Challenges from stabilization to growth

February 25th, 2010 – CLSA Japan Forum

Hiromichi Toda
President
Anritsu Corporation

TSE symbol : 6754
(http://www.anritsu.co.jp/e/ir)
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Agenda

- Overview of business
- Mid-term goal
- Test & Measurement (T&M) Market and actions
Overview of business

Segment | Business area
---|---
Test & Measurement | Telecommunication Infrastructure
| Mobile Handset
| General Purpose: RF device/component, etc

Information and communication

Industrial automation | for food and pharmaceutical industry

Others | Optical device, Precision measurement, etc

Consolidated (FY2008)
Sales: 83.9 Bn. Yen
Op. income: 0.9 Bn. Yen

Inside Circle: Sales by region
Outside Circle: Sales by business segment
Overview of Test & Measurement Business

Test & Measurement Business

Sales: 57.3 Bn. Yen
Op. loss: 0.8 Bn. Yen

<table>
<thead>
<tr>
<th>Main business of T&amp;M</th>
<th>Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Telecom Infrastructure</strong></td>
<td>Telecom. carriers, Telecom. Equip. vendors, Telecom. network construction companies</td>
</tr>
<tr>
<td>Handheld tester for base station</td>
<td></td>
</tr>
<tr>
<td>Network monitoring system.</td>
<td></td>
</tr>
<tr>
<td><strong>Mobile Handset</strong></td>
<td>Handset vendors, Chipset vendors</td>
</tr>
<tr>
<td>Testers for R&amp;D and manufacturing handset</td>
<td></td>
</tr>
<tr>
<td><strong>General Purpose</strong></td>
<td>Device &amp; component, Handset vendors, Car elec. Vendors etc</td>
</tr>
<tr>
<td>Testers for general electronics components and</td>
<td></td>
</tr>
<tr>
<td>emerging wireless technologies</td>
<td></td>
</tr>
</tbody>
</table>

Inside Circle : Sales by region in T&M
Outside Circle : Sales by sub-segment of T&M

T & M Sales : 57.4 Billion Yen (March 2009)
Orders by business segment

T&M in FY2009: The severe environment continued due to cutbacks on CAPEX. Order trend shows signs of recovery.

Note: Numbers are rounded off in each column
The image provides a graph titled "Record of Sales and Incomes". It shows the record of sales and income from FY2004 to FY2009, with projections for FY2009. The graph includes several key areas of focus:

- **Growth driver 3G Handset**: sponge graph showing a steady increase in sales and income.
- **Start of management innovation to improve profitability**: indicated by a highlighted period.
- **3G/LTE Profit improvement**: showing a slight increase in income.
- **Urgent Management measures**: depicted with a dashed line indicating cost restructuring.
- **Lehman shock**: marked with a downward trend.
- **Acquisition of service assurance business**: shown with a bar graph.

**Note:**
- 3G: 3rd generation mobile phone
- LTE: Long Term Evolution (next-generation mobile phone)

**Legend:**
- Green line: Sales
- Blue line: Ope. Income
- Pink line: Ord. Income
- Green bar: Net Income

**Additional Information:**
- Because of restructuring cost
- 3.0 Billion Yen
- 1.5 Billion Yen
- 0.5 Billion Yen
- 73.0 Billion Yen

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<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Forecast</td>
<td>YoY</td>
<td>YoY(%)</td>
</tr>
<tr>
<td>Net Sales</td>
<td>83.9</td>
<td>73.0</td>
<td>(10.9)</td>
<td>-13%</td>
</tr>
<tr>
<td>Operating Income (loss)</td>
<td>0.9</td>
<td>3.0</td>
<td>2.1</td>
<td>231%</td>
</tr>
<tr>
<td>Ordinary Income (loss)</td>
<td>0.2</td>
<td>1.5</td>
<td>1.3</td>
<td>779%</td>
</tr>
<tr>
<td>Net Income (loss)</td>
<td>(3.5)</td>
<td>0.5</td>
<td>4.0</td>
<td>-</td>
</tr>
<tr>
<td>Test &amp; Measurement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>57.4</td>
<td>48.5</td>
<td>(8.9)</td>
<td>-16%</td>
</tr>
<tr>
<td>Op. Income</td>
<td>(0.8)</td>
<td>1.3</td>
<td>2.1</td>
<td>-</td>
</tr>
<tr>
<td>Info. &amp; Comm.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>5.2</td>
<td>5.0</td>
<td>(0.2)</td>
<td>-4%</td>
</tr>
<tr>
<td>Op. Income</td>
<td>0.1</td>
<td>0.0</td>
<td>(0.1)</td>
<td>-</td>
</tr>
<tr>
<td>Industrial Automation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>13.0</td>
<td>12.0</td>
<td>(1.0)</td>
<td>-8%</td>
</tr>
<tr>
<td>Op. Income</td>
<td>0.6</td>
<td>0.4</td>
<td>(0.2)</td>
<td>-33%</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>8.3</td>
<td>7.5</td>
<td>(0.8)</td>
<td>-10%</td>
</tr>
<tr>
<td>Op. Income</td>
<td>1.0</td>
<td>1.3</td>
<td>0.3</td>
<td>26%</td>
</tr>
</tbody>
</table>

**Non-dividend for FY2009**

- Note 1: Assumed Exchange rate 1USD = 90 Yen
- Note 2: Numbers are rounded off in each column

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1. Keep leading positions in **Telecom market** of 3G/LTE and broadband network
2. Increase **Base business** for stable profit

**Telecom**
- Broadband network
- 3G/3.5G
- LTE etc.

**Electronics**
- General purpose
- Devices/modules
- Car electronics etc.

- for R&D and production
- for maintenance and network QoS monitoring base business
- Specific demand
- Stable Growth
- Base business

**Targets**
- Ope. margin: 10%
- ROE: 10%
T&M Market trend and actions

Mobile Phone evolution to Broadband Access
Handset and Smartphone
3G in China
LTE
Carrier CAPEX and Data traffic, RF device
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Mobile Phone evolution to Broadband Access

Trends

- New appliances
  - Smartphone, Netbook, Home electronics, Car
- Industry convergence and new services
  - New OS Platform, Cloud computing, Game, Broadcasting, Music, Publishing, Smart Grid
- Expansion to emerging countries
- Increase of mobile backhaul capacity
  - 40G, 100GE, Undersea cable

Actions

Expected CAGR: 5%

- 3G and LTE solutions for new appliances and players
- General Purpose Instrument with mobile broadband solutions
- Strengthen Service Assurance
- China 3G and LTE
  - TD-SCDMA and TD-LTE
- New generation instruments for manufacturing optical devices

2G | 3G/3.5G | LTE(3.9G)/4G | All IP Network
---|---|---|---
speed (bit/s) 64k | 384k | 2.4M | 14M | 300M

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Market trend: Handset and smartphone

Share of 3G handset including smart-phone and netbook etc. will increase

The number of mobile phone production
(unit: thousand)

Global Smartphone Vendor Shipments
(Millions of Units)

<table>
<thead>
<tr>
<th>Vendor</th>
<th>2008</th>
<th>2009</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nokia</td>
<td>60.5</td>
<td>67.8</td>
<td>11.9</td>
</tr>
<tr>
<td>RIM</td>
<td>23.5</td>
<td>34.5</td>
<td>46.2</td>
</tr>
<tr>
<td>Apple</td>
<td>13.7</td>
<td>25.1</td>
<td>81.9</td>
</tr>
<tr>
<td>HTC</td>
<td>7.5</td>
<td>8.1</td>
<td>8</td>
</tr>
<tr>
<td>Samsung</td>
<td>5.4</td>
<td>5.7</td>
<td>5.6</td>
</tr>
<tr>
<td>Others</td>
<td>40.6</td>
<td>33.1</td>
<td>-18.5</td>
</tr>
<tr>
<td>Total</td>
<td>151.1</td>
<td>173.8</td>
<td>15.1</td>
</tr>
</tbody>
</table>

Sources:
- Yano Research Institute Ltd.
- IDC

Mobile phone subscriber: around 4.6 billions in 2009
Installation of 3G network infrastructure progressed as planned in 2009

Global vendors have been entering TD-SCDMA handset market

Development of TD-LTE has started (to be shown at Shanghai EXPO)
## Actions: 3G in China

Our solutions cover all 3G systems; TD-SCDMA, W-CDMA and CDMA2000.
Strength in wide coverage of TD-SCDMA test and expansion to TD-LTE.

- **Telecom. Carriers**: T&M instruments for installation and maintenance
- **Chipset and handset vendors**: T&M instruments for development of TD-SCDMA/TD-LTE

### 2008 - 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>MT8820, MD8470, MS272x, MS269x</td>
</tr>
<tr>
<td>2009</td>
<td>NEW</td>
</tr>
<tr>
<td>2010</td>
<td>One-box tester, Manufacturing for handset, esp. TD-SCDMA</td>
</tr>
<tr>
<td>2011</td>
<td>Conformance test system, Certification for Handset protocol</td>
</tr>
<tr>
<td>2012</td>
<td>Signaling tester, R&amp;D for handset and chipset, esp. TDS-CDMA</td>
</tr>
</tbody>
</table>

**NEW**

- MT8820: Manufacturing for handset, esp. TD-SCDMA
- MD8470: Certification for Handset protocol
- MS272x: Construction and maintenance for base station
- MS269x: Signal analyzer, signal generator

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Demand for LTE development is increasing globally (as was main issue at MWC 2010 in Barcelona)

Countries and telecom carriers planning to introduce LTE:
24 countries and 51 carriers (2009)

<table>
<thead>
<tr>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>20xx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>DoCoMo</td>
<td>SoftBank</td>
<td>KDDI</td>
</tr>
<tr>
<td>US</td>
<td>Verizon</td>
<td>AT&amp;T</td>
<td>+ + +</td>
</tr>
<tr>
<td>EMEA</td>
<td>TeliaSonera Vodafone de</td>
<td>T-Mobile de</td>
<td>+ + +</td>
</tr>
<tr>
<td>APAC</td>
<td>KT, SK</td>
<td>China Mobile</td>
<td>+ + +</td>
</tr>
</tbody>
</table>

Becomes widely used
Full-scale commercialization

Source: compiled from media reports.
New solutions by sharing development roadmap with customers

- **2008**:
  - Const. and maintenance for base station
  - Certification for handset protocol
  - Application R&D
  - Signal analyzer, signal generator

- **2009**:
  - Area tester, base station analyzer
  - Conformance test system
  - R&D and manuf. for handset
  - One-box tester
  - R&D for handset/chipset

- **2010**:
  - Certification for handset protocol
  - Handset tester
  - Maintenance for handset
  - R&D and manuf. for handset
  - Signal analyzer, signal generator

- **2011**:
  - R&D and manuf. for base station and handset device

- **2012**:
  - New solutions by sharing development roadmap with customers
Telecom carriers need CAPEX to increase network capacity

Service provider CAPEX worldwide

HSPA network capacity per device and forecast traffic per device for a 3G operator

Source: Infonetics Research

Source: 3G Newsletter
Market trend: RF devices

Market size of RF devices will grow with increase of mobile phone production.

Market size for RF devices/modules and forecast

Source: Navian Inc.
Enhance new T&M line-up for development and manufacturing of RF and optical devices/modules

- **Optical telecom. Line / Optical submarine cable**
  - CMA5000
  - NEW

- **Optical device / module**
  - MP2100
  - MS9740
  - NEW

- **RF device / module, automotive electronics, etc.**
  - MS2830
  - NEW

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Appendix
Company Profile

ANRITSU CORPORATION

5-1-1 Onna, Atsugi-shi, Kanagawa, 243-8555 Japan
Tel : (046) 223 -1111
www.anritsu.com

- First founded as Sekisan-sha in 1895.
- Established as Anritsu Electric Corporation on March 17, 1931.

- Paid-up capital: 14,049 million yen (as of March 31, 2009)
- Sales: 83,940 million yen (consolidated)
  (Year ended March 31, 2009)
- Employees: 3,697 (Anritsu Group)
  (as of March 31, 2009)
Global Network

- Anritsu Company (U.S.A.)
- Anritsu Instruments Company (U.S.A)
- Anritsu Electronics, Ltd. (Canada)
- Anritsu Company S.A. de C.V. (Mexico)
- Anritsu Eletroñica Ltda. (Brazil)
- Anritsu Ltd. (U.K.)
- Anritsu EMEA Ltd. (U.K.)
- Anritsu EMEA Ltd. - Representation Office (Russia)
- Anritsu S.A. (France)
- Anritsu GmbH (Germany)
- Anritsu S.p.A. (Italy)
- Anritsu Solutions S.p.A. (Italy)
- Anritsu AB (Sweden / Finland)
- Anritsu A/S (Denmark)
- Anritsu Company Ltd. (Hong Kong)
- Anritsu Company Inc. (Taiwan)
- Anritsu Corporation, Ltd. (Korea)
- Anritsu Private Ltd. (Singapore)
- Anritsu Proprietary Ltd. (Australia)
- Anritsu Corporation India Liaison Office (India)
- Anritsu EMEA Ltd. - Dubai Liaison Office (UAE)
Development, Manufacturing, Engineering, and Service Locations (Overseas)

Anritsu Company (U.S.A.)
- Location: Morgan Hill, California
- ISO 9001 acquisition: 6495
- ISO14001 acquisition: EN12275

Anritsu Limited. (U.K.)
- Location: Bedfordshire
- ISO 14001 acquisition: EMS 54120
- ISO 9001 acquisition: FS 22679

Anritsu A/S (Denmark)
- Location: Broendby, Copenhagen
- ISO 9001 acquisition: DSC00128

Anritsu Electronics (Shanghai) Co., Ltd.
- Location: Shanghai
- ISO 9001: NQA 14882

Anritsu Industrial Solutions (Thailand) Co., Ltd.
Mid-term strategy to achieve financial strength

1. Establish profitable growth models
   - (1) T&M business related to LTE
   - (2) T&M business related to 3G (esp. in China)
   - (3) General purpose T&M
   - (4) Service Assurance business

2. Improve sensitivity to profit
   - (1) Downsize fixed costs: done in 2008
   - (2) Low-cost designing/manufacturing

3. Effectively manage working capital
   - (1) Minimize working capital
   - (2) Reduce Inventory (demonstration units)

Increase operating profit ➔ Increase operating cash flow ➔ Rebuild and increase equity capital ➔ Achieve solid financial strength
Continuous cash flow generation

Quick Recovery after Lehman Shock
Interest-bearing debt, D/E and net D/E ratio

Target: Debt equity ratio = less than 0.5 in mid-term.

Interest-bearing debt [ Billion Yen ]

- Bonds
- Others

D/E, Net D/E [ times ]

- Net D/E Ratio
- D/E Ratio

Purchase and cancellation of 8 billion yen of the convertible bonds in Q3

Debt Rating by Rating and Investment Information, Inc.
- long-term debt: BBB
- short-term debt: a-2