Message from the CFO

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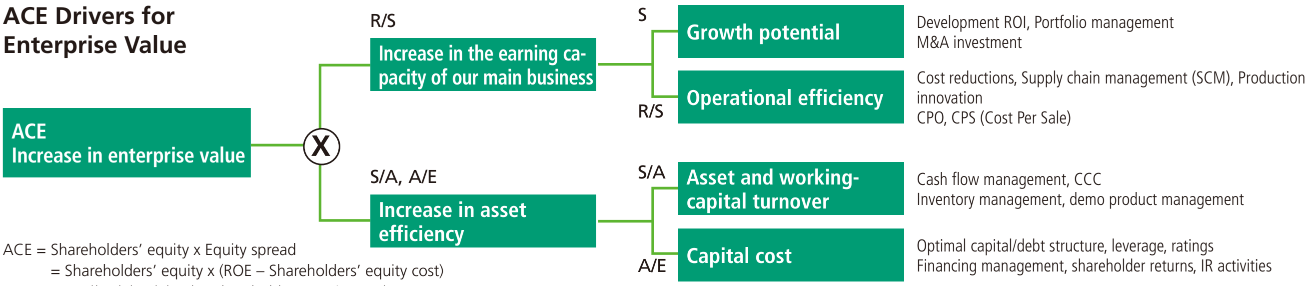
Anritsu's highest priority is investment to ensure continuous growth with sustainable superior profits in a rapidly changing market environment. Our basic financial strategy is to pursue profitability gains and capital efficiency, maximize cash generation capacity, and make regular investments for growth. We are actively pursuing strategic investments for new product development and M&A in order to capture 5G-related business opportunities, and are working to strengthen our solutions competitiveness and establish a business foundation. Also, to support sustainable growth in enterprise value, we utilize an enterprise value enhancement cycle, enhance shareholder returns, and maintain a sound financial condition.

Enhancing Enterprise Value

Anritsu has developed and utilizes Anritsu Capital-cost Evaluation (ACE)*1 as its own specific management indicator for enterprise value. ACE is calculated as operating profit, less tax expense and capital cost. We consider that we are generating enterprise value only when ACE is greater than zero, i.e., when operating profit exceeds capital cost and tax expense. Conversely, when ACE is less than zero, enterprise value is being destroyed.

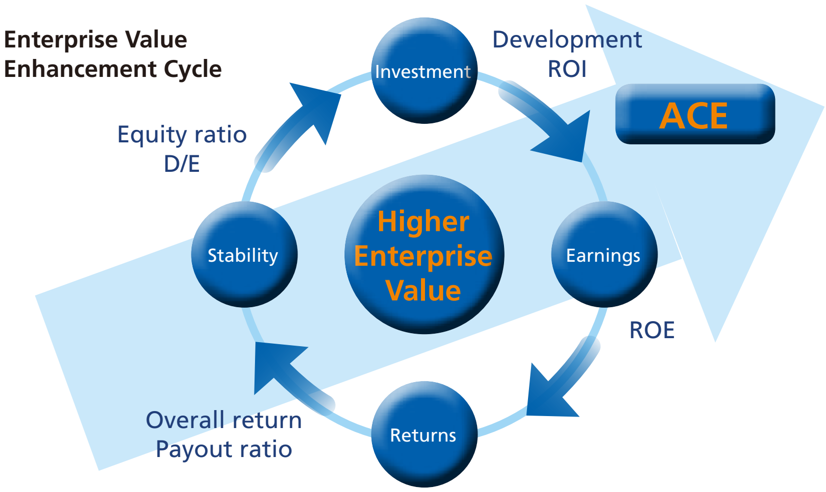
Anritsu's longer-term management target is to achieve an ROE of 15% or higher through improvement in ACE. The three components of ROE are profitability, efficiency, and leverage. Through improvement in profitability and efficiency, we aim to reach an ROE of 15% or higher.

ACE Drivers for Enterprise Value



ACE = Shareholders' equity x Equity spread
= Shareholders' equity x (ROE – Shareholders' equity cost)
= E x ((R/S) (S/A) (A/E) – Shareholders' equity cost)

Note: R: Profit; S: Sales; E: Shareholders' equity; A: Total assets



■ Profitability

Measures to Improve the Cost Structure

Anritsu takes proactive steps to improve its cost structure in order to enhance profitability. One such measure is a proactive effort to enhance the efficiency of sales activities, and improve operational processes in corporate divisions by carefully managing the cost per order (CPO) for each sales region, and furthering these improvements to reform the cost structure in each business segment.

■ Efficiency

Cash Flow Management

Strengthening cash flow generating capacity is a vital strategic key for sustainable growth investment. To achieve this, Anritsu has set a target of improving our operating cash flow margin to 13%. We also aim to shorten the cash conversion cycle (CCC), an important cash flow improvement indicator, to 120 days in FY3/18.

These measures will realize lower costs and greater cost-effectiveness through enhanced profitability, while trimming inventories and furthering the collection of receivables will improve asset efficiency. Further, to enable proactive cash flow management at the division level, we focused on implementing management accounting measures spanning individual balance sheets for each division to deliver better visualization of cash and working capital trends.

■ Leverage

Maintaining a Sound Financial Condition

Anritsu's basic financial and capital strategy is to maintain an equity ratio of at least 60%, and a debt/equity (D/E) ratio*2 of no more than 0.3. In a rapidly changing market, a sound financial condition to support longer-term growth is extremely important. Anritsu's solid financial standing has been recognized in the market, earning us a short-term rating of "a-1" and a long-term rating of "A-" from Rating and Investment Information, Inc. (R&I).

Investments for Growth

In the mainstay Test and Measurement business, we are strengthening competitiveness in 5G, while the PQA business is focused on global business development. We consider M&A to be an important business strategy, and in fiscal 2016 acquired the U.S. firm Azimuth Systems, Inc. with the aim of realizing a range of 5G-related synergies.

Anritsu has embraced Development ROI (gross profit/amount of the development investment) as its basic standard for investment, and is working to enhance investment efficiency with a target Development ROI of 4.0 or higher.

Shareholder Returns

Anritsu's basic policy is to provide shareholder returns in keeping with consolidated results, with a target consolidated payout ratio of at least 30%, taking into account the overall return.

Anritsu also conducts share buybacks as part of a flexible capital strategy responsive to changes in the corporate environment, making appropriate acquisitions as necessary in consideration of financial conditions, share prices, and other factors.

*1 Anritsu Capital-cost Evaluation (ACE): Operating profit after tax – Shareholders' equity cost
*2 Debt/equity (D/E) ratio: Interest-bearing debt / Interest attributable to owners of parent

ROE Target: Breakdown of Components

$$\text{ROE} = \frac{\text{Net Income}}{\text{Equity Capital}} = \overset{\text{Profitability}}{\frac{\text{Net Income}}{\text{Net Sales}}} \times \overset{\text{Efficiency}}{\frac{\text{Net Sales}}{\text{Total Assets}}} \times \overset{\text{Leverage}}{\frac{\text{Total Assets}}{\text{Equity Capital}}}$$