

Financial Report 2011

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

Financial Outlook

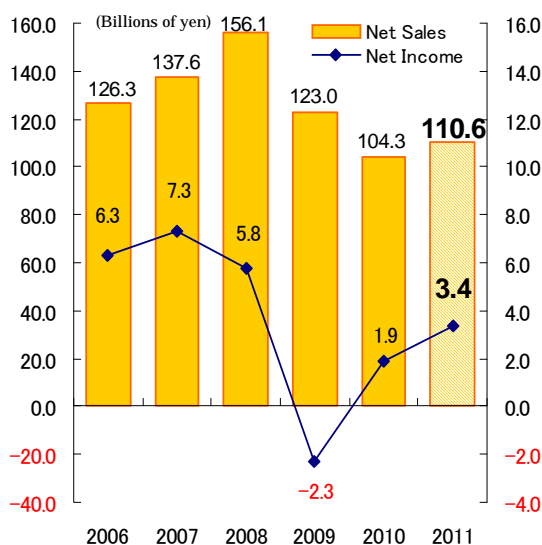
The world economy in the current period was shaped by the following trends. Emerging economies, China in particular, remained extremely robust, highlighting vividly the shift from the traditional structure, in which developed economies played the leading role in the global development, to a structure where emerging economies take the lead. Developed economies, too, maintained, albeit low, growth, so overall the economy exhibited tones of recovery.

These positive developments, however, were overshadowed by growing concerns over inflation and possible "bubble" phenomena caused by soaring asset prices in the emerging economies, which post consistent high-speed growth. In developed economies, too, unemployment rates remained high, while European countries were shaken by public finance crises and banking crunches. Japan's economy remains in a prolonged period of falling stock prices and appreciation of the yen, and a state of confusion in the aftermath of the Great East Japan Earthquake. In general, the economy is dominated by a strong atmosphere of uncertainty.

In the electronics-related market, in which the JAE Group operates, the period from the beginning to the middle of the fiscal year was characterized by strong recovery trends of the IT and automotive markets, where new devices, such as smartphones, tablet computers, and hybrid cars, come to the forefront. Such powerful recovery trends were also found in the markets of industrial machinery for the IT and automotive areas, including machine tools and semiconductor manufacturing equipment. As a result, the electronics-related market posted steady performance overall, despite the slower growth after the inventory adjustment in the start of the current period second half.

Faced with these circumstances, the JAE Group has expanded its active global marketing and new-product development activities focused on growing markets and devices, endeavoring to increase orders and sales. At the same time, the Group has promoted cost reduction by reinforcing its efforts for in-house manufacturing, has improved capital investment efficiency, and reduced miscellaneous expenses, thereby endeavoring to enhance the initiatives for profitable restructuring efforts so far and thus to improve Group performance.

Consequently, the sales in the current period have reached 110.6 billion yen, or 106% of the previous year. The Group has successfully recorded an increase both in income and profit, as follows: operating income of 6.34 billion yen (221% of the previous year), ordinary income of 5.56 billion yen (195% of the previous year), and net income of 3.43 billion yen (182% of the previous year), despite an extraordinary loss of 173 million yen recorded as impairment loss of some fixed assets after elimination and consolidation of products.



Years ended March 31	Billions of yen			% of Previous Year	Millions of U.S.dollars
	2009	2010	2011		2011
Net sales	¥ 123.0	¥ 104.3	¥ 110.6	106%	\$ 1,332
Gross profit	18.4	19.1	23.3	122%	281
Operating income (loss)	(0.80)	2.87	6.34	221%	76.4
to sales ratio	(0.6%)	2.7%	5.7%	3.0%	5.7%
Ordinary income (loss)	(1.50)	2.85	5.56	195%	67.0
to sales ratio	(1.2%)	2.7%	5.0%	2.3%	5.0%
Net income (loss)	(2.32)	1.88	3.43	182%	41.4
to sales ratio	(1.9%)	1.8%	3.1%	1.3%	3.1%

Note : U.S.dollar amounts are translated from yen, for convenience only, at the rate of 83=U.S.\$1 1

Sales-by-segment

Connector Line: Sales of 85.4 billion yen (105% of the previous year)

In the IT and digital domestic appliance field, major products such as notebook computers and flat-screen TVs have become commodities, increasing on a quantitative base, but the drop in prices and the decline in the number of devices using our products have resulted in sluggish growth of products for such devices. Yet, the JAE Group has managed to capture demand for popular emerging devices such as smartphones and tablet PCs, and thus to significantly improve performance from the previous year.

The Group has also successfully captured recovering demand for automobiles and increasing demand for hybrid cars, and demand related to capital investment in the industrial machinery field. Consequently, the Connector Line has managed to increase profits overall from the previous year.

User Interface Solutions Line: Sales of 12.7 billion yen (110% of the previous year)

In the input device field, mechanical device products, a strategic element of the JAE Group line-up, have posted robust performance in the digital camera market. In the interface device field, the Group has managed to capture demand related to capital investment, thus increasing profits from the previous year.

Aerospace Line: Sales of 11.5 billion yen (109% of the previous year)

In the defense and space field, defense-related projects have entered a drop-off period preceding the launch of new products, and as a result profits in the field have declined from the levels recorded in the previous year. In the industrial machinery field, however, the recovery of demand for products for the overseas oil field excavation market and products for the domestic machinery market, mainly semiconductor manufacturing equipment, has resulted in an increase in profits from the previous year for the entire Aerospace Line.

Sales by Segment

Years ended March 31	Billions of yen			% of Previous Year	Millions of
	2009	2010	2011		U.S.dollars 2011
Connectors	92.4	81.4	85.4	105%	\$ 1,029
U.I.S.	14.1	11.5	12.7	110%	153
Aerospace	14.5	10.5	11.5	109%	138
Others	2.0	0.9	1.0	119%	12
Total	123.0	104.3	110.6	106%	1,332
Overseas	57.2	50.7	52.5	104%	632
%	46.5%	48.6%	47.5%	-	47.5%
Domestic	65.8	53.6	58.1	108%	700

Connector Business Segment

Years ended March 31	Billions of yen			% of Previous Year	Millions of
	2009	2010	2011		U.S.dollars 2011
Information	19.9	16.5	12.4	75%	\$ 150
Communications	12.8	15.5	17.2	111%	207
Digital Home	22.8	15.2	14.0	92%	169
Automotive	21.6	23.7	26.9	113%	324
Industrial, etc.	15.3	10.5	14.9	142%	179
Total	92.4	81.4	85.4	105%	1,029
Overseas	43.9	41.4	42.4	102%	510
%	47.5%	50.8%	49.6%	-	49.6%
Domestic	48.5	40.0	43.0	108%	519

Management policy

(1) JAE's basic management policy

Since its foundation, JAE has aimed to achieve 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 operation of our business, we adhere to a basic policy of expanding our operations globally based on the JAE Group Charter for Corporate Behavior while conducting consolidated management, as well as management that gives priority to cash flow.

(2) Medium- and long-term management strategies

In order to achieve sustainable growth, the JAE Group established the five-year periods from fiscal 1999 to 2003 and from fiscal 2004 to 2008 as, respectively, our "First Phase of Management Restructuring" and "Second Phase of Management Restructuring," and has developed business with the objective to establish a fiscal structure that will dominate the competition in the 21st century and to make the leap to becoming a highly profitable company.

We regard the current five-year period from fiscal 2009 to 2013 as our "Third Phase of Management Restructuring," and have established the following medium-term financial targets (on a consolidated basis) aiming to become a highly profitable company through new growth.

- At least 150 billion yen in sales
- At least 8% in ordinary income ratio

With these goals in mind, the JAE Group is expanding global activities in the three business sectors of the Connector Line, User Interface Solutions Line, and Aerospace Line, based on the following four major policies.

(i) Strengthening of global marketing and technology development capacities

The JAE Group will aim to capture, on a global scale, demand in growing markets for devices such as smartphones and car electronics, and in new markets such as smart grids, to reinforce partnerships with top companies in these industries around the world, and to strengthen technology development capacities to respond to such demands in a timely manner, and will develop strong products precisely tailored to market needs with the overall objective of achieving sustainable growth.

(ii) Strengthening of manufacturing competitiveness

The JAE Group will proactively initiate quality innovation aimed at strengthening manufacturing competitiveness and achieving the target of “zero complaints” from customers based on the manufacturing principle of “Cost Reduction, Quality, and Shorter Lead Times” through the two-pronged approach of technological innovation focused on efforts for in-house manufacturing and production innovation activities dubbed “Innovation 235,” which are implemented across the Group.

We actively invest capital concentrated on the Connector Line in order to enable technology improvements and reduction of costs, and strive to further improve production efficiency through acceleration of processing for each operation, including molding and stamping, automation and labor saving. Overseas, the JAE Group will endeavor to enhance the automated production ratio in a manner similar to domestic strategies in order to deal with the soaring labor costs in the Asian region.

(iii) Priority on human development (gathering and developing human resources)

The JAE Group will work to gather and develop human resources necessary to pursue Group strategies for continuous promotion of multi-player and global and organized succession of technologies and skills from the following perspectives: achievement and maintenance of competitiveness in global markets, a structural reorganization to enable flexible response to the changing market environment and to improve profits, and policies to deal with the declining birthrates and the aging of the population in the future.

(iv) Promotion of environmental management

The JAE Group strives to enhance the awareness of Group employees through projects such as the “Forest of JAE Group” created in the Okutama district of Tokyo, which is a symbol of environmental management. The Group also fulfills its social responsibility through proactive environmental initiatives, such as green procurement, compliance with the RoHS (Restriction of Hazardous Substances) Directive and the REACH (Registration, Authorization and Restriction of Chemicals) Regulation, environmental design, participation in the Challenge 25 Campaign, etc.

(3) Issues that JAE must address

Against the backdrop of the increasingly harsh economic environment surrounding the JAE Group, we are striving to adapt to changes, and are promoting sustainable management improvements aiming to increase our corporate value. In the near term, we will address the issues outlined below, and will vigorously push forward with efforts to improve business performance.

1. Continued efforts to establish dual standards, to capture global emerging trends on new markets, and to expand business lines
2. Enhancement of global marketing and technology development capacities and incorporating them in the company slogan

The JAE Group will apply its slogan “Technology to Inspire Innovation” (meaning that technologies developed by JAE open new doors for creative product development by our customers) in order to promote sustainable development of new products and their horizontal development and thus increase profits.

3. The JAE Group will promote manufacturing improvement through the two-pronged approach of technological innovation focused on efforts for in-house manufacturing and production innovation, and will strive to increase profitability by slashing costs, reduction of lead times and achieving quality based on a synergy effect that utilizes active construction of plants and investment to reinforce the general machinery lineup.

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
	2010	2011	2011
Net sales	¥ 104,259	¥ 110,592	\$ 1,332,441
Cost of sales	85,160	87,259	1,051,315
Gross profit	19,099	23,333	281,126
Selling, general and administrative expenses	16,233	16,989	204,692
Operating income (loss)	2,866	6,344	76,434
Other income (expenses):			
Interest expenses	(118)	(114)	(1,373)
Interest and dividends income	204	163	1,968
Foreign exchange gains (losses)	532	(464)	(5,587)
Other, net	(632)	(367)	(4,427)
	(14)	(782)	(9,419)
Ordinary income (loss)	2,852	5,562	67,015
Extraordinary loss	-	173	2,081
Income (loss) before income taxes	2,852	5,389	64,934
Income taxes-current	1,075	1,451	17,478
Income taxes-deferred	(105)	504	6,076
Net income (loss)	1,882	3,434	41,380
Retained earnings:			
Balance at beginning of the year	35,385	36,724	442,462
Add:			
Net income	1,882	3,434	41,380
Deduct:			
Dividends from surplus	543	725	8,737
Balance at end of the year	36,724	39,433	475,105
	yen		U.S. dollars
Net income (loss) per share	¥ 20.77	¥ 37.90	\$ 0.457

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
	2010	2011	2011
Net cash provided by (used in) operating activities			
Income (loss) before income taxes	¥ 2,852	¥ 5,389	\$ 64,934
Depreciation and amortization	10,628	9,974	120,174
Increase (decrease) in provision for retirement benefits	(460)	(364)	(4,387)
Loss on retirement of noncurrent assets	743	376	4,525
Decrease (increase) in notes and accounts receivable-trade	(5,815)	(4,167)	(50,200)
Decrease (increase) in inventories	1,150	(1,004)	(12,098)
Increase (decrease) in notes and accounts payable-trade	4,347	4,189	50,471
Other, net	(50)	(614)	(7,404)
Net cash provided by (used in) operating activities	13,395	13,779	166,015
Net cash provided by (used in) investing activities			
Proceeds from withdrawal of time deposits	-	1,075	12,952
Payments into time deposits	(568)	(595)	(7,166)
Purchases of property, plant and equipment	(11,189)	(10,786)	(129,957)
Proceeds from sale of property, plant and equipment	207	25	306
Purchase of investment securities	(3)	(42)	(511)
Other, net	(2,646)	(1,186)	(14,288)
Net cash provided by (used in) investing activities	(14,199)	(11,509)	(138,664)
Net cash provided by (used in) financing activities			
Proceeds from long-term loans payable	2,000	7,000	84,337
Repayment of long-term loans payable	(568)	(1,538)	(18,526)
Increase (decrease) in short-term loans payable	(384)	(404)	(4,862)
Cash dividends paid	(544)	(725)	(8,737)
Other, net	(6)	(23)	(278)
Net cash provided by (used in) financing activities	498	4,310	51,934
Effect of exchange rate change on cash and cash equivalents	(29)	(390)	(4,705)
Net increase (decrease) in cash and cash equivalents	(335)	6,190	74,580
Cash and cash equivalents at beginning of year	14,141	13,806	166,339
Cash and cash equivalents at end of year	13,806	19,996	240,919
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest expenses paid	116	114	1,378
Income taxes paid	808	1,494	18,005

Notes : U.S.dollar amounts are translated from yen, for convenience only, at the rate of 83=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 ¥83=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

(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) 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.

(6) Treatment of consumption taxes

Consumption taxes are recorded by the tax exclusion method.

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

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
(1) Selling, general and administrative expenses			
Main categories and amounts			
1. Packing and transportation expenses	¥ 2,497	¥ 2,584	\$ 31,136
2. Salaries and bonuses	5,096	5,496	66,211
3. Retirement benefit expenses	564	556	6,701
4. Depreciation	191	187	2,249
(2) R&D expenses included in administrative expenses and current manufacturing expenses			
General and administrative expenses	1,601	1,540	18,552
Current manufacturing expenses	5,116	5,619	67,697
Total	6,717	7,159	86,249

7. Relating to the Consolidated Statements of Cash Flows

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Cash and deposits account	¥ 14,392	¥ 20,060	\$ 241,689
Time deposits that exceeds three months	(586)	(64)	(770)
Cash and cash equivalents	13,806	19,996	240,919

8. 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
	2010	2011	2011
(2) Relating to retirement benefit obligation			
1. Retirement benefit obligation	¥ (24,911)	¥ (24,986)	\$ (301,037)
2. Plan assets	14,982	15,353	184,977
3. Unrecognized prior service cost	(1,246)	(1,023)	(12,321)
4. Unrecognized actuarial loss	2,817	3,196	38,508
5. Unrecognized net obligation at transition	2,625	2,100	25,299
6. Provision for retirement benefits	(5,733)	(5,360)	(64,574)
(3) Relating to retirement benefit expenses			
1. Service cost	729	1,138	13,711
2. Interest cost	922	578	6,969
3. Expected return on plan assets	(305)	(355)	(4,275)
4. Amortization of prior service cost	(223)	(223)	(2,693)
5. Amortization of actuarial loss	332	289	3,479
6. Amortization of net obligation at transition	525	525	6,325
7. Others	57	57	689
8. Retirement benefit expenses	2,037	2,009	24,205

Years ended March 31	2010	2011
(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