

Financial Report 2020

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

Business Overview

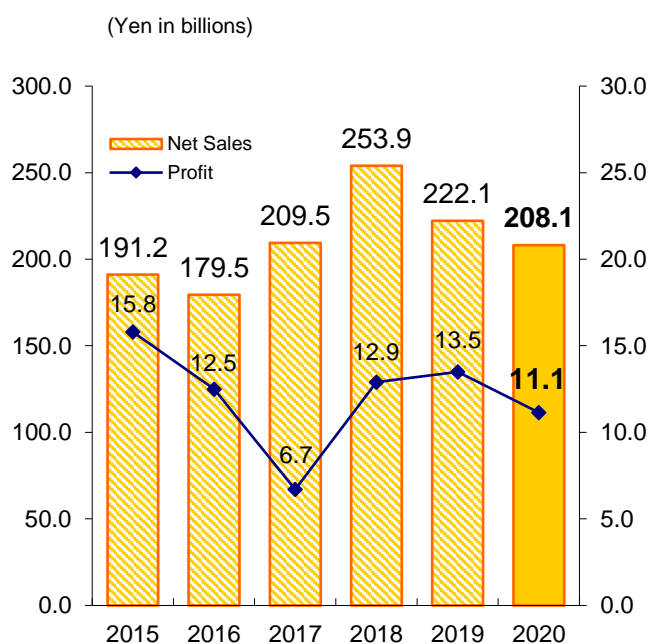
Overview of financial position, operating results and cash flows of the JAE Group (JAE and subsidiaries) for the consolidated fiscal year under review (fiscal year ended March 31, 2020, hereinafter “fiscal 2020”) are outlined below.

As for the global economy during fiscal 2020, increase in the sense of slowdown with declined business sentiment of the manufacturing industry in the United States, sluggish domestic demand in China and slow export in Japan, due to uncertainty over trade issues and heightened geopolitical risks. Under these status, in Q4 the situation became even more severe mainly in China and other Asian countries due to the impact of COVID-19.

With regard to the electronics markets relevant for the JAE Group, the Chinese smartphone market made a slight growth recovery while the mobile device market is being mature. On the other hand, demand in the automotive market was sluggish due to decline in global unit sales and the industrial machinery market also remained stagnant due to restrained capital investment in China, and the business environment was generally severe.

Against this backdrop, the JAE Group worked to improve business performance especially in Connector Segment as the pillar of our business based on management policies and strategies. Specifically, we worked to improve our performance through focusing on expanding orders and sales by implementation of global marketing and acceleration of initiatives for development of new products for growth markets and equipment. Also we worked to improve efficiency across whole business operations such as reducing costs by promoting in-house manufacturing, streamlining facilities and curbing expenses.

Despite these efforts, however, in addition to declining demand in each market, impacts of COVID-19 negatively affected our business operations. Our production operations in China and procurement of parts and materials from China temporarily suspended in Q4. Also shut down of operations at our production site in the Philippines continued after mid-March, as a result, sales in the consolidated fiscal year under review dropped to 208.106 billion yen (94% of the previous year). In terms of profits, operating profit dropped to 14.15 billion yen (82% of the previous year) mainly owing to the decline in sales. Ordinary profit also dropped to 14.352 billion yen (80% of the previous year) due to compensation received in non-operating revenue being offset by the exchange loss in non-operating expenses. Net profit was 11.141 billion yen (82% of the previous year) as a result of gains on sales of non-current assets.



(Years ended March 31)

Years ended March 31	Yen in billions			% of Previous Year	U.S. dollars in millions
	2018	2019	2020 From April1, 2019 to March31, 2020		2020 From April1, 2019 to March31, 2020
Net sales	¥ 253.9	¥ 222.1	¥ 208.1	94%	\$ 1,909
Gross profit	42.9	40.0	36.7	92%	337
Operating profit	20.63	17.30	14.15	82%	129.8
to sales ratio	8.1%	7.8%	6.8%	(1.0%)	6.8%
Ordinary profit	17.36	18.04	14.35	80%	131.7
to sales ratio	6.8%	8.1%	6.9%	(1.2%)	6.9%
Profit	12.94	13.51	11.14	82%	102.2
to sales ratio	5.1%	6.1%	5.4%	(0.7%)	5.4%
Profit attributable to owners of parent	12.94	13.51	11.14	82%	102.2
to sales ratio	5.1%	6.1%	5.4%	(0.7%)	5.4%

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of JPY 109=U.S.\$1

Sales-by-segment

■ Connector Business: Sales of 183.6 billion yen (93% of the previous year)

Sales to the smartphone customers in China grew, but demand for specific products declined in the mobile device market. Demand declined among major customers in the automotive market and products for the industrial machinery market also continued to stagnate due to restrained capital investment.

■ User Interface Solutions (UIS) Business: Sales of 9.0 billion yen (110% of the previous year)

Demand of operation panels for machine tools and work robots decreased in the industrial machinery field. Despite sales for the automotive market increased due to increased production of film sensors for automotive applications, increased production launch costs affected profitability.

■ Aerospace Business: Sales of 14.9 billion yen (98% of the previous year)

Sales increased in defense and aerospace field, but demand decreased in products for the domestic semiconductor manufacturing equipment market and products for oil drilling.

Sales by Business Segment

Years ended March 31	Yen in billions			% of Previous Year	U.S.dollars in millions 2020
	2018	2019	2020		
Connector	231.6	197.9	183.6	93%	\$ 1,684
UIS	8.6	8.1	9.0	110%	82
Aerospace	12.9	15.2	14.9	98%	136
Others	0.9	0.8	0.7	83%	6
Total	253.9	222.1	208.1	94%	1,909
Overseas	188.5	157.4	147.5	94%	1,353
%	74.2%	70.9%	70.9%	—	70.9%
Domestic	65.4	64.7	60.6	94%	556

Operating profit by Business Segment

Years ended March 31	Yen in billions			% of Previous Year	U.S. dollars in millions 2020
	2018	2019	2020		
Connector	23.3	19.3	17.4	90%	\$ 160
UIS	0.8	0.4	(0.4)	—%	(4)
Aerospace	0.7	1.8	1.4	77%	13
Others	(4.2)	(4.2)	(4.2)	—%	(39)
Total	20.6	17.3	14.2	82%	130

Connector Sales by Segment

Years ended March 31	Yen in billions			% of Previous Year	U.S. dollars in millions 2020
	2018	2019	2020		
Mobile Devices	137.9	104.9	100.1	95%	\$ 919
Automotive	64.4	67.7	63.7	94%	584
Industrial & Infrastructure	21.4	18.4	14.8	81%	136
Others	8.0	7.0	5.0	71%	46
Total	231.6	197.9	183.6	93%	1,684
Overseas	180.9	148.0	138.2	93%	1,267
%	78.1%	74.8%	75.2%	—	75.2%
Domestic	50.7	49.9	45.4	91%	417

Management Policies, Management Environment and Outstanding Issues

(1) JAE's basic management policy

Ever since its establishment, the JAE Group has aimed to increase its corporate value and contribute to the creation of a sustainable society through growth based on the corporate philosophy of "Explore, Create and Practice."

In the pursuit of our business, our basic policy has been the development of operations on a global scale and management that places priority on consolidated management performance and cash flow.

Also, based on the JAE Group Charter of Corporate Behavior, as a good corporate citizen, we will abide by relevant laws and rules, and fulfill social responsibilities toward customers, stockholders and investors, business partners, and other related parties in the community at large.

(2) Medium- and long-term management strategies

As for our major markets, with the global spread of the Internet of Things (IoT), we expect further advancement of in-vehicle electronics in the automotive market, and development of smart factories and robotization in industrial machinery markets. Growth in the volume of smartphone units in the mobile device market has slowed down, but we expect that the market expansion in emerging economies and the functional sophistication of smartphones will stimulate demand, and that wearable devices and VR/AR devices will become widespread.

Against this backdrop, the JAE group has held up as our vision for growth the following concept: "Contribute to society by providing technology of "connecting information" and "connecting people and devices", for the realization and development of the next-generation mobility and IoT society connected with 5G networks." In line with this concept, we shall work to boost our corporate value.

Based on this policy, we shall implement the strategies outlined below.

1. We will continue efforts to expand business by capturing demand for devices with potential for growth and global emerging trends in new markets.
2. Enhancement of proactive global marketing and technology development capacities and incorporating them in the global corporate slogan, "Technology to Inspire Innovation," in order to promote sustainable development of new products and their horizontal development and thus increase profits.
3. Strengthen profitability by improving productivity, promoting cost reductions, and enhancing quality, based on a two-axis approach of technological innovation and manufacturing improvement focused on efforts for in-house manufacturing.

The JAE Group aims to secure the growth of the Connector Segment, the UIS Segment, and the Aerospace Segment, which represent the business of the company, over the mid-to-long term, based on the following strategies.

1. Connector Business

While keeping our current position in mobile devices market which advances the technology, we aim to expand our sales in the following market fields—the automotive market where electrification is making big leaps as a result of the spread of ADAS, autonomous and EV, the market of FA and industrial machinery where mid-to-long term growth is projected due to the mounting needs for automation and labor saving against the backdrop of the aging of the population and the labor shortage and the communications infrastructure market that will expand as a result of the commercialization and spread of 5G.

2. User Interface Solutions (UIS) Business

We shall aim to secure the growth of the business with capacitive touch panels for vehicles as demand is expected to expand in line with the evolution of vehicles, and shall also advance expansion of sales of control panels, in the industrial machinery market where improvement of operability is required.

3. Aerospace Business

We shall aim to achieve growth by applying technologies that we have fostered through our defense and aerospace business into the private sector. Specifically, we shall apply motion sensing and control technologies used in accelerometers and gyroscopes to sensors for oil drilling field and linear motors for semiconductor manufacturing equipment.

(3) Key performance indicators

Our goal is to increase corporate value by sustained growth through global business expansion and improved profitability through technological innovation and production innovation. We regard "net sales" and "ordinary profit" as important management indicators.

(4) Outstanding issues

The business environment surrounding our group was extremely severe because the global economy stagnated due to the suspension of business operations and sluggish consumer spending affected by the activities restrictions implemented by governments worldwide in response to the global spread of COVID-19, which occurred in Q4. At present, economic activity is restarting due to deregulation of action in some regions, but there are regional differences. Additionally, recover of personal consumption cannot be prospected and the situation is expected to remain highly uncertainly ahead.

Under these circumstances, to robust business structure that will remain strong amidst changes in the business environment and boost management speeds, we would secure sales and improve profitability by closely monitoring the economic conditions of each countries, market trends, and customer trends, improving productivity at production bases and suppling products stably. Additionally in accordance with (2) above, toward medium-term growth we will strengthen our efforts in growth markets and growth areas including 5G related markets or the automotive market including CASE.

Consolidated Balance Sheets

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

Assets	Yen in millions		U.S. dollars
	2019	2020	in thousands
	As of March 31	As of March 31	As of March 31
Current assets:			
Cash and deposits	¥ 47,192	¥ 44,294	\$ 406,372
Notes and accounts receivable	41,449	46,732	428,740
Inventories	18,012	20,335	186,562
Other current assets	1,340	1,598	14,662
Allowance for doubtful accounts	(80)	(85)	(782)
Total current assets	107,913	112,875	1,035,555
Property, plant and equipment:			
Land	6,471	6,588	60,445
Buildings and structures	55,690	56,161	515,241
Machinery, equipment and others	179,551	192,436	1,765,476
Construction in progress	6,542	7,263	66,637
Less: Accumulated depreciation and impairment loss	(182,956)	(193,511)	(1,775,338)
Net property, plant and equipment	65,299	68,938	632,463
Investments and long-term loans receivable:			
Investment securities	2,686	1,951	17,899
Shares of subsidiaries and associates	139	139	1,278
Long-term loans receivable	1,149	1,123	10,303
Total investments and long-term loans receivable	3,976	3,213	29,482
Other assets:			
Retirement benefit asset	1,561	715	6,563
Deferred tax assets	3,607	4,188	38,426
Other assets	4,386	3,796	34,828
Allowance for doubtful accounts	(138)	(138)	(1,275)
Total other assets	9,416	8,561	78,542
Total assets	186,605	193,588	1,776,043

Liabilities and net assets	Yen in millions		U.S. dollars
	2019	2020	in thousands
	As of March 31	As of March 31	As of March 31
Current liabilities:			
Short-term borrowings	¥ 4,914	¥ 3,714	\$ 34,077
Notes and accounts payable	33,135	37,691	345,789
Accrued expenses	6,013	5,783	53,055
Income taxes payable	1,735	2,341	21,483
Other current liabilities	2,157	1,991	18,273
Total current liabilities	47,956	51,522	472,679
Non-current liabilities:			
Long-term loans borrowings	4,344	2,630	24,128
Retirement benefit liability	873	1,182	10,851
Other non-current liabilities	1,718	1,754	16,093
Total non-current liabilities	6,936	5,567	51,074
Net assets:			
Capital stock			
At March 31, 2019 - Shares authorized: 350,000,000, shares issued: 92,302,608	10,690		
At March 31, 2020 - Shares authorized: 350,000,000, shares issued: 92,302,608		10,690	98,075
Capital surplus	14,523	14,558	133,562
Retained earnings	104,873	112,377	1,030,984
Less: Treasury shares			
At March 31, 2019 - 1,382,826 shares	(1,052)		
At March 31, 2020 - 1,345,249 shares		(1,024)	(9,400)
Valuation difference on available-for-sale securities	1,236	725	6,652
Foreign currency translation adjustment	498	(477)	(4,380)
Remeasurements of defined benefit plans	769	(534)	(4,905)
Subscription rights to shares	172	185	1,701
Total net assets	131,712	136,499	1,252,290
Total liabilities and net assets	186,605	193,588	1,776,043
Net assets per share	¥ 1,446.76	¥ 1,498.66	\$ 13.749

Notes : U.S.dollar amounts are translated from yen, for convenience only, at the rate of 109=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 ¥109=U.S.\$1.

2. Scope of consolidation

(1) Number of consolidated subsidiaries: 18

The consolidated subsidiaries are as follows: JAE Hiroasaki, Ltd., JAE Yamagata, Ltd., JAE Fuji, Ltd., JAE Shinshu, Ltd., Meiyu - Giken Co., 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: 6

The non-consolidated subsidiaries are as follows: JAE Business Support, Ltd., JAE Foods, Ltd., Hiroasaki Hakko Co., Ltd., JAE Houston, LLC, 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 6 non-consolidated subsidiaries were excluded from the scope of consolidation because they are all small in terms of their total assets, net sales, profit 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 profit 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 16 out of the 18 consolidated subsidiaries use the straight line method, while the remaining 2 use the declining balance method.

Items other than buildings: The Company and 9 out of the 18 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

We process the actuarial gains and losses in the fixed amount method for a specified period (mostly 14 years) in the average remaining service time of the employee upon occurrence from the subsequent consolidated fiscal year.

3. Adoption of a simplified method in small-scale consolidated subsidiaries

In determining retirement benefit liability and periodic benefit cost, some consolidated subsidiaries apply a simplified method that the amount required for voluntary termination of employees at end of year is treated as defined benefit obligations.

(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
	2019	2020	2020
(1) Selling, general and administrative expenses			
Main categories and amounts			
1. Packing and transportation expenses	¥ 3,631	¥ 3,381	\$ 31,023
2. Salaries and bonuses	7,823	7,720	70,832
3. Commission fee	2,294	2,292	21,035
4. Retirement benefit expenses	327	317	2,915
5. Depreciation	647	726	6,669
(2) R&D expenses included in administrative expenses and current manufacturing expenses			
General and administrative expenses	1,415	1,500	13,766
Current manufacturing expenses	8,915	9,657	88,604
Total	10,331	11,158	102,371

7. Relating to the Consolidated Statements of Cash Flows

Years ended March 31	Yen in millions		U.S.dollars in thousands
	2019	2020	2020
Cash and deposits	¥ 47,192	¥ 44,294	\$ 406,372
Cash and cash equivalents	47,192	44,294	406,372

8. Pension and retirement plans

Outline of retirement schedule

JAE and some of our consolidated subsidiaries have mainly introduced the consolidated defined-benefit corporate group 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.

Some consolidated subsidiaries adopt a simplified method in calculating defined benefit obligations.

Defined benefit plan

(1) Reconciliation between the beginning balance and the ending balance of defined benefit obligation (excluding simplified method)

Years ended March 31	Yen in millions		U.S.dollars in thousands
	2019	2020	2020
Balance at beginning of year	¥ 29,013	¥ 28,814	\$ 264,353
Service cost	1,344	1,347	12,361
Interest cost	285	279	2,567
Actuarial gains and losses	(248)	(34)	(318)
Benefit paid	(1,578)	(2,036)	(18,683)
Others	(2)	2	24
Balance at end of year	28,814	28,373	260,303

(2) Reconciliation between the beginning balance and the ending balance of pension assets (excluding simplified method)

Years ended March 31	Yen in millions		U.S.dollars in thousands
	2019	2020	2020
Balance at beginning of year	¥ 29,313	¥ 29,145	\$ 267,389
Expected return on pension assets	727	722	6,628
Actuarial gains and losses	(935)	(1,822)	(16,719)
Contributions from the employer	1,626	1,493	13,701
Benefit paid	(1,578)	(2,036)	(18,683)
Others	(7)	2	24
Balance at end of year	29,145	27,505	252,340

(3) Reconciliation between the beginning balance and the ending balance of retirement benefit liability for simplified method

Years ended March 31	Yen in millions		U.S.dollars in thousands
	2019	2020	2020
Balance at beginning of year	¥ (399)	¥ (357)	\$ (3,276)
Periodic benefit cost	169	92	850
Benefit paid	(0)	(2)	(21)
Contributions paid to pension plan	(127)	(133)	(1,224)
Others	0	(0)	(2)
Balance at end of year	(357)	(400)	(3,674)

(4) Reconciliation between the ending balance of defined benefit obligations and pension assets and retirement benefit liability and asset recorded on the consolidated balance sheet

Years ended March 31	Yen in millions		U.S.dollars in thousands
	2019	2020	2020
Funded defined benefit obligations	¥ 29,997	¥ 29,585	\$ 271,422
Pension assets	(30,705)	(29,128)	(267,237)
	(707)	456	4,185
Unfunded defined benefit obligations	19	11	103
Net liability and asset recorded on the Consolidated balance sheet	(688)	467	4,288
Retirement benefit liability	873	1,182	10,851
Retirement benefit asset	(1,561)	(715)	(6,563)
Net liability and asset recorded on the consolidated balance sheet	(688)	467	4,288

Note) Includes plan that adopt a simplified method

(5) Components of periodic benefit costs

Years ended March 31	Yen in millions		U.S.dollars in thousands
	2019	2020	2020
Service cost	¥ 1,344	¥ 1,347	\$ 12,361
Interest cost	285	279	2,567
Expected return on pension assets	(727)	(722)	(6,628)
Recognized actuarial gains and losses	(137)	(63)	(586)
Periodic benefit cost in simplified method	169	92	850
Periodic benefit costs of defined benefit plan	934	933	8,564

(6) Reconciliation of remeasurements of defined benefit plans before income tax effect

Years ended March 31	Yen in millions		U.S.dollars in thousands
	2019	2020	2020
Actuarial gains and losses	(824)	(1,851)	(16,986)
Total	(824)	(1,851)	(16,986)

(7) Components of remeasurements of defined benefit plans before income tax effect

Years ended March 31	Yen in millions		U.S.dollars in thousands
	2019	2020	2020
Unrecognized actuarial gains and losses	¥ (1,129)	¥ 721	\$ 6,623
Total	(1,129)	721	6,623

(8) Items relating to pension assets**1. Components of pension assets by major categories**

Years ended March 31	2019	2020
Japanese bonds	24.5%	26.4%
Foreign bonds	5.6%	6.2%
Japanese equities	17.4%	12.0%
Foreign equities	17.7%	19.4%
General account	25.3%	23.1%
Others	9.5%	12.9%
Total	100.0%	100.0%

2. Method determining expected long-term rate of return on pension assets

Expected long-term rate of return on pension assets is determined based on the current and the expected allocation of pension assets and the current and the expected long-term rates of return from various assets composing the pension assets.

(9) Assumptions used for actuarial calculation

Years ended March 31	2019	2020
Discount rate	1.0%	1.0%
Expected long-term rate of return on pension assets	2.5%	2.5%
Expected rate of future salary increases	3.6%	3.4%

Defined contribution plan

Years ended March 31	Yen in millions		U.S.dollars in thousands
	2019	2020	2020
Required contribution amount to the defined contribution plan of consolidated subsidiaries	¥ 132	¥ 127	\$ 1,169