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 2014, 2015, 2016, and 2017.

The Scope of Consolidation

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

Overview

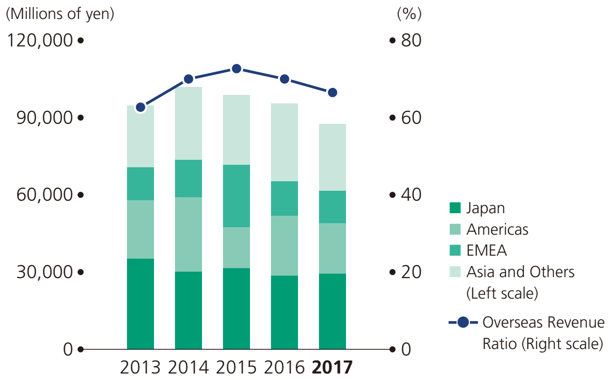
During the fiscal year ended March 31, 2017, the U.S. economy continued its recovery trend, although the outlook for the global economy remained uncertain due to adverse elements including the U.K.'s withdrawal from the EU, the decelerating economic growth in China, and the increasingly tense situations in East Asia. In Japan, despite the continuation of economic stimulus measures through monetary/fiscal policies, including postponement of the planned consumption tax increase, concerns about economic prospects have been mounting mainly due to increasing global risks and rapid exchange rate fluctuations. In the field of communication networks, as represented by smartphone applications that utilize the VR (Virtual Reality), various mobile broadband services are growing. In order to cope with the rapid increase in the volume of mobile data transmission and also to solve the issues of the network environment, LTE (Long-Term Evolution) and LTE-Advanced (a further expanded LTE) have been developed, and they are going into full-scale use as the mobile communications system. However, the ownership of smartphones has reached a saturated level in the market, and, as a result of that, the overall smartphone-related market has been shrinking.

Consequently, investments planned by our customers have been altered, as well as the plans of restructurings. In addition, regarding the current smartphone-related market, while active moves are seen in some emerging markets, restrained investments by customers are continuing overall due to the delay of introducing 3CA (3-Band Carrier Aggregation) in China and so on. On the other hand, standardization has been moved ahead of expectations with respect to the 5G mobile system, the next-generation communications system which is expected to provide the infrastructure to a wide range of mobile broadband services, and, accordingly, the commercialization of 5G is beginning to materialize, as major domestic and overseas operators are announcing plans for verification tests of 5G. Furthermore, as the automated driving projects in the automotive industry are well known, a wide range of industries are making full-fledged efforts to expand investment plans toward new societal innovation which utilize IoT (Internet of Things), and these moves actualize new business opportunities such as demand for development of new wireless communications technology which are needed in most-advanced markets. Amid such a business environment, the Anritsu Group acquired Azimuth Systems, Inc. in the U.S. in September 2016 and has worked to build up a platform for business expansion by carrying out strategic investments mainly in the areas of growing markets and enhancing competitiveness in the offering of solutions. In addition, company-wide efforts are being made to streamline the organization and reduce costs to further improve the profit structure.

Revenue

During the fiscal year ended March 31, 2017, in the Test and Measurement business, while demand for measuring instruments for optical/digital devices was strong, restrained investments by major players in the smartphone development and manufacturing market in North America and Asia continued. Consequently, revenue and profit in the Test and Measurement business decreased compared with the previous fiscal year. In the Products Quality Assurance (PQA) business, revenue and profit increased compared with the previous fiscal year mainly due to growth in sales in Japan and overseas markets. Foreign exchange losses (including fair value of foreign exchange contracts) of ¥529 million for trade receivables in foreign currency were recorded in finance income and expenses. As a result, orders decreased 6.0% compared with the previous fiscal year, to ¥88,934 million, and revenue decreased 8.3%, to ¥87,638 million.

Revenue by Region and Overseas Revenue Ratio



Cost of Sales and Gross Profit

Cost of sales decreased ¥1,388 million, or 3.0%, to ¥45,168 million. Cost of sales as a percentage of total revenue was 51.5%, up 2.8 percentage points compared with the previous fiscal year. Gross profit decreased ¥6,505 million, or 13.3%, to ¥42,469 million. The gross margin amounted to 48.5%.

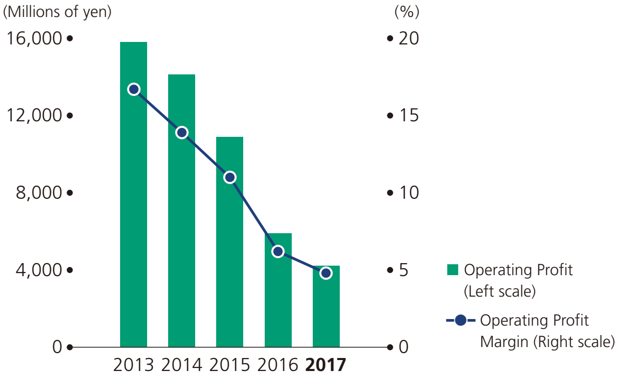
Selling, General and Administrative (SG&A) Expenses and Operating Profit

SG&A expenses decreased 8.2% over the previous fiscal year, to ¥27,198 million. Research and development (R&D) expenses dropped 14.9%, to ¥10,906 million, reaching 12.4% of consolidated total revenue. As a result of the above factors, operating profit declined 28.2%, or ¥1,663 million, to ¥4,234 million. The operating margin was 4.8%.

SG&A Expenses

	Millions of yen		YoY (%)
Year ended March 31	**2017**	2016	
Personnel expenses	**¥17,701**	¥19,286	(8.2)
Travel and transportation expenses	**1,676**	1,860	(9.9)
Advertising expenses	**1,218**	1,750	(30.4)
Depreciation and amortization expenses	**1,262**	1,131	11.6
Others	**5,340**	5,593	(4.5)

Operating Profit and Operating Profit Margin



Profit before Tax and Profit

Operating profit decreased 28.2% compared with the previous fiscal year, to ¥4,234 million, and profit before tax decreased 33.2% compared with the previous fiscal year, to ¥3,628 million. Profit decreased 27.4% compared with the previous fiscal year, to ¥2,734 million, and profit attributable to owners of parent decreased 28.3% compared with the previous fiscal year, to ¥2,698 million.

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

			%
Year ended March 31	**2017**	2016	2015
Revenue	**100.0**	100.0	100.0
Cost of sales	**51.5**	48.7	46.7
Gross profit	**48.5**	51.3	53.3
SG&A expenses	**31.0**	31.0	30.0
R&D expenses	**12.4**	13.4	13.1
Profit	**3.1**	3.9	8.0

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 ¥7.5 per share as initially scheduled, and total dividends for the fiscal year will be ¥15.0 per share for the fiscal year ended March 31, 2017.

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, 2017, while demand for measuring instruments for optical/digital devices was strong, in the mobile market, restrained investment by customers continued, thereby revenue in the Test and Measurement business decreased compared with the previous fiscal year. Consequently, segment revenue decreased 12.4% compared with the previous fiscal year, to ¥59,333 million, operating profit decreased 54.7%, to ¥2,130 million, and adjusted operating profit decreased 53.6%, to ¥2,504 million. (Note) Adjusted operating profit is Anritsu's original profit indicator to measure results of its recurring business by excluding profit and loss items with a transient nature from operating profit. The Test and Measurement business, which accounts for 68% 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, 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 deployed in various countries around the world. Leading mobile phone and chipset manufacturers and telecom operators continue to pursue development and service deployment of LTE-Advanced, with the aim of providing more-sophisticated, high-quality services. However, the growth rate of the total shipment of smartphones has reached a saturated level in the market, and, as a result, investment continued to be restrained in the mobile phone-related market. Against the backdrop of such market changes, while a cautious stance was seen in LTE-Advanced related investments in the mobile phone development related market, in the mobile phone manufacturing market, there was an increase in demand for more-efficient measuring instruments for device manufacturing due to intensified competition between mobile phone manufacturers.

Meanwhile, the standardization and commercialization of the 5G mobile system, the next-generation communications system which is expected to provide the infrastructure to a wide range of mobile broadband services, are beginning to materialize, and demand for test and measurement is emerging in basic research and development of 5G. In addition, in the IoT field, which is driven by telecom operators, and the automated driving and in-vehicle telecom field in the automobile industry, the development of mobile communications technology to realize new services is also emerging as a business opportunity.

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, data traffic is expanding rapidly due to sophisticated cloud computing services and the spread of mobile broadband services. Therefore, telecom operators and equipment manufacturers that are pursuing higher-speed networks are concentrating on the commercialization of

100Gbps services and research and development in 400Gbps network equipment. Moreover, in order to improve mobile phone connectivity, progress is being made towards the efficient densification of base station networks by integrating wired and wireless network technologies. Along with the change in market trends, 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 for 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 22% of the Anritsu Group's revenue. Since more than 80% of segment revenue is made of food manufacturers, this segment is substantially influenced by the impact of the economic growth rate and changes in consumer spending which would affect results on food manufacturers' business.

Core products include highly precise checkweighers for high-speed food processing lines, as well as X-ray and other inspection systems that detect and remove metal fragments, stones, and other alien materials in the food processing process with high precision. In the Japanese market, capital investment for automation and manpower reduction in food production lines has steadily increased, against a backdrop of the customer concerns regarding contamination and rising needs for automation due to the labor shortage. In the overseas markets, progress was made in the cultivation of major customers who are operating their businesses globally in regions such as the Americas, Europe, and China, and the overseas sales ratio of this business is roughly 40%.

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 the business and increase profitability.

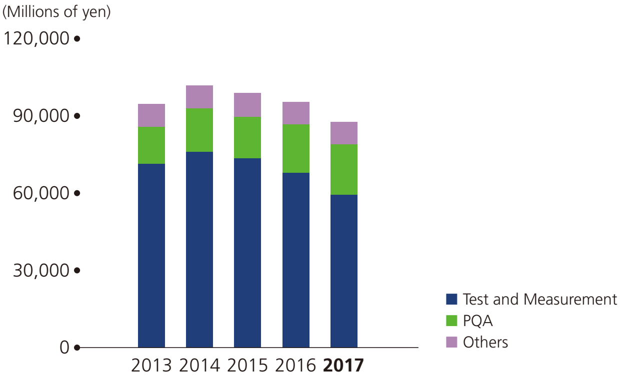
As a result of these initiatives, total revenues amounted to ¥19,588 million (an increase of 3.7% over the previous fiscal year), and operating income was ¥1,302 million (an increase of 9.0%).

Others

This segment comprises Information and Communications, Devices, Logistics, Welfare services, Real estate leasing, and other businesses.

During the fiscal year ended March 31, 2017, profit for the Information and Communications business improved compared with the previous fiscal year. As a result, segment revenue decreased 2.2% compared with the previous fiscal year, to ¥8,716 million, and operating profit increased 72.5% compared with the previous fiscal year, to ¥992 million.

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. The Group secures sufficient funding to cover these requirements from retained earnings, bank borrowings, and capital market funding. To ensure stability in funding, the Anritsu Group arranged for a commitment line of ¥7.5 billion in March 2017, which is effective through March 2020. 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.

As of March 31, 2017, the balance of interest-bearing debt (excluding lease payables) was ¥22.0 billion (compared with ¥22.0 billion at the end of the previous fiscal year), and the debt-to-equity ratio was 0.29 (compared with 0.29 at the end of the previous fiscal year). And the net debt-to-equity ratio was a negative 0.23 (compared with a negative 0.20 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 5.0 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, improve the debt-to-equity ratio, enhancing shareholders' equity, and fortify its financial structure.

At the end of March 2017, 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, 2017, cash and cash equivalents (hereafter,"net cash") increased ¥2,290 million compared with the end of the previous fiscal year, to ¥39,682 million.

Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was a positive ¥5,581 million (compared with a positive ¥1,153 million in the previous fiscal year).

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

• Cash Flows from Operating Activities

Net cash provided by operating activities was ¥9,246 million (in the previous fiscal year, operating activities provided net cash of ¥10,195 million). The cash increase was mainly due to reporting of profit before tax, recording depreciation and amortization expense, and a decrease of inventories.

Depreciation and amortization expense was ¥4,197 million, an increase of ¥227 million compared with the previous fiscal year.

• Cash Flows from Investing Activities

Net cash used in investing activities was ¥3,665 million (in the previous fiscal year, investing activities used net cash of ¥9,042 million). This was primarily due to acquisition of property, plant and equipment.

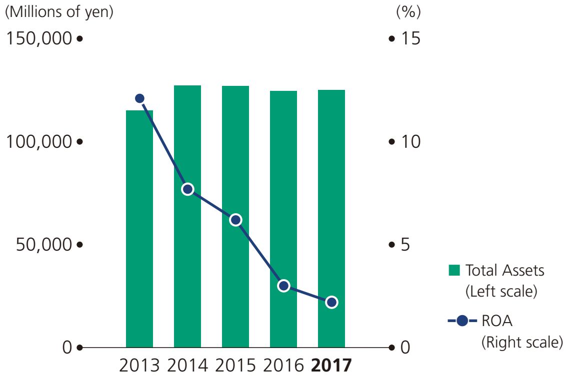
• Cash Flows from Financing Activities

Net cash used in financing activities was ¥2,758 million (in the previous fiscal year, financing activities provided net cash of ¥2,450 million). The primary reason was payment of cash dividends totaling ¥2,677 million (in the previous fiscal year, payment of cash dividends was ¥3,296 million).

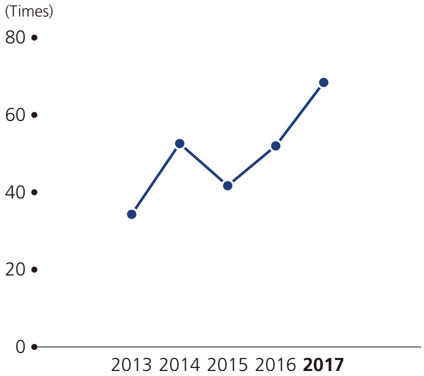
Assets, Liabilities, and Equity

Assets, liabilities, and equity as of March 31, 2017 were as follows. Total assets increased ¥429 million compared with the end of the previous fiscal year, to ¥125,054 million. While trade and other receivables increased, cash and cash equivalents increased. Total liabilities decreased ¥192 million compared with the end of the previous fiscal year, to ¥48,568 million. This was mainly due to the decreases of bonds and borrowings and employee benefits in non-current liabilities, while there were decreases in bonds and borrowings and trade and other payables in current liabilities. Total equity increased ¥622 million compared with the end of the previous fiscal year, to ¥76,485 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 61.1%, compared with 60.8% at the end of the previous fiscal year.

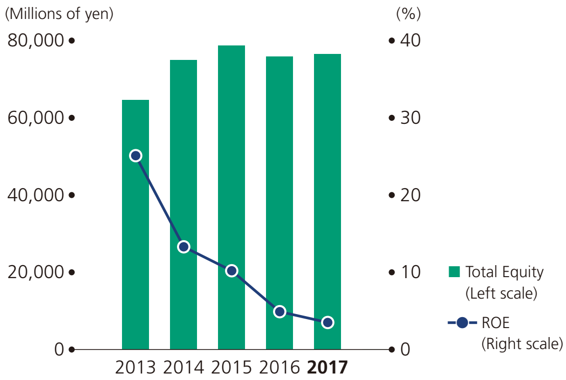
Total Assets and ROA



Interest Coverage Ratio



Total Equity and ROE



Capital Expenditures

To achieve sustainable growth and profit increases in the future, the Anritsu Group is making strategic investments, such as new-product development focused on product areas where long-term growth is expected and systems-related investments are aimed at laborsaving and operation streamlining.

In the Test and Measurement business, we invested in new product development and cost reduction in order to handle rapid technological innovation and sales competition.

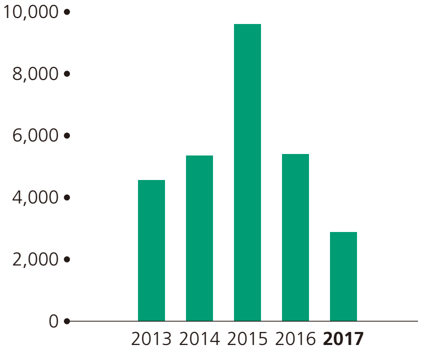
In the PQA business, we primarily invested with the objectives of increasing production environment efficiency and putting in place an information systems environment. In other business, we primarily invested in new product development, evaluation environment development, and product quality improvement, all in Information and Communications 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.)

Overview of Capital Expenditures

	Millions of yen		YoY (%)
Year ended March 31	**2017**	2016	
Test and Measurement	**¥1,901**	¥4,693	(40.5)
PQA	**273**	358	(76.3)
Subtotal	**2,175**	5,051	(43.1)
Others	**413**	348	118.7
Total	**¥2,588**	¥5,399	(47.9)

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), Azimuth Systems, Inc. (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	Millions of yen	% of revenue
Year ended March 31	**2017**		2016	
Test and Measurement	**¥ 8,324**	14.0	¥ 9,822	14.5
PQA	**2,076**	10.6	1,901	10.1
Others	**609**	7.0	795	8.9
Basic Research	**202**	—	570	—
Total	**¥11,212**	12.8	¥13,089	13.7

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

Business Segment	Model	Product	Application	Contribution
Test and Measurement	ME7800L	New products Simple Conformance Test System	Conformance test system that allows for LTE RF and Protocol conformance tests on a single platform	Conformance test system to confirm that LTE devices comply with GCF/PTCRB test standards
	MP1900A	New products Signal Quality Analyzer-R	Bit Error Rate Tester (BERT) for 200 and 400 Gbps optical digital communications	Research and development of bus interfaces, such as 200 and 400 GbE devices and PCI Express
	MS2850A	New products Signal Analyzer	Signal analyzer that realizes millimeter-wave measurement	For development/manufacture of radio communications equipment supporting 5G
PQA	M6-h Series	New products Metal detector	High-sensitivity metal foreign matter detector	Contributes to better food quality and higher productivity
Others	PureFlow WSX WS1	Unified network controller	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 prepared its ANRITSU 2020 VISION, which has a time horizon of 10 years, and established a medium-term milestone plan entitled the Mid-term Business Plan GLP2017 (a three-year plan that ends in FY2017), which is based on the ANRITSU 2020 VISION. However, with structural changes in the smartphone market as a backdrop, the operating environment has changed substantially over the last few years, and GLP2017 is not expected to be achieved.

As countermeasures for the FY2016 and FY2017 market transition periods, the Group as a whole will work on measures to reform the management structure (business selection and concentration, strengthening of the profit structure, and business process reform).

In the current fiscal year, towards the formulation of GLP2020, which is a three-year plan starting in FY2018, the Group will capture growth drivers to restore growth potential and strive to consolidate its foundation for building a robust profit structure.

	Billions of yen		
Year ended March 31	2016 (Actual)	**2017 (Actual)**	2017 (Forecast)
Revenue	95.5	**87.6**	87.5
Operating profit	5.9	**4.2**	2.2
Profit	3.8	**2.7**	1.0
ACE	(0.6)	**(1.6)**	—
ROE (%)	4.9	**3.5**	—

Outlook and Management Issues for the Year Ending March 31, 2018

In the mobile market, the Anritsu Group will continue to provide solutions for an acceleration of 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, while delivering new products compatible with next-generation 5G/IoT in a timely manner. In the network infrastructure market, in order to acquire the network reshaping market which is expanding due to the explosive increase in demand for data traffic and data centers as a result of expansion of services, we will reinforce competitiveness.

The Products Quality Assurance 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 Anritsu Group is planning on growth in revenue in the Test and Measurement business mainly in overseas markets. In the Products Quality Assurance business, revenue is expected to increase in both Japan and overseas markets. The outlook for operating profit and profit shows increases from the fiscal year ended March 31, 2017.

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 communication markets and the Anritsu Group's ability to deliver products and services in a timely manner to meet the needs and wants of customers are factors that have the potential to exert a material impact on the Anritsu Group's 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 Products Quality Assurance business, sales to food manufacturers constitute more than 80% of revenue. 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 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 Products Quality Assurance business is 67%, 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 67% 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. 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.