

Financial Report 2009

Japan Aviation Electronics Industry, Limited and consolidated subsidiaries Years ended March 31

Financial Outlook

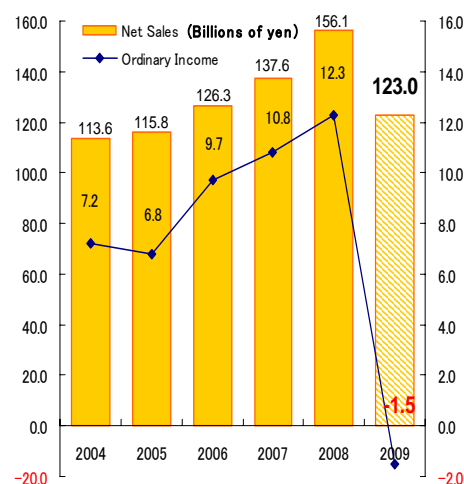
In almost all areas of business, a revenue decrease of 21% from the previous year and loss due to the effect of the world financial and economic crisis in the latter half of the period.

The current period has seen the economies of industrialized nations around the world on a downward trend that has been ongoing since the beginning of the period due to the effect of the subprime lending crisis. With the failure of leading financial institutions in the United States in mid-September, the economy entered a financial crisis that was said to be the worst in a century. In addition to considerable declines in stock market prices, this has caused the appreciation of the yen alone due to the shifting of funds from overseas back to Japan. The effect of this crisis has spread to the real economy, with the appearance of a serious global recession, as exemplified by the sudden slowdown in the growth of the Asian economic bloc, including China, due to falls in exports.

In the electronics market, in which the JAE Group operates, since the beginning of the third quarter, manufacturers have found themselves cutting back production and freezing capital investment at unprecedented rates never experienced before due to sudden slowdowns in the sales of automobiles, IT products, and digital home appliances. This has spread to manufacturing industries in general, including the semiconductor, factory automation, and machine tool industries, and has thus greatly affected the JAE Group in every business field in which the Group operates.

Faced with these circumstances, the JAE Group has enhanced its active global marketing, and has endeavored to secure orders and sales by horizontally expanding sales to customers, mainly with new products that leverage the Group's strengths. On the other hand, the JAE Group has implemented a range of measures such as the expansion of in-house manufacturing using the Group's facilities, so as to reinforce domestic and overseas integrated systems of production (from raw materials to finished products), which the Group has been promoting, as well as the promotion of cost reduction, and in addition, as emergency measures, the Group has endeavored to secure profit by improving production systems to accommodate significant drops in orders and sales, reducing inventory and capital investment, and controlling labor costs and other costs. Nevertheless, reductions in fixed costs have not caught up with the sudden decreases in orders and sales, which have made the business environment severe, especially when coupled with the appreciation of the yen.

Consequently, the consolidated performance in the current period has exhibited a considerable drop in revenue, to 123 billion yen in sales (79% of the previous period). In terms of profits, the Group has suffered an operating loss of 0.8 billion yen and an ordinary loss of 1.5 billion yen. Also, the Group has posted an extraordinary loss of 0.9 billion yen, so that the net loss for the current period has totaled 2.3 billion yen.



Years ended March 31	Billions of yen			% of Previous Year	Millions of U.S.dollars
	2007	2008	2009		2009
Net sales	¥ 137.6	¥ 156.1	¥ 123.0	79%	\$ 1,255
Gross profit	33.3	36.4	18.4	51%	188
Operating income (loss)	11.75	14.40	(0.80)	—	(8.2)
to sales ratio	8.5%	9.2%	(0.6%)	—	(0.6%)
Ordinary income (loss)	10.81	12.26	(1.50)	—	(15.4)
to sales ratio	7.9%	7.8%	(1.2%)	—	(1.2%)
Net income (loss)	7.34	5.84	(2.32)	—	(23.7)
to sales ratio	5.3%	3.7%	(1.9%)	—	(1.9%)

Note : U.S.dollar amounts are translated from yen, for convenience only, at the rate of 98=U.S.\$1

Sales-by-segment

Connector : 92.4 billion yen (77% of the previous year)

While the connector business is the main business of the JAE Group, the JAE Group is expanding its business globally in a wide variety of fields, such as the information field centering on notebook personal computers and liquid crystal panels, the communications field centering on cellular phones, the automotive electronics field, the digital home appliance field centering on liquid crystal displays, plasma display panels, and other flat-screen TVs, and the industrial equipment field centering on factory automation, machine tools, and semiconductor manufacturing equipment.

The consolidated performance of this business in the current period has been affected since the second half by the sudden market demand slowdowns in all the industrial fields on which the Group focuses. Throughout the entire year, the Group has faced difficult circumstances in overseas markets, in which sales were previously high, particularly in the information and communications fields.

User Interface Solutions : 14.1 billion yen (80% of the previous year)

The user interface solutions business covers three business fields: Input devices centering on the digital camera market; interface units centering on the factory automation, machine tool, medical electronics, and automotive markets; and packaging centering on the liquid crystal display field. The Group is expanding the business globally.

The consolidated performance of this business in the current period has been affected by the sudden slowdown in each of the markets that the Group focuses on, as is the case with the connector business, although there have been increases in the number of new, internally manufactured devices in the input device field.

Aerospace : 14.5 billion yen in sales (93% of the previous year)

The aerospace business includes two business fields: Defense & space field focusing on domestic government demand; and the industrial equipment field in which the Group is attempting to increase civilian demand mainly in the machinery market in Japan and in the derrick market overseas by use of products that take advantages of the aviation and electronics technologies developed in the above field. The Group is expanding its business in these two business fields.

The consolidated performance of this business in the current period has been affected by the slowdowns in markets in the overseas derrick field and the semiconductor manufacturing equipment field, which are related to capital investments, despite the effect of releasing new products in the industrial equipment field. In the derrick field, the Group has also been affected by exchange rates.

Sales by Segment

Years ended March 31	Billions of yen			% of Previous Year	Millions of U.S.dollars 2009
	2007	2008	2009		
Connectors	104.0	119.9	92.4	77%	\$942
U.I.S.	15.5	17.8	14.1	80%	144
Aerospace	15.5	15.6	14.5	93%	148
Others	2.6	2.8	2.0	71%	21
Total	137.6	156.1	123.0	79%	1,255
Overseas	63.0	74.6	57.2	77%	584
%	45.8%	47.8%	46.5%	—	46.5%
Domestic	74.6	81.5	65.8	81%	671

Connector Business Segment

Years ended March 31	Billions of yen			%of Previous Year	Millions of U.S.dollars 2009
	2007	2008	2009		
Information	29.5	29.5	19.9	68%	\$203
Communications	17.0	20.2	12.8	64%	131
Digital Home	16.0	26.8	22.8	85%	233
Automotive	24.0	25.3	21.6	85%	220
Industrial,etc.	17.5	18.1	15.3	84%	155
Total	104.0	119.9	92.4	77%	942
Overseas	50.3	58.5	43.9	75%	448
%	48.4%	48.8%	47.5%	—	47.5%
Domestic	53.7	61.4	48.5	79%	494

Management policy

(1) JAE's basic management policy

Since its foundation, JAE has aimed to secure appropriate profits, enhance its corporate value, and contribute to the creation of a sustainable society, under the corporate philosophy of "Explore, Create, and Practice." In the performance of our business, JAE adheres to a basic policy of expanding our business globally based on the JAE Group Charter of Corporate Behavior while conducting consolidated management, as well as management that gives priority to cash flow.

(2) Issues that JAE must address

It is expected that the world economy will continue to be affected by the recession in the future, with large falls in the growth rate, and will continue to be uncertain. We believe, therefore, that the management environment surrounding the JAE Group will become even more severe. Faced with these circumstances, the JAE Group intends to strive to improve its performance by addressing the following as urgent issues: <1> "Overcome the low growth of the market, double standardization, and price reduction", which is a common issue besetting components businesses and <2> Move into the black promptly and get on track towards increases in both revenue and profit by taking advantage of upcoming new markets.

(3) Medium and long-term management strategies

JAE regards the five-year period from fiscal 2009 to 2013 as our "third phase of management reforms" for expanding our business activities globally, and JAE aims to make the leap to becoming a highly profitable company again in the connector business, the user interface solutions business, and the aerospace business through active global marketing and R&D activities and also through growth with a view to starting new businesses. JAE will expand its businesses by setting up a medium-term target of recovering to fiscal 2007 levels within three years, by fiscal 2011, and has set numeric targets (consolidated) for the final year of the third phase, fiscal 2013, of at least 200 billion yen in sales, at least 10% in ordinary income ratio, at least 7 billion yen in Free Cash Flows, and at least 15% in ROE.

Consolidated Balance Sheets

Japan Aviation Electronics Industry, Limited, and consolidated subsidiaries Years ended March 31

Assets	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Current assets:			
Cash and deposits	¥ 13,075	¥ 10,141	\$ 103,477
Notes and accounts receivable	28,351	15,930	162,555
Allowance for doubtful accounts	(204)	(180)	(1,846)
Short-term investment securities	6,510	4,000	40,816
Inventories	12,583	10,254	104,635
Deferred tax assets	1,659	1,988	20,290
Other current assets	1,186	965	9,837
Total current assets	63,160	43,098	439,764
Property, plant and equipment:			
Land	5,309	5,296	54,037
Buildings and structures	30,217	32,782	334,515
Machinery, equipment and others	89,086	92,655	945,459
Construction in progress	2,916	4,724	48,209
Less: Accumulated depreciation	(85,576)	(92,864)	(947,595)
Net property, plant and equipment	41,952	42,593	434,625
Investments and long-term loans receivable:			
Investment securities	1,672	1,123	11,455
Stocks of subsidiaries and affiliates	196	195	1,995
Long-term loans receivable	374	311	3,174
Total investments and long-term loans receivable	2,242	1,629	16,624
Other assets:			
Deferred tax assets	3,264	4,064	41,466
Other assets	2,624	2,871	29,302
Total other assets	5,888	6,935	70,768
Total assets	113,242	94,255	961,781

Liabilities and net assets	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Current liabilities:			
Short-term loans payable	¥ 1,877	¥ 3,447	\$ 35,173
Notes and accounts payable	31,623	17,297	176,501
Accrued expenses	4,212	2,872	29,302
Income taxes payable	2,418	425	4,333
Deferred tax liabilities	-	13	137
Other current liabilities	1,238	1,347	13,748
Total current liabilities	41,368	25,401	259,194
Noncurrent liabilities:			
Long-term loans payable	1,433	3,861	39,395
Provision for retirement benefits	6,871	6,191	63,176
Deferred tax liabilities	89	6	55
Provision for loss on guarantees	2,089	2,089	21,321
Other noncurrent liabilities	341	298	3,037
Total noncurrent liabilities	10,823	12,445	126,984
Net assets:			
Capital stock			
Authorized-350,000,000 shares			
Issued 2009-92,302,608 shares	10,690	10,690	109,085
Capital surplus	14,464	14,440	147,348
Retained earnings	38,680	35,385	361,075
Less: Treasury stock			
609,117 shares in 2008 and 1,649,426 shares in 2009	(598)	(1,195)	(12,192)
Valuation difference on available-for-sale securities	147	46	466
Diferred gains or losses on hedge	0	0	0
Foreign currency translation adjustment	(2,382)	(3,023)	(30,848)
Subscription rights to shares	50	66	669
Total net assets	61,051	56,409	575,603
Total liabilities and net assets	113,242	94,255	961,781

Notes : U.S.dollar amounts are translated from yen, for convenience only, at the rate of 98=U.S.\$1

Consolidated Statements of Income and Retained Earnings

Japan Aviation Electronics Industry, Limited, and consolidated subsidiaries Years ended March 31

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Net sales	¥ 156,147	¥ 123,009	\$ 1,255,198
Cost of sales	119,708	104,605	1,067,399
Gross profit	36,439	18,404	187,799
Selling, general and administrative expenses	22,034	19,203	195,954
Operating income (loss)	14,405	(799)	(8,155)
Other income (expenses):			
Interest expenses	(86)	(72)	(740)
Interest and dividend income	244	247	2,523
Foreign exchange gains (losses)	(1,360)	(764)	(7,798)
Other, net	(947)	(116)	(1,181)
	(2,149)	(705)	(7,196)
Ordinary income (loss)	12,256	(1,504)	(15,351)
Extraordinary loss	(2,089)	(855)	(8,729)
Income (loss) before income taxes	10,167	(2,359)	(24,080)
Income taxes-current	3,878	644	6,570
Income taxes-deferred	452	(681)	(6,950)
Net income (loss)	5,837	(2,322)	(23,700)
Retained earnings:			
Balance at beginning of the year	33,918	38,680	394,699
Add:			
Net income	5,837	-	-
Other	25	124	1,268
Deduct:			
Dividends from surplus	1,100	1,097	11,192
Net loss	-	2,322	23,700
Balance at end of the year	38,680	35,385	361,075
		yen	U.S. dollars
Net income (loss) per share	¥ 63.66	¥ (25.52)	\$ (0.26)

Consolidated Statements of Cash Flows

Japan Aviation Electronics Industry, Limited, and consolidated subsidiaries Years ended March 31

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Net cash provided by (used in) operating activities			
Income (loss) before income taxes	¥ 10,167	¥ (2,359)	\$ (24,080)
Depreciation and amortization	11,221	12,993	132,591
Increase (decrease) in provision for retirement benefits	(1,240)	(880)	(8,979)
Increase (decrease) in provision for loss on guarantees	2,089	-	-
Loss on retirement of noncurrent assets	215	154	1,577
Decrease (increase) in notes and accounts receivable-trade	(3,209)	9,962	101,652
Decrease (increase) in inventories	(727)	1,745	17,810
Increase (decrease) in notes and accounts payable-trade	1,470	(14,890)	(151,941)
Other, net	(1,648)	(540)	(5,519)
Net cash provided by (used in) operating activities	18,338	6,185	63,111
Net cash provided by (used in) investment activities			
Purchases of property, plant and equipment	(17,975)	(12,817)	(130,785)
Proceeds from sale of property, plant and equipment	3,391	204	2,077
Purchase of investment securities	(219)	(13)	(128)
Net decrease (increase) in long-term loans receivable	(21)	62	628
Other, net	(528)	(925)	(9,440)
Net cash provided by (used in) investment activities	(15,352)	(13,489)	(137,648)
Net cash provided by (used in) financing activities			
Proceeds from long-term loans payable	1,000	3,000	30,612
Repayments of long-term loans payable	(2,507)	(1,473)	(15,028)
Net increase (decrease) in short-term loans payable	(263)	2,468	25,179
Cash dividends paid	(1,100)	(1,097)	(11,191)
Other, net	(22)	(619)	(6,315)
Net cash provided by (used in) financing activities	(2,892)	2,279	23,257
Effect of exchange rate change on cash and cash equivalents	(790)	(409)	(4,171)
Net increase (decrease) in cash and cash equivalents	(696)	(5,434)	(55,451)
Cash and cash equivalents at beginning of year	20,271	19,575	199,745
Cash and cash equivalents at end of year	19,575	14,141	144,294
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest expenses paid	79	71	724
Income taxes paid	2,964	3,450	35,206

Notes : U.S.dollar amounts are translated from yen, for convenience only, at the rate of 98=U.S.\$1

Notes to Consolidated Financial Statements

Japan Aviation Electronics Industry, Limited and consolidated subsidiaries Years ended March 31

1. Basis of presenting consolidated financial statements

Japan Aviation Electronics Industry, Limited (the "Company"), a Japanese corporation and its domestic subsidiaries maintain their records and prepare financial statements in Japanese yen in conformity with accounting principles generally accepted in Japan.

Overseas consolidated subsidiaries prepare financial statements in accordance with either Accounting Standards generally accepted in the United States of America or International Financial Reporting Standards.

The accompanying consolidated financial statements are basically an English version of those that have been prepared for Japanese domestic purposes in accordance with the provisions of the Financial Instruments and Exchange Law of Japan, and filed with the Ministry of Finance Japan, and the Tokyo Stock Exchange. Certain modifications, including presentation of the statements of net assets and the cash flows have been made in the accompanying financial statements to facilitate understanding by readers outside Japan.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers and have been calculated at the rate of ¥98=U.S.\$1.

2. Scope of consolidation

(1) Number of consolidated subsidiaries: 15

The consolidated subsidiaries are as follows: JAE Hirosaki, Ltd., JAE Yamagata, Ltd., JAE Fuji, Ltd., JAE Shinshu, Ltd., JAE Taiwan, Ltd., JAE Oregon, Inc., Nikko Logistics, Corp., JAE Hakko Ltd., JAE Electronics, Inc., JAE Philippines, Inc., JAE Hong Kong, Ltd., JAE Wuxi Co., Ltd., JAE Korea, Inc., JAE Wujiang Co., Ltd. and JAE Shanghai Co., Ltd.

(2) Number of non-consolidated subsidiaries: 6

The non-consolidated subsidiaries are as follows: JAE Engineering, Ltd., JAE Services, Ltd., JAE Foods, Ltd., Hirosaki Hakko Co., Ltd., JAE Singapore Pte Ltd. and JAE Europe, Ltd.

(3) Reason for exclusion of non-consolidated subsidiaries from scope of consolidation

The 6 non-consolidated subsidiaries were excluded from the scope of consolidation because they are all small in terms of their total assets, net sales, net income and retained earnings, and would have no significant overall impact on the consolidated financial statements.

3. Application of equity method

The impact of the 6 non-consolidated subsidiaries and 2 affiliated companies on the consolidated net income and consolidated retained earnings is slight, and overall they are of minor importance.

Investments in said companies have therefore been valued according to the cost method rather than the equity method.

4. Business years of consolidated subsidiaries

Since the consolidated subsidiaries, JAE Wuxi Co., Ltd., JAE Wujiang Co., Ltd. and JAE Shanghai Co., Ltd. have closing dates falling on December 31, the financial statements contained herein are based on the statements of the provisional settlement of accounts, which were performed on the consolidated closing date.

5. Accounting standards

(1) Standards and methods for valuing major assets

1. Securities

Held-to-maturity securities: Amortized cost method (straight line method)

Other securities:

Listed shares: Market value method based on the market on the closing date.

(The entire difference between the acquisition cost and the market price is accounted for by the direct-inclusion-to-net assets method, and the cost of sales is calculated by the moving average method.)

Unlisted shares: Cost method based on the moving average method.

2. Derivatives: Market value method

3. Inventories: Lower of cost or market method for valuation

Mainly weighted average method for costing

(2) Depreciation on major depreciable assets

Property, plant and equipment

Buildings: The Company and 13 out of the 15 consolidated subsidiaries use the straight line method, while the remaining 2 use the declining balance method.

Items other than buildings: The Company and 8 out of the 15 consolidated subsidiaries use the declining balance method, while the remaining 7 use the straight line method.

(3) Standards for calculating major reserves

1. Allowance for doubtful accounts

As provision against losses from bad debts, bad debts reserve has been calculated in accordance with past records of bad debts in the case of general credits. In cases of the specialized credits such as doubtful credits, the possibility of recovery has been considered individually, and the estimated non-recoverable amount has been accrued.

2. Provision for retirement benefits

As provision for payments of employees' retirement pay, based on prospect retirement benefit obligations and plan assets at the end of the year, the amount recognized at the end of the year has been calculated. The net obligation at transition is amortized mainly over 15 years. The prior service cost is amortized over the standard period (10 years), not exceeding the average remaining period of employment. The actuarial loss is amortized over the standard period (mainly 15 years), not exceeding the average remaining period of employment, and it's accrued from the year following its recognition

3. Provision for loss on guarantees

To prepare for any losses due to the fulfillment of guarantee liabilities, we posted estimated losses by accounting for the financial conditions of the voucher.

(4) Treatment of major hedge accounts

1. Hedge accounting

Deferred treatment. Interest rate swap is applied, however, in cases meeting the necessary requirements.

In addition, forward exchange contract and currency swap is applied in cases meeting the necessary requirements.

2. Hedge method and transactions

Hedge method: derivatives (interest rate swap, forward exchange contract, currency swap and currency option trading)

Hedged transaction: A part of debts due to variable interest rate, foreign currency assets and liabilities and time deposit.

3. Hedge policy

It is our policy not to conduct speculative transactions. Derivatives are used to avoid risks from interest rate fluctuations on debts, and exchange rate fluctuations on foreign currency transactions and so on.

4. Evaluation of hedge effectiveness

Effectiveness is assessed by rate analysis of the sum total of price fluctuation involving hedged transactions, or cash flows, and the sum total of price fluctuation involving hedge methods, or cash flows.

(5) Treatment of consumption taxes

Consumption taxes are recorded by the tax exclusion method.

6. Evaluation of the assets and liabilities of the consolidated subsidiaries

Assets and liabilities of the consolidated subsidiaries are evaluated by the all fair value method.

7. Amortization of goodwill and negative goodwill

Goodwill and negative goodwill are amortized over 5 years.

8. Funds involved in consolidated statements of cash flows

Funds (cash and cash equivalents) stated in consolidated statements of cash flows consist of cash on hand, demand deposits, and short-term investments which are redeemable within 3 months from the acquisition date, having high liquidity and convertibility into cash and low risk against price fluctuation.

9. Relating to the Consolidated Statements of Income and Retained Earnings

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
(1) Selling, general and administrative expenses			
Main categories and amounts			
1. Packing and transportation expenses	¥ 3,861	¥ 3,099	\$ 31,621
2. Salaries and bonuses	6,309	5,675	57,907
3. Retirement benefit expenses	488	600	6,121
4. Depreciation	221	189	1,931
(2) R&D expenses included in administrative expenses and current manufacturing expenses			
General and administrative expenses	2,483	2,009	20,497
Current manufacturing expenses	6,008	5,768	58,857
Total	8,491	7,777	79,354

10. Relating to the Consolidated Statements of Cash Flows

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Cash and deposits account	¥ 13,075	¥ 10,141	\$ 103,478
Short-term investment securities	6,500	4,000	40,816
Cash and cash equivalents	19,575	14,141	144,294

11. Pension and retirement plans

(1) Outline of retirement schedule

JAE and some of our consolidated subsidiaries adopt a defined-benefit corporate pension plan.

Other consolidated subsidiaries adopt a lump-sum retirement benefit plan or a defined-contribution plan.

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
(2) Relating to retirement benefit obligation			
1. Retirement benefit obligation	¥ (23,895)	¥ (24,044)	\$ (245,352)
2. Plan assets	12,951	12,508	127,635
3. Unrecognized prior service cost	(1,693)	(1,470)	(14,996)
4. Unrecognized actuarial loss	2,091	3,665	37,397
5. Unrecognized net obligation at transition	3,675	3,150	32,140
6. Provision for retirement benefits	(6,871)	(6,191)	(63,176)
(3) Relating to retirement benefit expenses			
1. Service cost	1,063	1,128	11,511
2. Interest cost	584	596	6,085
3. Expected return on plan assets	(550)	(328)	(3,348)
4. Amortization of prior service cost	(224)	(224)	(2,281)
5. Amortization of actuarial loss	53	209	2,130
6. Amortization of net obligation at transition	525	525	5,357
7. Others	8	75	769
8. Retirement benefit expenses	1,459	1,981	20,223

Years ended March 31	2008	2009
(4) Relating to retirement benefit obligation basic matters		
1. Discount rate	2.5%	Mainly, 2.5%
2. Expected rate of return on plan assets	4.0%	Mainly, 2.5%
3. Distribution of expected retirement benefit	Fixed amount over determined period	Fixed amount over determined period
4. Amortization period for prior service cost	10 years	10 years
5. Amortization period for actuarial loss	15 years	Mainly, 15 years
6. Amortization period for net obligation at transition	Mainly, 15 years	Mainly, 15 years