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 FY2015, 2016, 2017, 2018, 2019 and 2020.

The Scope of Consolidation

The Anritsu Group comprised 45 consolidated subsidiaries and one affiliate at the end of FY2019.

Overview

During the fiscal year ended March 31, 2020, the global economy had been continuing to grow at a modest pace, especially in developed countries, despite the heating up of the US-China trade friction. However, the global spread of COVID-19 caused a halt to economic activity, plunging the world in to an economic recession. Moreover, there are concerns that the spread of COVID-19 may have further negative impacts on business activities, including disruption of supply chains due to restrictions on the movement of goods and people, shutdowns of factory operations and closure of business locations due to city lockdowns and other measures.

Domestic demand has fallen precipitously in Japan as well, due to factors such as falling inbound demand, cancellation of events, and people refraining from eating out and other activities.

In the field of information and communication, mobile broadband services are growing both in terms of quality and volume, and the volume of mobile data transmission is increasing rapidly which pressures the capacity of network infrastructure. In order to solve these issues, 4G mobile communications system has evolved 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 of 5G main functions that are related to ultra-high speed communication are set. Continuously among 3GPP, specification development of ultra-low latency communications and multiple simultaneous connections for expansion of use case (Release 16*) is under consideration and the standardization will be expected to be finished in 2020. In addition, new specifications (Release 17*) for contributing to improved 5G efficiency and capability, such as expansion of high-frequency range, expansion of communication area, low-power consumption, and low-cost communication are under cousideration at 3GPP, and the standardization will be targeted to be finished in 2021.

As a result, 5G services were launched in the US, Korea, Europe, and China, and the 5G commercialization schedules of operators in each country are smoothly making progress. In Japan as well, 5G services were launched in certain areas, centered on cities, in March 2020.

Amid such environment, the Test and Measurement Business Group has focused on solution development to serve 5G investment demand as well as strengthening the organization structure. Consequently, the Test and Measurement Business Group captured development demand for 5G chipsets and devices.

In the field of PQA (Product Quality Assurance), automation investment on processed foods production lines is underway, and demand is growing steadily for contaminant inspection using X-rays and quality assurance toward packaging. Amid such 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.

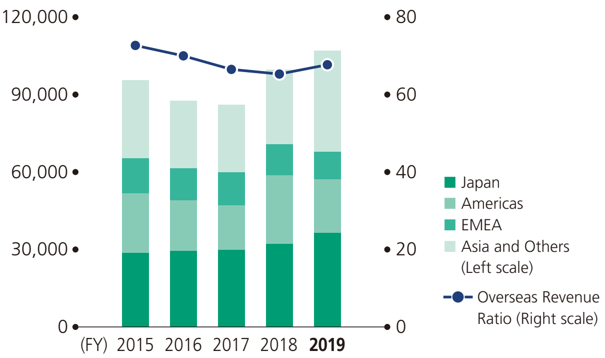
* Standard number used in 3GPP

Revenue

During the fiscal year ended March 31, 2020, development demand for 5G chipsets and mobile devices was growing steadily. Particularly in Asia, development demands aimed at 5G commercialization grew, driving the 5G business. 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, 2020, the food product market, as well as the demand for capital investment with the purpose of automating, labor saving, and strengthening quality assurance processes were growing steadily both in Japan and overseas. However, due to prolonged product acceptance inspection at customers' sites, the revenue was lower than the previous fiscal year.

As a result, orders increased 6.8% compared with the previous fiscal year to ¥107,709 million , and revenue increased 7.4% compared with the previous fiscal year to ¥107,023 million. Operating profit increased 54.8% compared with the previous fiscal year to ¥17,413 million, profit before tax increased 51.2% compared with the previous fiscal year to ¥17,181 million. Profit increased 49.0% compared with the previous fiscal year to ¥13,397 million, and profit attributable to owners of parent increased 49.1% compared with the previous fiscal year to ¥13,355 million. COVID-19 only had a minor impact on business performance for the fiscal year ended March 31, 2020.

Revenue by Region and Overseas Revenue Ratio



Cost of Sales and Gross Profit

Cost of sales increased ¥141million, or 0.3%, to ¥48,948 million. Cost of sales as a percentage of total revenue was 45.7%, down 3.3 percentage point compared with the previous fiscal year. Gross profit increased ¥7,223 million, or 21.2%, to ¥58,075 million. The gross margin amounted to 54.3%.

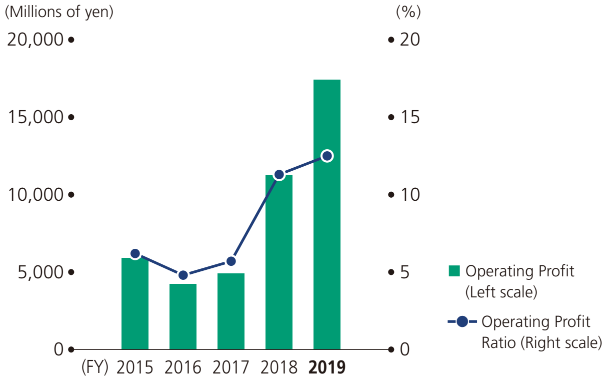
Selling, General and Administrative (SG&A) Expenses and Operating Profit

SG&A expenses increased 0.3% over the previous fiscal year, to ¥28,036million. Research and development (R&D) expenses increased 10.8%, to ¥12,975 million and amounted to 12.1% of consolidated total revenue. As a result of the above factors, operating profit increased 54.8%, or ¥6,167 million, to ¥17,413 million. The operating profit ratio was 16.3%.

SG&A Expenses

	Millions of yen		YoY
Year ended March 31	**FY2019**	FY2018	(%)
Personnel expenses	**¥18,415**	¥18,266	0.8
Travel and transportation expenses	**1,350**	1,563	(13.6)
Advertising expenses	**1,592**	1,305	22.0
Depreciation and amortization expenses	**1,879**	1,403	33.9
Others	**4,799**	5,406	(11.2)

Operating Profit and Operating Profit Margin



Profit before Tax and Profit

Operating profit increased 54.8% compared with the previous fiscal year to ¥17,413 million, profit before tax increased 51.2% compared with the previous fiscal year to ¥17,181 million. Profit increased 49.0% compared with the previous fiscal year to ¥13,397 million, and profit attributable to owners of parent increased 49.1% compared with the previous fiscal year to ¥13,355 million. Comprehensive income for the period rose ¥2,556 million, to ¥11,937 million. COVID-19 had only minor impact on business performance for the fiscal year ended March 31, 2020.

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

			%
Year ended March 31	**FY2019**	FY2018	FY2017
Revenue	**100.0**	100.0	100.0
Cost of sales	**45.7**	49.0	51.2
Gross profit	**54.3**	51.0	48.8
SG&A expenses	**26.2**	28.0	30.9
R&D expenses	**12.1**	11.8	11.8
Profit	**12.5**	9.0	3.4

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 or 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 ¥20 per share, and total dividends for the fiscal year ended March 31, 2020 will be ¥31 per share.

For the fiscal year ending March 31, 2021, Anritsu plans to pay cash dividends of ¥31 per share (including an interim dividend of ¥15.5 per share).

Business Segments

The Anritsu Group classifies its 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, 2020. These expenses from the previous fiscal year have been restated.

Test and Measurement

This segment develops, manufactures and sells a variety of communication and general purpose measuring instruments, test systems and service assurances for telecommunication carriers, communication equipment manufacturers as well as maintenance and installation companies around the world.

During the fiscal year ended March 31, 2020, development demand for 5G chipsets and mobile devices were growing steadily. Particularly in Asia, development demands aimed at 5G commercialization grew and became the driver of the 5G business. Consequently, segment revenue increased 10.3% compared with the previous fiscal year to ¥75,165 million, operating profit increased 60.9% to ¥15,148 million and adjusted operating profit increased 59.6% to ¥15,018 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 70% 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 providers, and measuring instruments for design, production, function and performance verification, and maintenance of mobile handsets by manufacturers of mobile devices such as 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.

LTE, which has been deployed throughout the world, has evolved into LTE-Advanced and LTE-Advanced Pro in order to relieve the pressure on capacity of network infrastructure from the rapid surge in data communication traffic. Currently, the specifications related to ultra-high speed communication of next-generation 5G communication systems are set, and the commercialization of 5G is being advanced by operators from various countries, starting in the US, Korea, Europe, and then in China and Japan. While manufacturing demand for the LTE smartphones has declined in the mobile phone-manufacturing market, development of IC chipsets and mobile phones supporting 5G has taken off full steam in the mobile phone-development market, and demand for measuring instruments for 5G development is growing. In addition, the specifications related to ultra-low latency communications and multiple simultaneous connections of 5G are underway. In the IoT field, which has high potential as the 5G use cases, and the automous driving and in-vehicle communiation field in the automobile industry, the development of mobile communications technologies to realize new services are 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 operators, and solutions for network equipment manufacturer in areas including design, production, inspection and adjustment.

In this sub-segment, data traffic is expanding rapidly due to sophisticated cloud computing services and the progress of 5G services. Therefore, service providers that are pursuing higher-speed networks are introducing 100Gbps services in full scale, and network equipment manufacturers are progressing development of 400Gbps network equipment. Moreover, in order to improve mobile phone connectivity, progress is being made to enhance the base station density through integrated application of wired and wireless network technologies.

Along with the change of market trend, 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 communication equipment is expanding. Along with this, research and development and manufacturing markets of high-speed optical communications modules are growing, and the competition in this area has become severe.

Anritsu is working to expand business by providing comprehensive solutions from construction and monitoring of communication infrastructure to service assurances 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 wireless 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 21% of Anritsu Group's revenue. Since more than 80% of segment revenue is made of businesses from food manufacturers, this segment is substantially influenced by increased consciousness regarding food safety and security as well as changes in consumer spending levels which would affect food manufacturers' business performances.

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 particular, there is a strong demand for general quality control software solution in the food and pharmaceutical product manufacturing lines that can be used to monitor operating conditions, collect and analyze quality information, improve yield, and enhance quality management.

In the overseas markets, progress was made in the cultivation of royal customers' needs, and these customers are operating their businesses globally in regions such as Americas, Europe, and China. The overseas sales ratio of this business is roughly 40%.

Food manufacturers are very interested in quality control inspection solutions. To satisfy this demand, Anritsu will develop and deliver new products and quality assurance solutions. We will also optimize the supply chain including overseas production, and will promote efficiency of global operation. Anritsu will expand the business and increase profitability through those opportunities.

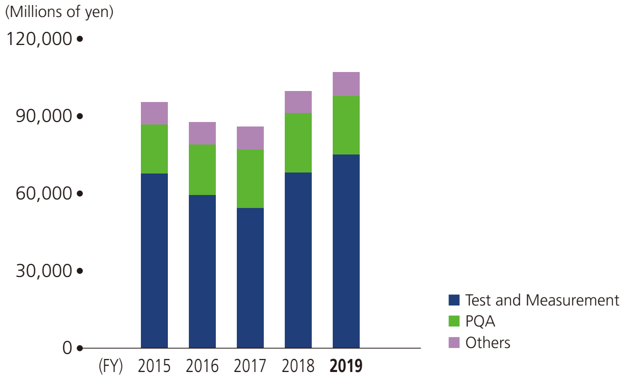
As a result, segment revenue decreased 2.2% compared with the previous fiscal year to ¥22,575 million and operating profit decreased 20.0% compared with the previous fiscal year to ¥1,287 million.

Others

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

During the fiscal year ended March 31, 2020, Device business profit was increased compared with the previous fiscal year. As a result, segment revenue increased 10.3% compared with the previous fiscal year to ¥9,282 million, and operating profit increased 65.9% compared with the previous fiscal year to ¥1,900 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 2020, which is effective through March 2023. 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, 2020, the balance of interest-bearing debt was ¥14,594 million (compared with ¥16,435 million at the end of the previous fiscal year) and the debt-to-equity ratio was 0.15 (compared with 0.19 at the end of the previous fiscal year). And the net debt-to-equity ratio was negative 0.35 (compared with negative 0.33 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 2020, 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 (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, 2020, cash and cash equivalents (hereafter, "net cash") increased ¥2,572 million compared with the end of the previous fiscal year to ¥47,669 million.

Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was positive ¥11,035 million (compared with positive ¥11,631 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 ¥14,721 million (in the previous fiscal year, operating activities provided net cash of ¥12,247 million).

The cash increase was due to reporting of profit before tax and recording depreciation and amortization, on the other hand, the cash decrease was mainly due to increase in inventories, trade and other receivables. Depreciation and amortization expense was ¥4,999 million (increase of ¥612 million compared with the same period of the previous fiscal year).

• Cash Flows from Investing Activities

Net cash used in investing activities was ¥3,686 million (in the previous fiscal year, investing activities used net cash of ¥616 million). The cash decrease was mainly due to acquisition of property, plant and equipment.

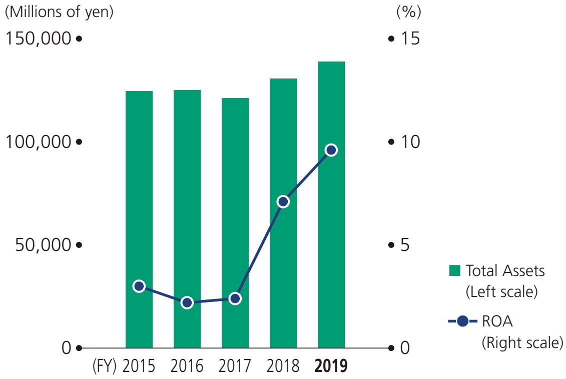
• Cash Flows from Financing Activities

Net cash used in financing activities was ¥7,592 million (in the previous fiscal year, financing activities used net cash of ¥2,052 million). The primary reason was repayments of long-term borrowings ¥3,500 million and payment of cash dividends totaling ¥3,365 million (in the previous fiscal year, cash dividends was ¥2,198 million).

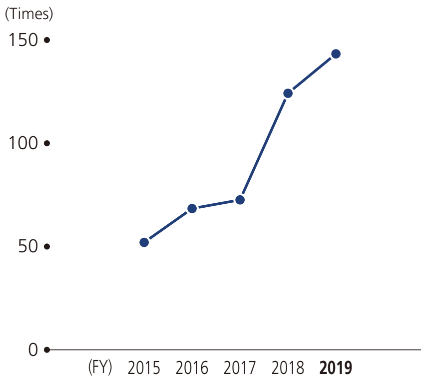
Assets, Liabilities, and Equity

Assets increased ¥8,405 million compared with the end of the previous fiscal year to ¥138,873 million. This was mainly due to increase of cash and cash equivalents, as well as inventories. Total liabilities decreased ¥247 million compared with the end of the previous fiscal year to ¥44,541 million. This was mainly due to decrease of bonds and borrowings. On the other hand, other financial liabilities increased due to the increase of lease liabilities by the adoption of IFRS16.Equity increased ¥8,653 million compared with the end of the previous fiscal year to ¥94,331 million. This was mainly due to increase of retained earnings, while decrease of other components of equity. As a result, the equity attributable to owners of parent to total assets ratio was 67.8%, compared with 65.6% at the end of the previous fiscal year.

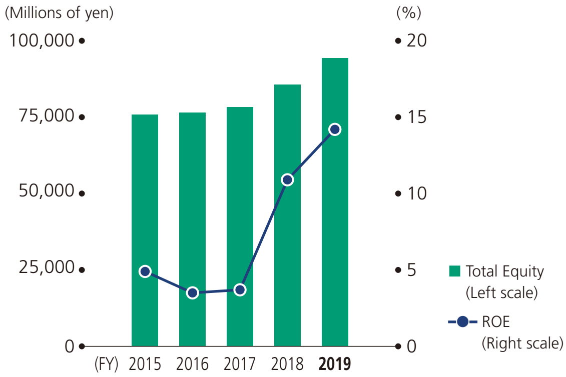
Total Assets and ROA



Interest Coverage Ratio



Total Equity and ROE



Capital Expenditures

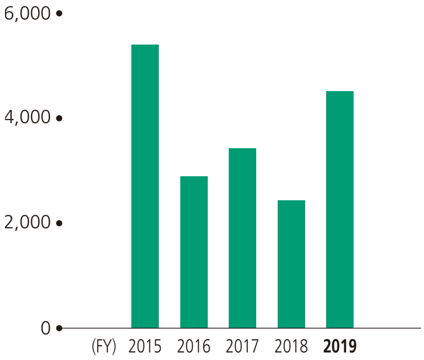
To achieve sustainable growth and profit increases in the future, the Anritsu Group is making strategic investments, such as new-product development focused on product areas where long-term growth is expected and systems-related investments are aimed at labor saving and streamlining of operations. In 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 optimizing global information systems as well as to enhance development, manufacturing and maintenance 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	**FY2019**	FY2018	
Test and Measurement	**¥3,381**	¥1,591	212.5
PQA	**787**	505	155.6
Subtotal	**4,168**	2,097	198.8
Others	**349**	339	103.2
Total	**4,518**	2,436	185.5

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 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

	Millions of yen	% of revenue	Millions of yen	% of revenue
Year ended March 31	**FY2019**		FY2018	
Test and Measurement	**¥ 10,489**	14.0	¥ 9,086	13.3
PQA	**2,180**	9.7	2,174	9.4
Others	**467**	5.0	526	6.3
Basic Research	**184**	—	220	—
Total	**¥13,321**	12.4	¥12,008	12.0

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-6GHz, 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. • Flexible Platform using Modular Architecture • Supports Existing LTE Test Environment
	ME7834NR	5G NR Mobile Device Test Platform	The ME7834NR is the test platform for 3GPP based Protocol Conformance Test (PCT) and Carrier Acceptance Test (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 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-6GHz but also mmWave.	• GCF/PTCRB-approved 5G NR test cases • Meets 3GPP standards • Upgrade from ME7873LA for LTE systems (Sub-6GHz) • Covers different regional frequency bands • Easy sequence creation and editing • Emphasizes test system measurement stability
PQA	KDS1004PSW	New products Metal Detection Systems for Pharmaceutical Industries	The KDS1004PSW is a metal detector for pharmaceutical tablets and capsules that delivers "high sensitivity and high stability" along with "ease of use." With a detection algorithm specialized for tablets and capsules as well as the industry's highest level of metal detection sensitivity, it can detect metallic foreign substances such as iron, stainless steel, and aluminum. Equipped with advanced validation functions such as internal condition monitoring, self-diagnosis, and sorting operation confirmation, it contributes to strict quality assurance for pharmaceuticals.	• Acheives high stability that supports highly sensitive detection -A reduction in vibration noise using signal processing -A reduction in inverter noise using signal processing -Control of static electricity through use of antistatic chute • Achieves the highest sensitivity testing in the industry -Installed with a newly developed sensor structure and signal processing algorithm • Compatible with FDA's Title 21, CFR Part 11 • SOP (Standard Operating Procedure) support using smart guide • Designed to allow maintenence without tools

Management Objectives and Indicators

Anritsu aims to maximize corporate value by managing its operations with a focus on cash flow. In addition, to evaluate the added value generated by capital invested, Anritsu uses an original metric, ACE (Anritsu Capital-cost Evaluation), for evaluating the results of each business. A target for ROE is also set as an indicator of the efficiency of capital invested.

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 ends in FY2020), which is based on the 2020 VISION. In order to implement GLP2020 without fail, the Anritsu Group is working to (1) ensure acquisition 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	FY2018 (Actual)	**FY2019** (Actual)	FY2020 (Forecast)
Revenue	99.6	**107.0**	110.0
Operating profit	11.2	**17.4**	17.5
Profit	8.9	**13.3**	13.5
ACE	3.9	**8.4**	7.5
ROE (%)	10.9	**14.9**	14.0

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

The outlook for the global economy remains unclear due to factors such as the spread of COVID-19 and the prolongation of US-China trade friction. Depending on how the spread of COVID-19 progresses, it could impede the smooth operation of corporate activities over the long term, including disruption of supply chains and restrictions on various business activities. The Anritsu Group is taking measures to minimize the impact of COVID-19 on its businesses, including promoting working from home, utilizing IT tools, and diversifying its procurement.

Meanwhile, in the field of information and communication, 5G services has been launched around the world, and 5G-related demand is expected to grow in the future. In the mobile market, development demand for commercial 5G handset showed robust growth, and moving forward, test and measurement demand is expected to grow for conformance test, operator acceptance test, and calibration inspections on mass-production lines as well.

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

The Anritsu Group will strive to establish a competitive advantage in the mobile market by offering timely solutions that accurately meet the needs of 5G commercialization plans in countries worldwide and be a leading company supporting 5G and IoT society.

Risk Information

Policies and Systems

The Company views risks as indeterminate factors that may impact its corporate value, such as the organization's profits and the trust of society (risk is not necessarily a negative factor for a company; it could be a positive factor if managed appropriately). The Company recognizes that managing risk appropriately means that risk is a critically important management challenge, and has established Group-level systems to manage it. Moreover, in order to maintain and increase our corporate value, fulfill our corporate social responsibility, and pursue sustainable development of Anritsu Group, the Company focuses on making management as well as all employees more sensitive to risk, and on all-hands initiatives that promote risk management.

Under the risk-management supervision of the Group CEO, the Anritsu Group designates a risk management officer for each of the following recognized major risks: (1) business risk related to management decision-making and business execution; (2) risk of legal violations; (3) environmental risk; (4) risk to the quality of products and services; (5) import/export management risk; (6) information security risk; and (7) disaster risk. Each risk management officer heads a committee, consisting of representatives from Company departments and Group companies managers relevant to the risk in question. Each risk management office oversees the management of its designated risk for the Group as a whole; and reports the status of risk management measures, plans and operation and the results of the year-round management cycle to the Management Strategy Conference as appropriate. In addition, the Risk Management Promotion Department leads such matters as creation of regulations and guidelines as well as training and education, and establishes systems necessary to raise the bar of risk management in order to ensure the sustainable development of the business. Each risk management officer supports the activities of Group companies overseas for their responsible field respectively. With regard to compliance risk, the compliance officer of each regional headquarters performs risk assessments and prepares and acts on an annual plan.

(Individual Risks)

1. Inherent Risks in the Anritsu Group's Technology and Marketing Strategies (1) business risk

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 (1) business 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 comes from the telecommunications market, capital investment trends among service providers, network equipment manufacturers, mobile phone 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. Capital investment of food manufacturers may influence the performance of Products Quality Assurance Business potentially.

3. Global Business Development Risk (1) business risk, (2) risk of legal violations, and (5) import/export management risk

The Anritsu Group markets its products globally. The overseas sales ratio is 66%, 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 have a potential to exert a material impact on the Group's financial position and results of operations.

4. Risk of Spread of Infectious Diseases (7) disaster risk

The spread of COVID-19 is continuing. The Anritsu Group places top priority on ensuring the safety of its employees, and halting the spread of the virus internally and externally to the Anritsu Group. The Anritsu Group has also established a COVID-19 Task Force, which is collecting information and taking necessary measures in order to minimize the virus's impact on its operations. However, depending on how the spread of COVID-19 progresses, it has the potential to exert a material impact on the Anritsu Group's financial condition and operating results, due to the disruption of supply chains, and restrictions on business activities of the Group, its customers, and its suppliers, including the halt of factory operations and business location closures.

5. Disaster Risk (7) disaster risk

The Anritsu Group carries out production and sales activities globally. As such, natural disasters such as earthquakes, typhoons, and climate change-induced abnormal weather events induced by climate change, as well as fire, war, terrorism, riots, and other events have the potential to exert a material impact on the Anritsu Group's financial condition and operation results by impeding our business activities due to impact on the major facilities of the Group, its suppliers, or its customers, or by causing political or economic instability.

Each division of the Anritsu Group has created a Business Continuity Plan (BCP) aimed at ensuring the smooth continuity of our businesses by minimizing the damage from disasters and emergencies, and fast recovery of business activities. The Koriyama Office of Tohoku Anritsu Co., Ltd., which is a Group manufacturing facility, has created a BCP for natural disasters, including river flooding due to earthquakes and torrential rains, as one of its major risks. This BCP clearly defines the actions to take after a natural disaster, broken up into specific processes. Taking the lessons learned from actual largescale disasters, the Company is reviewing the criteria for emergency BCP activation to prepare for a wider range of risks and refine the response procedures when each risk occurs.

6. Foreign Exchange Risk (1) business risk

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.

7. Long-Term Inventory Obsolescence Risk (1) business risk

The Anritsu Group works to provide products and services that precisely meet customer needs and wants. However, particularly in the Test and Measurement Instruments market, product lines are subject to frequent changes in order to follow technology evolution, which can easily result in obsolescence of products and parts, and could cause inventory to be 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.

8. Human Resource Acquisition Risk (1) business risk

Acquiring, ensuring, and developing human resources are the very important requirements for the sustainable development of the Anritsu Group. The Anritsu Group strives to acquire talented human resources by actively hiring diverse human resources without regard to nationality, gender or other natures and focuses on their development with efforts to enhance its internal training and education programs. The Anritsu Group also focuses on work-life balance, and strives to create working environments that support diverse work styles and values. However, if human resource acquisition and development do not proceed as planned, it has the potential to exert a material impact on the Anritsu Group's financial condition and operating results.

9. Compliance Risk (2) risk of legal violations

The Anritsu Group is subject to the laws and regulations of the countries in which it conducts business. Violation of these laws and regulations, or actions that violate the demands of society, has the potential to exert a material impact on the Anritsu Group's financial condition and operating results through factors including legal punishment, lawsuits, social sanctions, and damage to the brand.

The Anritsu Group has established the Anritsu Group Code of Conduct, which serves as a guide for the conduct to take in order for us to fulfill our social responsibility. The Company also carries out educational and awareness-raising activities as needed, as it strives to improve its corporate ethics and strengthen legal compliance. The Group CEO, who chairs the Management Strategy Conference, leads the promotion of compliance of the Domestic Anritsu Group. Additionally, the Corporate Ethics Promotion Committee, chaired by the executive officer in charge of compliance, operates under the supervision of Management Strategy Conference, and oversees the compliance-promotion activities of each company in the Domestic Anritsu Group. The Corporate Ethics Promotion Committee and the Legal Department, which serve as its secretariat, coordinate with committees that promote legal compliance to advocate ethical and legal compliance to Anritsu Group companies overseas in accordance with their national and regional laws, cultures, and customs. They provide necessary support, and coordinate with compliance officers at each Anritsu Group company overseas to build a global compliance-promotion system. Internal audit departments perform audits to determine whether the compliance promotion system is functioning appropriately, and provide advice and request improvements as necessary.

10. Environmental Risk (3) environmental risk

The Anritsu Group is subject to a variety of laws and regulations relating to the environment, including climate change, energy, the atmosphere, water, hazardous substances, waste, and product recycling. The Group tackles the efforts to prevent climate change, create a recycling society, and prevent environmental pollution, in addition to ensuring the thorough environmental compliance of its business activities and products.

However, it is possible for tightened environmental regulations or past actions to trigger environmental liability, and for natural disasters and other events to cause environmental pollution. Such events have the potential to exert a material impact on the Anritsu Group's financial condition and operating results due to additional costs required for legal compliance or environmental measures.

In order to meet the demands of its stakeholders, the Anritsu Group develops and offers products with an awareness of the environment throughout the entire product life cycle. The Anritsu Group is also committed to reducing its environmental pollution risk by reducing the CO_2 emissions of its offices and factories through reducing the energy usage from the perspective of preventing global warming and preserving biodiversity; reducing waste by promoting the 3Rs (reduce, reuse, and recycle); and setting self-management standards that are stricter than laws and ordinances related to preventing environmental pollution.

11. Product-Quality Risk (4) risk to the quality of products and services

The Anritsu Group has been ISO 9001 (an international standard for quality management systems) accredited since 1993. It operates integrated quality management, from product design and development to manufacture, service, and maintenance, at a global level. However, if an unforeseen event that causes a major quality defect or product liability is incurred, it has the potential to exert a material impact on the Anritsu Group's financial condition and operating results, such as loss of society's trust, lawsuits, social sanctions, and damage to the brand, as well as the cost of compensation and countermeasures.

The Anritsu Group has established committees to maintain, improve, and assure product quality, and operate the quality management system appropriately, including the Quality Management System Committee and the Internal Quality Audit Committee. The Anritsu Group is also considering the establishment of systems in the event of a product incident, a system to prevent product incidents, and initiatives to prevent recurrence.

12. Information Security (6) information security risk

The Anritsu Group has the social responsibility to appropriately protect the information of all of its stakeholders, including customers, trading partners, shareholders, and employees in its business activities. The Anritsu Group also recognizes that information assets are vital assets of the Anritsu Group and its stakeholders. If an information security incident were to occur with these information assets, due to a cyberattack, it has the potential to exert a material impact on the Anritsu Group's financial condition and operating results due to effects such as loss of the trust of society, lawsuits, social sanctions, and damage to the brand.

The Anritsu Group works continuously to build its information security management system, carry out initiatives to maintain and improve thorough management and security, and carry out information security education. As a company operating globally, the Company connects offices worldwide via networks and promoted sharing of information between them. A single vulnerability in information security impacts the overall security level. The Company is currently working to correct discrepancies in security levels between regions, alleviate regional disparities, and raise the bar as a whole.

13. Risk Related to Deferred Tax Assets (1) business risk

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.

14. Risk Related to Defined-Benefit Pension Plan (1) business risk

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.