and measurement company providing innovations to next-generation network society, from advances in mobile communications technologies to the IoT sector. In this section, I'd like to present our management restructuring plan and other measures during fiscal 2016, our business strategies to achieve the 2020 VISION plan, and an evaluation of the effectiveness of our corporate governance.

Basic Policy for Medium- to Long-Term Business Strategies

Embrace growth drivers to achieve “Continuous growth with sustainable superior profits”

Business domain Category	Annual average market growth rate	Growth drivers	Targets	
			Sales growth rate	Operating margin
Test and Measurement	3-5%	Broadband expansion and innovation 1) LTE-Advanced, 5G 2) IoT, Connectivity 3) Network reshaping	≥ 7%	≥ 20%
PQA	3-5%	Improvement in safety, security, and health Quality assurance solutions using X-ray	≥ 7%	≥ 12%
Consolidated	—	—	—	≥ 18%
ROE	—	—	≥ 15%	

5G and IoT Are Beginning to Generate New Value for Society



Management Restructuring for the Next Stage of Growth

During fiscal 2016, Anritsu adopted the slogan “Restoring Trust and Returning to Growth through the Collective Wisdom of Management by All,” and implemented priority measures to achieve its business targets. Further, during this interim between LTE (Long-Term Evolution) and the next-generation 5G wireless system, we launched a proactive management restructuring program (REBORN2016) to ensure Anritsu secures the next growth opportunities.

The downward trend in the mobile test and measurement market advanced beyond our expectations in 2016. The impact from a scaling back of investment by major players in the smartphone development and manufacturing-related markets in North America and Asia was particularly large, and we were forced to make a downward revision to forecasts at the end of the first half of the fiscal year. Since we had been making a concerted effort as a company for management restructuring, this was extremely

disappointing. However, we were confident that resolutely pursuing structural reforms even in such a business climate would allow us to overcome the difficult situation, and decisively implemented the measures. As a result, we achieved results in the fourth quarter that put us on the road to recovery.

The Test and Measurement segment posted declines in both revenue and earnings, but the PQA (Products Quality Assurance) achieved increases in both sales and profit on expanded sales in both Japan and overseas markets.

For the consolidated fiscal period, orders amounted to ¥88,934 million (down 6.0% from the previous fiscal year), with revenue of ¥87,638 million (down 8.3%). Operating profit totaled ¥4,234 million (down 28.2%), with profit before tax of ¥3,628 million (down 33.2%), profit of ¥2,734 million (down 27.4%), and profit attributable to owners of parent at ¥2,698 million (down 28.3%).

Developing a Robust Earnings Structure

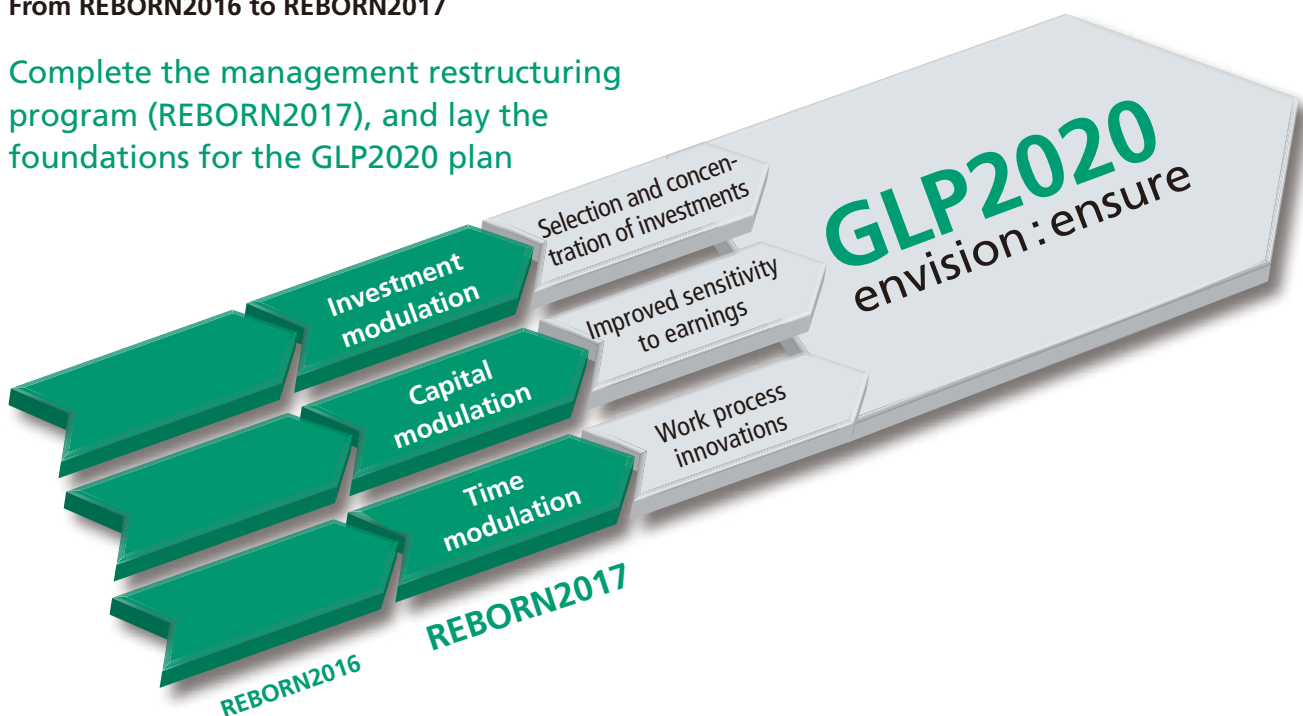
The main measures for the fiscal 2016 REBORN management restructuring program are:

- 1) Investment modulation – Clarify the process of selection and concentration for investments, focus on the return on investment, emphasize priority-based development project management, and reform the development structure to reduce personnel.
- 2) Capital modulation – Strengthen product price competitiveness, improve profit sensitivity, and thoroughly cut costs to secure earnings.
- 3) Time modulation – Reform business processes and raise productivity. Also, as part of the working style reform, encourage morning activities, eliminate late-night overtime, and revise and shorten meetings.

I would next like to summarize the results of the management restructuring. Our measures for investment and capital modulation became apparent in our fourth quarter performance. We focused on more-efficient business

From REBORN2016 to REBORN2017

Complete the management restructuring program (REBORN2017), and lay the foundations for the GLP2020 plan



operations as a means to counter the period of market stagnation, and achieved the highest quarterly results in the last two years. These efforts made a particularly large impact on operating profit.

For time modulation, we focused on internal efforts to enhance productivity and raise awareness of time management. In August 2016, we announced a new policy of “working bright and cheerful from the morning’s activities,” implementing such measures as strict enforcement of arriving at the office in time to start work from the starting time, establishing 19:00 as the time in principle for leaving the office and turning off lights at that time, and making meetings shorter and more efficient. We also recognized that reform of business processes is the key component of time modulation, and implemented working-style reforms aimed at sparking innovation, raising productivity, and enhancing corporate value. These efforts are steadily producing results.

Anritsu was also certified as a “White 500” company in the 2017 Certified Health and Productivity

Management Organization Recognition Program from Japan’s Ministry of Economy, Trade and Industry (METI). Working-style reforms not only improve productivity, but enhance enterprise value.

An excellent example of our efforts for greater productivity and time management (curbing overtime) is the XDDP software development process*¹ we have utilized since 2012.

To continue developing software in a timely manner in response to market changes, we need to examine closely the necessity of individual tasks, and focus more intently on the essential processes. XDDP is an important development approach that supports this effort.

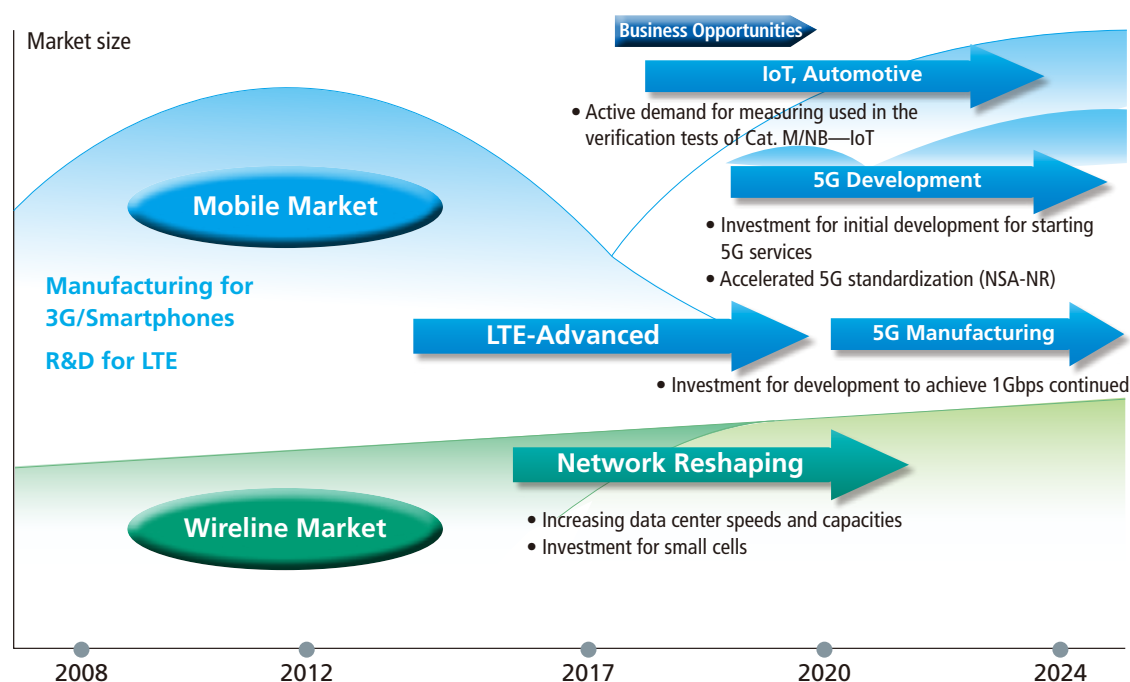
Time modulation measures have raised awareness of evening out and enhancing the efficiency of the development process. We currently utilize XDDP for many software development projects, and vastly reducing the number of software bugs has not only lowered the number of work processes and enhanced productivity, but is steadily producing results in terms of quality assurance.

During fiscal 2017, we will further strengthen efforts to reform the management structure. The aim of these reforms is twofold. The first is formulating a contingency plan to overcome periods of rapid market fluctuation, and the second is our primary objective of establishing a management foundation for continuous growth with sustainable, superior profits.

Looked at from a longer-term perspective, fiscal 2017 is the year to prepare for the formulation of the next three-year business plan GLP2020 (FY2018–FY2020). Accordingly, our management policy for fiscal 2017 is to successfully complete the REBORN2017 plan, and solidify the launching pad for the GLP2020 plan. We aim to further explore the measures implemented in fiscal 2016, and enhance the potential for the successful realization of the 2020 VISION plan to establish a robust earnings structure.

The field of leading-edge communication technologies for which Anritsu is able to exert its strengths and offers prospects for the future is also characterized by wide market shifts, such as

T&M Market Trends and Business Opportunities



the recent cycle in the mobile test and measurement market, requiring the ability to withstand change. This is truly a field in which only companies with a business quality able to generate earnings over the long term will survive. In short, implementing business strategies to generate long-term earnings and greater efficiency in business operations are essential. We will continue to revise and strengthen our business division structure, clarify business responsibilities, and enhance the speed of decision making.

The synergistic benefits from the acquisition of U.S. firm Azimuth Systems, Inc. last year is a further example. The main goal of this acquisition was to strengthen development capabilities for the fading simulators*² necessary for radio frequency (RF)*³ conformance tests. Anritsu was able to use its in-house test solutions for 4G technology, but with the accelerated first-stage development and commercialization of 5G, the technology capabilities of Azimuth Systems will improve our time-to-market (TTM)*⁴ in the abbreviated development period.

*1 XDDP (eXtreme Derivative Development Process): Approach to deal rationally with the typical problems that occur during development to modify existing functions, such as strengthening functionality.
 *2 Fading simulators: Devices that simulate the fluctuation in signal reception levels in wireless communication devices with movement or time
 *3 RF: Radio frequency
 *4 TTM: Time to market, the time required to bring a product to market

The Image of Anritsu in the 2020 VISION

The next-generation 5G mobile phone system is expected to become the infrastructure supporting a broad range of mobile broadband services, and in the wake of its ahead-of-schedule standardization, major carriers in Japan and overseas have announced verification tests and other measures for the commercialization of the 5G format. There has also been a rapid spread of investment plans in various sectors to realize new social innovations utilizing the IoT, such as the auto industry's development of self-driving cars. The development of the wireless communication technologies needed to achieve this has also emerged as a new business opportunity.

Considering such a business environment, to achieve the goal of "continuous growth with sustainable,

superior profits" in the 2020 VISION plan, Anritsu adopted the two objectives of "global market leader" and "emerging business development." There are many interpretations of what constitutes a global market leader, but I think the important point is to become the "first call company," the company that the customer turns to first, and trusts the most. This is what makes a true global market leader.

I believe that the daily, continual practice of our "envision : ensure" brand statement, which incorporates this idea, will steadily produce results in both the Test and Measurement and PQA segments. "Emerging business development" is also necessary to exceed the framework of our independent and in-house development. As we face the emergence of the 5G/IoT society, which will break down the barriers in the communications industry and create a world connecting numerous industrial sectors, the feasibility of this vision will be put to the test. For Anritsu to exert its presence amid these new growth and business opportunities, we will achieve innovations that cross conventional solution

Advance to Version 4.0 of “the Collective Wisdom of Management by All”

Utilize all-members management through “Collective Wisdom 4.0” to achieve continuous growth with sustainable, superior profits



boundaries. Bolstered by investment in innovations to realize a super-smart society, Anritsu is making a concerted effort to achieve its 2020 VISION plan.

Sparking Innovation by the Collective Wisdom of Management by All

When I assumed the position of president, I put forward a vision of “the Collective Wisdom of Management by All.” At the end of last year, I outlined the main points of my idea in a five-part internal blog entitled “The Aims of Synthesizing the Knowledge of All Employees.” The main points of that blog are as follows:

- Synthesizing the knowledge of all employees is the organizational strength essential to overcoming the current severe business climate.
- Organizational strength is realized when there is an environment that maximizes individual potential.
- When individual potential is maximized, every employee can experience growth.
- Synthesizing the knowledge of all employees is not collecting various

opinions. It is a process by which independent opinions cause various chemical reactions that lead to solutions.

- Solutions cannot be achieved with internal wisdom alone, but through the collaboration of a wide range of wisdom from inside and outside the company. This is the era of “envision : ensure” generating high social value through open innovation.

I call this “to be model” of collective management, a management system in which the wisdom of all stakeholders is integrated to spark innovation, “Synthesizing the Knowledge of All Employees 4.0.” We have not yet reached that level, but are working hard to achieve this ideal.

Corporate Governance Effectiveness Evaluation

I would next like to turn to corporate governance, and discuss the results and issues regarding the effectiveness of the Board of Directors as pertains to the acquisition of Azimuth Systems, one of the important strategic decisions of fiscal 2016.

The Board of Directors discussed the strategic significance of this proposal at the stage when the business execution side began considering acquisition. Typically, the Board of Directors only gets involved at the stage when a specific business plan can be formulated. However, in this case, discussion by the Board at an early stage allowed for examination of various scenarios and hypotheses, such as an analysis and understanding of the market environment, determination of conformity with business strategies, the necessity of acquisition, and the basis for calculating business value. We feel this process enhanced the degree of involvement by outside directors in the decision-making process.

At the same time, it was also an excellent opportunity for the outside directors to gain a deeper knowledge of the field of cutting-edge technology and Anritsu’s specialized business model, and has energized debate at Board meetings. It is difficult to determine at what stage to begin discussing highly confidential matters such as M&A proposals, but I think this experience will be a positive case study

Towards GLP2020



for future M&A deals. Going forward, we plan to increase involvement by the Board of Directors in the decision-making process for general business strategies, not just the final decision.

Through these measures, we continue to work to improve the business environment and decision-making process in order to increase management transparency, and strengthen management oversight functions.

Ensuring Anritsu Meets Expectations

Although the three-year GLP2017 business plan ends in fiscal 2017, we announced at the end of the initial year (fiscal 2015) that we expected to fall short of the plan targets. Even considering the current slack period between LTE and 5G, this betrayed the expectations of many stakeholders, and is something we regret.

The 2020 VISION and strategy of “continuous growth with sustainable, superior profits” adopted when I assumed the position of president are aimed at creating a robust business structure able to overcome any changes in the external environment. Our

business results for fiscal 2016 were insufficient, but our efforts are steadily producing results. The reason is that while the mobile test and measurement market has shrunk to less than half its peak in 2012, we have continued to invest in the next growth opportunities.

As I stated previously, during fiscal 2017, we will continue our management restructuring, and proactively develop strategies to formulate and enhance the feasibility of the next three-year business plan.

Specifically, in the mainstay Test and Measurement business, we will make proactive investments for the next-generation 5G/IoT business, and solidify the next earnings foundation for the mobile market. We will also expand sales in the network infrastructure market, and work to achieve our targets for the next fiscal period.

In the mobile market, we will continue to provide solutions for the acceleration of LTE-Advanced (such as carrier aggregation (CA) and multiple-input multiple-output (MIMO)), develop business in emerging markets, and secure earnings, as well as launch

new products for next-generation 5G/IoT devices in a timely manner.

In the network infrastructure market, we will strengthen competitiveness to capture business in the network reshaping market, as data traffic and data center demand increases at an explosive rate with the expansion of services.

For the PQA business, as the domestic market leader, Anritsu will strengthen its stable earnings base in Japan, and expand its market share in growing overseas markets. Further, to strengthen competitiveness in non-Japan markets, we will enhance our sales structure and global supply chain.

We are standing at the entrance to a super-smart society. 5G/IoT technology is one of the social infrastructure systems that will be its foundation. The Anritsu Group will enhance its enterprise value with the aim of being a global market leader, and, through continuous growth with sustainable superior profits, meet the expectations of all stakeholders.