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 2015, 2016, 2017, 2018 and 2019.

The Scope of Consolidation

The Anritsu Group comprised 43 consolidated subsidiaries and one affiliate at the end of the fiscal year.

Overview

During the fiscal year ended March 31, 2019, 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 increased due to confrontations of US-China trade friction and trade protectionism.

In the field of information and communication, mobile broadband services are growing both in terms of quality and quantity, and the volume of mobile data transmission is increasing rapidly, which is compelling the network infrastructure. In order to solve these issues, 4G mobile communications systems are evolving continually to become LTE (Long-Term Evolution) and LTE-Advanced, and then LTE-Advanced Pro (Gigabit LTE). In addition, specification development of the next-generation 5G communications system is proceeding in 3GPP. The standardization of 5G NSA-NR (Non-Standalone New Radio) finished in December 2017 and the one of 5G SA-NR (Standalone New Radio) finished in June 2018. All specifications have been set for the 5G main functions that are related to ultrahigh speed communication. Furthermore, in 3GPP, specification development of ultralow latency communications and multiple simultaneous connections for expansion of use case is under consideration and the standardization will be expected to be finished in early 2020. As a result, major carriers worldwide have created a concrete roadmap for 5G commercialization and the commercialization schedule is progressing steadily. Precursory 5G services using mobile routers were launched in North America and South Korea in December 2018. Furthermore, 5G smartphone services were launched from April 2019. Major device vendors in America and Asia developed devices that are used in 5G smartphone services and announced them at MWC (Mobile World Congress) 2019.

Amid such environment, the Measurement Business Group has focused on solution development for the 5G investment demand as well as organizational infrastructure. Consequently, this group acquired initial development demand for 5G chipsets and devices.

In the field of PQA (Product Quality Assurance), automation investment for processed food production lines is underway, and demand is growing steadily for contaminant inspection using X-rays and quality guarantee for packaging. Amid this environment, the PQA Group has worked to reinforce the competitiveness of its solutions focused on X-rays, as well as enhance and expand its global sales structure.

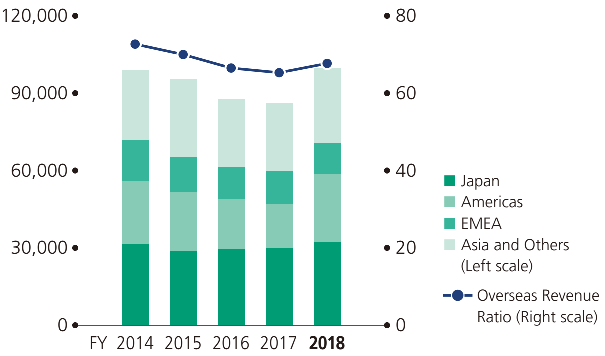
Revenue

During the fiscal year ended March 31, 2019, in the Test and Measurement segment, initial development demand for 5G chipsets and mobile devices exceeded expectations, primarily in the mobile market in North America and Asia. Furthermore, internal demand in the U.S. was strong in the network and infrastructure market. Consequently, revenue and profit in the Test and Measurement segment increased compared with the previous fiscal year. In the Products Quality Assurance segment, during the fiscal year ended March 31, 2019, led by the heightened focus on food and pharmaceutical product safety and security, as well as against a backdrop of accelerating trends for automation due to the labor shortage, we have been steadily continuing capital investment with the aim of automating and strengthening quality assurance processes in the food product market both in Japan and overseas. Also, investment was made to strengthen sales capabilities in overseas markets. As a result, revenue and profit in the Products Quality Assurance (PQA) segment increased.

As a result, orders increased 13.9% compared with the previous fiscal year to ¥100,819 million, and revenue increased 15.9% compared with the previous fiscal year to ¥99,659 million. Operating profit increased 128.9% compared with the previous fiscal year to ¥11,246 million, profit before tax increased 146.9% compared with the previous fiscal year to ¥11,362 million. Profit increased 210.2%

compared with the previous fiscal year to ¥8,991 million, and profit attributable to owners of parent increased 210.9% compared with the previous fiscal year to ¥8,956 million.

Revenue by Region and Overseas Revenue Ratio



Cost of Sales and Gross Profit

Cost of sales increased ¥4.783 million, or 10.9%, to ¥48,807 million. Cost of sales as a percentage of total revenue was 49.0%, down 2.2 percentage point compared with the previous fiscal year. Gross profit increased ¥8.908 million, or 21.2%, to ¥50,852 million. The gross margin amounted to 51.0%.

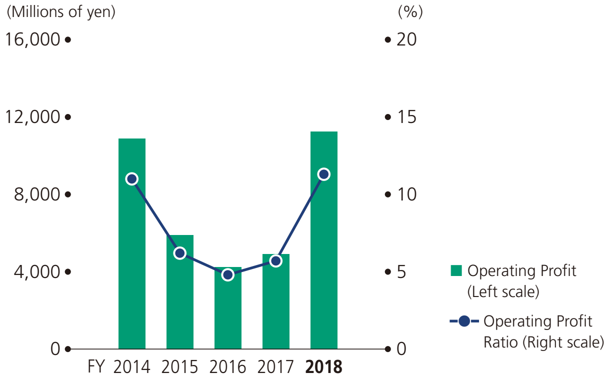
Selling, General and Administrative (SG&A) Expenses and Operating Profit

SG&A expenses increased 5.2% over the previous fiscal year, to ¥27,944 million. Research and development (R&D) expenses increased 15.4%, to ¥11,715 million and amounted to 11.8% of consolidated total revenue. As a result of the above factors, operating profit increased 128.9%, or ¥6,334 million, to ¥11,246 million. The operating profit ratio was 11.3%.

SG&A Expenses

	Millions of yen		YoY
Year ended March 31	**FY2018**	FY2017	(%)
Personnel expenses	**¥18,266**	¥17,423	4.8
Travel and transportation expenses	**1,563**	1,599	(2.3)
Advertising expenses	**1,305**	1,211	7.8
Depreciation and amortization expenses	**1,403**	1,276	9.9
Others	**5,406**	5,053	7.0

Operating Profit and Operating Profit Margin



Profit before Tax and Profit

Operating profit increased 128.9% compared with the previous fiscal year, to ¥11,246 million, and profit before tax increased 146.9% compared with the previous fiscal year, to ¥11,362 million. Profit increased 210.2% compared with the previous fiscal year, to ¥8,991 million, and profit attributable to owners of the parent rose ¥6.075 billion, to ¥8,956 million. Comprehensive income for the period rose ¥5,527 million, to ¥9,381 million.

Also, due to revision of income tax payables related to the uncertainty of income taxes, income tax expense of our US subsidiaries decreased by approximately ¥500 million. As a result, income tax expense for the fiscal year ended March 31, 2019 increased 39.2% compared with the same period of the previous fiscal year to ¥2,371 million.

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

			%
Year ended March 31	**FY2018**	FY2017	FY2016
Revenue	**100.0**	100.0	100.0
Cost of sales	**49.0**	51.2	51.5
Gross profit	**51.0**	48.8	51.3
SG&A expenses	**28.0**	30.9	31.0
R&D expenses	**11.8**	11.8	12.4
Profit	**9.0**	3.4	3.1

Shareholder Return Policies

Dividend Policy

The Company's basic policy for returning profits to its shareholders is to distribute profits in accordance with its consolidated performance and 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 appropriately carry out the purchase of treasury stock 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 ¥13.5 per share as initially scheduled, and total dividends for the fiscal year will be ¥22.0 per share for the fiscal year ended March 31, 2019.

For the fiscal year ending March 31, 2020, Anritsu plans to pay dividends of ¥22 per share, including an interim dividend of ¥11 per share.

Business Segments

The Anritsu Group classifies operations into the segments of Test and Measurement, Products Quality Assurance, and Others. In order to evaluate each business segment more appropriately, the headquarter administrative expenses portion of general and administrative expenses for each business segment has been shifted to be included in company-wide expenses starting from the fiscal year ended March 31, 2019. These expenses from the previous fiscal year have been restated.

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, 2019, initial development demand for 5G chipsets and mobile devices exceeded expectations, primarily in the mobile market in North America and Asia. Furthermore, internal demand in the U.S. was strong in the network and infrastructure market. Consequently, segment revenue increased 25.2% compared with the previous fiscal year to ¥68,168 million, operating profit increased 338.3% to ¥9,413 million and adjusted operating profit* increased 274.5% to ¥9,413 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 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 model changes 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 have continued to develop their services from LTE-Advanced to LTE-Advanced Pro 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.

On the other hand, for next-generation 5G communications systems that continue with LTE, in December 2017, the specifications for NSA-NR were formulated and this was followed by specifications for SA-NR in June 2018, which concluded the first phase of standardization. In line with this, the development roadmap outlining full-fledged introduction of 5G in 2020 is now underway, and there is now real demand for 5G measurement. In addition, in the IoT field, which has high potential for 5G use cases, 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 actualizing 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 promotion 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 markets for high-speed optical communications modules are growing, and their competition has become intense.

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.

The expansion of IoT service using mobile broadband services and LPWA (Low Power Wide Area) devices is 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 23% of Anritsu Group's revenue. Since more than 80% of segment revenue comes from food manufacturers, this segment is substantially influenced by a heightened consciousness on food safety and security and changes in consumer spending which extend to the results for 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 to reduce labor 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 particular, there is a strong demand for general quality control software solutions for food and pharmaceutical product manufacturing lines that can be used to monitor operating conditions, collect and analyze information in relation to quality, improve yield, and enhance quality management.

In the overseas markets, progress was made toward cultivating loyal customers' needs, and customers that are operating their businesses globally in regions such as the Americas, Europe, and China. The overseas sales ratio of this business is roughly 44%.

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.

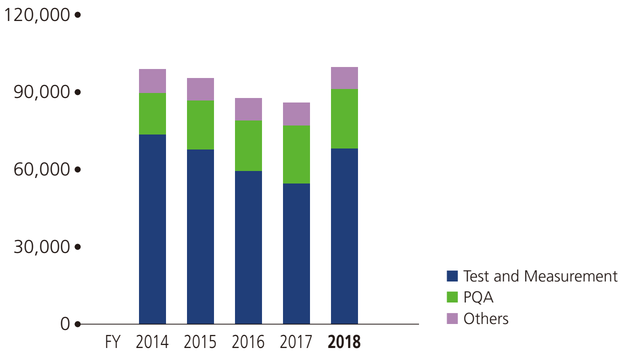
As a result, segment revenue increased 2.3% compared with the previous fiscal year to ¥23,074 million and operating profit decreased 18.3% compared with the previous fiscal year to ¥1,609 million.

Others

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

During the fiscal year ended March 31, 2019, the Device business performance was sluggish due to intense price competition. As a result, segment revenue decreased 6.3% compared with the previous fiscal year to ¥8,416 million, and operating profit decreased 21.5% compared with the previous fiscal year to ¥1,145 million.

Revenue by Business Segment
(Millions of yen)



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, 2019, the balance of interest-bearing debt (excluding lease payables) was ¥16,248 million (compared with ¥15,944 million at the end of the previous fiscal year), and the debt-to-equity ratio was 0.19 (compared with 0.20 at the end of the previous fiscal year). And the net debt-to-equity ratio was a negative 0.34 (compared with a negative 0.25 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 5.4 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 2019, 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, 2019, cash and cash equivalents (hereafter, "net cash") increased ¥9,644 million compared with the end of the previous fiscal year, to ¥45,097 million.

Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was a positive ¥11,631 million (compared with a positive ¥4,014 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 ¥12,247 million (in the previous fiscal year, operating activities provided net cash of ¥7,946 million). The cash increase was due to reporting of profit before tax and recording depreciation and amortization expense; on the other hand, the cash decrease was mainly due to an increase in trade and other receivables. Depreciation and amortization expense was ¥4,386 million, an increase of ¥101 million compared with the previous fiscal year.

• Cash Flows from Investing Activities

Net cash used in investing activities was ¥616 million (in the previous fiscal year, investing activities used net cash of ¥3,932 million). The cash decrease was mainly due to acquisition of property, plant and equipment, and on the other hand, the cash increase was due to proceeds from sale of other financial assets.

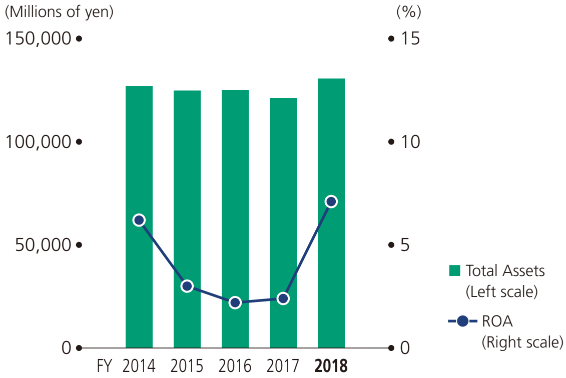
• Cash Flows from Financing Activities

Net cash used in financing activities was ¥2,052 million (in the previous fiscal year, financing activities used net cash of ¥8,201 million). The primary reason was payment of cash dividends totaling ¥2,198 million (in the previous fiscal year, payment of cash dividends was ¥2,059 million).

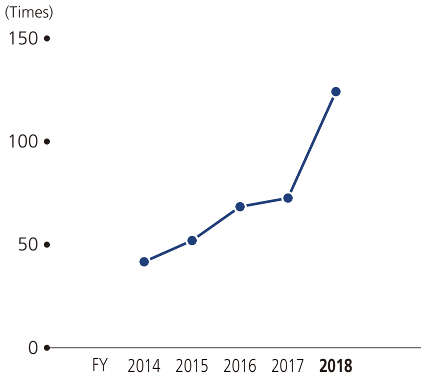
Assets, Liabilities, and Equity

Assets, liabilities, and equity as of March 31, 2019 were as follows. Assets increased ¥9,277 million compared with the end of the previous fiscal year to ¥130,467 million. This was mainly due to an increase of cash and cash equivalents, as well as trade and other receivables, while property, plant and equipment, as well as other financial assets decreased. Total liabilities increased ¥1,912 million compared with the end of the previous fiscal year to ¥44,789 million. This was mainly due to an increase of employee benefits, while trade and other payables decreased. Equity increased ¥7,364 million compared with the end of the previous fiscal year to ¥85,678 million. This was mainly due to increase of retained earnings. As a result, the equity attributable to owners of parent to total assets ratio was 65.6%, compared with 64.6% at the end of the previous fiscal year.

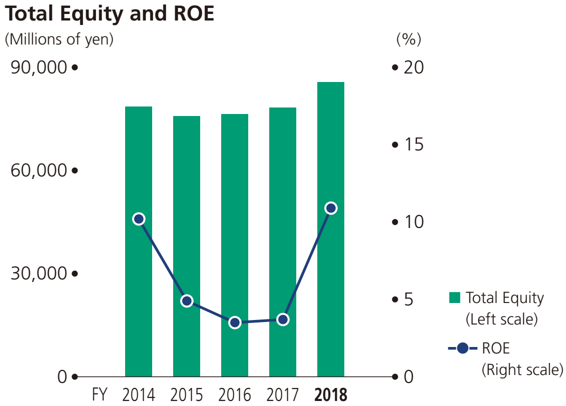
Total Assets and ROA



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 labor saving and streamlining of operations.

In the Test and Measurement business, we invested in new product development in order to handle rapid technological innovation and sales competition and also conducted investments to reduce costs.

In the Products Quality Assurance business, we primarily invested with the aim of enhancing appropriate global information systems and developing, manufacturing and maintaining processes.

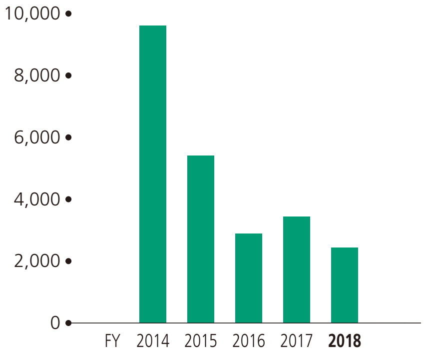
In other business, we made capital investments, mainly in the device business, aimed at increasing production capacity and improving product quality.

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	**FY2018**	FY2017	
Test and Measurement	**¥1,591**	¥2,724	58.4
PQA	**505**	382	132.4
Subtotal	**2,097**	3,107	67.5
Others	**339**	323	104.9
Total	**2,436**	¥3,430	71.0

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 Corporation, Anritsu Company (United States), Azimuth Systems, Inc. (United States), Anritsu Ltd. (United Kingdom), and Anritsu A/S (Denmark) are working together to further realize synergies among their technologies through supplementing and complementing each other's technological strengths.

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

Year ended March 31	Millions of yen FY2018	% of revenue	Millions of yen FY2017	% of revenue
Test and Measurement	**¥ 9,086**	13.3	¥ 7,609	14.0
PQA	**2,174**	9.4	2,283	10.1
Others	**526**	6.3	471	5.2
Basic Research	**220**	—	191	—
Total	**¥12,008**	12.0	¥10,556	12.3

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

Business Segment	Model	Product	Application	Contribution
Test and Measurement	MT8000A	Radio Communication Test Station	With a 5G base station emulation function, a single MT8000A test platform supports both the sub-6 GHz, including band n41, and the millimeter wave bands used by 5G. Combining it with the OTA Chamber enables both millimeter wave band RF measurements and beam-forming tests using call connections specified by 3GPP.	• All-in-One Support for RF Measurements and Protocol Tests in Sub-6 GHz and Millimeter Wave Bands • Supports mm-wave band RF measurements and beam forming tests combined use with the RF chamber. • Is a Flexible Platform using Modular Architecture • Supports Existing LTE Test Environment
	ME7834NR	New products 5G NR Mobile Device Test Platform	The ME7834NR is the test platform for 3GPP based Protocol Conformance Tests (PCT) and Carrier Acceptance Testing (CAT) of mobile devices incorporating Multiple Radio Access Technologies (RAT). The ME7834NR supports 5G New Radio (NR) Technology in both Standalone and Non-Standalone mode, in addition to LTE, LTE-Advanced (LTE-A), LTE-A Pro, and W-CDMA.	• All-in-One 5G NR Support for Protocol Conformance Tests and Carrier Acceptance Test • Supports 3GPP defined bands from Sub-6GHz to mm-Wave • Upgrades your current ME7834 system for 5G
	ME7873NR	New products New Radio RF Conformance Test System	The New Radio RF Conformance Test System ME7873NR is an automated system for 3GPP TS38.521/TS38.533-defined 5G NR RF/RRM tests. It supports both planned 5G NR Standalone (SA) and Non-Standalone (NSA) modes, while combination with Anritsu's 5G over-the-air (OTA) chamber (CATR) covers all 5G frequency bands, including not only Sub-6 GHz but also mmWave.	• GCF/PTCRB-approved 5G NR test cases • Meets 3GPP standards • Is an upgrade from ME7873LA for LTE systems (sub-6 GHz) • Covers different regional frequency bands • Provides easy sequence creation and editing • Emphasizes test system measurement stability
	MS2090A	New products Field Master Pro	Anritsu's Field Master Pro MS2090A real time spectrum analyzer delivers performance never previously available in a compact, handheld instrument. With continuous frequency coverage from 9 kHz to 54 GHz, the Field Master Pro MS2090A is specifically designed to meet the test challenges of a full range of other wireless technologies in use today, including: 5G, wireless backhaul, aerospace/defense, satellite systems, and radar.	• 9 kHz to 9/14/20/26.5/32/43.5/54 GHz • DANL: -164 dBm (with preamp) • TOI: +20 dBm (typical) • Analysis bandwidth: 100 MHz • Amp range: DANL to +30 dBm • Phase noise at 1 GHz: -110 dBc/Hz @ 100 kHz offset (typical) • Demodulation: 5GNR, RF, and modulation quality plus SSB signal analysis

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.

In order to implement GLP2020 without fail, the Anritsu Group is working to (1) reliably acquire growth drivers, (2) create a strong profit-generating platform, and (3) build pillars to support the next-generation business.

Billions of yen

Year ended March 31	FY2017 (Actual)	**FY2018** (Actual)	FY2019 (Forecast)
Revenue	86.0	**99.7**	102.0
Operating profit	4.9	**11.2**	10.0
Profit	2.9	**9.0**	7.5
ACE	(1.6)	**4.0**	2.5
ROE (%)	3.7	**10.9**	8

Outlook and Management Issues for the Year Ending March 31, 2020

Although the global economy has been on a recovery trend, there is emerging uncertainty regarding factors such as the U.K.'s withdrawal from the EU, increased trade friction between the U.S. and China, and the rise of trade protectionism.

In the field of information and communication, precursory 5G services have been launched in North America and South Korea in December 2018, and 5G smartphones would be launched in 2019. Going forward, preparations for the full-fledged commercialization of 5G are expected to accelerate around the world, including Japan.

In the Test and Measurement segment, while device development demand for the full-fledged commercialization of 5G grew, LTE-Advanced demand will continue to fall. As a result revenue is expected to increase slightly compared with the previous fiscal year. With regard to operating profits, decreased profit is expected due to aggressive investment in strategic R&D to strengthen 5G competitiveness. 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.

For the Products Quality Assurance segment, revenue is expected to increase both in the Japanese and overseas markets. Operating profit is also expected to increase compared with the previous fiscal year.

The Anritsu Group aims to establish a position as a leading company in the 5G development market through the timely provision of solutions that accurately match the commercialization plans of operators in various countries.

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 the Test and Measurement segment revenue comes from the telecommunications market, capital investment trends among telecom operators, telecommunications equipment manufacturers and electronic component manufacturers have the potential to exert an effect on business results. Telecom operators make a cost-effective capital investment in order to adopt technologies to handle rapid increases in data traffic, and to build networks that meets the various needs of IoT service and cloud service. 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 smartphones.

In the Products Quality Assurance business, sales to food manufacturers constitute more than 80% of revenue. Operating results and capital investment of food manufacturers may influence the performance of Products Quality Assurance business potentially.

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 68%, 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 68% 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. 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.