

# Financial Report 2014

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

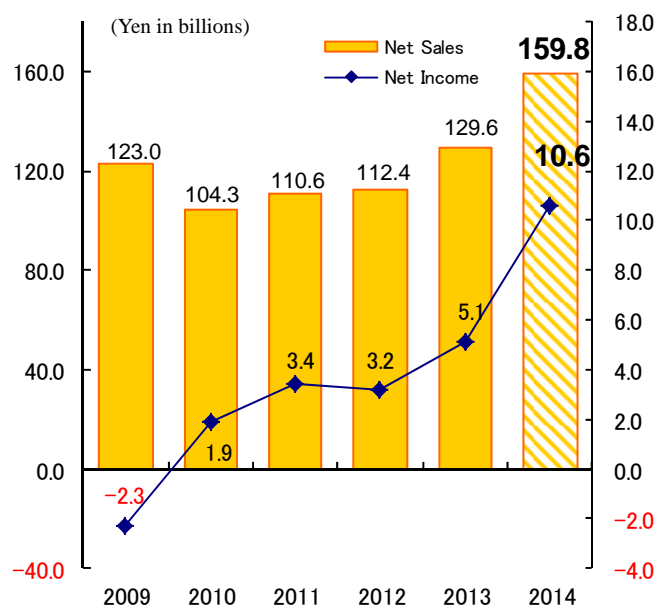
## Financial Outlook

The world economy in the current consolidated fiscal year changed favorably for the developed countries. While recovery of economy in the Euro market has been slow, due to continuation of the easy money policy mostly in Japan and the USA, economy in the USA has recovered thanks to improvement of the employment environment, private consumption, rise in housing prices, etc. and economy in Japan is showing a sign of recovery thanks to rise in stock prices, correction of yen's appreciation, rise in civilian demands, etc. On the other hand, economy in newly developed countries has remained sluggish due to unstable financial market, decrease in export by China and slow progress in capital investment.

The electronics market in which our group is involved has changed favorably thanks to continued expansion of demands for smartphones, tablet PCs and other newly growing devices and increase of automobile related demands as economy in developed countries has recovered. The capital investment related fields which had slumped show a slight sign of recovery. However, conditions for laptops, flat panel TVs and digital cameras generally remain severe although there was a last-minute surge in demand before increase of the consumption tax.

Under these circumstances, our group has endeavored for expansion of order receipts and sales through proactive global marketing and development of new product R&D activities mostly for the overseas smartphones, tablet PCs and other newly growing devices and the growing market in the automobile fields in our major connector business, built new plants and increased investments in our production bases both in Japan and overseas, cut cost by further promoting in-company production, enhancement of the facility efficiency, restraint in various expenses, and promoted higher efficiency and business improvement.

As a result, the consolidated sales volume in the current consolidated fiscal year was 159,771 million yen (123% vs. previous fiscal year), and in the profit aspects, the operating profit was 16,504 million yen (192% vs. previous fiscal year), ordinary profit was 15,453 million yen (200% vs. previous fiscal year) and the net profit was 10,622 million yen (210% vs. previous fiscal year), and we have achieved the highest ever business results.



(Years ended March 31)

Years ended March 31	Yen in billions			% of Previous Year	U.S.dollars in millions
	2012	2013	2014 From April 1, 2013 to March 31, 2014		2014 From April 1, 2013 to March 31, 2014
Net sales	¥ 112.4	¥ 129.6	¥ 159.8	123%	\$ 1,551
Gross profit	23.5	25.6	35.8	140%	348
Operating income	6.52	8.60	16.50	192%	160.2
to sales ratio	5.8%	6.6%	10.3%	3.7%	10.3%
Ordinary income	5.77	7.74	15.45	200%	150.0
to sales ratio	5.1%	6.0%	9.7%	3.7%	9.7%
Net income	3.23	5.06	10.62	210%	103.1
to sales ratio	2.9%	3.9%	6.6%	2.7%	6.6%

Note : U.S.dollar amounts are translated from yen, for convenience only, at the rate of 103=U.S.\$1

## Sales-by-segment

### Connector Line : Sales of 138.1 billion yen (126% of previous year)

We were able to respond to the demands for smartphones, tablet PCs and other growing devices, and our automobile related businesses have been successful mostly in Europe and the USA. As there was the last-minute demand increase due to increase of the consumption tax in the laptops and flat screen TVs, we glimpse a bright sign in some facility investment related fields. The sales have increased in these fields, and we were able to enjoy profit increase as a whole in comparison with the previous consolidated fiscal year.

### User Interface Solution Line : Sales of 4.2 billion yen (84% of previous year)

While demand in the interface device field mostly for products for manufacturing machinery increased in part, as the demand for products for digital cameras in the input device field decreased considerably due to the affect of the slump in the market, we suffered decrease in profit in comparison with the previous consolidated fiscal year's.

### Aerospace Line : Sales of 14.6 billion yen (106% of previous year)

In the civilian demand field, as the products for overseas oilfield excavation showed steadily favorable trend and the demand for the domestic machinery market mostly for semiconductor production machinery partially recovered, we increased the profit as a whole in comparison with the previous consolidated fiscal year.

### Others : Sales of 2.8 billion yen

We succeeded in business negotiations with the customers and from the current consolidated fiscal year, we started production of touch sensors used in the next generation GPS car navigation systems which we had been developing as an entire corporate efforts as a new product in the future. The sales volume of these products in the current consolidated fiscal year is 2.61 billion yen.

We have decided to deal with these products as the interface and solution business from April 1, 2014 (85<sup>th</sup> term).

## Sales by Business Segment

Years ended March 31	Yen in billions			% of Previous Year	U.S.dollars in millions 2014
	2012	2013	2014		
Connector	87.8	109.8	<b>138.1</b>	126%	<b>\$ 1,341</b>
U.I.S.	10.3	5.0	<b>4.2</b>	84%	<b>41</b>
Aerospace	13.4	13.8	<b>14.6</b>	106%	<b>142</b>
Others	0.9	1.0	<b>2.9</b>	291%	<b>27</b>
<b>Total</b>	<b>112.4</b>	<b>129.6</b>	<b>159.8</b>	<b>123%</b>	<b>1,551</b>
Overseas	60.2	79.0	<b>104.8</b>	133%	<b>1,018</b>
%	53.6%	61.0%	<b>65.6%</b>	-	<b>65.6%</b>
Domestic	52.2	50.6	<b>55.0</b>	109%	<b>533</b>

## Operating Income by Business Segment

Years ended March 31	Yen in billions			% of Previous Year	U.S.dollars in millions 2014
	2012	2013	2014		
Connector	8.4	10.8	<b>19.3</b>	178%	<b>\$ 187</b>
U.I.S.	0.1	(0.2)	<b>(0.1)</b>	- %	<b>(1)</b>
Aerospace	2.0	1.9	<b>0.9</b>	48%	<b>9</b>
Others	(4.0)	(3.9)	<b>(3.6)</b>	- %	<b>(35)</b>
<b>Total</b>	<b>6.5</b>	<b>8.6</b>	<b>16.5</b>	<b>192%</b>	<b>160</b>

## Connector Sales by Segment

Years ended March 31	Yen in billions			% of Previous Year	U.S.dollars in millions 2014
	2012	2013	2014		
Information	14.6	10.8	<b>13.9</b>	129%	<b>\$ 135</b>
Communications	22.0	43.2	<b>53.7</b>	124%	<b>521</b>
Digital Home	9.0	6.2	<b>6.5</b>	105%	<b>63</b>
Automotive	29.3	37.6	<b>49.6</b>	132%	<b>482</b>
Industrial, etc.	13.0	12.0	<b>14.4</b>	120%	<b>140</b>
<b>Total</b>	<b>87.8</b>	<b>109.8</b>	<b>138.1</b>	<b>126%</b>	<b>1,341</b>
Overseas	50.5	74.3	<b>99.1</b>	133%	<b>962</b>
%	57.5%	67.7%	<b>71.7%</b>	-	<b>71.7%</b>
Domestic	37.3	35.5	<b>39.0</b>	110%	<b>379</b>

## 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 strategy

We have set the medium-term financial target since 1999, and executed management renovation to build a financial structure and transformed ourselves to be a high profit enterprise in order to fight through in the 21st century in the 3 business domains, i.e., connector business, interface solution business and aircraft business. We will develop our businesses globally based on the following 4 new focus policies from FY 2014 as the "4th phase in management renovation".

#### ( ) Strengthening of global marketing and technology development capacities

We will catch up with the global demands for newly growing devices and new markets, reinforce partnership with the world top enterprises in the industries, strengthen technical development capabilities to timely respond to them and develop strong products that accurately meet the needs, and aim for continuous growth. We will focus on the 3 markets, namely the field of portable devices including smartphones and tablet PCs, automobiles where car-electronics are progressing and the production machinery and infrastructure field in which the smart grid and environmentally friendly energy market is rising, and aim to expand sales by exerting comprehensive powers of all our group companies.

#### ( ) Strengthening of manufacturing competitiveness

We will renovate our technologies by increasing in-company production and develop our conventional production innovation activities to all-company management innovation activities with the basic principles of "cost reduction, quality and shorter lead-time" as a manufacturer, and reinforce competitive productivity and proactively promote quality renovation with the target of "zero" defects in our customers. We will proactively execute capital investment mainly in the connector business to correspond to the technical renovation and cost reduction. We will further pursue enhancement of production efficiency by accelerating molding, pressing and other processes, automate them and conserve manpower in Japan. In overseas, we will expand the automatic machine production ratio as conducted in Japan in order to cope with expected hike in the personnel cost.

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

We will ensure retention of competitiveness in the global markets, renovate the business structure to increase profits by flexibly responding to changes in the market environment, continue to promote the efforts to become a multi-player in view of the expected decline in childbirths and aging of the population, allocate the human resource globally and systematically, continue to retain the technologies and skills, diversify the human resource by proactively employing women and take all necessary means to ensure and educate the human resource that is the key in achievement of our strategy.

#### ( ) Thorough execution and reinforcement of CSR management

Our group stipulates in the "charter of corporate behavior" as the basic policy of our management that we will comply with relevant laws and regulations as a good corporate citizen, achieve our social responsibilities to our customers, stockholders and investors, suppliers, local communities and other stakeholders and contribute to the creation of sustainable society under the corporate philosophy of "Explore, Create and Practice".

We will reinforce thorough law-abiding of our employees, conduct risk management and compliance, and achieve our social responsibilities as a corporate through promotion of environmental management with a symbol of the "JAE Group Forest" we built in Okutama, Tokyo and through proactive efforts in social contribution and local contribution activities.

### (3) Issues that JAE must address

In the environment surrounding our group, while slow recovery in the world economy and Japanese economy is expected, there remain uncertainties in the future, and the world political conditions are far from stable. In the markets we are involved in, we expect that severer competitions, rapid demand fluctuations and drop in product prices will still continue in the future.

Under these circumstances, our group aims to enhance our corporate value even further, tackle the following issues mostly in the regions, markets and devices that are growing in the world, achieve stable growth that will not be affected by business environment changes and strive for improvement of our business achievements.

1. We will take into consideration the growing device demands and emergence of new markets globally and expand our businesses.
2. We will reinforce global marketing and technical development capabilities through execution of our global slogan “Technology to Inspire Innovation” (technologies we develop will open new doors to original product development of our customers), continue to develop new products, promote inter-departmental activities and aim for increase of profit.
3. We will develop the technical innovation and production innovation based on increase of in-company production into the management innovation where everyone is to participate, construct plants and production facilities, increase investment which should lead to cost reduction, acceleration, higher efficiency and quality enhancement, and aim to increase profitability even further.

# Consolidated Balance Sheets

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

Assets	Yen in millions		U.S. dollars
	2013	2014	in thousands
	As of March 31	As of March 31	As of March 31
<b>Current assets:</b>			
Cash and deposits	¥ 14,792	¥ 25,419	\$ 246,790
Notes and accounts receivable	27,402	37,719	366,209
Short-term investment securities	10	-	-
Inventories	11,345	12,447	120,853
Deferred tax assets	1,484	2,314	22,467
Other current assets	1,042	770	7,480
Allowance for doubtful accounts	( 35 )	( 74 )	( 726 )
<b>Total current assets</b>	<b>56,041</b>	<b>78,596</b>	<b>763,075</b>
<b>Property, plant and equipment:</b>			
Land	5,297	5,319	51,645
Buildings and structures	38,204	44,125	428,398
Machinery, equipment and others	123,359	132,660	1,287,968
Construction in progress	5,689	6,135	59,567
Less: Accumulated depreciation and impairment loss	( 115,910 )	( 128,893 )	( 1,251,390 )
<b>Net property, plant and equipment</b>	<b>56,640</b>	<b>59,347</b>	<b>576,189</b>
<b>Investments and long-term loans receivable:</b>			
Investment securities	1,980	2,349	22,815
Stocks of subsidiaries and affiliates	1,081	956	9,283
Long-term loans receivable	654	1,041	10,112
<b>Total investments and long-term loans receivable</b>	<b>3,715</b>	<b>4,347</b>	<b>42,211</b>
<b>Other assets:</b>			
Deferred tax assets	2,463	3,026	29,387
Other assets	2,943	3,471	33,706
Net defined benefit asset	-	135	1,311
Allowance for doubtful accounts	( 135 )	( 138 )	( 1,339 )
<b>Total other assets</b>	<b>5,271</b>	<b>6,495</b>	<b>63,065</b>
<b>Total assets</b>	<b>121,670</b>	<b>148,787</b>	<b>1,444,541</b>

Liabilities and net assets	Yen in millions		U.S. dollars
	2013	2014	in thousands
	As of March 31	As of March 31	As of March 31
<b>Current liabilities:</b>			
Short-term loans payable	¥ 8,972	¥ 7,394	\$ 71,793
Notes and accounts payable	24,842	32,370	314,277
Accrued expenses	4,091	5,362	52,062
Income taxes payable	694	4,382	42,544
Other current liabilities	3,951	1,718	16,887
<b>Total current liabilities</b>	<b>42,552</b>	<b>51,228</b>	<b>497,365</b>
<b>Noncurrent liabilities:</b>			
Long-term loans payable	6,211	12,302	119,445
Provision for retirement benefits	4,494	-	-
Net defined benefit liability	-	4,679	45,436
Long-term accounts payable-other	133	92	893
Other noncurrent liabilities	174	293	2,853
<b>Total noncurrent liabilities</b>	<b>11,013</b>	<b>17,368</b>	<b>168,628</b>
<b>Net assets:</b>			
<b>Capital stock</b>			
At March 31, 2013 - Shares authorized: 350,000,000, shares issued: 92,302,608	10,690		
At March 31, 2014 - Shares authorized: 350,000,000, shares issued: 92,302,608		10,690	103,789
Capital surplus	14,439	14,462	140,416
Retained earnings	45,917	56,485	548,403
<b>Less: Treasury stock</b>			
At March 31, 2013 - 1,709,754 shares	( 1,230 )		
At March 31, 2014 - 1,570,039 shares		( 1,134 )	( 11,012 )
Valuation difference on available-for-sale securities	607	837	8,129
Foreign currency translation adjustment	( 2,401 )	( 546 )	( 5,307 )
Remeasurements of defined benefit plans	-	( 649 )	( 6,305 )
Subscription rights to shares	80	44	435
<b>Total net assets</b>	<b>68,104</b>	<b>80,190</b>	<b>778,547</b>
<b>Total liabilities and net assets</b>	<b>121,670</b>	<b>148,787</b>	<b>1,444,541</b>

	Yen		U.S. dollars
Net assets per share	¥ 750.87	¥ 883.32	\$ 8.576

Notes : U.S.dollar amounts are translated from yen, for convenience only, at the rate of 103=U.S.\$1

# Consolidated Statements of Income and Retained Earnings

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

U.S. dollars  
in thousands

	Yen in millions		U.S. dollars
	2013	2014	2014
Net sales	¥ 129,600	¥ 159,771	\$ 1,551,183
Cost of sales	103,951	123,943	1,203,335
Gross profit	25,648	35,828	347,848
Selling, general and administrative expenses	17,047	19,323	187,607
Operating income	8,600	16,504	160,240
Other income (expenses):			
Interest expenses	( 109 )	( 128 )	( 1,242 )
Interest and dividends income	281	123	1,197
Foreign exchange gains (losses)	( 401 )	633	6,148
Loss on retirement of non-current assets	( 687 )	( 1,676 )	( 16,273 )
Other, net	54	( 3 )	( 36 )
	( 861 )	( 1,051 )	( 10,207 )
Ordinary income	7,739	15,453	150,033
Income before income taxes	7,739	15,453	150,033
Income taxes-current	1,809	5,854	56,840
Income taxes-deferred	866	( 1,023 )	( 9,936 )
Net income	5,063	10,822	103,129
Retained earnings:			
Balance at beginning of the year	41,760	45,917	445,801
Add:			
Net income	5,063	10,822	103,129
Change of scope of consolidation	-	1,123	10,910
Deduct:			
Dividends from surplus	905	1,178	11,438
Balance at end of the year	45,917	56,485	548,403
Net income per share	¥ 55.89	¥ 117.17	\$ 1.138

# Consolidated Statements of Cash Flows

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

U.S. dollars  
in thousands

	Yen in millions		U.S. dollars
	2013	2014	2014
Net cash provided by (used in) operating activities			
Income before income taxes	¥ 7,739	¥ 15,453	\$ 150,033
Depreciation and amortization	14,693	18,947	183,952
Increase (decrease) in provision for retirement benefits	( 492 )	-	-
Increase (decrease) in net defined benefit liability	-	168	1,634
Loss on retirement of noncurrent assets	687	1,676	16,273
Decrease (increase) in notes and accounts receivable-trade	( 317 )	( 8,855 )	( 85,972 )
Decrease (increase) in inventories	( 1,214 )	30	300
Increase (decrease) in notes and accounts payable-trade	( 173 )	6,787	65,902
Other, net	( 303 )	( 5,002 )	( 48,567 )
<b>Net cash provided by (used in) operating activities</b>	<b>20,616</b>	<b>29,206</b>	<b>283,557</b>
Net cash provided by (used in) investing activities			
Proceeds from withdrawal of time deposits	102	5	49
Payments into time deposits	( 64 )	( 11 )	( 107 )
Purchases of property, plant and equipment	( 26,477 )	( 22,246 )	( 215,984 )
Proceeds from sales of property, plant and equipment	71	72	707
Purchase of investment securities	( 882 )	( 16 )	( 163 )
Other, net	( 890 )	( 1,561 )	( 15,162 )
<b>Net cash provided by (used in) investing activities</b>	<b>( 28,140 )</b>	<b>( 23,757 )</b>	<b>( 230,659 )</b>
Net cash provided by (used in) financing activities			
Proceeds from long-term loans payable	-	12,500	121,359
Repayment of long-term loans payable	( 4,534 )	( 5,391 )	( 52,340 )
Increase (decrease) in short-term loans payable	2,499	( 2,603 )	( 25,273 )
Cash dividends paid	( 905 )	( 1,178 )	( 11,438 )
Other, net	-	94	919
<b>Net cash provided by (used in) financing activities</b>	<b>( 2,939 )</b>	<b>3,422</b>	<b>33,227</b>
Effect of exchange rate change on cash and cash equivalents	769	663	6,444
Net increase (decrease) in cash and cash equivalents	( 9,694 )	9,534	92,569
Cash and cash equivalents at beginning of period	24,471	14,777	143,469
Increase (decrease) in cash and cash equivalents from newly consolidated subsidiary	-	1,084	10,526
<b>Cash and cash equivalents at end of period</b>	<b>14,777</b>	<b>25,396</b>	<b>246,564</b>
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest expenses paid	125	113	1,106
Income taxes paid	2,154	2,255	21,902

Notes : U.S.dollar amounts are translated from yen, for convenience only, at the rate of 103=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 ¥103=U.S.\$1.

## 2. Scope of consolidation

### (1) Number of consolidated subsidiaries: 17

The consolidated subsidiaries are as follows: JAE Hiroasaki, 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 Singapore Pte Ltd., JAE Europe, Ltd., JAE Wuxi Co., Ltd., JAE Korea, Inc., JAE Wujiang Co., Ltd. and JAE Shanghai Co., Ltd.

### (2) Number of non-consolidated subsidiaries: 8

The non-consolidated subsidiaries are as follows: JAE Business Support, Ltd., JAE Foods, Ltd., Hiroasaki Hakko Co., Ltd., Meiyu - Giken Co., Ltd., Meiyu - Techtron Co., Ltd., Meiyu Automation Corporation, JAE Tijuana, S. A. de C. V. and JAE Dongguan Service Co., Ltd.

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

The 8 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 8 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 15 out of the 17 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 17 consolidated subsidiaries use the declining balance method, while the remaining 9 use the straight line method.

**(3) Standards for calculating 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.

**(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) Method of accounting for retirement benefit**

1. Method of period attribution for estimated retirement benefit

We adopt the fixed period standard to impute the estimated retirement benefit amount until the current consolidated fiscal year end upon calculation of the defined benefit obligation.

2. Method of cost processing of actuarial gains and losses, prior service cost and transition obligation

As for the transition obligation, we generally use the fixed amount method for 15 years for cost processing.

As for the prior service cost, we process the cost in the fixed amount method for a specified period (10 years) in the average remaining service time of the employee upon occurrence.

We process the actuarial gains and losses in the fixed amount method for a specified period (mostly 15 years) in the average remaining service time of the employee upon occurrence from the subsequent consolidated fiscal year.

**(7) 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	Yen in millions		U.S.dollars in thousands
	2013	2014	2014
<b>(1) Selling, general and administrative expenses</b>			
Main categories and amounts			
1. Packing and transportation expenses	¥ 2,684	¥ 2,547	\$ 24,732
2. Salaries and bonuses	5,472	6,905	67,048
3. Retirement benefit expenses	594	568	5,521
4. Depreciation	177	194	1,891
<b>(2) R&amp;D expenses included in administrative expenses and current manufacturing expenses</b>			
General and administrative expenses	1,492	1,442	14,004
Current manufacturing expenses	6,904	6,628	64,355
Total	8,396	8,071	78,360

## 7. Relating to the Consolidated Statements of Cash Flows

As of March 31	Yen in millions		U.S.dollars in thousands
	2013	2014	2014
Cash and deposits account	¥ 14,792	¥ 25,419	\$ 246,790
Time deposits that exceeds three months	(15)	(23)	(225)
Cash and cash equivalents	14,777	25,396	246,564

## 8. Pension and retirement plans

[FY2013 ]

### 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	Yen in millions		U.S.dollars in thousands
	2013	2013	2013
<b>Relating to retirement benefit obligation</b>			
Retirement benefit obligation	¥ (26,396)	\$ (280,817)	
Plan assets	19,087	203,062	
Unrecognized prior service cost	(575)	(6,123)	
Unrecognized actuarial loss	2,367	25,188	
Unrecognized net obligation at transition	1,049	11,169	
Prepaid pension cost	(27)	(288)	
Provision for retirement benefits	(4,494)	(47,808)	
<b>Relating to retirement benefit expenses</b>			
Service cost	1,127	11,995	
Interest cost	472	5,031	
Expected return on plan assets	(383)	(4,084)	
Amortization of prior service cost	(223)	(2,377)	
Amortization of actuarial loss	457	4,862	
Amortization of net obligation at transition	524	5,584	
Others	57	616	
Retirement benefit expenses	2,033	21,628	

Years ended March 31	2013
<b>Relating to retirement benefit obligation basic matters</b>	
Discount rate	Mainly, 1.8%
Expected rate of return on plan assets	Mainly, 2.5%
Distribution of expected retirement benefit	Fixed amount over determined period
Amortization period for prior service cost	10 years
Amortization period for actuarial loss	Mainly, 15 years
Amortization period for net obligation at transition	Mainly, 15 years

[FY2014 ]

**Outline of retirement schedule**

JAE and some of our consolidated subsidiaries have introduced the defined-benefit corporate pension plan. This plan adopts the cash balance plan, in which we open assumed private accounts equivalent to the reserve and pension resource amounts. In the assumed private accounts, the contributed credits based on the interest credit, salary level, etc. are accumulated. Employees may select a lump-sum or a pension plan (limited period pension up to 15 years) at retirement, and when they select the pension plan, the interest that fluctuates mostly by the market interest is added during the effective period.

Some consolidated subsidiaries adopt the lump-sum plan or defined-contribution pension benefit plan.

**Defined benefit plan**

**(1) The schedule of the defined benefit obligation at March 31, 2014 (excluding simplified method)**

Years ended March 31	Yen in millions		U.S.dollars in thousands	
	2014		2014	
As of April 1, 2013	¥	25,541	\$	247,978
Service cost		1,116		10,837
Interest cost		468		4,544
Actuarial gains and losses		280		2,726
Benefit paid		(1,377)		(13,373)
Others		52		508
As of March 31, 2014		26,081		253,221

**(2) The schedule of the pension assets at March 31, 2014 (excluding simplified method)**

Years ended March 31	Yen in millions		U.S.dollars in thousands	
	2014		2014	
As of April 1, 2013	¥	18,317	\$	177,840
Expected return on pension assets		454		4,413
Actuarial gains and losses		1,552		15,070
Contributions by the employer		2,557		24,826
Benefit paid		(1,377)		(13,373)
Others		31		305
As of March 31, 2014		21,535		209,083

**(3) The schedule of the net defined benefit liability for simplified method**

Years ended March 31	Yen in millions		U.S.dollars in thousands	
	2014		2014	
As of April 1, 2013	¥	68	\$	662
Periodic benefit cost		55		536
Benefit paid		(0)		(0)
contributions paid to pension schemes		(136)		(1,321)
Others		11		109
As of March 31, 2014		(1)		(13)

**(4) The reconciliation of the defined benefit obligations and pension assets to the liabilities and assets on retirement benefits recognized in the consolidated balance sheet as of March 31, 2014**

Years ended March 31	Yen in millions		U.S.dollars in thousands	
	2014		2014	
Funded defined benefit obligations	¥	26,882	\$	260,993
Pension assets		(22,462)		(218,078)
		4,420		42,914
Unfunded defined benefit obligations		124		1,209
Net amount of liabilities and assets recognized in consolidated balance sheet		4,544		44,124
Retirement benefit liabilities		4,679		45,436
Retirement benefit assets		(135)		(1,311)
Net amount of liabilities and assets recognized in consolidated balance sheet		4,544		44,124

Note) Includes systems that adopt a simplified method

**(5) The breakdown of items in periodic benefit costs**

Years ended March 31	Yen in millions		U.S.dollars in thousands	
	2014		2014	
Service cost	¥	1,116	\$	10,837
Interest cost		468		4,544
Expected return on pension assets		(454)		(4,413)
Actuarial gain and loss recognized in the year		319		3,103
Prior service cost recognized in the year		(223)		(2,170)
Transition obligation recognized in the year		515		5,008
Periodic benefit cost in simplified method		55		536
Periodic benefit costs of retirement benefit plan		1,797		17,447

**(6) The breakdown of items in remeasurements of defined benefit plans**

Years ended March 31	Yen in millions		U.S.dollars in thousands	
	2014		2014	
Unrecognized prior service cost	¥	(352)	\$	(3,418)
Unrecognized actuarial gain and loss		778		7,555
Unrecognized transition obligation		524		5,096
Total		951		9,233

**(7) Items relating to pension assets**

**1. The breakdown of pension assets by major category as of March 31, 2014**

Years ended March 31	2014
Japanese bonds	27.4%
Foreign bonds	7.3%
Japanese equities	18.5%
Foreign equities	18.2%
General account	18.6%
Others	10.0%
Total	100.0%

**2. Method to set expected long-term return on pension assets**

We take into consideration the present and expected long-term return rates from allocation of the present and expected pension assets and various assets that structure the pension assets in order to determine the long-term expected return rate of the pension assets.

**(8) The items of actuarial assumptions**

Bases of calculations of major actuarial assumptions

Years ended March 31	2014
Discount rate .....	1.8%
Expected long-term return on pension assets .....	2.5%

**Defined contribution plan**

The contributed amount to the defined contribution plan of consolidated subsidiaries was 89 million yen.