

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 the fiscal years 2015, 2016, 2017, 2018, 2019, 2020 and 2021.

The Scope of Consolidation

The Anritsu Group comprised 45 consolidated subsidiaries and 2 affiliates at the end of fiscal year 2021.

Overview

In the field of information and communication, which is the main field of Test and Measurement Business, 5G Smartphone penetration is slow despite operators in many countries have already launched 5G services due to reasons such as technical challenges in millimeter wave for 5G and delayed commercialization for C-band services in the United States. However, 3GPP completed standardization of release 17*1, targeting improved 5G efficiency and capability such as expansion of high frequency band, expansion of communication area, low-power consumption, and low-cost communication in March 2022. Even in the United States, where the deployment of commercial 5G using millimeter waves has been slow, the movement toward commercialization using the C-band*2, which is the sub-6 GHz band, is gaining momentum. In the area of 5G utilization, research and development in the automotive field as well as investigation and field trial for establishment of networks in private domains such as local 5G have started. Furthermore, research and development for the next generation communication standard, 6G, has begun.

In 5G networks, the O-RAN ALLIANCE has been working on open source activities for wireless access networks so that operators can build wireless networks more flexibly. By applying the O-RAN standard specifications to base station equipment that was previously configured with the manufacturer's proprietary interface, it has become easier to build multi-vendor radio access networks. As a result, operators around the world are introducing O-RAN, and the 5G base station market has become active.

Since the data traffic is expanding rapidly due to advancement of cloud computing services and the development of 5G services. Therefore, service providers that are pursuing higher-speed networks are introducing 100Gbps services in earnest, and network equipment manufacturers are pushing development of 400Gbps network equipment.

Regarding COVID-19, an uncertain situation still remains such as lockdowns in some cities due to outbreak of new variants. In addition, there are other significant risk factors such as increasing geopolitical risk due to the worsening situation in Ukraine, a hike of resource prices, and the prolonged global semiconductor shortages.

Anritsu takes measures against parts procurement risk like semiconductor shortage, such as securing inventory in an organized way, creating structure like strong relationship with business partners in order to get information quickly. Furthermore, we attempt to change high risk parts to alternative items for minimizing the risk.

*1 Standard number used in 3GPP

*2 The name for one of the frequency bands (4 to 8 GHz) when dividing the microwave bands

Revenue

Amid such 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.

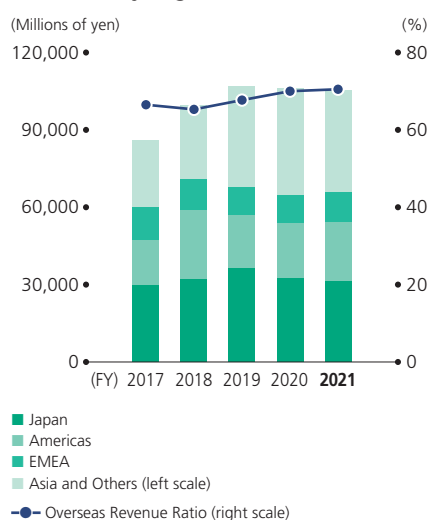
While in the field of PQA (Product Quality Assurance), automation investment on processed foods production lines is underway, and demand for contaminant inspection using X-rays and assurance toward packaging remained steady. Amid such an environment, the PQA Group has worked to reinforce competitiveness of its solutions focused on X-rays, as well as strengthen its sales structure.

Anritsu has listed "electric vehicles and battery measurement" as one of the key growth areas in our mid-term business plan GLP2023.

Anritsu group expanded its business foundation in January 2022 by acquiring Takasago, Ltd., which has electrical energy control technology for high voltage, large current and large capacity.

As a result, during the fiscal year ended March 31, 2022, orders increased 2.9% year on year to ¥110,665 million, and revenue decreased 0.5% to ¥105,387 million. Operating profit decreased 16.0% to ¥16,499 million, profit before tax decreased 13.5% to ¥17,150 million. Profit decreased 20.5% to ¥12,841 million, and profit attributable to owners of parent decreased 20.5% to ¥12,796 million.

Revenue by Region and Overseas Revenue Ratio



Cost of Sales and Gross Profit

Cost of sales increased ¥1,181million, or 2.4%, to ¥49,915 million. Cost of sales as a percentage of total revenue was 47.4%, up 1.4 percentage point year on year. Gross profit decreased ¥1,732 million, or down 3.0%, to ¥55,472 million. The gross margin amounted to 52.6%.

Management's Discussion and Analysis

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

SG&A expenses increased 4.2%, or ¥1,120 million, year on year, to ¥27,913 million. Research and development (R&D) expenses increased 0.7%, or ¥72 million, to ¥10,980 million and amounted to 10.4% of consolidated total revenue. As a result of the above factors, operating profit decreased 16.0%, or ¥3,151 million, to ¥16,499 million. The operating profit ratio was 15.7%.

SG&A Expenses

Year ended March 31	Millions of yen		YoY (%)
	FY2021	FY2020	
Personnel expenses	¥19,465	¥18,620	4.5
Travel and transportation expenses	510	325	56.9
Advertising expenses	1,527	1,458	4.7
Depreciation and amortization expenses	1,713	1,684	1.7
Others	4,695	4,706	(0.2)

Operating Profit and Operating Profit Margin



Profit before Tax and Profit

Operating profit decreased 16.0%, or ¥3,152 million, year on year to ¥16,299 million, profit before tax decreased 13.5%, or ¥2,688 million, year on year to ¥17,150 million. Profit decreased 20.5%, or ¥3,301 million, year on year to ¥12,841 million, and profit attributable to owners of parent decreased 20.5%, or 3,309 year on year to ¥12,796 million. Comprehensive income for the period decreased ¥3,787 million, to ¥16,080 million.

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

Year ended March 31	%		
	FY2021	FY2020	FY2019
Revenue	100.0	100.0	100.0
Cost of sales	47.4	46.0	45.7
Gross profit	52.6	54.0	54.3
SG&A expenses	26.5	25.3	26.2
R&D expenses	10.8	10.3	12.1
Profit	12.2	15.2	12.5

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, Anritsu aims at a consolidated dividend payout ratio of 30% or more. Anritsu'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.

Anritsu 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. Anritsu'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 20.00 yen per share, and total dividends for the fiscal year will be 40 yen per share for the fiscal year ended March 31, 2022. For the fiscal year ending March 31, 2023, Anritsu plans to pay cash dividends of 40 yen per share (including an interim dividend of 20 yen 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

This segment group develops, manufactures and sells test 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, 2022, we captured demand for 5G chipset and mobile terminal development, together with demand related to development and production in anticipation of high-speed network transmission in data centers, etc. However, due to the global shortage of semiconductors and delays in the C-band commercialization schedule in the U.S., recording of some sales shifted and we saw the sales decreased year on year. Parts procurement costs and sales promotion costs increased. Our U.S. subsidiary recorded a loss on disposal of non-current assets of ¥355 million in second quarter. Consequently, segment revenue decreased 2.0% compared with the previous fiscal year to ¥73,320 million, operating profit decreased 14.2% to ¥15,202 million.

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 test instruments for mobile phone acceptance testing by mobile phone service providers, test 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. Currently, services using 5G communication systems have been

launched in many countries around the world, and operators' schedules for 5G commercialization in each country are progressing, although there are technical challenges with millimeter waves. In Japan, 5G service coverage is being expanded from some urban metropolitan areas to the entire country.

Under this market environment, demand for test instruments for 5G development remains strong while the development of IC chipsets and handsets supporting 5G continues in the terminal development market.

In addition, 3GPP completed standardization of release 17*1, targeting improved 5G efficiency and capability such as expansion of high frequency range, expansion of communication area, low-power consumption, and low-cost communication in March 2022. 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 test solutions, as well as accurately conduct development portfolio management, to strengthen the revenue base.

*1 Standard number used in 3GPP

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 subsegment, data traffic is expanding rapidly due to the advancement of cloud computing services and the development of 5G services. Therefore, service providers that are pursuing higher-speed networks are introducing 100Gbps services in earnest, and network equipment manufacturers are pushing development of 400Gbps network equipment. Demand for related measurement solutions has also been increasing in line with this trend. In addition, R&D for the advancement of networks, including the practical application of 800 Gbps and the shift to 100% optical networks has begun.

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.

Management's Discussion and Analysis

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 tele-communications 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. In addition, demand for related test instruments is emerging with the beginning of research and development for 6G.

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

This 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 2022, capital investment aimed at labor saving and automating quality assurance processes in the food market remained strong both in regions such as Asia and the United States where the situation of the COVID-19 infection is improving. As a result, Operating profit decreased contrary to revenue increase. This is due to increased parts procurement costs caused by shortage of semiconductors. As a result, segment revenue increased 2.6% year on year to ¥21,978 million, and operating profit decreased 12.5% to ¥1,173 million.

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 high precision checkweighers for highspeed 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, although some customers were cautious about capital investment due to the prolonged impact of the COVID-19 pandemic, we saw stable level of capital investment for introducing automation and reducing manpower in the production lines because contaminant in the food has been a high degree of concern for customers.

In the overseas markets, the demands of important global customers in the Americas, Europe and China remained strong and the overseas sales ratio of this business was roughly 50%.

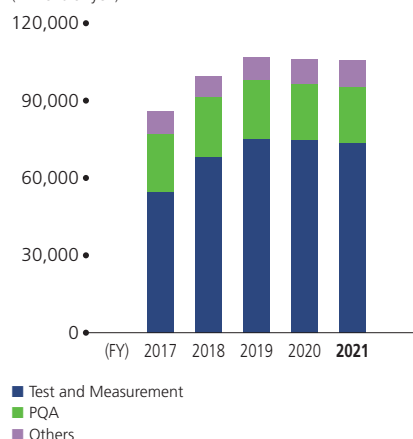
Food manufacturers have a high degree of interest in quality control inspection solutions. To satisfy this demand, Anritsu will develop and deliver new products and quality assurance solutions. We will also optimize the supply chain including local manufacturing outside Japan, and will promote efficiency of global operation. Anritsu will expand the business and increase profitability through those opportunities.

Others

This segment comprises Environmental Measurement, Sensing & Devices, Logistics, Welfare services, Real estate leasing and other businesses. During the fiscal year ended March 31, 2022, revenue decreased year on year due to intensified price competition in Sensing & Devices business, but on January 4, 2022, Takasago, Ltd., became a consolidated subsidiary, and its business results have been included in the Company's consolidated business results from the fourth quarter, so revenue increased. As a result, segment revenue increased 3.9% year on year to ¥10,089 million, and operating profit decreased 37.5% to ¥1,123 million.

Revenue by Business Segment

(Millions of yen)



Liquidity and Financial Condition

Fund Procurement and Liquidity Management

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.

Anritsu secures sufficient funding to cover these requirements from retained earnings, bank borrowings, and capital market funding. To ensure stability in funding, 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, 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, 2022, the balance of interest-bearing debt was ¥6,521 million (compared with ¥5,848 million at the end of the previous fiscal year) and the debt-to-equity ratio was 0.06 (compared with 0.05 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 services 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.

* CCC: Cash Conversion Cycle

Cash Flow

In the fiscal year ended March 31, 2022, cash and cash equivalents (hereafter, "net cash") decreased ¥4,120 million year on year to ¥45,689 million.

Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was positive ¥7,324 million (positive ¥15,452 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 ¥16,031 million (in the previous fiscal year, operating activities provided net cash of ¥20,481 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 ¥5,132 million (increase of ¥186 million year on year).

• Cash Flows from Investing Activities

Net cash used in investing activities was ¥8,706 million (in the previous fiscal year, investing activities used net cash of ¥5,029 million). The cash decrease was mainly due to acquisition of property, plant and equipment, and expenditure by acquisition of Takasago, Ltd., for ¥4,012 million.

• Cash Flows from Financing Activities

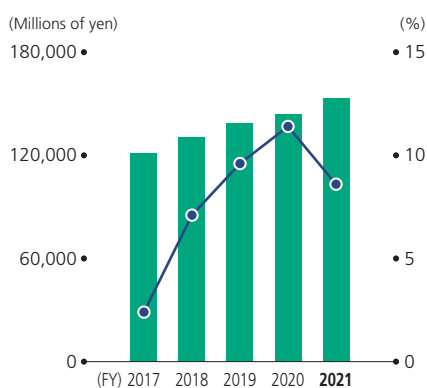
Net cash used in financing activities was ¥13,395 million (in the previous fiscal year, financing activities used net cash of ¥14,458 million). The primary reason was payment of cash dividends totaling ¥6,077 million (in the previous fiscal year, cash dividends was ¥4,878 million), and expenditure by acquisition of treasury stock ¥5,079 million.

Management's Discussion and Analysis

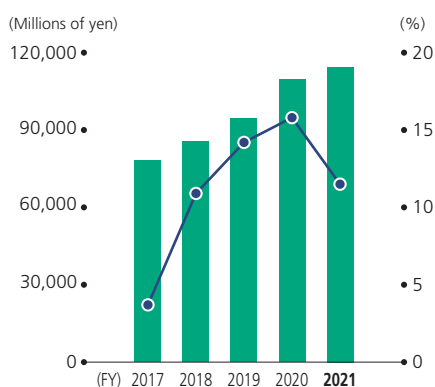
Assets, Liabilities, and Equity

Assets increased ¥9,160 million compared with the end of the previous fiscal year to ¥153,261 million. This was mainly due to increase of Inventories, Goodwill and intangible assets. On the other hand, cash and cash equivalents decreased. Total liabilities increased ¥4,174 million compared with the end of the previous fiscal year to ¥38,819 million. This was mainly due to increase of Trade and other payables. Equity increased ¥4,986 million compared with the end of the previous fiscal year to ¥114,442 million. This was mainly due to increase of retained earnings, and acquisition of treasury stock ¥5,079 million. As a result, the equity attributable to owners of parent to total assets ratio was 74.5% (75.8% at the end of the previous fiscal year).

Total Assets and ROA



Total Equity and ROE



Capital Expenditures

Anritsu Group is making strategic investments such as new-product development focused on areas where long-term growth is expected, and systems-related investments aimed at labor saving and streamlining of operations in order to achieve sustainable growth and to improve profitability. In the Test and Measurement Business, we invested in the areas such as new-product development to cope with rapid technological innovation and sales competition as well as to realize cost reduction. In the Products Quality Assurance Business, we

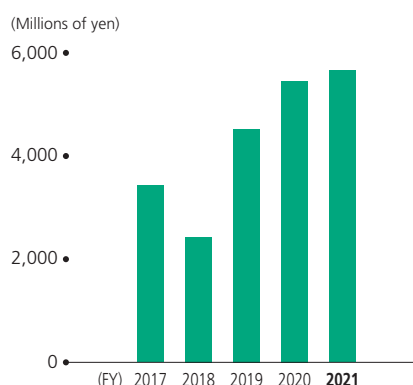
made investments mainly to improve productivity and promote product sales. In other businesses, we invested primarily in the device business to renew aging facilities in order to maintain and increase production capacity.

The breakdown of investments is shown in the following table. (Figures for tangible fixed assets and intangible assets are on a acceptance basis. Figures exclude development costs of intangible assets.)

Overview of Capital Expenditures

Year ended March 31	Millions of yen		YoY (%)
	FY2021	FY2020	
Test and Measurement	¥3,665	¥4,299	85.3
PQA	1,610	798	201.6
Subtotal	5,275	5,098	103.5
Others	383	351	109.0
Total	5,658	5,449	103.8

Capital Expenditures



Research and Development

Research and Development

Year ended March 31	Millions of yen		Millions of yen	
	FY2021	% of revenue	FY2020	% of revenue
Test and Measurement	¥ 8,964	12.2	¥ 8,906	11.9
PQA	1,758	8.0	1,771	8.3
Others	572	5.7	447	4.6
Basic Research	91	-	120	-
Total	11,386	10.8	11,246	10.6

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 5G and LTE base station emulation functions, this model supports all frequency bands used in LTE and 5G in a single unit.	This model provides 5G NSA/SA functions with LTE capability. Dual connectivity that simultaneously uses the millimeter-wave and sub 6GHz bands, and is also compatible with LTE frequency bands and 7GHz NR-U. This model contributes to the development of all types of terminals from low- to high-end.
	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.	This enables new test cases to meet the requirements of the latest telecommunications standards. Obtained the industry's first GCF certification for millimeter wave performance testing, PTCRB certification for RRM testing, and GCF certification for Release 16 protocol testing. This will contribute to the expansion in the area of terminal certification.
	MT8862A	Wireless Connectivity Test Set	WLAN tester with communication protocol that supports Wi-Fi 6/6E	Compatible with Wi-Fi 6/6E, which uses a 160MHz bandwidth in the 6 GHz band. It is the industry's first tester that supports the communication protocol and can conduct wireless quality evaluation and connectivity testing under actual operating conditions. By providing the latest WLAN test environment, it contributes to the diffusion of WLAN-equipped devices.
	MT1000A	Network Master Pro	Portable tester combining multi-rate modules from 10 Mbit/s to 100 Gbit/s, OTDR and CPRI	We have developed a high-precision GNSS disciplined oscillator module compatible with signals from satellite positioning systems operated by various countries and regions, including GPS, MICHIBIKI, Galileo, GLONASS, and Beidou. By making it possible to receive each signal, the module enhances the network's time-synchronous measurement function, contributing to the construction of time synchronization infrastructure that supports 5G services.
PQA	KXH7534ASGCD	New products X-ray inspection machine with dual energy sensor	X-ray inspection system that automatically detects foreign bodies such as bones, metals, and stones mixed in meat and frozen foods with high accuracy	X-ray inspection system equipped with a new high-definition dual energy sensor and newly designed image processing. Contributes to reduction of food waste loss by detecting foreign bodies with higher accuracy.

Outlook and Management Issues for the Year Ending March 31, 2022

In the telecommunications field, 5G-related demand is expected to grow going forward as further advancement of technology innovations and 5G utilization are progressed. We also expect to see growth in demand driven by the expansion and enhancement of network infrastructure in the areas such as data centers. On the other hand, we also expect to see ongoing component procurement risks due to the prolonged semiconductor shortage. In this business environment, the Group aims to establish a competitive advantage and become a leading company supporting 5G and IoT society by focusing on the 5G business and providing solutions in a timely manner that accurately respond to the expansion of 5G utilization fields and the growing demand for faster networks. Furthermore, we have identified four priority new growth areas: "EV and battery measurement," "local 5G," "optical sensing," and "medical and pharmaceuticals." We will accelerate growth in each of these areas through external collaboration and M&A.

Risk Information

Policies and Systems

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, Anritsu focuses on making not only management executives but also all employees more sensitive to risk, and on all-hands initiatives that promote risk management.

Under the risk-management supervision of the Group CEO, 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

Management's Discussion and Analysis

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

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 Anritsu Group's core information and communication markets and 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 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 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 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. Risks related to strategic investments (1) Business risk

The Group is strengthening strategic growth investments, including external collaborations and M&A, in order to grow the next pillar of its business. It will do so by further multi-

plying different ideas and technologies from inside and outside the Company, developing new areas of value and new business fields beyond the conventional "testing", while continuing to master its "testing" competency. Before making an investment decision, it verifies the business plan and conducts due diligence. The Group also formulates and implements post-merger integration (PMI) plans after investment, and takes all possible measures to launch businesses after investment. However, there is a risk that initially expected results may not be achieved due to unforeseen changes in the external environment or changes in the market environment or competitive landscape. These factors have the potential to exert a material impact on Anritsu Group's financial condition and operating results.

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

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, and compliance with required laws have the potential to exert a material impact on the Group's financial position and results of operations.

5. Risks related to product supply (1) business risk, (7) infectious disease and disaster risk

Aiming for stable procurement of electronic parts and components, the Group strives to build strong relationships with suppliers, and takes measures such as establishing a system to promptly identify risks in parts procurement and strategically securing parts inventories. In addition, the Group is working to minimize risk by replacing high-risk parts with alternative parts.

However, in the event of supply chain disruptions caused by disasters or other events, or a tight supply of parts due to a rapid increase in demand, there is a risk that procurement of electronic parts and other components or manufacturing of major products may become difficult, resulting in delays or stoppages in the supply of products. These factors have the potential to exert a material impact on the Anritsu Group's financial condition and operating results.

6. 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. Anritsu Group places top priority on ensuring the safety of its employees, and halting the spread of the virus internally and externally to Anritsu Group. Anritsu Group has also established a COVID-19 Pre-

vention 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 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.

7. Disaster Risk (7) infectious disease and disaster risk

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 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 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 after the events. 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, Anritsu 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.

8. Foreign Exchange Risk (1) business risk

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 Anritsu Group's financial condition and operating results.

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

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 obsoles-

cence 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.

10. Human Resource Acquisition Risk (1) business risk

Acquiring, ensuring, and developing human resources are very important requirements for the sustainable development of Anritsu Group. Anritsu Group strives to acquire talented human resources by actively hiring diverse human resources regardless of nationality, gender or other natures, and continues to develop an education and training system that supports the self-motivated growth of employees. 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 Anritsu Group's financial condition and operating results.

11. Compliance Risk (2) risk of legal violations

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 Anritsu Group's financial condition and operating results through factors including legal punishment, lawsuits, social sanctions, and damage to the brand.

Anritsu Group has established Anritsu Group Code of Conduct, which serves as a guide for the conduct to take in order for us to fulfill our social responsibility. Anritsu 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 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 Anritsu Group. The Corporate Ethics Promotion Committee and the Legal Department, which serve as its secretariat, coordinate with relevant 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 depart-

Management's Discussion and Analysis

ments perform audits to determine whether the compliance promotion system is functioning appropriately, and provide advice and request improvements as necessary.

12. Environmental Risk (3) environmental risk

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 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, Anritsu Group develops and offers products with an awareness of the environment throughout the entire product life cycle. Anritsu Group is also committed to reducing its environmental pollution risk by reducing the CO₂ 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.

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

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 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.

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. 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.

14. Information Security (6) information security risk

Anritsu Group has the social responsibility to appropriately protect the information of all of its stakeholders, including customers, partners, shareholders, and employees in its business activities. Anritsu Group also recognizes that information assets are vital assets of 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 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.

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, Anritsu connects offices worldwide via networks and promotes sharing of information between them. As a single vulnerability in information security impacts the overall security level, Anritsu is working to build a strong and consistent security system on a global scale.

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

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 Anritsu Group's financial condition and operating results.

16. 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 Anritsu Group's financial condition and operating results.