Financial Report 2010

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

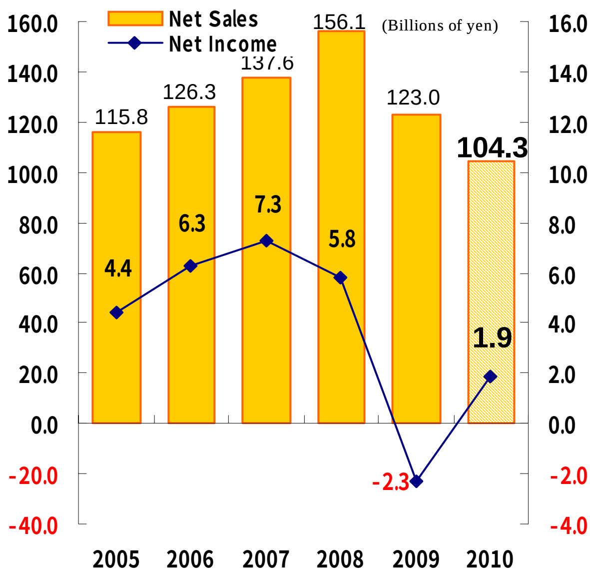
Financial Outlook

The world economy in the current period has come out of the economic crisis because of the effect of both financial and fiscal policies, led by the governments of various countries, has dispelled the concerns over a double-dip recession, and has increased its upward trend. In particular, emerging countries such as China led strong demand, and Western developed countries have shown a slow recovery. The Japanese economy, on the other hand, has shown signs of improvement in corporate profits due to Asia-led recovery and also due to expansion in production and exports.

In the electronics-related market, in which the JAE Group operates, expansion in demand of popular products such as flat-screen TVs because of the effect of the consumption incentive policy, coupled with the production recovery after the end of a sudden inventory adjustment, has lead a quantitative recovery, so has the demand of products offering new functions, such as netbooks, smart phones, and hybrid cars. This recovery has spread to the demand related to capital investment on liquid crystal, semiconductor manufacturing equipment, machine tools, and so on, moving towards recovery since the middle of this fiscal year.

Faced with these circumstances, the JAE Group has expanded its active global marketing and new-product development activities, endeavoring to secure orders and sales. At the same time, the Group has promoted cost reduction by reinforcing its efforts for in-house manufacturing, and has controlled capital investment and reduced miscellaneous expenses and increased their efficiency by continuing its emergency measures, thereby endeavoring to improve its performance.

Consequently, the consolidated net sales in the current period have recovered to 104.3 billion yen, or 85% of the previous period. In terms of profits, the Group has successfully recorded a surplus, as follows: Operating income of 2.87 billion yen because of the effect of cost structural reforms (operating loss of 0.80 billion yen in the previous period); an ordinary income of 2.85 billion yen (ordinary loss of 1.50 billion yen in the previous period); and a net income of 1.88 billion yen in the current period (net loss of 2.32 billion yen in the previous period).



Years ended March 31	Billions of yen 2008	2009	2010	% of Previous Year	Millions of U.S.dollars 2010
Net sales	¥ 156.1	¥ 123.0	¥ 104.3	85%	$ 1,121
Gross profit	36.4	18.4	19.1	104%	205
Operating income (loss)	14.40	(0.80)	2.87	—	30.8
to sales ratio	9.2%	(0.6%)	2.7%	—	2.7%
Ordinary income (loss)	12.26	(1.50)	2.85	—	30.7
to sales ratio	7.8%	(1.2%)	2.7%	—	2.7%
Net income (loss)	5.84	(2.32)	1.88	—	20.2
to sales ratio	3.7%	(1.9%)	1.8%	—	1.8%

Note : U.S.dollar amounts are translated from yen, for convenience only, at the rate of 93=U.S.$1

Sales-by-segment

■ **Connector Line: 81.4 billion yen (88% of the previous year)**

Markets related to the following fields have at last begun to show signs of recovery: Information field centering on notebook personal computers and liquid crystal displays, the communications field centering on portable devices such as smartphones, and the digital home appliance field centering on flat-screen TVs (because of demand increase in markets in Asia, where production has recovered suddenly); the car field (because of the advance in informatization and hybrid car demand increase); and the industrial equipment field (because of the improvement of the demand related to capital investment since the second half of this fiscal year).

■ **Interface and solutions Line: 11.5 billion yen (82% of the previous year)**

The implementation field centering on the assembly of boards for liquid crystal displays in China has shown a recovery trend albeit slow, but as for input devices for digital cameras and interface unit and products for machine tools and semiconductor manufacturing equipment, demand has decreased because of delays in the recovery of the markets although the development of new products is in progress.

■ **Aerospace Line: 10.5 billion yen (73% of the previous year)**

The defense & space field focusing on domestic government demand has remained unchanged from the previous year. In the industrial equipment field focusing on civilian demand, products for the overseas derrick market has suffered a decrease in demand.

Sales by Segment

Years ended March 31	Billions of yen			% of Previous Year	Millions of U.S.dollars
	2008	2009	**2010**		**2010**
Connectors	119.9	92.4	**81.4**	88%	**$ 875**
U.I.S.	17.8	14.1	**11.5**	82%	**124**
Aerospace	15.6	14.5	**10.5**	73%	**113**
Others	2.8	2.0	**0.9**	42%	**9**
Total	156.1	123.0	**104.3**	85%	**1,121**
Overseas	74.6	57.2	**50.7**	89%	**545**
%	47.8%	46.5%	**48.6%**	—	**48.6%**
Domestic	81.5	65.8	**53.6**	81%	**576**

Connector Business Segment

Years ended March 31	Billions of yen			% of Previous Year	Millions of U.S.dollars
	2008	2009	**2010**		**2010**
Information	29.5	19.9	**16.5**	83%	**$ 178**
Communication	20.2	12.8	**15.5**	121%	**167**
Digital Home	26.8	22.8	**15.2**	67%	**163**
Automotive	25.3	21.6	**23.7**	110%	**255**
Industrial, etc.	18.1	15.3	**10.5**	69%	**112**
Total	119.9	92.4	**81.4**	88%	**875**
Overseas	58.5	43.9	**41.4**	94%	**445**
%	48.8%	47.5%	**50.8%**	—	**50.8%**
Domestic	61.4	48.5	**40.0**	83%	**430**

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) Medium- and long-term management strategies

The JAE Group regards the five-year period from fiscal 2009 to 2013 as our "third phase of management reforms" for expanding our business activities globally, and the JAE Group aims to make the leap to becoming a highly profitable company again in the three business domains, the connector business, the interface and solutions business, and the aerospace business through active global marketing and R&D activities. The JAE Group will expand its businesses by setting financial targets (consolidated) for the final year of the third phase of at least 200 billion yen in sales, at least 10% in ordinary income ratio, at least 7 billion yen in F.C.F. and at least 15% in ROE.

(3) Issues that JAE must address

It is expected that although the world economy will be on a slow recovery trend on the whole, led by China, other Asian countries, and emerging countries, the concerns over the Western financial crisis have not been eliminated and that uncertainty about the future will continue.

Faced with these circumstances, the JAE Group aims to improve its corporate value, adapting to environmental changes, and will promote continuous management reforms.

The JAE Group intends to strive to improve its performance by further promoting its cost structural reforms for creating profits while accommodating and making market changes speedily under the following three policies:

<1> Enhancement of the Group's consolidated management
<2> Management that gives priority to cash flow
<3> Expansion of its overseas business operations

Consolidated Balance Sheets

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

Assets	Millions of yen 2009	Millions of yen 2010	Thousands of U.S. dollars 2010
Current assets:			
Cash and deposits	\ 10,141	\ 14,392	$ 154,754
Notes and accounts receivable	15,885	21,538	231,587
Short-term investment securities	4,000	10	107
Inventories	10,254	9,075	97,584
Deferred tax assets	1,988	2,591	27,863
Other current assets	965	703	7,560
Total current assets	43,233	48,309	519,455
Property, plant and equipment:			
Land	5,296	5,287	56,854
Buildings and structures	32,782	36,521	392,701
Machinery , equipment and others	92,655	93,212	1,002,284
Construction in progress	4,724	1,854	19,936
Less: Accumulated depreciation	(92,864)	(95,388)	(1,025,693)
Net property, plant and equipment	42,593	41,486	446,082
Investments and long-term loans receivable:			
Investment securities	1,123	1,447	15,560
Stocks of subsidiaries and affiliates	195	180	1,941
Long-term loans receivable	311	278	2,988
Total investments and long-term loans receivable	1,629	1,905	20,489
Other assets:			
Deferred tax assets	4,064	3,371	36,252
Other assets	2,736	2,687	28,890
Total other assets	6,800	6,058	65,142
Total assets	94,255	97,758	1,051,168

Liabilities and net assets	Millions of yen 2009	Millions of yen 2010	Thousands of U.S. dollars 2010
Current liabilities:			
Short-term loans payable	\ 3,447	\ 3,933	$ 42,285
Notes and accounts payable	17,297	20,332	218,624
Accrued expenses	2,872	3,490	37,527
Income taxes payable	425	672	7,232
Deferred tax liabilities	13	4	48
Other current liabilities	1,347	1,425	15,325
Total current liabilities	25,401	29,856	321,041
Noncurrent liabilities:			
Long-term loans payable	3,861	4,409	47,413
Provision for retirement benefits	6,191	5,733	61,649
Deferred tax liabilities	6	21	228
Provision for loss on guarantees	2,089	-	-
Other noncurrent liabilities	298	299	3,204
Total noncurrent liabilities	12,445	10,462	112,494
Net assets:			
Capital stock			
Authorized-350,000,000 shares			
Issued 2010-92,302,608 shares	10,690	10,690	114,949
Capital surplus	14,440	14,440	155,266
Retained earnings	35,385	36,724	394,885
Less: Treasury stock			
1,649,426 shares in 2009 and 1,661,701 shares in 2010	(1,195)	(1,202)	(12,921)
Valuation difference on available-for-sale securities	46	271	2,911
Foreign currency translation adjustment	(3,023)	(3,560)	(38,280)
Subscription rights to shares	66	77	823
Total net assets	56,409	57,440	617,633
Total liabilities and net assets	94,255	97,758	1,051,168

Notes : U.S.dollar amounts are translated from yen, for convenience only, at the rate of 93=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
	2009	2010	2010
Net sales	\ 123,009	\ 104,259	$ 1,121,068
Cost of sales	104,605	85,160	915,697
Gross profit	18,404	19,099	205,371
Selling, general and administrative expenses	19,203	16,233	174,552
Operating income (loss)	(799)	2,866	30,819
Other income (expenses):			
Interest expenses	(72)	(118)	(1,269)
Interest and dividend income	247	204	2,198
Foreign exchange gains (losses)	(764)	532	5,722
Other, net	(116)	(632)	(6,803)
	(705)	(14)	(152)
Ordinary income (loss)	(1,504)	2,852	30,667
Extraordinary loss	(855)	-	-
Income (loss) before income taxes	(2,359)	2,852	30,667
Income taxes-current	644	1,075	11,555
Income taxes-deferred	(681)	(105)	(1,134)
Net income (loss)	(2,322)	1,882	20,246
Retained earnings:			
Balance at beginning of the year	38,680	35,385	380,488
Add:			
Net income	-	1,882	20,245
Other	124	-	-
Deduct:			
Dividends from surplus	1,097	543	5,848
Net loss	2,322	-	-
Balance at end of the year	35,385	36,724	394,885
	yen		U.S. dollars
Net income (loss) per share	\ (25.52)	\ 20.77	$ 0.223

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
	2009	2010	2010
Net cash provided by (used in) operating activities			
Income (loss) before income taxes	\ (2,359)	\ 2,852	$ 30,667
Depreciation and amortization	12,993	10,628	114,277
Increase (decrease) in provision for retirement benefits	(880)	(460)	(4,953)
Loss on retirement of noncurrent assets	154	743	7,990
Decrease (increase) in notes and accounts receivable-trade	9,962	(5,815)	(62,521)
Decrease (increase) in inventories	1,745	1,150	12,365
Increase (decrease) in notes and accounts payable-trade	(14,890)	4,347	46,744
Other, net	(540)	(50)	(534)
Net cash provided by (used in) operating activities	6,185	13,395	144,035
Net cash provided by (used in) investment activities			
Payments into time deposits	-	(568)	(6,107)
Purchases of property, plant and equipment	(12,817)	(11,189)	(120,312)
Proceeds from sale of property, plant and equipment	204	207	2,226
Purchase of investment securities	(13)	(3)	(30)
Proceeds from sale of investment securities	-	40	432
Net decrease (increase) in long-term loans receivable	62	22	233
Other, net	(925)	(2,708)	(29,115)
Net cash provided by (used in) investment activities	(13,489)	(14,199)	(152,673)
Net cash provided by (used in) financing activities			
Proceeds from long-term loans payable	3,000	2,000	21,505
Repayments of long-term loans payable	(1,473)	(568)	(6,103)
Net increase (decrease) in short-term loans payable	2,468	(384)	(4,134)
Cash dividends paid	(1,097)	(544)	(5,848)
Other, net	(619)	(6)	(69)
Net cash provided by (used in) financing activities	2,279	498	5,351
Effect of exchange rate change on cash and cash equivalents	(409)	(29)	(311)
Net increase (decrease) in cash and cash equivalents	(5,434)	(335)	(3,598)
Cash and cash equivalents at beginning of year	19,575	14,141	152,051
Cash and cash equivalents at end of year	14,141	13,806	148,453
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest expenses paid	71	116	1,250
Income taxes paid	3,450	808	8,690

Notes : U.S.dollar amounts are translated from yen, for convenience only, at the rate of 93=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 ¥93=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 Business Support, Ltd., JAE Foods, Ltd., Hirosaki Hakko Co., Ltd., JAE Singapore Pte Ltd., JAE Europe, Ltd. and JAE Tijuana, S. A. de C. V.

(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

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 2009	Millions of yen 2010	Thousands of U.S. dollars 2010
(1) Selling, general and administrative expenses			
Main categories and amounts			
1. Packing and transportation expenses	¥ 3,099	¥ 2,497	$ 26,849
2. Salaries and bonuses	5,675	5,096	54,793
3. Retirement benefit expenses	600	564	6,063
4. Depreciation	189	191	2,050
(2) R&D expenses included in administrative expenses and current manufacturing expenses			
General and administrative expenses	2,009	1,601	17,216
Current manufacturing expenses	5,768	5,116	55,015
Total	7,777	6,717	72,231

10. Relating to the Consolidated Statements of Cash Flows

Years ended March 31	Millions of yen 2009	Millions of yen 2010	Thousands of U.S. dollars 2010
Cash and deposits account	¥ 10,141	¥ 14,392	$ 154,754
Short-term investment securities	4,000	—	—
Time deposits that exceeds three months	—	(586)	(6,301)
Cash and cash equivalents	14,141	13,806	148,453

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 2009	Millions of yen 2010	Thousands of U.S. dollars 2010
(2) Relating to retirement benefit obligation			
1. Retirement benefit obligation	¥ (24,044)	¥ (24,911)	$ (267,857)
2. Plan assets	12,508	14,982	161,098
3. Unrecognized prior service cost	(1,470)	(1,246)	(13,400)
4. Unrecognized actuarial loss	3,665	2,817	30,287
5. Unrecognized net obligation at transition	3,150	2,625	28,223
6. Provision for retirement benefits	(6,191)	(5,733)	(61,649)
(3) Relating to retirement benefit expenses			
1. Service cost	1,128	729	7,841
2. Interest cost	596	922	9,917
3. Expected return on plan assets	(328)	(305)	(3,274)
4. Amortization of prior service cost	(224)	(223)	(2,403)
5. Amortization of actuarial loss	209	332	3,565
6. Amortization of net obligation at transition	525	525	5,645
7. Others	75	57	610
8. Retirement benefit expenses	1,981	2,037	21,901

Years ended March 31	2009	2010
(4) Relating to retirement benefit obligation basic matters		
1. Discount rate	Mainly, 2.5%	Mainly, 2.5%
2. Expected rate of return on plan assets	Mainly, 2.5%	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	Mainly, 15 years	Mainly, 15 years
6. Amortization period for net obligation at transition	Mainly, 15 years	Mainly, 15 years