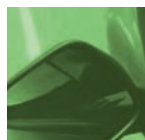


AEC AUTOMOTIVE ELECTRONIC COMPONENTS BUSINESS

Manufacture and sales of electronic components for automobiles



AEC is restructuring to improve the profitability of its operations and enhancing the value-added features of its products to keep pace with the rapidly evolving needs of the car electronics market.

% of Net Sales
13%



Fiscal 2008 in Review

The sharp drop in automobile demand in the second-half caused sales to plummet, resulting in an operating loss.

AEC net sales declined 23.6% year on year to ¥82.1 billion. After regaining profitability last year, operating income dropped back to a ¥6.4 billion loss in fiscal 2008. Sales were up year on year in the first half as strong demand in Japan for electric power steering controllers and other components more than made up for faltering vehicle production volumes in the United States and Europe amid rising gasoline prices and economic slowdowns. In China, newly established projects resulted in first-half in sales reaching roughly double the level that was attained in the previous year.

In the second half, however, the United States, which is the world's largest automobile market, became the epicenter for the spreading global recession, and overall automobile demand fell vastly more than anticipated. Demand had held firm in China and developing nations in

the first half, but souring economic conditions led to dwindling demand in those markets as well. In Japan, the United States, and Europe, demand began shifting away from mid- and large-size vehicles to more economical small cars. AEC sales were also deeply impacted by the large-scale inventory reductions and production cuts automakers began implementing at the start of the new calendar year. As a result, AEC second half sales fell far below the previous year level.

The rapid and severe changes in the economic environment have led management to implement strict measures to improve the efficiency of operations. In addition to eliminating unprofitable operations, management has decided to shut down Omron Automotive Electronics UK Ltd., which was established in 1987 to manufacture automotive switches and controllers, by the end of March 2011 as a step to reorganizing the global production structure.

AEC Results and Plans

Fiscal Year	(Billions of yen)				
	2005	2006	2007	2008	2009 (Plan)
Net sales*	77.6	93.3	107.5	82.1	60.0
Domestic	27.2	26.1	28.0	25.0	24.5
Overseas	50.4	67.2	79.5	57.1	35.5
North America	28.8	37.9	42.4	27.9	21.8
Europe	6.2	9.8	13.9	9.0	1.5
Asia	15.1	16.2	18.3	12.5	8.0
China	0.1	1.4	3.1	4.7	4.0
Direct exports	0.0	2.0	1.9	3.0	0.2
Operating income*	(2.0)	(1.2)	1.4	(6.4)	0.0
Operating income margin*	—	—	1.3%	—	0.0%
R&D expenses*	6.7	7.1	8.3	7.3	
Depreciation and amortization*	7.0	8.1	8.0	5.4	
Capital expenditures*	11.2	8.9	9.1	5.6	

* FY2009 (Plan) adopted from FASB Statement No.131, *Disclosures about Segments of an Enterprise and Related Information*.

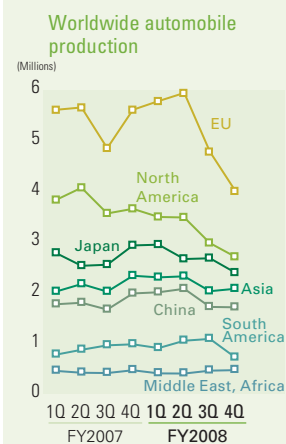
* Projections for FY2009 are based on exchange rates of ¥95/US\$ and ¥125/Euro.

* The sales figures given indicate sales to external customers and exclude inter-segment transactions. Operating income indicates income including internal income prior to the deduction of amounts such as inter-segment transactions and head office expenses that are not apportionable.

* Projected figures for R&D costs, depreciation costs, and capital expenditures are not publicized.

Check It Out!

Analysis of external environment



Source: CSM Worldwide, Inc.

Automobile production output declined sharply, particularly in the United States and European markets, beginning in the second half of fiscal 2008.

Yoshinori Suzuki

Managing Officer

Company President

Automotive Electronic Components Company



Business Strategy and Outlook for Fiscal 2009

Establish an effective fixed-cost structure for bottom-level automobile production conditions

We forecast net sales declining 26.9% year on year to ¥60.0 billion and operating income reaching the breakeven point in fiscal 2009.

We anticipate extremely severe market conditions in the first half of fiscal 2009, with new car sales declining in Japan and slow recovery for consumer spending in the United States, the largest automobile market. We forecast first-half sales falling 43.6% from the still-strong sales level of the previous fiscal year. We do not expect a speedy recovery in automobile sales; however, automakers will have made progress in reducing inventory levels. Thus, we forecast second-half sales to decrease 0.6%, a slight reduction from the second half in the previous fiscal year.

AEC's global sales have risen rapidly with the expansion of the automobile market. However, conditions in the automobile market have taken a dramatic turn for the worse. Automobile demand has plummeted and leading

automakers in the United States have filed for bankruptcy. In these severe conditions, AEC will focus on revising its operating structure and rebuilding its earning strength.

Management is focusing on constructing a fixed-cost operating structure that will function effectively with automobile production volumes at their lowest levels. Specific measures will be to focus on providing products for small cars and environmentally friendly vehicles; improving our supply of highly-integrated modules and related software technology needed for advanced production technology; expanding operations in low-cost production regions, such as in China and Thailand; and restructuring the North America production bases.

We decided to spin off AEC in April 2010 in an effort to improve its earnings and to develop it into a business that specializes in electronic equipment used in auto bodies. We plan on quickly adapting to market needs by applying our proven knowledge and expertise in this field and through our active, yet agile collaboration with other companies.

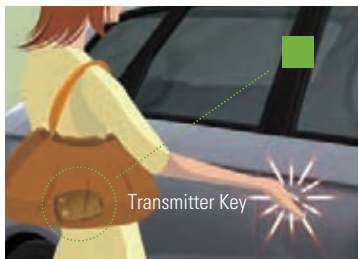
What's New

Passive entry & push start (PEPS) systems for enhanced convenience and security

AEC has expanded the functions of keyless entry systems into a dual passive entry & push start (PEPS) system. PEPS combines a passive entry system enabling automobile owners to lock and unlock doors without taking the portable remote transmitter (key fob) out of one's pocket or bag, instead allowing them to simply touch a button on the car door. Also, the passive engine start system starts and turns off the car engine by pressing a switch on the driver's side of the dashboard.

Combining the locking systems and engine on/off functions demands a high-precision security function. Backed by many years of developing and marketing wireless technology, AEC has been able to develop precision technology that allows the transmitter key to lock and unlock the door only when the key is outside the car and to start the engine only when the transmitter is detected inside the car.

AEC continues to hone its wireless technology to provide products that will further enhance convenience and security.



Passive Entry Systems

Passive entry systems enable car doors to be locked and unlocked without handling the transmitter key but by pressing a switch on the door or door handle.



Passive Engine Start Systems

Passive engine start systems enable car engines to be started or shut down without handling the transmitter key but by pressing a switch from the driver's seat of a car.

Electric Power Steering Controllers

Electric power steering controllers facilitate automobile steering. Electric (motorized) power steering systems are more fuel efficient than conventional hydraulic steering systems.



Multifunction Control Units

Multifunction control units combine several functions, such as windshield wipers and door locks, into a single control unit. The units reduce the amount of wires used, save space, and reduce vehicle weight.



Battery Cell Monitor Units

Cell monitor units gauge the voltage and temperature of batteries in electric vehicles.

