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, 2017, and 2018.

The Scope of Consolidation

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

Overview

During the fiscal year ended March 31, 2018, the global economy showed continued gradual expansion, primarily in the advanced countries. The Japanese economy continued to recover, driven by strong corporate profits and improvement in the employment environment. However, uncertainties continued, including concerns about global risks, such as the outcome of the U.K.'s withdrawal from the EU and mounting tensions in East Asia.

In the field of communications 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 mobile communications systems. However, the ownership of smartphones has reached the saturation level, and, as a result, the overall smartphone-related market has been shrinking. Consequently, investments planned by our customers have been altered, as well as their plans for restructuring, and our customers are continuing to restrain their investments.

On the other hand, specification development has begun in stages aiming for the next-generation communications system (5G), which is expected to provide the infrastructure for a wide range of mobile broadband services. As a result, the era of commercialization of 5G is now materializing, and major domestic and overseas operators have implemented verification tests for 5G. Also, in the LTE-related R&D market, the focus of investment is shifting from LTE-Advanced to LTE-Advanced Pro (Gigabit LTE).

Furthermore, since the automated driving projects in the automotive industry are now well known, a wide range of industries are making full-fledged efforts to expand more well-defined investment plans that aim for new societal innovation that utilizes the IoT (Internet of Things).

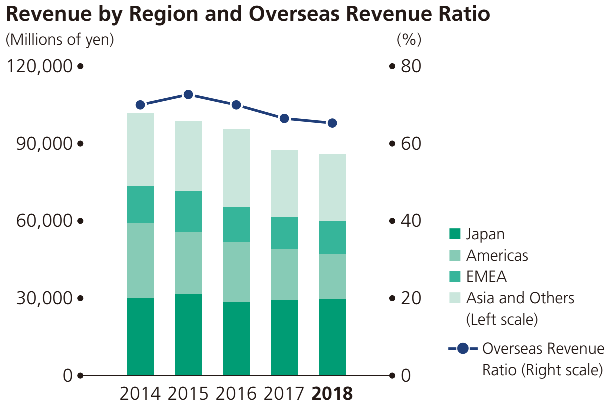
Amid this business environment, the Anritsu Group has worked to build a platform for business expansion by carrying out strategic investments mainly in areas of growing markets and for enhancing competitiveness in the offering of solutions.

Revenue

During the fiscal year ended March 31, 2018, in the Test and Measurement segment, while demand for measuring instruments for optical/digital devices was strong, in the mobile market, due to the transition period from LTE to 5G, customers' attitudes toward investment are becoming severer. On the other hand, in the LTE-Advanced Pro (Gigabit LTE) related R&D market, our customers have increased advancing CA (Carrier Aggregation) investment. Consequently, revenue and profit in the Test and Measurement segment decreased compared with the previous fiscal year. In the Products Quality Assurance segment, during the fiscal year ended March 31, 2018, increasing demand for the safety and security of food and medicine and the shortage of workers are accelerating the development of automated inspection processes, including automated inspection systems incorporating X-ray screening. As a result, revenue and profit in the Products Quality Assurance (PQA) business increased.

As a result, orders decreased 0.4 percent compared with the previous fiscal year to 88,542 million yen, and revenue decreased 1.9 percent compared with the previous fiscal year to 85,967 million yen. Operating profit increased 16.0 percent compared with the previous fiscal year to 4,912 million yen, profit before tax increased 26.8 percent compared with the previous fiscal year to 4,602 million yen. Profit increased 6.0 percent compared with the previous fiscal year to 2,898 million yen, and profit attributable to owners of parent increased 6.8 percent compared with the previous fiscal year to 2,880 million yen. Resulting from the U.S. tax reform, a temporary increase of approximately 300 million yen in income tax expense was occurred.

Revenue by Region and Overseas Revenue Ratio



Cost of Sales and Gross Profit

Cost of sales decreased ¥1,145 million, or 2.5%, to ¥44,023 million. Cost of sales as a percentage of total revenue was 51.2%, down 0.3 percentage point compared with the previous fiscal year. Gross profit decreased ¥525 million, or 1.2%, to ¥41,943 million. The gross margin amounted to 48.8%.

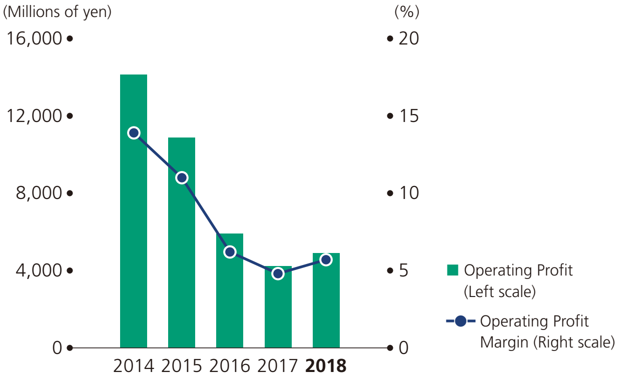
Selling, General and Administrative (SG&A) Expenses and Operating Profit

SG&A expenses decreased 2.3% over the previous fiscal year, to ¥26,563 million. Research and development (R&D) expenses dropped 6.9%, to ¥10,156 million and amounted to 11.8% of consolidated total revenue. As a result of the above factors, operating profit increased 16.0%, or ¥678 million, to ¥4,912 million. The operating margin was 5.7%.

SG&A Expenses

	Millions of yen		YoY (%)
Year ended March 31	**2018**	2017	
Personnel expenses	**¥17,423**	¥17,701	(1.6)
Travel and transportation expenses	**1,599**	1,676	(4.6)
Advertising expenses	**1,211**	1,218	(0.6)
Depreciation and amortization expenses	**1,276**	1,262	1.2
Others	**5,053**	5,340	(5.4)

Operating Profit and Operating Profit Margin



Profit before Tax and Profit

Operating profit increased 16.0% compared with the previous fiscal year, to ¥4,912 million, and profit before tax increased 26.8% compared with the previous fiscal year, to ¥4,602 million. Profit increased 6.0% compared with the previous fiscal year, to ¥2,898 million, and profit attributable to owners of the parent rose ¥182 billion, to ¥2,880 million. Comprehensive income for the period rose ¥580 million, to ¥3,854 million.

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

			%
Year ended March 31	**2018**	2017	2016
Revenue	**100.0**	100.0	100.0
Cost of sales	**51.2**	51.5	48.7
Gross profit	**48.8**	48.5	51.3
SG&A expenses	**30.9**	31.0	31.0
R&D expenses	**11.8**	12.4	13.4
Profit	**3.4**	3.1	3.9

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 take into account the total return ratio. With regard to dividends, while taking the basic approach of raising dividends on equity 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. 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.

Cash Dividends per Share

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, 2018.

For the fiscal year ending March 31, 2019, Anritsu plans to pay dividends of ¥17 per share, including an interim dividend of ¥8.5 per share.

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, 2018, while demand for measuring instruments for optical/digital devices was strong, in the mobile market, restrained investment by customers continued; as a result, revenue in the Test and Measurement business decreased 8.3% compared with the previous fiscal year, to ¥54,433 million, operating profit decreased 14.3%, to ¥1,825 million, and adjusted operating profit* decreased 12.5%, to ¥2,192 million.

* 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 63% 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 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 shift can be seen towards investment in LTE-Advanced Pro in the mobile phone development related market, in the mobile phone manufacturing market, competition is intensifying over measurement instruments for device manufacturing due to reduced investment by mobile phone manufacturers.

Concerning the next-generation (5G) mobile system, which is expected to provide the infrastructure for a wide range of mobile broadband services, development projects have emerged aiming at commercialization following the development of standard specifications, and demand for test and measurement is emerging for 5G measurement. 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 26% of the Anritsu Group's revenue. Since more than 80% of segment revenue comes from food manufacturers, this segment is substantially influenced by the impact of the economic growth rate and changes in consumer spending that would affect food manufacturers' business results.

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 45%.

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.

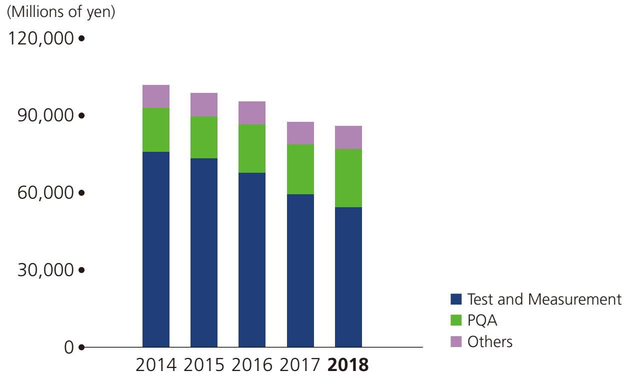
As a result of these initiatives, total revenues amounted to ¥22,549 million (an increase of 15.1% over the previous fiscal year), and operating income was ¥1,969 million (an increase of 51.2%).

Others

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

During the fiscal year ended March 31, 2018, the Devices and the Information and Communications businesses improved compared with the previous fiscal year. As a result, segment revenue increased 3.1% year on year, to ¥8,984 million, and operating profit increased 31.3% compared with the previous fiscal year, to ¥1,302 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, 2018, the balance of interest-bearing debt (excluding lease payables) was ¥15,944 million (compared with ¥22,026 million at the end of the previous fiscal year), and the debt-to-equity ratio was 0.20 (compared with 0.29 at the end of the previous fiscal year). And the net debt-to-equity ratio was a negative 0.25 (compared with a negative 0.23 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 4.9 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 2018, Rating and Investment Information, Inc. (R&I) 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 (5%)
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, 2018, cash and cash equivalents (hereafter, "net cash") decreased ¥4,229 million compared with the end of the previous fiscal year, to ¥35,452 million.

Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was a positive ¥4,014 million (compared with a positive ¥5,581 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 ¥7,946 million (in the previous fiscal year, operating activities provided net cash of ¥9,246 million). The cash increase was mainly due to reporting of profit before tax and recording depreciation and amortization expense; on the other hand, an increase in inventories represented a cash decrease. Depreciation and amortization expense was ¥4,285 million, an increase of ¥87 million compared with the previous fiscal year.

• Cash Flows from Investing Activities

Net cash used in investing activities was ¥3,932 million (in the previous fiscal year, investing activities used net cash of ¥3,665 million). This was primarily due to purchase of property, plant and equipment.

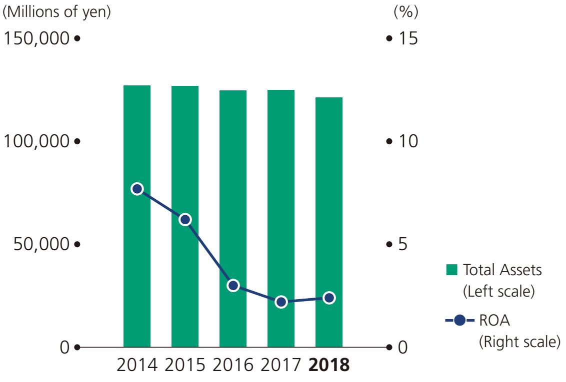
• Cash Flows from Financing Activities

Net cash used in financing activities was ¥8,201 million (in the previous fiscal year, financing activities used net cash of ¥2,758 million). The primary reason was redemption of ¥6,000 million of bonds and payment of cash dividends totaling ¥2,059 million (in the previous fiscal year, payment of cash dividends was ¥2,677 million).

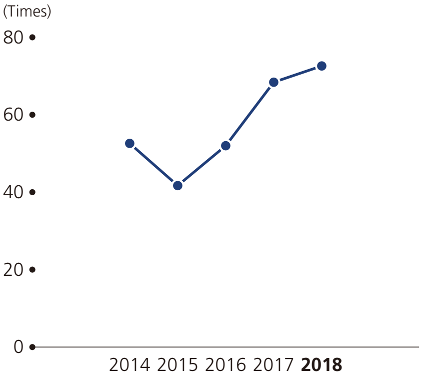
Assets, Liabilities, and Equity

Assets, liabilities, and equity as of March 31, 2018 were as follows. Assets decreased ¥3,863 million compared with the end of the previous fiscal year, to ¥121,190 million. This was mainly due to a decrease of cash and cash equivalents, as well as deferred tax assets, while inventories increased. Total liabilities decreased ¥5,692 million compared with the end of the previous fiscal year, to ¥42,876 million. This was mainly due to decreases of bonds and borrowings due to redemption of bonds, while trade and other payables in current liabilities increased. Equity increased ¥1,828 million compared with the end of the previous fiscal year, to ¥78,313 million. This was mainly due to an increase in earned surplus. As a result, the equity attributable to owners of parent to total assets ratio was 64.6%, compared with 61.1% at the end of the previous fiscal year.

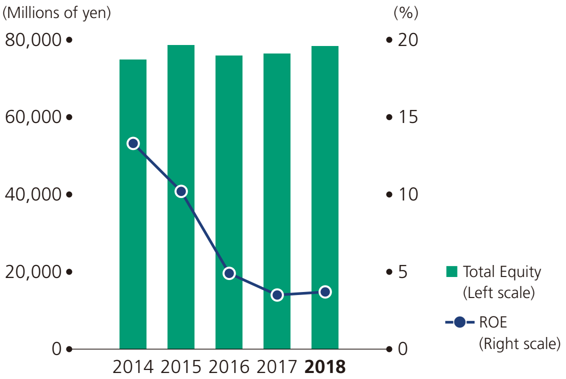
Total Assets and ROA



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 streamlining of operations.

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 Products Quality Assurance business, we primarily invested with the objectives of increasing production environment efficiency and putting in place an information systems environment.

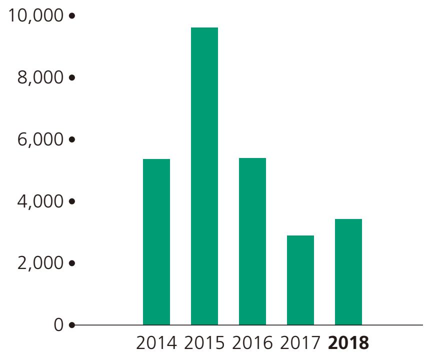
In other business, we made capital investments, mainly in the device business, aimed at increasing production capacity and improving product quality.

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	**2018**	2017	
Test and Measurement	**¥2,724**	¥1,901	143.3
PQA	**382**	273	139.8
Subtotal	**3,107**	2,175	142.8
Others	**323**	413	78.1
Total	**¥3,430**	¥2,588	132.5

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. Also during the fiscal year, we established Anritsu Philippines, Inc., as a development center, in the Philippines.

The Products Quality Assurance 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	**2018**		2017	
Test and Measurement	**¥ 7,609**	14.0	¥ 8,324	14.0
PQA	**2,283**	10.1	2,076	10.6
Others	**471**	5.2	609	7.0
Basic Research	**191**	—	202	—
Total	**¥10,556**	12.3	¥11,212	12.8

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

Business Segment	Model	Product	Application	Contribution
Test and Measurement	MT8000A	New products Radio Communication Test Station	Has pseudo base station functions and can operate in the Sub6GHz band and millimeter wave band as a single unit	Offers measurement solutions that will contribute to the early spread of 5G services and will contribute to the smooth transition from 4G to 5G systems
	MP1900A	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
	MP2110A	New products BERTWave	Combines a four-channel 25Gbit/s BERT (Bit Error Rate Tester) and a sampling oscilloscope in a single unit	Will contribute to improving efficiency of development and production as well as improving quality of assessment of optical transceivers that support high-speed, large capacity communication infrastructures
PQA	M6-h Series	Metal detector	High-sensitivity metal foreign matter detector	Contributes to better food quality and higher productivity
Others	AF4B265KR550FB	New products 1.48μm FP LD modules/1.4μm FBG LD modules	EDFA for use in optical fiber amplifiers and FRAs for pumping optical sources	Realizes power-up with less energy consumption of the pumping optical LD module for the fiber optic amplifier

Management Objectives and Indicators

To attain its management vision of "continuous growth with sustainable superior profits," the Anritsu Group had prepared its 2020 VISION, which has a time horizon of 10 years, and established a medium-term milestone plan entitled the Mid-term Business Plan GLP2020 (a three-year plan that ended in FY2020), which is based on the 2020 VISION.

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	2017 (Actual)	**2018 (Actual)**	2018 (Forecast)
Revenue	87.6	**85.9**	91.0
Operating profit	4.2	**4.9**	4.4
Profit	2.7	**2.8**	3.0
ACE	(1.5)	**(1.6)**	—
ROE (%)	3.5	**3.7**	—

Outlook and Management Issues for the Year Ending March 31, 2019

Although the global economy is expected to continue to recover, uncertainties have emerged; these include the outcome of the U.K.'s negotiations for withdrawal from the EU, increased geopolitical risk in East Asia and the Middle East, the risk of U.S.-China trade friction, and other issues. 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 markets.

Amid these circumstances, the Anritsu Group is starting its new, three-year Mid-term Business Plan "GLP2020." Under this plan, the Group will capture growth drivers to restore growth potential and strive to consolidate its foundation for building a robust profit structure to support the next generation by proactively investing for the future.

In this market environment, the Anritsu Group will undertake the following measures for the fiscal year ending March 31, 2019.

In the Test and Measurement segment, in the mobile market, the Anritsu Group will continue to provide solutions for LTE-Advanced Pro (Gigabit LTE) and strengthen the development of emerging markets, while delivering new products compatible with the 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 the expansion of services, we will reinforce our competitiveness.

The Products Quality Assurance segment 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 mobile 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, 2018.

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 realignments 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 65% 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 disasters, fires, wars, 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.