

**Clarion Co., Ltd.  
and  
Subsidiaries**

**Consolidated Financial Statements**

**March 31, 2010**



## Six-Year Summary

	Millions of yen, except per-share amounts						Thousands of U.S. dollars, except per- share amounts
	2005	2006	2007	2008	2009	2010	2010
<b>For the Year</b>							
Net sales	¥178,325	¥184,176	¥181,041	¥246,806	¥181,554	¥174,762	\$1,878,355
Car audio-visual equipment	166,365	168,686	161,786	217,522	157,552	156,372	1,680,697
Special equipment	6,949	8,306	7,833	8,732	8,982	7,685	82,601
Others	5,010	7,183	11,422	20,551	15,018	10,704	115,056
Japan	96,658	99,511	93,365	151,015	105,991	93,892	1,009,168
Americas	38,577	43,725	49,537	55,497	46,440	55,499	596,517
Asia and Australia	10,737	15,063	14,475	12,952	12,461	11,886	127,756
Europe	32,351	25,877	23,663	27,340	16,661	13,482	144,914
Cost of sales	140,786	147,123	148,200	205,058	161,649	149,600	1,607,918
Selling, general and administrative expenses	27,956	31,824	29,768	36,281	32,354	24,537	263,725
Operating income (loss)	9,582	5,228	3,072	5,465	(12,449)	624	6,711
Other income (expenses), net	(6,631)	(694)	(2,905)	(1,167)	(2,758)	60	649
Income (loss) before income taxes and minority interests	2,950	4,534	167	4,298	(15,208)	684	7,360
Provision (benefit) for income taxes	(2,328)	(1,337)	938	2,903	4,776	129	1,394
Minority interests in subsidiaries	167	8	13	17	2	5	62
Net income (loss)	5,111	5,862	(784)	1,378	(19,987)	549	5,903
Research and development expenses	10,659	11,340	12,560	27,772	30,329	18,616	200,090
Capital investment	3,066	8,106	6,074	6,855	5,796	1,946	20,918
Net cash provided by (used in) operating activities	8,038	9,236	8,820	10,771	(2,851)	12,381	133,073
Net cash used in investing activities	(6,030)	(1,055)	(20,501)	(9,247)	(10,121)	(3,350)	(36,015)
Net cash provided by (used in) financing activities	(17,537)	(7,938)	10,054	1,061	10,014	(7,731)	(83,095)
<b>Per share</b>							
(Yen and U.S. dollars):							
Net income (loss)	¥18.09	¥20.76	¥(2.78)	¥4.88	¥(70.85)	¥1.95	\$0.02
Cash dividends	—	¥2.00	¥2.00	¥2.00	—	—	—
<b>At year end</b>							
Total assets	¥119,527	¥122,119	¥149,490	¥150,841	¥117,641	¥112,714	\$1,211,459
Total net assets	26,878	34,661	34,231	32,125	9,135	9,312	100,089
Interest-bearing debt	41,619	34,227	41,483	42,838	54,160	46,862	503,678
<b>Ratio (%)</b>							
Net assets ratio	22.5	28.3	22.9	21.3	7.8	8.3	8.3
ROE	21.4	19.2	(2.3)	4.2	(97.8)	6.1	6.1
ROA	4.1	4.9	(0.6)	0.9	(14.9)	0.5	0.5
Current ratio	108.7	125.5	115.2	113.5	106.1	144.8	144.8

Notes:1. Research and development expenses include labor and other expenses reported as cost of sales.

2. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2010, which was ¥93.04 to U.S. \$1.

## Consolidated Balance Sheets

	March 31		2010 <i>(Thousands of U.S. dollars)</i>
	2010 <i>(Millions of yen)</i>	2009	
<b>ASSETS</b>			
Current assets:			
Cash on hand and in banks (Note 8) .....	¥ 10,192	¥ 9,386	\$ 109,547
Trade notes and accounts receivable (Notes 8, 17 and 20).....	27,635	25,382	297,024
Allowance for doubtful accounts .....	(429)	(403)	(4,612)
Inventories (Note 5).....	21,219	25,113	228,068
Deferred tax assets (Note 13) .....	2,716	2,003	29,196
Other current assets (Notes 8 and 20) .....	5,048	5,078	54,263
Total current assets .....	<u>66,382</u>	<u>66,561</u>	<u>713,488</u>
Investments in securities (Notes 6 and 8) .....	2,366	2,259	25,436
Property, plant and equipment (Note 4)			
Buildings and structures (Note 9) .....	19,097	18,821	205,257
Machinery and equipment (Note 9) .....	43,059	44,303	462,810
Land (Note 9) .....	9,106	9,177	97,877
Lease assets .....	1,227	845	13,195
Construction in progress .....	0	897	9
Accumulated depreciation .....	(48,381)	(46,829)	(520,012)
Property, plant and equipment, net .....	<u>24,110</u>	<u>27,215</u>	<u>259,137</u>
Other assets:			
Intangible assets.....	16,687	18,189	179,361
Deferred tax assets (Note 13) .....	641	560	6,896
Other .....	2,525	2,854	27,138
Total other assets.....	<u>19,854</u>	<u>21,604</u>	<u>213,396</u>
Total assets .....	<u>¥112,714</u>	<u>¥117,641</u>	<u>\$1,211,459</u>

The accompanying notes are an integral part of these consolidated financial statements.

	March 31		2010
	2010	2009	
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Short-term loans (Notes 8, 9 and 20) .....	¥ 1,917	¥ 21,085	\$ 20,613
Trade notes and accounts payable (Notes 8 and 20) .....	28,489	22,786	306,205
Accrued bonuses.....	1,236	1,322	13,294
Lease obligations (Note 9).....	440	388	4,737
Accrued expenses (Note 20).....	6,603	7,224	70,976
Accrued income taxes.....	1,052	698	11,311
Accrued warranty costs .....	748	1,175	8,047
Other current liabilities (Notes 8 and 20).....	5,358	8,082	57,590
Total current liabilities.....	<u>45,848</u>	<u>62,761</u>	<u>492,777</u>
Long-term liabilities:			
Long-term loans (Notes 8, 9 and 20).....	44,239	32,410	475,487
Lease obligations (Note 9).....	264	276	2,839
Accrued pension and severance costs (Note 10) .....	10,029	9,226	107,802
Deferred tax liabilities on revaluation of land (Note 12) .....	644	644	6,925
Deferred tax liabilities (Note 13).....	14	17	155
Accrued retirement benefit for directors and corporate auditors.....	273	288	2,941
Accrued warranty costs .....	433	747	4,664
Other long-term liabilities .....	1,653	2,132	17,775
Total long-term liabilities.....	<u>57,553</u>	<u>45,744</u>	<u>618,592</u>
Commitments and contingencies (Note 17)			
Net assets:			
Shareholders' equity (Note 11):			
Common stock, no par value			
Authorized: 450,000,000 shares			
Issued: 282,744,185 shares at March 31, 2010 and 2009 .....	26,100	26,100	280,527
Additional paid-in capital.....	2,669	2,669	28,693
Accumulated deficit (Note 21).....	(11,592)	(12,141)	(124,592)
Treasury stock.....	(120)	(117)	(1,296)
Total shareholders' equity .....	<u>17,057</u>	<u>16,510</u>	<u>183,332</u>
Valuation, translation adjustments and other:			
Net unrealized gains on revaluation of land (Note 12).....	812	812	8,736
Net deferred gains/(losses) on hedge .....	3	(5)	35
Foreign currency translation adjustments .....	(8,822)	(8,224)	(94,823)
Net unrealized gains/(losses) on other securities .....	68	(134)	733
Total valuation, translation adjustments and other.....	<u>(7,937)</u>	<u>(7,552)</u>	<u>(85,317)</u>
Minority interests in subsidiaries .....	193	176	2,075
Total net assets.....	<u>9,312</u>	<u>9,135</u>	<u>100,089</u>
Total liabilities and net assets.....	<u>¥112,714</u>	<u>¥117,641</u>	<u>\$1,211,459</u>

## Consolidated Statements of Operations

	Year ended March 31			2010 (Thousands of U.S. dollars)
	2010	2009	2008	
	(Millions of yen)			
Net sales.....	¥ 174,762	¥ 181,554	¥ 246,806	\$1,878,355
Cost of sales .....	149,600	161,649	205,058	1,607,918
Gross profit .....	25,161	19,904	41,747	270,436
Selling, general and administrative expenses (Notes 14 and 19).....	24,537	32,354	36,281	263,725
Operating income/(loss).....	624	(12,449)	5,465	6,711
Other income:				
Interest and dividend income.....	85	194	323	922
Gain on sales of dies to customers .....	—	212	62	—
Exchange gains, net.....	284	—	394	3,062
Gain on sales of property, plant and equipment.....	274	39	358	2,948
Gain on reimbursement of development costs.....	528	—	—	5,685
Gain on sales of subsidiary shares .....	190	—	—	2,049
Gain on reversal of patent fee for prior years .....	—	814	305	—
Gain on reversal of unpaid custom duty.....	—	256	148	—
Gain on reversal of purification cost .....	2	247	52	29
Equity in earnings of affiliates .....	46	189	102	496
Other.....	607	1,474	1,143	6,527
	2,021	3,429	2,891	21,722
Other expenses:				
Interest expense .....	721	589	795	7,758
Expense related to patent .....	108	429	176	1,169
Exchange losses, net .....	—	1,434	—	—
Additional severance costs .....	51	343	70	551
Loss on sales and disposal of property, plant and equipment.....	111	93	614	1,196
Business structure improvement expenses .....	44	2,257	—	478
Loss from transfer between retirement benefit plans .....	200	—	—	2,149
Impairment loss on fixed assets (Note 4).....	36	12	364	395
Other.....	686	1,026	2,036	7,373
	1,960	6,187	4,058	21,073
Income/(loss) before income taxes and minority interests.....	684	(15,208)	4,298	7,360
Income taxes (Note13):				
Current.....	1,065	325	1,777	11,450
Deferred.....	(935)	4,450	1,126	(10,056)
	129	4,776	2,903	1,394
Income/(loss) before minority interests .....	555	(19,984)	1,395	5,966
Minority interests in subsidiaries.....	5	2	17	62
Net income/(loss).....	¥ 549	¥ (19,987)	¥ 1,378	\$ 5,903

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statements of Changes in Net Assets

	Shareholders' equity						Valuation, translation adjustments and other						Total net assets
	Number of common shares outstanding	Common stock	Additional paid-in capital	Accumulated deficit	Treasury stock	Total shareholders' equity	Net unrealized gains on revaluation of land	Net deferred gains/(losses) on hedge	Net unrealized gains/(losses) on other securities	Foreign currency translation adjustments	Total valuation, translation adjustments and other	Minority interests in subsidiaries	
	<i>(Thousands)</i>						<i>(Millions of yen)</i>						
Balance at March 31, 2007 .....	282,744	¥26,100	¥2,669	¥ 7,349	¥ (83)	¥36,035	¥ 1,029	¥ 7	¥ 622	¥ (3,666)	¥ (2,007)	¥ 203	¥ 34,231
Changes in:													
Net income .....	-	-	-	1,378	-	1,378	-	-	-	-	-	-	1,378
Dividends .....	-	-	-	(564)	-	(564)	-	-	-	-	-	-	(564)
Treasury stock .....	-	-	-	-	(10)	(10)	-	-	-	-	-	-	(10)
Items other than shareholders' equity .....	-	-	-	216	-	216	(216)	(13)	(489)	(2,404)	(3,124)	(0)	(2,909)
Balance at March 31, 2008 .....	282,744	26,100	2,669	8,379	(94)	37,054	813	(6)	132	(6,071)	(5,132)	202	32,125
Effect of changes in accounting policies applied to overseas subsidiaries .....	-	-	-	31	-	31	-	-	-	-	-	-	31
Changes in:													
Net loss .....	-	-	-	(19,987)	-	(19,987)	-	-	-	-	-	-	(19,987)
Dividends .....	-	-	-	(564)	-	(564)	-	-	-	-	-	-	(564)
Treasury stock .....	-	-	-	-	(23)	(23)	-	-	-	-	-	-	(23)
Items other than shareholders' equity .....	-	-	-	0	-	0	(0)	0	(267)	(2,153)	(2,419)	(26)	(2,446)
Balance at March 31, 2009 .....	282,744	26,100	2,669	(12,141)	(117)	16,510	812	(5)	(134)	(8,224)	(7,552)	176	9,135
Changes in:													
Net income .....	-	-	-	549	-	549	-	-	-	-	-	-	549
Dividends .....	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury stock .....	-	-	-	-	(2)	(2)	-	-	-	-	-	-	(2)
Items other than shareholders' equity .....	-	-	-	-	-	-	-	9	203	(598)	(385)	(16)	(369)
Balance at March 31, 2010 .....	<b>282,744</b>	<b>¥26,100</b>	<b>¥2,669</b>	<b>¥ (11,592)</b>	<b>¥ (120)</b>	<b>¥17,057</b>	<b>¥ 812</b>	<b>¥ 3</b>	<b>¥ 68</b>	<b>¥ (8,822)</b>	<b>¥ (7,937)</b>	<b>¥ 193</b>	<b>¥ 9,312</b>

	Shareholders' equity						Valuation, translation adjustments and other						Total net assets
	Number of common shares outstanding	Common stock	Additional paid-in capital	Accumulated deficit	Treasury stock	Total shareholders' equity	Net unrealized gains on revaluation of land	Net deferred gains/(losses) on hedge	Net unrealized gains/(losses) on other securities	Foreign currency translation adjustments	Total valuation, translation adjustments and other	Minority interests in subsidiaries	
	<i>(Thousands)</i>						<i>(Thousands of U.S. dollars)</i>						
Balance at March 31, 2009 .....	282,744	\$280,527	\$28,693	\$(130,496)	\$(1,268)	\$177,456	\$ 8,736	\$ (61)	\$ (1,450)	\$(88,395)	\$(81,170)	\$ 1,899	\$98,185
Changes in:													
Net income .....	-	-	-	5,903	-	5,903	-	-	-	-	-	-	5,903
Dividends .....	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury stock .....	-	-	-	-	(28)	(28)	-	-	-	-	-	-	(28)
Items other than shareholders' equity .....	-	-	-	-	-	-	-	97	2,184	(6,428)	(4,146)	175	(3,970)
Balance at March 31, 2010 .....	<b>282,744</b>	<b>\$280,527</b>	<b>\$28,693</b>	<b>\$(124,592)</b>	<b>\$(1,296)</b>	<b>\$183,332</b>	<b>\$ 8,736</b>	<b>\$ 35</b>	<b>\$ 733</b>	<b>\$(94,823)</b>	<b>\$(85,317)</b>	<b>\$2,075</b>	<b>\$ 100,089</b>

## Consolidated Statements of Cash Flows

	Year ended March 31			2010 (Thousands of U.S. dollars)
	2010	2009	2008	
		(Millions of yen)		
Cash flows from operating activities:				
Income/(loss) before income taxes and minority interests .....	¥ 684	¥(15,208)	¥ 4,298	\$ 7,360
Adjustments to reconcile income before income taxes and minority interests to cash flows from operating activities:				
Depreciation and amortization .....	7,876	7,812	6,364	84,657
Amortization of goodwill.....	915	1,001	940	9,842
Equity in earnings of affiliates .....	(46)	(189)	(102)	(496)
Increase/(decrease) in allowance for doubtful accounts .....	45	(108)	(808)	487
Increase/(decrease) in accrued pension and severance costs, less payment.....	824	(1,325)	(756)	8,864
(Decrease)/increase in accrued retirement benefit for directors and corporate auditors..	(15)	(141)	362	(163)
(Decrease)/increase in accrued warranty costs .....	(696)	(1,205)	318	(7,484)
Interest and dividend income.....	(85)	(194)	(323)	(922)
Interest expense .....	721	589	795	7,758
Gain on sales of property, plant and equipment.....	(274)	(39)	(358)	(2,948)
Gain on sales of subsidiary shares .....	(190)	—	—	(2,049)
Loss on sales and disposal of property, plant and equipment.....	111	93	614	1,196
Impairment loss on fixed assets .....	36	12	364	395
Business structure improvement expenses .....	44	2,257	—	478
Changes in assets and liabilities:				
Notes and accounts receivable .....	(2,749)	20,483	(5,100)	(29,554)
Inventories .....	3,314	505	1,090	35,627
Notes and accounts payable.....	6,480	(13,254)	2,101	69,655
Other, net .....	(3,285)	(2,763)	2,448	(35,314)
Sub-total .....	(13,713)	1,673	12,248	147,390
Interest and dividend received .....	109	244	384	1,178
Interest paid.....	(723)	(591)	(811)	(7,772)
Income taxes paid .....	(718)	(830)	(1,049)	(7,723)
Net cash provided by/(used in) operating activities .....	12,381	(2,851)	10,771	133,073
Cash flows from investing activities:				
Increase in time deposits .....	—	(391)	—	—
Decrease in time deposits.....	357	41	7	3,839
Payment for purchases of property, plant and equipment .....	(1,946)	(5,796)	(6,855)	(20,918)
Proceeds from sales of property, plant and equipment.....	480	117	1,482	5,162
Payment for purchases of intangible assets.....	(2,962)	(4,030)	(3,938)	(31,449)
Proceeds from sales of investments in securities.....	192	212	27	2,069
Proceed from sales of investments in subsidiary resulting in change in scope of consolidation .....	301	—	—	3,242
Increase in loans receivable .....	(3,539)	(1,532)	(9)	(38,047)
Decrease in loans receivable.....	3,754	1,815	43	40,354
Other, net.....	(24)	(557)	(4)	(267)
Net cash used in investing activities .....	(3,350)	(10,121)	(9,247)	(36,015)
Cash flows from financing activities:				
(Decrease)/increase in short-term loans, net .....	(7,392)	(3,952)	(2,117)	(79,451)
Repayment of finance lease obligations .....	(439)	(202)	—	(4,722)
Proceeds from long-term loans.....	12,200	32,000	7,000	131,126
Repayment of long-term loans.....	(12,097)	(17,242)	(3,246)	(130,019)
Cash dividends.....	—	(564)	(564)	—
Other, net.....	(2)	(23)	(10)	(28)
Net cash (used in)/provided by financing activities.....	(7,731)	10,014	1,061	(83,095)
Effect of exchange rate changes on cash and cash equivalents .....	(145)	(566)	(713)	(1,568)
Net increase/(decrease) in cash and cash equivalents .....	1,153	(3,524)	1,871	12,394
Cash and cash equivalents at beginning of year.....	9,039	12,563	10,691	97,153
Cash and cash equivalents at end of year (Note 15).....	¥ 10,192	¥ 9,039	¥ 12,563	\$ 109,547

The accompanying notes are an integral part of these consolidated financial statements.



# Notes to the Consolidated Financial Statements

March 31, 2010

## 1. Basis of presenting consolidated financial statements

Clarion Co., Ltd. ("Clarion") and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, while its overseas subsidiaries maintain their records in conformity with accounting principles generally accepted in their respective countries of domicile. Effective April 1, 2008, Clarion adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (PITF No. 18)." In accordance with PITF No. 18, the accompanying consolidated financial statements for the year ended March 31, 2009 have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items. Until March 31, 2008, the accompanying consolidated financial statements had been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with accounting principles generally accepted in their countries of domicile. The accompanying consolidated financial statements of Clarion, its subsidiaries and affiliates (collectively, "the Company") are prepared on the basis of accounting principles generally

accepted in Japan, which are different in certain respects as to the application of and disclosure requirements of International Financial Reporting Standards, and are compiled from consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

The accompanying consolidated financial statements include certain reclassifications and rearrangements in order to present them in a form that is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information that is not required under generally accepted accounting principles and practices in Japan, but which is provided herein as additional information. None of the reclassifications nor rearrangements have a material effect on the consolidated financial statements.

Certain notes and amounts previously reported have been rearranged and reclassified to conform to the current year presentation.

The amounts presented in millions of yen are truncated for amounts less than 1 million. Totals may not add up exactly because of such truncation.

## 2. Summary of significant accounting policies

### (1) Consolidation and investments in affiliates

The accompanying consolidated financial statements include the accounts of Clarion and its subsidiaries that are controlled by Clarion. Under the effective control approach, all majority-owned companies are to be consolidated. Additionally, companies in which share ownership equals 50% or less may be required to be consolidated in cases where such companies are effectively controlled by other companies through the interests held by a party who has a close relationship with the parent company in accordance with accounting standards generally accepted in Japan. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated in consolidation.

Investments in affiliates in which Clarion has significant influence are accounted for using the equity method. Net income in the accompanying consolidated statements of operations includes Clarion's equity in earnings or losses of affiliates after elimination of unrealized intercompany profits.

A difference in fiscal periods of Clarion and its subsidiaries does not by itself justify the exclusion of a subsidiary from consolidation. As the difference is not more than three months, it is acceptable to use, for consolidation purposes, the subsidiaries' financial statements for their fiscal periods. For significant transac-

tions during the period between those subsidiaries' fiscal year-end and the balance sheet date of Clarion, necessary adjustments are made in the consolidated financial statements.

The excess of the cost over the underlying fair value of investments in subsidiaries is recognized as goodwill. Goodwill relating to Mexican subsidiaries is being amortized over a period of 20 years.

### (2) Translation of foreign currency transactions and balances

Foreign currency transactions are generally translated using foreign exchange rates prevailing at the transaction dates. Assets and liabilities denominated in foreign currencies are translated at the current exchange rates at the balance sheet date.

All assets and liabilities of overseas subsidiaries are translated at current rates at the respective balance sheet dates whereas shareholders' equity is translated at historical rates and all income and expense accounts are translated at average rates for the respective periods.

### (3) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows is comprised of cash on hand, bank deposits able to be

withdrawn on demand, and short-term highly liquid investments with original maturities of three months or less, which represent a minor risk of fluctuations in value.

#### **(4) Financial instruments**

##### **(a) Securities**

Investments in debt and equity securities are classified into three categories: 1) trading securities, 2) held-to-maturity debt securities, and 3) other securities.

These categories are treated differently for the purpose of measuring and accounting for changes in fair value.

Trading securities are held for the purpose of generating profits from changes in market value and are recognized at their fair value in the consolidated balance sheets. Unrealized gains and losses are included in current income. Held-to-maturity debt securities are expected to be held to maturity and are recognized at historical or amortized cost in the consolidated balance sheets. Other securities, for which market quotations are available, are recognized at fair value in the consolidated balance sheets. Unrealized gains and losses on these other securities were classified as a separate component of net assets at a net-of-tax amount. Cost of securities sold is determined by the moving average method.

Other securities for which market quotations are unavailable are stated at cost, based on the weighted-average cost method.

##### **(b) Derivative financial instruments**

All derivatives are stated at fair value, with changes in fair value charged to current income for the period in which they arise, except for derivatives that are designated as “hedging instruments” (see (c) Hedge accounting below).

##### **(c) Hedge accounting**

The Company has a policy to utilize hedging instruments to reduce their exposure to the risk of fluctuation in foreign currency exchange rates.

Gains or losses arising from changes in fair value of the derivatives designated as “hedging instruments” are deferred as a separate component of net assets at a net-of-tax amount and charged to income in the same period the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are principally forward foreign currency exchange contracts.

##### **(5) Allowance for doubtful accounts**

The allowance for doubtful accounts is calculated based on the aggregate amount of estimated credit losses for specific receivables, in addition to an amount calculated using historical write-off experience from certain prior periods for receivables other than specific receivables.

##### **(6) Inventories**

For Clarion and its domestic subsidiaries, inventories are stated at cost determined by the weighted-average method and supplies are stated at cost, which is determined by last purchase price method. The amount shall be carried at cost on the balance sheets. In the case that the net selling value falls below cost at the end of the period, inventories shall be carried at the net selling value on the balance sheets, regarded as decreased profitability of

assets. As for overseas subsidiaries, inventories are stated at the lower of cost, which is mainly determined by the first-in, first-out method, or market.

##### **(7) Property, plant and equipment (Except for lease assets)**

Property, plant and equipment, including significant renewals and improvements, are carried at cost less accumulated depreciation. Maintenance and repairs, including minor renewals, are charged to income as incurred.

For Clarion and its domestic subsidiaries, depreciation, except for dies, is computed under the declining-balance method at rates based on the estimated useful lives of the assets, which are prescribed by the Corporation Tax Law of Japan. For buildings acquired by Clarion and some of the domestic subsidiaries on or after April 1, 1998, depreciation is computed under the straight-line method. Dies, included in machinery and equipment, are depreciated under the straight-line method over the estimated useful lives of the assets for Clarion, and its domestic subsidiary. For overseas subsidiaries, depreciation is computed under the straight-line method.

##### **(8) Intangible assets (Except for lease assets)**

Intangible assets, including goodwill and capitalized software costs, are carried at cost less accumulated amortization.

Goodwill represents the excess of purchase price and related cost over the fair value of the business acquired and is amortized over a period of 10 years by Clarion.

Capitalized software costs consist of costs of purchased or developed software. Software for internal use is amortized by the straight-line method over its estimated useful lives 5 years. Software for sale to the market is amortized at the greater of either the amount based on sales in the year, as a proportion of total estimated sales 3 years or the amount calculated on a straight-line basis over the remaining salable period.

##### **(9) Lease assets**

Depreciation of the finance leases which do not transfer ownership is calculated based on the straight-line method over the lease term of the assets with no residual value.

##### **(10) Impairment of fixed assets**

The accumulated impairment loss is deducted from the net book value of each asset.

##### **(11) Accrued bonuses**

Accrued bonuses to employees are provided at the estimated amounts, which Clarion and some of its subsidiaries expect to pay to employees after the fiscal year-end, based on services provided during the current period.

##### **(12) Accrued pension and severance costs**

For Clarion and some of its subsidiaries, accrued pension and severance costs are stated at an amount calculated based on the projected benefit obligation and the fair value of pension plan assets as adjusted for unrecognized net obligation at transition, unrecognized actuarial differences and unrecognized prior service costs. Unrecognized net obligation at transition is amortized over a period of 10 years. Unrecognized actuarial differences of Clarion and its domestic subsidiaries are amortized on a straight-line basis over a period of 7 to 15 years commencing the year following

the year in which they arise. Unrecognized prior service costs of Clarion are amortized on a straight-line basis over a period of 13 years which is within the average remaining years of services of employees.

Clarion changed its retirement benefit plan as of April 30, 2010 from previous defined benefit plan and retirement lump sum grants to defined benefit plan, retirement lump sum grants and defined contribution pension plan.

The effect of this transfer on the Company's consolidated results of operations for the fiscal year ended March 31, 2010 is 200 million yen and it is posted in other expenses as "Loss from Transfer between Retirement Benefit Plans" in accordance with "Accounting Standard for Transfer between Retirement Benefit Plans" (ASBJ Guidance No. 1) and "Practical Solution on Accounting for Transfer between Retirement Benefit Plans" (PITF No. 2).

#### (13) Accrued warranty costs

For Clarion and some of its subsidiaries, accrued warranty costs are provided based on historical experience of such expense.

#### (14) Accrued retirement benefit for directors and corporate auditors

Accrued retirement benefit for directors and corporate auditors have been made for the vested benefits to which they are entitled. In line with the approval at the General Shareholders' Meeting held on June 25, 2008, the Company has ceased the additional accruals.

#### (15) Research and development costs

Research and development costs are expensed as incurred.

#### (16) Income taxes

The provision for income taxes is computed based on income before income taxes and minority interests in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amount in the financial statements.

Clarion obtained approval from the National Tax Agency in Japan to file under a consolidated tax return system effective the year beginning April 1, 2002. Clarion has adopted the consolidated tax return system for the calculation of income taxes since the year ended March 31, 2003. Under the consolidated tax return system, Clarion consolidates all wholly-owned domestic subsidiaries based on the Japanese tax regulations.

#### (17) Revenue recognition

Sales are generally recognized at the time goods are delivered to customers.

#### (18) Amount per share

Basic net income/(loss) per share is computed based on the net income/(loss) available for distribution to shareholders of common stock and weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds or the exercise of warrants.

Net assets per share is computed based on the net assets available for distribution to shareholders of common stock and the number of shares of common stock outstanding at the balance sheet date.

### 3. U.S. dollar amounts

U.S. dollar amounts stated in the consolidated financial statements are included solely for convenience of readers outside Japan. The rate of ¥93.04 = US\$1, the approximate rate of exchange as of March 31, 2010, has been used in translation. These translations should not be construed as representations that the Japanese yen

amounts actually represent, or have been or could be converted into U.S. dollars. The amounts presented in thousands of U.S. dollars are truncated for amounts less than 1 thousand. Totals may not be added up exactly because of such truncation.

### 4. Impairment loss on fixed assets

The Company has recognized impairment loss of ¥36 million (\$395 thousand), ¥12 million, and ¥364 million for the following group of assets as of March 31, 2010, 2009 and 2008 respectively.

Location	Use	Category	Impairment loss			
			2010	2009	2008	2010
			(Millions of yen)			(Thousands of U.S. dollars)
Kumamoto-shi, Kumamoto Prefecture and other	Other	Land	¥ 36	—	—	\$ 395
Yonago-shi, Tottori Prefecture	Other	Land	—	¥ 12	—	—
Ninohe county, Iwate Prefecture and others	Others	Land and buildings	—	—	¥ 59	—
Moerfelden, Germany	Office	Land	—	—	¥ 305	—

The Company assessed impairment of each group of assets, which are grouped on the basis of managerial accounting and for investment decision-making purposes.

Due to the decline mainly in real estate value, operating profitability has worsened substantially. Therefore, the Company has decided to mark the assets down to the recoverable value, and recognized impairment loss of ¥36 million (\$395 thousand), ¥12

million and ¥364 million for the years ended March 31, 2010, 2009 and 2008, respectively which comprises of land totaling ¥36 million (\$395 thousand), ¥12 million and ¥333 million, respectively, and other totaling ¥31 million for the year ended March 31, 2008.

The recoverable value is mainly determined as publicly-assessed land value or the appraisal value.

## 5. Inventories

Inventories as of March 31, 2010 and 2009 consisted of the following:

	March 31		2010 (Thousands of U.S. dollars)
	2010	2009	
	(Millions of yen)		
Finished goods.....	¥12,643	¥14,396	\$135,890
Work in process .....	887	1,731	9,538
Raw materials and supplies .....	7,688	8,985	82,639
Total.....	¥21,219	¥25,113	\$228,068

## 6. Marketable securities and investments in securities

The aggregate cost and fair value of other securities, which were included in investments in securities as of March 31, 2010 and 2009, are as follows:

	March 31, 2010			
	Cost	Gross unrealized		Fair value (carrying value)
		Gain	Loss	
	(Millions of yen)			
Equity securities .....	¥1,001	¥ 159	¥ (80)	¥ 1,080
Debt securities .....	—	—	—	—
Other.....	—	—	—	—
Total .....	¥1,001	¥ 159	¥ (80)	¥ 1,080

	March 31, 2009			
	Cost	Gross unrealized		Fair value (carrying value)
		Gain	Loss	
	(Millions of yen)			
Equity securities .....	¥1,046	¥ 65	¥(200)	¥ 911
Debt securities .....	—	—	—	—
Other.....	—	—	—	—
Total .....	¥1,046	¥ 65	¥(200)	¥ 911

	March 31, 2010			
	Cost	Gross unrealized		Fair value (carrying value)
		Gain	Loss	
	(Thousands of U.S. dollars)			
Equity securities .....	\$10,756	\$1,714	\$(862)	\$11,617
Debt securities .....	—	—	—	—
Other.....	—	—	—	—
Total .....	\$10,756	\$1,714	\$(862)	\$11,617

Other securities sold for the years ended March 31, 2010, 2009 and 2008 are as follows:

	Year ended March 31			2010 (Thousands of U.S. dollars)
	2010	2009	2008	
Sales amount.....	¥ 192	¥ 212	¥ 27	\$ 2,069
Total gain on sales.....	25	-	-	269
Total loss on sales.....	-	(27)	(5)	-

At March 31, 2010 and 2009, the carrying value of the securities classified as other securities for which market quotation were unavailable were as follows:

	March 31		2010 (Thousands of U.S. dollars)
	2010	2009	
Other securities	(Millions of yen)		
Unlisted equity securities.....	¥ 52	¥ 53	\$ 561
Others.....	332	453	3,575

## 7. Fair values of derivative financial instruments

(1) Summarized below are the national amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2010 and 2009, for which hedged accounting has not been applied.

	March 31, 2010		
	Contract amount	Fair value	Unrealized loss/(gain)
Forward foreign exchange contracts:	(Millions of yen)		
Selling			
U.S. dollar.....	¥1,799	¥1,825	¥ (26)
Euro.....	1,274	1,235	38
Canadian dollar.....	22	22	(0)
Buying			
U.S. dollar.....	1,985	1,996	10
Euro.....	37	37	0
British pound.....	138	140	2
Total unrealized gain from forward foreign currency exchange contracts.....			¥ 24

	March 31, 2009		
	Contract amount	Fair value	Unrealized gain
Forward foreign exchange contracts:	(Millions of yen)		
Selling			
U.S. dollar.....	¥2,588	¥2,600	¥ (12)
Euro.....	1,388	1,447	(58)
Buying			
U.S. dollar.....	1,596	1,592	(4)
Euro.....	33	32	(0)
British pound.....	142	140	(2)
Total unrealized loss from forward foreign currency exchange contracts.....			¥ (78)

	March 31, 2010		
	Contract amount	Fair value	Unrealized loss/(gain)
Forward foreign exchange contracts:	<i>(Thousands of U.S. dollars)</i>		
Selling			
U.S. dollar.....	\$19,337	\$19,623	\$ (286)
Euro.....	13,702	13,283	418
Canadian dollar.....	242	245	(2)
Buying			
U.S. dollar.....	21,344	21,457	113
Euro.....	401	402	1
British pound.....	1,484	1,508	24
Total unrealized gain from forward foreign currency exchange contracts.....			<u>\$ 267</u>

(2) Summarized below are the national amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2010, for which hedged accounting has been applied.

	March 31, 2010		
	Contract amount	Fair value	Unrealized loss/(gain)
Forward foreign exchange contracts:	<i>(Millions of yen)</i>		
Selling			
Euro.....	¥220	¥224	¥ (3)
Buying			
U.S. dollar.....	316	326	9
Total unrealized loss from forward foreign currency exchange contracts.....			<u>¥ 5</u>

	March 31, 2010		
	Contract amount	Fair value	Unrealized loss/(gain)
Forward foreign exchange contracts:	<i>(Thousands of U.S. dollars)</i>		
Selling			
Euro.....	\$ 2,374	\$ 2,413	\$ (39)
Buying			
U.S. dollar.....	3,405	3,505	99
Total unrealized loss from forward foreign currency exchange contracts.....			<u>\$ 60</u>

## 8. Financial Instruments

Effective the year ended March 31, 2010, "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10 issued on March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19 issued on March 10, 2008) are applied.

### (1) Matters regarding financial instruments

#### (a) Policy regarding the handling of financial instruments

The group procures necessary funds based on management plans mainly through borrowings from banks or the parent company. Temporary surplus funds are retained in the form of financial assets with high liquidity. The Company makes use of derivatives in order to avoid potential risks as stated below, and as a policy it does not engage in speculative transactions.

#### (b) Description of financial instruments and respective risks

Trade notes and accounts receivable are exposed to credit risks of customers. Trade accounts receivable denominated in foreign

currencies are exposed to risk of exchange rate fluctuation. In order to mitigate such exchange risk, the Company enters into hedging transactions based on the expected sales transacted in foreign currencies through forward exchange contracts.

Investments in securities are primarily shares in companies with which the Company has business relationships and these are exposed to risk of changes in market prices.

Most notes payable and accounts payable, which are trade debts, are settled within 4 months. Part of such trade debts is denominated in foreign currencies and is exposed to risk of exchange rate fluctuation. In order to mitigate such exchange risk, hedges of expected transactions are entered into through forward exchange contracts.

Derivative transactions such as forward exchange contracts for the purpose of hedging against exchange rate fluctuation risk for trade accounts receivable and payable denominated in foreign currencies are utilized by the Company.

**(c) Systems and organizations for managing risk in connection with financial instruments**

**-1) Credit risks (Contract defaults etc., by trade partners)**

The sales administration department regularly monitors trade partners in connection with outstanding receivables in accordance with policy of credit administration. With these processes, due dates as well as balances of all trade partner are controlled in addition to the detection and mitigation of possible collection risks due to any deterioration in credit situation. Consolidated subsidiaries pursue procedures based on the Company's policy of credit administration.

With regard to derivative transactions, there is little risk of default of contract as the counterparties are financial institutions with high credit ratings.

**-2) Market risks (Fluctuation risks of exchange rates and/or interest rates)**

Risks are hedged in connection with trade receivables and payables

in foreign currencies, in principle making use of forward exchange contracts based on monthly transaction amounts by type of currencies. The amount of investments in securities held by the Company is reviewed taking into consideration the relationships with trade partners as well as the overall market situation.

With regard to execution and administration of derivative transactions, administration policies are in place which provide for, among others, authorization for such. The departments in charge carry out such process of obtaining approvals from personnel responsible for authorizing transactions. Monthly amounts of such transactions are reported at the Corporate Management Meetings.

**-3) Liquidity risks in connection with fund procurement (risks of failure to make payments on due dates)**

The responsible department in the Company controls/administers liquidity by making/updating plans of cash receipts and payments based on reports from each department in a timely manner as well as through maintenance of liquidity on hand.

**(2) Fair values of financial instruments**

Amounts on the balance sheet, fair value and differences as of March 31, 2010 are as follows:

	March 31, 2010		
	Carrying value	Fair value	Difference
		(Millions of yen)	
(1) Cash on hand and in banks .....	¥ 10,192	¥ 10,192	—
(2) Trade notes and accounts receivable (*1) .....	27,205	27,205	—
(3) Investments in securities			
Other securities .....	1,080	1,080	—
(4) Trade notes and accounts payable .....	(28,489)	(28,489)	—
(5) Short-term loans .....	(1,917)	(1,917)	—
(6) Other accounts payable .....	(4,786)	(4,786)	—
(7) Long-term loans .....	(44,239)	(44,239)	—
(8) Derivative transactions (*2) .....	24	24	—

	March 31, 2010		
	Carrying value	Fair value	Difference
		(Thousands of U.S. dollars)	
(1) Cash on hand and in banks .....	\$ 109,547	\$ 109,547	—
(2) Trade notes and accounts receivable (*1) .....	292,411	292,411	—
(3) Investments in securities			
Other securities .....	11,617	11,617	—
(4) Trade notes and accounts payable .....	(306,205)	(306,205)	—
(5) Short-term loans .....	(20,613)	(20,613)	—
(6) Other accounts payable .....	(51,440)	(51,440)	—
(7) Long-term loans .....	(475,487)	(475,487)	—
(8) Derivative transactions (*2) .....	267	267	—

(\*1) Amount is after deduction of general and individual allowance for doubtful accounts.

(\*2) The values of assets and liabilities arising from derivatives are shown at net value, and with the amount in parentheses representing net liability position.

\* Amounts stated as liabilities are in parentheses.

Notes:

Calculation of fair values of financial instruments, securities and derivative transactions

(1) Cash on hand and in banks and (2) Trade notes and accounts receivable

Since these items are settled in a short period of time, their carrying value approximates fair value.

(3) Investments in securities

The fair value is in accordance with market prices at security exchange.

(4) Trade notes and accounts payable, (5) Short-term loans and

(6) Other accounts payable

Since these items are settled in a short period of time, their carrying value approximates fair value.

(7) Long-term loans

Since floating rates of interest are applied to long-term loans, the interest rates are changed periodically. Therefore, their carrying value approximates fair value.

(8) Derivative transactions

Please refer to Note 2 (4). (c).



## 9. Short-term and long-term debt

Short-term and long-term debt as of March 31, 2010 and 2009 consisted of the following:

	March 31		2010 <i>(Thousands of U.S. dollars)</i>
	2010	2009	
	<i>(Millions of yen)</i>		
Short-term loans .....	¥ 1,624	¥ 9,041	\$ 17,461
Current portion of long-term loans .....	293	12,043	3,152
Current portion of long-term lease obligations .....	440	388	4,737
Total short-term debt .....	2,358	21,473	25,351
Long-term loans .....	44,239	32,410	475,487
Long-term lease obligations .....	264	276	2,839
Total long-term debt .....	44,503	32,686	478,326
Total .....	¥46,862	¥54,160	\$503,678

The weighted-average rates for short-term loans, current portion of long-term loans and long-term loans as of March 31, 2010 were 1.50%, 2.72% and 1.45%, respectively.

The weighted-average rates for lease obligations were not presented because the amounts before deducting interest expenses were booked on consolidated balance sheet.

The maturity of long-term debt from banks, insurance companies and lease companies is as follows.

Year ending March 31	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2011	¥ 734	\$ 7,889
2012	43,675	469,442
2013	343	3,687
2014	330	3,554
2015	58	630

As of March 31, 2010 and 2009, assets pledged as collateral for short-term and long-term loans are as follows:

	March 31		2010 <i>(Thousands of U.S. dollars)</i>
	2010	2009	
	<i>(Millions of yen)</i>		
Buildings and structures, net .....	¥402	¥456	\$4,330
Machinery and equipment, net .....	6	14	68
Land .....	101	107	1,090
Total .....	¥510	¥578	\$5,489

Secured loans as of March 31, 2010 and 2009 are as follows:

	March 31		2010 <i>(Thousands of U.S. dollars)</i>
	2010	2009	
	<i>(Millions of yen)</i>		
Short-term loans .....	¥ 43	¥ 43	\$ 465
Long-term loans .....	289	410	3,110
Total .....	¥332	¥453	\$3,575



## 10. Accrued retirement benefits to employees

Clarion changed its retirement benefit plan as of April 30, 2010 from previous defined benefit plan and retirement lump sum grants to defined benefit plan, retirement lump sum grants and defined contribution pension plan. Some of the domestic subsidiaries maintain tax qualified pension plans and employees' severance indemnities plans

as defined benefit pension plans, and other domestic subsidiaries and some of the overseas subsidiaries have employees' severance indemnities plans as defined benefit pension plans. In addition, some overseas subsidiaries have defined contribution pension plans.

The funded status of retirement benefit plans as of March 31, 2010 and 2009 were as follows:

	March 31		
	2010	2009	2010
	(Millions of yen)		(Thousands of U.S. dollars)
Projected benefit obligations .....	¥(14,433)	¥(14,400)	\$ (155,130)
Plan assets at fair value .....	2,419	2,244	26,003
Securities contributed to employee retirement benefit trust .....	291	211	3,137
Unfunded status .....	(11,722)	(11,943)	(125,989)
Unrecognized net obligation at transition .....	—	17	—
Unrecognized actuarial differences .....	1,298	2,262	13,954
Unrecognized prior service costs due to plan amendment .....	393	437	4,232
Accrued pension and severance costs .....	¥(10,029)	¥(9,226)	\$ (107,802)

Net periodic pension expense relating to the retirement benefits for the years ended March 31, 2010, 2009 and 2008 were as follows:

	Year ended March 31			
	2010	2009	2008	2010
	(Millions of yen)			(Thousands of U.S. dollars)
Service cost .....	¥ 883	¥ 942	¥ 941	\$ 9,497
Interest cost .....	285	350	359	3,071
Expected return on plan assets .....	(50)	(69)	(75)	(543)
Amortization of unrecognized net obligation at transition .....	17	14	14	182
Amortization of unrecognized prior service costs due to plan amendment .....	44	44	44	474
Amortization of unrecognized actuarial difference .....	460	171	115	4,946
Net periodic pension expense .....	¥1,640	¥1,452	¥1,399	\$17,629

In addition to the above, extra employees' severance indemnities of ¥51 million (\$551 thousand), ¥343 million and ¥70 million were included in additional severance costs for the periods ended March 31, 2010, 2009 and 2008, respectively.

Assumptions used in calculating the above information were as follows:

	Year ended March 31		
	2010	2009	2008
Discount rates .....	1.5~2.1%	2.0~2.3%	2.0~2.5%
Expected rates of return on plan assets .....	2.0~3.8%	2.0~4.0%	2.0~3.0%
Amortization period for unrecognized prior service costs due to plan amendment .....	13 years	13 years	13 years
Amortization period for unrecognized actuarial difference .....	7~15 years	7~15 years	7~15 years
Amortization period for unrecognized net obligation at transition .....	10 years	10 years	10 years

## 11. Shareholders' equity

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and

the legal reserve 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

## 12. Revaluation of land used for business operations in accordance with the Land Revaluation Law

In accordance with Article 119 of 1998 Cabinet Order – Article 2-1 of the Enforcement Ordinance relating to the Land Revaluation Law, revaluation is performed by the method of calculating land value for the standard basis of land in accordance with the Law for Government Appraisal of Land Prices. Under Article 2-4 of the Enforcement Ordinance, revaluation is performed by using the method of calculating land value for a taxable basis of the Land Value Tax amounts along with reasonable adjustments, such as

shape of the land and accessibility, in accordance with the Article 16 of the Land-Holding Tax Law. This method is established and published by the Director General of the National Tax Administration, and the land is valued by the real estate appraiser in accordance with Article 2-5. As a result, deferred income taxes on revaluation of land is recorded as liabilities and net unrealized gain on revaluation of land, net of tax, was recorded as a component of net assets.

As of March 31, 2010 and 2009, the differences between fair value and carrying amount after revaluation dated March 31, 2001 were as follows:

	March 31		2010 (Thousands of U.S. dollars)
	2010	2009	
	(Millions of yen)		
Difference between fair value and carrying amount after revaluation .....	¥(1,148)	¥(1,057)	\$(12,341)

## 13. Income taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2010 and 2009 were as follows:

	March 31		2010 (Thousands of U.S. dollars)
	2010	2009	
	(Millions of yen)		
Deferred tax assets:			
Net operating tax loss carryforwards .....	¥ 10,021	¥ 9,719	\$ 107,714
Accrued pension and severance costs .....	4,041	3,784	43,442
Accrued warranty cost .....	346	564	3,726
Loss on devaluation of inventories .....	638	673	6,864
Loss on devaluation of marketable securities.....	488	521	5,251
Accrued expenses.....	877	819	9,432
Other account payable.....	415	448	4,461
Allowance for doubtful accounts .....	68	86	741
Foreign tax credit carryforward .....	487	479	5,241
Accrued bonuses .....	493	545	5,301
Other.....	827	1,295	8,894
Sub-total.....	<u>18,707</u>	<u>18,939</u>	<u>201,071</u>
Deferred tax liabilities:			
Depreciation .....	42	12	460
Other.....	63	4	680
Sub-total.....	<u>106</u>	<u>17</u>	<u>1,141</u>
Less: Valuation allowance .....	<u>(15,257)</u>	<u>(16,374)</u>	<u>(163,992)</u>
Net deferred tax assets.....	<u>¥ 3,343</u>	<u>¥ 2,546</u>	<u>\$ 35,937</u>

The differences between the Company's statutory income tax rate and effective income tax rates reflected in the consolidated statements of operations were reconciled as follows:

	March 31
	2010
Statutory income tax rate.....	40.7%
Permanent differences .....	11.0
Fixed levy of local inhabitant taxes.....	5.5
Valuation allowance.....	(35.5)
Variance of effective tax rate between Clarion and the subsidiaries.....	6.5
Foreign income tax credit .....	(7.7)
Other.....	(1.6)
Effective income tax rates.....	<u>18.9%</u>

For the year ended March 31, 2009, a reconciliation of the difference between the Company's statutory income tax rate and effective income tax rate has not been presented as a result of the loss before income taxes and minority interests.

#### 14. Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2010, 2009 and 2008 totaled ¥86 million (\$926 thousand), ¥1,596 million and ¥2,255 million, respectively.

#### 15. Cash flow information

Reconciliations between cash and cash equivalents and cash on hand and in bank as of March 31, 2010 and 2009 were as follows:

	March 31		
	2010	2009	2010
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash on hand and in banks.....	<b>¥10,192</b>	¥9,386	<b>\$109,547</b>
Deposits with original maturities of more than three months.....	—	(347)	—
Cash and cash equivalents.....	<b>¥10,192</b>	¥9,039	<b>\$109,547</b>

The following assets and liabilities have been excluded from subsidiaries after the sales of common stock Clarion Mobile Com Co., Ltd. and the sales amount of the common stock as follows:

	March 31	
	2010	2010
	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Current assets.....	<b>¥621</b>	<b>\$6,677</b>
Fixed assets.....	<b>153</b>	<b>1,650</b>
Current liabilities.....	<b>(543)</b>	<b>(5,844)</b>
Fixed liabilities.....	<b>(21)</b>	<b>(233)</b>
Gain on sales of subsidiary shares.....	<b>190</b>	<b>2,049</b>
Amounts of sales of subsidiary shares.....	<b>400</b>	<b>4,299</b>
Cash and cash equivalents.....	<b>(98)</b>	<b>(1,056)</b>
Netting with cash and cash equivalents.....	<b>¥301</b>	<b>\$3,242</b>

## 16. Leases

The Company, as a lessee, charges periodic lease payments for finance leases which do not transfer ownership of the leased property to the lessee and have been entered into before April 1, 2008, to expense on payment. Such payments for the years ended March 31, 2010, 2009 and 2008 were ¥823 million (\$8,850 thousand), ¥1,282 million and ¥1,542 million, respectively.

The amount of outstanding future lease payments for finance leases as of March 31, 2010 and 2009, excluding the interest thereon, are summarized as follows:

	March 31		2010 (Thousands of U.S. dollars)
	2010 (Millions of yen)	2009	
Future lease payments:			
Due within one year.....	¥ 447	¥ 862	\$ 5,130
Due after one year.....	550	1,367	5,915
Total .....	<u>¥1,027</u>	<u>¥2,230</u>	<u>\$11,045</u>

Pro forma information as of and for the years ended March 31, 2010 and 2009 relating to acquisition cost, accumulated depreciation, depreciation expense and interest expense for property held under finance leases which do not transfer ownership of the leased property to the lessee and have been entered into before April 1, 2008, if finance lease accounting had been applied to finance leases currently accounted for as operating leases are as follows:

	March 31		2010 (Thousands of U.S. dollars)
	2010 (Millions of yen)	2009	
Acquisition cost.....	¥4,252	¥5,347	\$45,705
Accumulated depreciation .....	(3,334)	(3,678)	(35,839)
Net book value .....	<u>¥ 917</u>	<u>¥1,669</u>	<u>\$ 9,865</u>
Depreciation expense.....	<u>¥ 679</u>	<u>¥1,074</u>	<u>\$ 7,301</u>
Interest expense.....	<u>¥ 117</u>	<u>¥ 181</u>	<u>\$ 1,264</u>

Depreciation is calculated based on the straight-line method over the lease term of the assets with no residual value. Interest expense on leased assets is calculated as the difference between the total lease payments and the assumed acquisition cost for the asset and is allocated over the lease term using the effective interest method.

Future lease obligations for non-cancelable operating leases at March 31, 2010 and 2009 follow:

	March 31		2010 (Thousands of U.S. dollars)
	2010 (Millions of yen)	2009	
Due within one year.....	¥ 311	¥ 338	\$ 3,350
Due after one year.....	561	725	6,031
Total .....	<u>¥ 872</u>	<u>¥1,063</u>	<u>\$ 9,381</u>

## 17. Commitments and contingencies

The Company was contingently liable for notes receivable discounted, amounting to ¥227 million as of March 31, 2009.

## 18. Segment information

### (1) Information by business segment

The Company operates principally in three business segments.

(a) Car audio-visual equipment: Car navigation system, Car audios, Car multimedia equipments, and peripheral devices

(b) Special equipment: Audio and visual equipment for public

transportation, Bus location system, and CCD (Charged-Coupled Devices) surrounding view cameras

(c) Other : SS (Spread Spectrum) wireless communication equipment, Mobile-phone, EMS (Electronics Manufacturing Service) business, and other

	Year ended March 31, 2010				
	Car audio-visual equipment	Special equipment	Other	Elimination and corporate	Consolidated total
	<i>(Millions of yen)</i>				
Net sales.....	¥156,372	¥7,685	¥ 10,704	¥ —	¥174,762
Operating expenses .....	156,742	6,863	10,531	—	174,137
Operating income/(loss) .....	¥ (370)	¥ 821	¥ 173	¥ —	¥ 624
Total assets .....	¥103,429	¥4,316	¥ 4,723	¥ 243	¥112,714
Depreciation .....	¥ 7,987	¥ 393	¥ 152	¥ —	¥ 8,533
Impairment loss.....	¥ 28	¥ 5	¥ 2	¥ —	¥ 36
Capital expenditures .....	¥ 5,400	¥ 293	¥ 162	¥ —	¥ 5,855

	Year ended March 31, 2009				
	Car audio-visual equipment	Special equipment	Other	Elimination and corporate	Consolidated total
	<i>(Millions of yen)</i>				
Net sales.....	¥157,552	¥8,982	¥ 15,018	¥ —	¥181,554
Operating expenses .....	172,044	7,210	14,748	—	194,003
Operating (loss)/income .....	¥ (14,491)	¥1,772	¥ 270	¥ —	¥ (12,449)
Total assets .....	¥105,429	¥5,418	¥ 6,546	¥ 246	¥117,641
Depreciation .....	¥ 7,962	¥ 372	¥ 172	¥ —	¥ 8,506
Impairment loss.....	¥ 8	¥ 3	¥ 1	¥ —	¥ 12
Capital expenditures .....	¥ 10,495	¥ 459	¥ 195	¥ —	¥ 11,150

	Year ended March 31, 2008				
	Car audio-visual equipment	Special equipment	Other	Elimination and corporate	Consolidated total
	<i>(Millions of yen)</i>				
Net sales.....	¥217,522	¥8,732	¥ 20,551	¥ —	¥246,806
Operating expenses .....	213,191	7,992	20,156	—	241,340
Operating income .....	¥ 4,330	¥ 739	¥ 395	¥ —	¥ 5,465
Total assets .....	¥143,065	¥5,447	¥ 14,392	¥(12,063)	¥150,841
Depreciation .....	¥ 6,665	¥ 230	¥ 196	¥ —	¥ 7,092
Impairment loss.....	¥ 351	¥ 10	¥ 3	¥ —	¥ 364
Capital expenditures .....	¥ 10,516	¥ 444	¥ 294	¥ —	¥ 11,255

	Year ended March 31, 2010				
	Car audio-visual equipment	Special equipment	Other	Elimination and corporate	Consolidated total
	<i>(Thousands of U.S. dollars)</i>				
Net sales.....	\$1,680,697	\$82,601	\$115,056	\$ —	\$1,878,355
Operating expenses .....	1,684,677	73,771	113,195	—	1,871,644
Operating income/(loss) .....	\$ (3,979)	\$ 8,829	\$ 1,860	\$ —	\$ 6,711
Total assets .....	\$1,111,671	\$46,396	\$ 50,772	\$ 2,618	\$1,211,459
Depreciation .....	\$ 85,850	\$ 4,230	\$ 1,635	\$ —	\$ 91,715
Impairment loss.....	\$ 308	\$ 56	\$ 31	\$ —	\$ 395
Capital expenditures .....	\$ 58,042	\$ 3,151	\$ 1,747	\$ —	\$ 62,940

Corporate assets included in "Elimination and corporate" mainly consist of investments in securities. Such investments in securities for the years ended March 31, 2010, 2009 and 2008 were

¥243 million (\$2,618 thousand), ¥246 million and ¥289 million, respectively.

## (2) Information by geographic segment

Sales of the Company classified by geographic area for the years ended March 31, 2010, 2009 and 2008, respectively, are summarized as follows:

	Year ended March 31, 2010					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
	<i>(Millions of yen)</i>					
Sales to outside customers .....	¥ 93,892	¥55,499	¥11,886	¥13,482	¥ —	¥174,762
Inter-segment sales .....	41,886	895	22,056	304	(65,143)	—
Total sales .....	135,779	56,395	33,943	13,787	(65,143)	174,762
Operating expenses .....	136,119	54,876	33,886	14,430	(65,175)	174,137
Operating income/(loss) .....	¥ (340)	¥ 1,519	¥ 56	¥ (643)	¥ 32	¥ 624
Total assets .....	¥110,133	¥24,080	¥16,787	¥ 8,562	¥(46,849)	¥112,714

	Year ended March 31, 2009					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
	<i>(Millions of yen)</i>					
Sales to outside customers .....	¥105,991	¥46,440	¥12,461	¥16,661	¥ —	¥181,554
Inter-segment sales .....	31,689	1,192	37,200	365	(70,448)	—
Total sales .....	137,681	47,632	49,661	17,027	(70,448)	181,554
Operating expenses .....	149,668	47,620	49,735	17,235	(70,255)	194,003
Operating (loss)/income .....	¥ (11,987)	¥ 12	¥ (74)	¥ (208)	¥ (192)	¥ (12,449)
Total assets .....	¥113,453	¥23,463	¥14,958	¥ 8,719	¥(42,954)	¥117,641

	Year ended March 31, 2008					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
	<i>(Millions of yen)</i>					
Sales to outside customers .....	¥151,015	¥55,497	¥12,952	¥27,340	¥ —	¥246,806
Inter-segment sales .....	37,864	1,257	39,791	357	(79,271)	—
Total sales .....	188,880	56,755	52,744	27,697	(79,271)	246,806
Operating expenses .....	184,714	55,659	52,277	27,550	(78,861)	241,340
Operating income .....	¥ 4,165	¥ 1,096	¥ 466	¥ 147	¥ (410)	¥ 5,465
Total assets .....	¥135,674	¥21,570	¥22,809	¥15,582	¥(44,795)	¥150,841

	Year ended March 31, 2010					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
	<i>(Thousands of U.S. dollars)</i>					
Sales to outside customers .....	\$1,009,068	\$596,517	\$127,756	\$144,914	\$ —	\$1,878,355
Inter-segment sales .....	450,199	9,627	237,065	3,270	(700,163)	—
Total sales .....	1,459,367	606,144	364,821	148,184	(700,163)	1,878,355
Operating expenses .....	1,463,023	589,814	364,214	155,103	(700,512)	1,871,644
Operating income/(loss) .....	\$ (3,655)	\$ 16,329	\$ 606	\$ (6,918)	\$ 348	\$ 6,711
Total assets .....	\$1,183,719	\$258,818	\$180,435	\$ 92,027	\$(503,541)	\$1,211,459

Notes:

(\*1) Americas: U.S.A., Canada, Mexico and Brazil

(\*2) Asia and Australia: People's Republic of China, Taiwan R.O.C., Malaysia, Philippines and Australia

(\*3) Europe: Germany, U.K., Spain, France and Hungary

Corporate assets included in "Elimination and corporate" mainly consist of investments in securities. Such investments in securities

for the years ended March 31, 2010, 2009 and 2008 were ¥243 million (\$2,618 thousand), ¥246 million and ¥289 million, respectively.

### (3) Overseas sales

Overseas sales, which include export sales of Clarion and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas consolidated subsidiaries, for the years ended March 31, 2010, 2009 and 2008 are as follows:

	Year ended March 31			2010 (Thousands of U.S. dollars)
	2010	2009	2008	
	(Millions of yen)			
Overseas sales:				
Americas (*1).....	¥ 55,505	¥ 46,511	¥ 55,871	\$ 596,572
Europe (*2).....	13,485	21,520	37,141	144,938
Other (*3).....	12,919	13,627	14,414	138,859
	<b>81,909</b>	<b>81,659</b>	<b>107,428</b>	<b>880,370</b>
Consolidated net sales.....	<b>¥174,762</b>	<b>¥181,554</b>	<b>¥246,806</b>	<b>\$1,878,355</b>
Ratio .....	<b>46.9%</b>	45.0%	43.5%	<b>46.9%</b>

Notes:

(\*1) Americas: U.S.A., Canada, Mexico, Brazil and Venezuela

(\*2) Europe: Germany, U.K., France

(\*3) Other: Australia, People's Republic of China, the Republic of Korea, Taiwan R.O.C. and Malaysia

## 19. Analysis of selling, general and administrative expenses

An analysis of selling, general and administrative expenses for the years ended March 31, 2010, 2009 and 2008 are as follows:

	Year ended March 31			2010 (Thousands of U.S. dollars)
	2010	2009	2008	
	(Millions of yen)			
Payroll costs.....	¥ 7,710	¥ 9,631	¥ 9,971	\$ 82,875
Provision for bonuses.....	393	598	578	4,229
Pension expenses .....	557	564	562	5,987
Freight out.....	3,220	3,479	4,157	34,619
Provision for retirement benefit for directors and corporate auditors .....	—	33	107	—
Provision for doubtful accounts.....	68	55	—	738
Other.....	12,585	17,990	20,903	135,274
Total .....	<b>¥24,537</b>	<b>¥32,354</b>	<b>¥36,281</b>	<b>\$263,725</b>

## 20. Transactions with related parties

Year ended March 31, 2010:

Category	Name	Ownership of Voting Rights/%	Relationship
Parent Company	Hitachi, Ltd.	Hitachi: 64.01%	Loans receivable and loans through Hitachi's pooling system
Description of Transaction	Amount of Transaction		Balance at the end of period
	(Millions of yen)	(Thousands of U.S. dollars)	(Millions of yen)
Lending fund .....	¥ 1,505	\$ 16,179	¥ 20
Borrowing of fund.....	¥ —	\$ —	¥20,000
Interest expense.....	¥ 215	\$ 2,320	¥ 0
			\$ 217
			\$214,961
			\$ 5

Consumption tax was not included in the amount of transaction but included in the balance at the end of period stated in above information.

Short-term loans receivable and short-term loans were made under the Hitachi's pooling system and the transaction amount shown above represents the amount of increase and decrease in the short-term loans receivable and short-term loans balance as of March 31, 2010 compared with that as of March 31, 2009. The interest rate is decided in consideration for a market interest rate reasonably.

Category	Name	Ownership of Voting Rights/%	Relationship
Fellow subsidiary	Hitachi Capital Corp	-	Factoring service

  

Description of Transaction	Amount of Transaction		Subject	Balance at the end of period	
	(Millions of yen)	(Thousands of U.S. dollars)		(Millions of yen)	(Thousands of U.S. dollars)
Factoring .....	¥12,997	\$139,702	Notes and accounts payable .....	¥ 4,553	\$ 48,939

Category	Name	Ownership of Voting Rights/%	Relationship
Fellow subsidiary	Hitachi America Capital Ltd.	-	Loans receivable through Hitachi group pooling system

  

Description of Transaction	Amount of Transaction		Subject	Balance at the end of period	
	(Millions of yen)	(Thousands of U.S. dollars)		(Millions of yen)	(Thousands of U.S. dollars)
Lending fund .....	¥ 1,302	\$ 14,000	Short-term loans receivable	¥ 1,302	\$ 14,000

Consumption tax was not included in the amount of transaction but included in the balance at the end of period stated in above information.

The Company's notes and accounts payable were settled by using a factoring method based on the basic agreement entered into by the Company, its customers and Hitachi Capital Corporation.

Short-term loans receivable was made under the pooling system and the transaction amount shown above represents the amount of increase and decrease in the short-term loans receivable and short-term loans balance as of March 31, 2010 compared with that as of March 31, 2009. The interest rate is decided in consideration for a market interest rate reasonably.

Year ended March 31, 2009:

Category	Name	Ownership of Voting Rights/%	Relationship
Parent Company	Hitachi, Ltd.	Hitachi: 64.01%	Loans receivable and loans through Hitachi's pooling system

  

Description of Transaction	Amount of Transaction		Subject	Balance at the end of period	
	(Millions of yen)	(Millions of yen)		(Millions of yen)	(Millions of yen)
Lending fund .....	¥ 1,525		Short-term loans receivable .....	¥ 1,525	
Borrowing of fund.....	¥ (6,707)		Short-term loans .....	¥ -	
Borrowing of fund.....	¥ 13,000		Long-term loans .....	¥20,000	

Short-term loans receivable and short-term loans were made under the Hitachi's pooling system and the transaction amount shown above represents the amount of increase and decrease in the short-term loans receivable and short-term loans balance as of March 31, 2009 compared with that as of March 31, 2008.

Category	Name	Ownership of Voting Rights/%	Relationship
Fellow subsidiary	Hitachi Capital Corp.	-	Factoring service

  

Description of Transaction	Amount of Transaction		Subject	Balance at the end of period	
	(Millions of yen)	(Millions of yen)		(Millions of yen)	(Millions of yen)
Factoring .....	¥ 11,933		Notes and accounts payable .....	¥ 2,368	
Borrowing of fund.....	¥ 1,829		Short-term loans .....	¥ 1,892	

Category	Name	Ownership of Voting Rights/%	Relationship
Fellow subsidiary	Hitachi Automotive Systems Europe GmbH.	-	Sales of the Company's products

  

Description of Transaction	Amount of Transaction		Subject	Balance at the end of period	
	(Millions of yen)	(Millions of yen)		(Millions of yen)	(Millions of yen)
Payment of development cost ....	¥ 75		Accrued expenses.....	¥ 65	
Sales.....	¥ 5,035		Notes and accounts receivable .....	¥1,267	



Consumption tax was not included in the amount of transaction but included in the balance at the end of period stated in above information.

The Company's notes and accounts payable were settled by using a factoring method based on the basic agreement entered into by the Company, its customers and Hitachi Capital Corporation.

As for the borrowing of fund, the interest rate applied was determined by market interest rates.

As for the sales to Hitachi Automotive System Europe GmbH., the terms of condition was as same as other general transaction.

The Company has participated in the Hitachi's pooling system since December 2006.

## 21. Amounts per share

Net income/(loss) per share for the years ended March 31, 2010, 2009 and 2008 and net assets per share as of March 31, 2010 and 2009 are as follows:

	Year ended March 31			2010 (U.S. dollars)
	2010	2009 (Yen)	2008	
Net income/(loss) per share:				
Basic .....	<b>¥ 1.95</b>	¥(70.85)	¥ 4.88	<b>\$ 0.02</b>
Diluted.....	—	—	—	—

  

	March 31		2010 (U.S. dollars)
	2010	2009 (Yen)	
Net assets per share .....	<b>¥32.34</b>	¥ 31.77	<b>\$ 0.35</b>

Diluted net income per share is not disclosed because Clarion had no potentially dilutive shares.





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## Report of Independent Auditors

The Board of Directors  
Clarion Co., Ltd.

We have audited the accompanying consolidated balance sheets of Clarion Co., Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended March 31, 2010 all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clarion Co., Ltd. and consolidated subsidiaries at March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2010 in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

*Ernst & Young ShinNihon LLC*

June 25, 2010

Clarion Co., Ltd.