

# 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 43 consolidated subsidiaries and one affiliate at the end of FY2020.

## Overview

In the field of information and communication, which is the main field of Test and Measurement Business, 5G commercialization schedules of operators in each country are making progress smoothly. In March 2020, 5G services were launched mainly in cities in Japan. In July 2020, 3GPP Release 16\* have been standardized, which prescribe ultra-low latency communications and multiple simultaneous connections for expansion of use case. In response, research and development for 5G utilization in the automotive field has begun, as well as research and demonstration experiments for building 5G networks in private domains such as local 5G. In 2022, 3GPP plans to complete standardization of Release 17\*, targeting improved 5G efficiency and capability such as expansion of high frequency range, expansion of communication area, low-power consumption, and low-cost communication.

Since the data traffic is expanding rapidly due to sophisticated cloud computing services and the progress of 5G services, the network infrastructure is under strain. To solve this issue, service providers that are pursuing higher-speed networks are concentrating on the promotion of 100Gbps services, and network equipment manufacturers are developing 400Gbps network equipment.

\* Standard number used in 3GPP

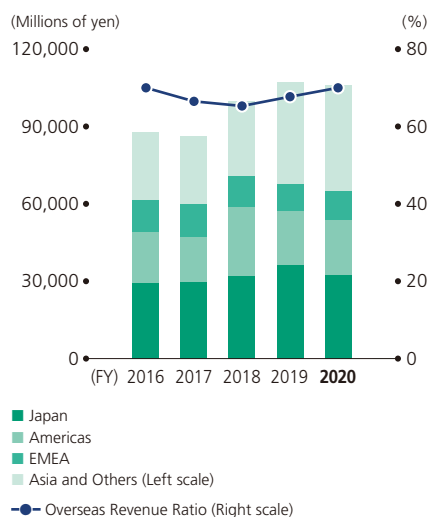
## Revenue

Amid such an environment, the Test and Measurement Business Group has focused on solution development for the 5G investment demand as well as improvement of organizational infrastructure. Consequently, the Group acquired development demand for 5G commercialization. Furthermore, it acquired development and production demand for higher-speed networks. On the other hand, the spread of COVID-19 has caused some customers to be cautious about capital expenditures. While in the field of PQA (Product Quality Assurance), automation investment on processed food production lines is under-

way, and demand for contaminant inspection using X-rays and quality guarantee toward packaging is expected to grow. However, the spread of COVID-19 has caused some customers to be cautious about capital expenditures. Amid such environment, the PQA Group has worked to reinforce competitiveness of its solutions focused on X-rays, as well as strengthen sales promotion measures as an alternative to face-to-face sales.

As a result, during the fiscal year ended March 31, 2021, orders decreased 0.1 % compared with the previous fiscal year to ¥107,567 million, and revenue decreased 1.0 % to ¥105,939 million. Operating profit increased 12.8 % to ¥19,651 million, profit before tax increased 15.5 % to ¥19,838 million. Profit increased 20.5 % to ¥16,143 million, and profit attributable to owners of parent increased 20.6 % to ¥16,105 million.

## Revenue by Region and Overseas Revenue Ratio



## Cost of Sales and Gross Profit

Cost of sales decreased ¥214million, or down 0.7%, to ¥48,734 million. Cost of sales as a percentage of total revenue was 46.0%, up 0.3 percentage point compared with the previous fiscal year. Gross profit decreased ¥871 million, or down 1.5%, to ¥57,204 million. The gross margin amounted to 53.9%.

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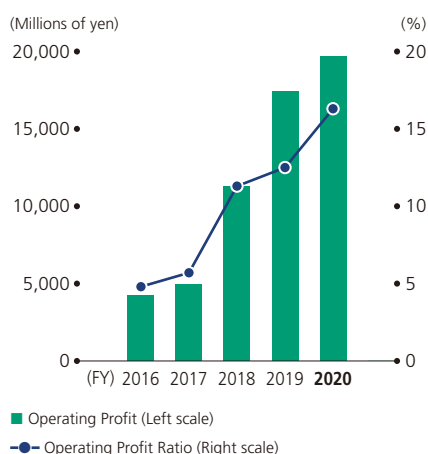
### Selling, General and Administrative (SG&A) Expenses and Operating Profit

SG&A expenses decreased 4.5%, or ¥1,243 million, over the previous fiscal year, to ¥26,793 million. Research and development (R&D) expenses decreased 15.9%, or ¥2,067 million, to ¥10,908 million and amounted to 10.2% of consolidated total revenue. As a result of the above factors, operating profit increased 12.8%, or ¥2,238 million, to ¥19,651 million. The operating profit ratio was 18.5%.

#### SG&A Expenses

Year ended March 31	Millions of yen		YoY (%)
	FY2020	FY2019	
Personnel expenses	¥18,620	¥18,415	1.0
Travel and transportation expenses	325	1,350	(75.9)
Advertising expenses	1,458	1,592	(8.4)
Depreciation and amortization expenses	1,684	1,879	(19.3)
Others	4,706	4,799	(1.9)

#### Operating Profit and Operating Profit Margin



### Profit before Tax and Profit

Operating profit increased 15.5%, or ¥2,657 million, compared with the previous fiscal year to ¥19,651 million, profit before tax increased 15.5%, or ¥2,657 million, compared with the previous fiscal year to ¥19,838 million. Profit increased 20.5%, or ¥2,746 million, compared with the previous fiscal year to ¥16,143 million, and profit attributable to owners of parent increased 20.6%, or 2,750 compared with the previous

fiscal year to ¥16,105 million. Comprehensive income for the period rose ¥7,930 million, to ¥19,867 million.

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

Year ended March 31	%		
	FY2020	FY2019	FY2018
Revenue	100.0	100.0	100.0
Cost of sales	46.0	45.7	49.0
Gross profit	54.0	54.3	51.0
SG&A expenses	25.3	26.2	28.0
R&D expenses	10.3	12.1	11.8
Profit	15.2	12.5	9.0

### Shareholder Return Policies

#### Dividend Policy

The Company's basic policy for returning profits to its shareholders is to distribute profits in accordance with its consolidated performance and by taking into account the total return ratio.

With regard to dividends, while taking the basic approach of raising dividends on equity (DOE) in accordance with the increase in consolidated profits for the fiscal year, the Company aims at a consolidated dividend payout ratio of 30% or more. The Company's basic policy is to make distributions of dividends, twice a year, consisting of a fiscal year-end dividend and an interim dividend by resolution of the General Meeting of Shareholders and by approval of the Board of Directors.

The Company intends to carry out the purchase of treasury stock appropriately as necessary, by taking into account its financial situation, the trends in stock prices and other factors, in an effort to execute capital policies that respond flexibly to changes in the corporate environment. 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 ¥24.50 per share, and total dividends for the fiscal year will be ¥40 per share for the fiscal year ended March 31, 2021. For the fiscal year ending March 31, 2022, Anritsu plans to pay cash dividends of ¥40 per share (including an interim dividend of ¥20 per share).

## Business Segments

The Anritsu Group classifies its operations into the segments of Test and Measurements, Products Quality Assurance, and Others. In order to evaluate each business segment more appropriately, the headquarters 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, 2021.

### Test and Measurement

The Test and Measurement segment group develops, manufactures and sells measuring instruments and systems for a variety of communication applications and service assurance. The group delivers them to service providers, network equipment manufacturers, and maintenance and installation companies. During the fiscal year ended March 31, 2021, development demand for 5G chipsets and mobile devices was growing steadily. Development demand aimed at 5G commercialization grew especially in Asia, driving the 5G business. In addition, we acquired development and production demand for network speedup in data centers. On the other hand, the spread of COVID-19 has caused some customers to be cautious about capital expenditures especially in Japan. Consequently, segment revenue decreased 0.5% compared with the previous fiscal year to ¥74,809 million, operating profit increased 16.9% to ¥17,714 million.

The Test and Measurement Business, which accounts for 71% 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, 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. In addition to the existing LTE system that has been deployed in countries around the world, the operators' schedules for 5G commercialization in each country have been steadily progressing including the launch of services using 5G communication systems in the U.S., S. Korea, Europe, and now China. In Japan as well, 5G services have become available in some areas, mainly urban metropolitan areas, from March 2020.

Under this market environment, manufacturing demand for LTE smartphones is shrinking in the mobile phone manufacturing market, while the mobile phone development market is seeing increasing demand for test and measurement instruments for 5G development as full-fledged development gets underway for IC chipsets and 5G mobile phone terminals. Furthermore, with the July 2020 finalization of specifications for ultra-low latency and multiple simultaneous connections, progress is being made in deliberations on new specifications, including further expansion to the higher frequency bands, expansion of communication areas, and low-power consumption and low-cost communications. Consequently, mobile communications technology development and business opportunities are emerging for creating new services in the fields of IoT, autonomous driving & telematics, and local 5G. In addition, R&D has also gotten underway on 6G, the next-generation communication standard that will take 5G performance to an even higher level.

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 manufacturers 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 high-speed networks are introducing 100Gbps services in full scale, and network equipment manufacturers are pushing 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 trends, demand is gaining momentum for measuring solutions that optimize wireline and wireless technology depending on the intended use. Furthermore, mainly due to the data centers providing faster data services that support cloud services, the high-speed data communications market is rapidly growing, and accordingly, the market for R&D and manufacturing of high-speed optical communications modules is a growing trend. As a result, demand for relevant test equipment is also growing.

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.

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### 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 is showing impacts from the production scale of electronic components and electronic equipment used in communications equipment, smart home appliances, automobiles, and the like. The expansion of IoT services using mobile and broadband services, as well as Wi-Fi/Bluetooth devices, has led to an increase in demand for test and measurement solutions for the development and manufacturing of wireless modules with diverse applications.

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 segment group develops, manufactures and sells production management systems and quality management systems, such as high-precision and high-speed auto checkweighers, automatic combination weighers and metal detectors, for the food, pharmaceutical and cosmetics industries.

In the fiscal year ended March 2021, some customers continued to show hesitancy toward capital expenditures due to the future uncertainty brought by the COVID-19 pandemic. Additionally, there have been efforts to reduce sales, general, and administrative expenses by measures such as promoting greater work efficiency. As a result, segment revenue decreased 5.1% compared with the previous fiscal year to ¥21,419 million while operating profit increased 4.1% to ¥1,340 million.

The Products Quality Assurance Business accounts for 20% 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 customer concerns regarding contamination and rising needs for automation due to labor shortages.

In the overseas markets, demands of important global customers in the Americas, Europe and China remained strong and the overseas sales ratio of this business was roughly 40%.

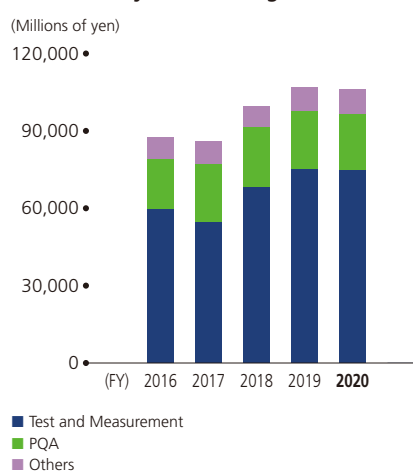
Food manufacturers are very interested in quality control inspection solutions. To satisfy this demand, Anritsu will develop and deliver new products and quality assurance solutions. We will also optimize the supply chain including overseas production, and will promote efficiency of global operation.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

#### Others

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

Segment revenue increased 4.6% compared with the previous fiscal year to ¥9,709 million, and operating profit decreased 5.4% compared with the previous fiscal year to ¥1,797 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, 2021, the balance of interest-bearing debt was ¥5,848 million (compared with ¥14,594 million at the end of the previous fiscal year) and the debt-to-equity ratio was 0.05 (compared with 0.15 at the end of the previous fiscal year). Going forward, we will strive for capital efficiency and the maintenance of a strong financial standing by improving ROE and CCC in order to generate cash flow, and by following a cash management system within the Group.

Anritsu has been evaluated by Rating and Investment Information, Inc. (R&I), receiving an issuer credit rating of "A" and a short-term rating of "a-1". We aim to further improve these ratings and, under our new company vision, aim to become a ¥200 billion company with stable earnings.

Our basic policy for distributing profits to shareholders is to pay dividends with a consolidated payout ratio of 30% or higher, primarily by raising the dividend on equity (DOE) in response to an increase in consolidated net income. We also flexibly implement other measures regarding shareholder returns that take the total return ratio into account. Furthermore, we plan to use surpluses to satisfy the demand for funding for strategic investment (including M&A) toward strengthening our competitiveness in the 5G market, expanding business into industrial fields that employ IoT, developing business in the cloud service and other markets, unlocking new growth areas, and acquiring next-generation technologies such as 6G. We aim to further improve our corporate value through these types of investments in new business.

Notes: 1. Debt-to-equity ratio: Interest-bearing debt/Equity attributable to owners of parent

2. CCC: Cash Conversion Cycle

### Cash Flow

In the fiscal year ended March 31, 2021, cash and cash equivalents (hereafter, "net cash") increased ¥2,140 million compared with the end of the previous fiscal year to ¥49,810 million.

Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was positive ¥15,452 million (compared with positive ¥11,035 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 ¥20,481 million (in the previous fiscal year, operating activities provided net cash of ¥14,721 million).

The cash increase was mainly due to reporting of profit before tax. On the other hand, the cash decrease was mainly due to income tax payment. Depreciation and amortization expense was ¥4,946 million (decrease of ¥53 million compared with the previous fiscal year).

#### • Cash Flows from Investing Activities

Net cash used in investing activities was ¥5,029 million (in the previous fiscal year, investing activities used net cash of ¥3,686 million). The cash decrease was mainly due to acquisition of property, plant and equipment.

#### • Cash Flows from Financing Activities

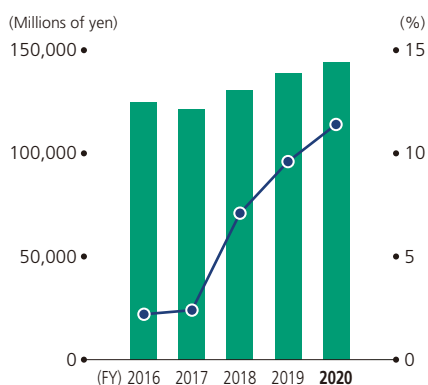
Net cash used in financing activities was ¥14,458 million (in the previous fiscal year, financing activities used net cash of ¥7,592 million). The primary reason was redemption of ¥8,000 million in straight bonds and payment of cash dividends totaling ¥4,878 million (in the previous fiscal year, cash dividends was ¥3,365 million).

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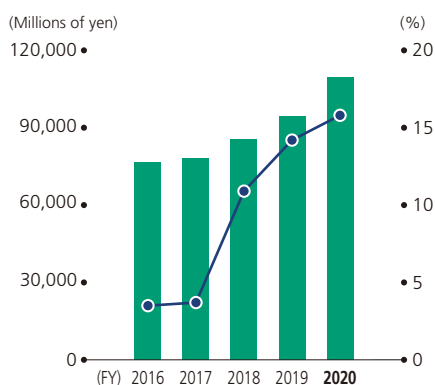
### Assets, Liabilities, and Equity

Assets increased ¥5,227 million compared with the end of the previous fiscal year to ¥144,100 million. This was mainly due to increase of cash and cash equivalents, as well as other assets. Total liabilities decreased ¥9,895 million compared with the end of the previous fiscal year to ¥34,645 million. This was mainly due to decrease of bonds and borrowings caused by redemption of ¥8,000 million in straight bonds. Equity increased ¥15,123 million compared with the end of the previous fiscal year to ¥109,455 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 75.8% (67.8% at the end of the previous fiscal year). Interest-bearing debt was ¥5,848 million (¥14,594 million at the end of the previous fiscal year). The debt-to-equity ratio was 0.05 (0.15 at the end of the previous fiscal year).

#### Total Assets and ROA



#### Total Equity and ROE



### Capital Expenditures

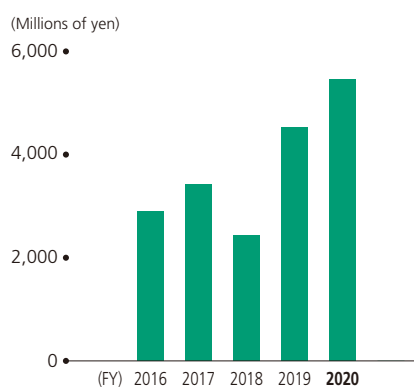
To achieve sustainable growth and profit increases in the future, the Anritsu Group is making strategic investments, such as new-product development focused on product areas where long-term growth is expected, and systems-related investments are aimed at labor saving and streamlining of operations. In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

Year ended March 31	Millions of yen		YoY (%)
	FY2020	FY2019	
Test and Measurement	¥4,299	¥3,381	127.1
PQA	798	787	101.5
Subtotal	5,098	4,168	122.3
Others	351	349	100.5
Total	5,449	4,518	120.6

#### Capital Expenditures



## Research and Development

### Research and Development

Year ended March 31	Millions of yen		Millions of yen	
	FY2020	% of revenue	FY2019	% of revenue
Test and Measurement	¥8,906	11.9	¥10,489	14.0
PQA	1,771	8.3	2,180	9.7
Others	447	4.6	467	5.0
Basic Research	120	-	184	-
<b>Total</b>	<b>11,246</b>	<b>10.6</b>	<b>13,321</b>	<b>12.4</b>

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 and millimeter-wave bands.	This model provides SA testing support in addition to NSA support. Dual connectivity that simultaneously uses the millimeter-wave and sub 6GHz bands enables the highest throughput.
	ME7873NR/ME7834NR	New Radio RF Conformance Test System/5G NR Mobile Device Test Platform	These test systems support 5G conformance testing for evaluating interoperability for both RF and Protocol. These GCF and PTCRB-approved systems are widely used for conformance testing.	New test cases have been developed to meet the requirements of the latest telecommunications standards as those are frequently revised and updated. This fiscal year, we added support for millimeter-wave spurious testing and the Voice over New Radio (Voong) protocol, and became the first in the industry to be approved by GCF.
	MP1900A	Signal Quality Analyzer	Bit Error Rate Tester for optical and digital communication evaluation supporting 200Gbps/400Gbps.	A single MP1900A supports PCIe 5.0 development and compliance testing, as well as performance analysis for PAM4, which is used for next-generation PCIe 6.0 specification.
	MT1040A	New Products Network Master Pro	This test equipment provides various features with equipped modules such as OTDR as well as multi-rate modules covering 10Mbps to 400Gbps.	Capable of conducting FEC analysis needed for 400 GbE, this measuring solution supports network construction and maintenance, and network equipment testing.
PQA	M6-h Series Free Fall Metal Detector	New Products Metal Detector	Detects metal contamination for granular foods and raw materials. Normally installed between a weighing machine and a packaging machine, and inspects the free-falling products.	We were late in entering the segment for checking before packaging, but have achieved the industry's highest level of sensitivity. By eliminating metal contamination before packaging, the number of faulty products after packaging is reduced, leading to less recall risk and food loss.



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### Outlook and Management Issues for the Year Ending March 31, 2021

In the field of information and communication, 5G-related demand is expected to remain growing because of further technological innovation and utilization. Furthermore, demand for improve network infrastructure is also expected to grow. In this business environment, the Anritsu Group will strive to establish a competitive advantage by offering timely solutions that accurately meet the needs of further 5G application and growing demand for network acceleration, and be a leading company supporting 5G and IoT society.

The impact of the COVID-19 on economic activities varies from region to region, and the impact on our business also varies from region to region. This forecast assumes that COVID-19 infection status will remain the same in each region.

### Risk Information

#### Policies and Systems

The Anritsu Group recognizes that the appropriate management of risk is an extremely important managerial issue in order to continuously increase corporate value and fulfill its social responsibility, 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) infectious disease and 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 per-

forms 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 meet 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 70%, 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) infectious disease and disaster risk**

Uncertain social and economic conditions due to the spread of COVID-19 are still 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) infectious disease and disaster risk**

The Anritsu Group carries out production and sales activities globally. As such, natural disasters such as earthquakes, typhoons, and 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 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 large-scale 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 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 continues to develop an education and training system that supports the self-motivated growth of employees. 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 and with the participation of employees from Anritsu Group companies in Japan as members, operates under the supervision of the Management Strategy Conference, and oversees the compliance promotion activities of each company in Japan in the Anritsu Group. The Corporate Ethics Promotion Committee and the Legal Department, which serve as its secretariat, coordinate with relevant

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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<sub>2</sub> 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. As a single vulnerability in information security impacts the overall security level, the Company is working to build a strong and consistent security system on a global scale.

### 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.