Clarion Co., Ltd.

Clarion Co., Ltd.
and
Subsidiaries

Consolidated Financial Statements

March 31, 2012

Clarion Co., Ltd. and Subsidiaries
Years ended March 31

Six-Year Summary

	Millions of yen, except per-share amounts						Thousands of U.S. dollars, except per-share amounts
	2007	2008	2009	2010	2011	**2012**	**2012**
For the Year							
Net sales	¥181,041	¥246,806	¥181,554	¥174,762	¥178,318	**¥186,711**	**$2,271,702**
Japan	93,365	151,015	105,991	93,892	93,089	**96,917**	**1,179,191**
Americas	49,537	55,497	46,440	55,499	59,611	**62,024**	**754,649**
Asia and Australia	14,475	12,952	12,461	11,886	13,963	**16,928**	**205,963**
Europe	23,663	27,340	16,661	13,482	11,653	**10,840**	**131,898**
Car audio-visual equipment	161,786	217,522	157,552	156,372	161,605	**167,148**	**2,033,689**
Special equipment	7,833	8,732	8,982	7,685	7,798	**8,008**	**97,435**
Others	11,422	20,551	15,018	10,704	8,915	**11,554**	**140,576**
Cost of sales	148,200	205,058	161,649	149,600	149,646	**155,783**	**1,895,410**
Selling, general and administrative expenses	29,768	36,281	32,354	24,537	23,735	**23,053**	**280,495**
Operating income (loss)	3,072	5,465	(12,449)	624	4,936	**7,873**	**95,796**
Other income (expenses), net	(2,905)	(1,167)	(2,758)	60	(2,482)	**(482)**	**(5,874)**
Income (loss) before income taxes and minority interests	167	4,298	(15,208)	684	2,454	**7,390**	**89,922**
Provision (benefit) for income taxes	938	2,903	4,776	129	1,063	**(150)**	**(1,826)**
Income (loss) before minority interests	(770)	1,378	(19,984)	555	1,390	**7,540**	**91,748**
Minority interests in subsidiaries	13	17	2	5	7	**8**	**104**
Net income (loss)	(784)	1,378	(19,987)	549	1,383	**7,532**	**91,643**
Research and development expenses	12,560	27,772	30,329	18,616	20,095	**20,910**	**254,413**
Capital investment	6,074	6,855	5,796	1,946	1,601	**3,361**	**40,894**
Net cash provided by (used in) operating activities	8,820	10,771	(2,851)	12,381	8,559	**16,304**	**198,381**
Net cash used in investing activities	(20,501)	(9,247)	(10,121)	(3,350)	(5,768)	**(11,587)**	**(140,988)**
Net cash provided by (used in) financing activities	10,054	1,061	10,014	(7,731)	(5,242)	**(751)**	**(9,142)**
Per share							
(Yen and U.S. dollars):							
Net income (loss)	¥(2.78)	¥4.88	¥(70.85)	¥1.95	¥4.90	**¥26.71**	**$0.32**
Cash dividends	¥2.00	¥2.00	—	—	—	**—**	**—**
At year end							
Total assets	¥149,490	¥150,841	¥117,641	¥112,714	¥103,769	**¥122,821**	**$1,494,358**
Total net assets	34,231	32,125	9,135	9,312	8,728	**16,579**	**201,717**
Interest-bearing debt	41,483	42,838	54,160	46,862	42,096	**41,927**	**510,132**
Ratio (%)							
Net assets ratio	22.9	21.3	7.8	8.3	8.4	**13.5**	**13.5**
ROE	(2.3)	4.2	(97.8)	6.1	15.7	**60.5**	**60.5**
ROA	(0.6)	0.9	(14.9)	0.5	1.3	**6.6**	**6.6**
Current ratio	115.2	113.5	106.1	144.8	99.6	**147.3**	**147.3**

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, 2012, which was ¥82.19 to U.S. $1.

Consolidated Balance Sheets

	March 31 2012	March 31 2011	March 31 2012
	(Millions of yen)		(Thousands of U.S. dollars)
ASSETS			
Current assets:			
Cash on hand and in banks (Note 9)	**¥ 11,611**	¥ 7,421	**$ 141,280**
Trade notes and accounts receivable (Note 9)	**30,717**	24,931	**373,739**
Allowance for doubtful accounts	**(217)**	(277)	**(2,640)**
Inventories (Note 6)	**22,385**	20,827	**272,363**
Deferred tax assets (Note 14)	**3,865**	2,738	**47,031**
Other current assets (Notes 9 and 22)	**8,468**	5,038	**103,036**
Total current assets	**76,832**	60,679	**934,811**
Investments in securities (Notes 7 and 9)	**2,469**	2,339	**30,047**
Property, plant and equipment (Note 5)			
Buildings and structures (Note 10)	**18,149**	18,655	**220,826**
Machinery and equipment (Note 10)	**41,863**	41,373	**509,351**
Land (Note 10)	**9,106**	8,997	**110,802**
Lease assets	**2,255**	1,649	**27,437**
Construction in progress	**1,252**	4	**15,239**
Accumulated depreciation	**(49,516)**	(48,692)	**(602,468)**
Property, plant and equipment, net	**23,110**	21,987	**281,189**
Other assets:			
Intangible assets	**17,345**	15,901	**211,045**
Deferred tax assets (Note 14)	**629**	473	**7,663**
Other	**2,432**	2,387	**29,600**
Total other assets	**20,408**	18,762	**248,309**
Total assets	**¥ 122,821**	¥ 103,769	**$1,494,358**

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

	March 31 2012	March 31 2011	March 31 2012
	(Millions of yen)		(Thousands of U.S. dollars)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans (Notes 9 and 10)	**¥ 621**	¥ 20,643	**$ 7,559**
Trade notes and accounts payable (Notes 9 and 22)	**32,153**	23,704	**391,204**
Accrued bonuses	**1,914**	1,779	**23,293**
Lease obligations (Note 10)	**422**	385	**5,142**
Accrued expenses (Note 22)	**7,645**	6,818	**93,016**
Accrued income taxes	**769**	697	**9,356**
Accrued warranty costs	**327**	417	**3,979**
Accrued disaster losses	**—**	384	**—**
Other current liabilities (Note 9)	**8,289**	6,082	**100,863**
Total current liabilities	**52,142**	60,913	**634,416**
Long-term liabilities:			
Long-term loans (Notes 9, 10 and 22)	**40,423**	20,717	**491,828**
Lease obligations (Note 10)	**460**	349	**5,601**
Accrued pension and severance costs (Note 11)	**10,097**	9,874	**122,857**
Deferred tax liabilities on revaluation of land (Note 13)	**569**	644	**6,927**
Deferred tax liabilities (Note 14)	**39**	8	**486**
Accrued retirement benefit for directors and corporate auditors	**194**	194	**2,367**
Accrued warranty costs	**409**	375	**4,979**
Asset retirement obligations (Note 18)	**176**	139	**2,142**
Other long-term liabilities	**1,728**	1,822	**21,032**
Total long-term liabilities	**54,099**	34,127	**658,224**
Commitments and contingencies			
Net assets:			
Shareholders' equity (Note 12):			
Common stock, no par value			
Authorized: 450,000,000 shares			
Issued: 282,744,185 shares at March 31, 2012 and 2011	**26,100**	26,100	**317,560**
Additional paid-in capital	**2,669**	2,669	**32,480**
Accumulated deficit (Note 23)	**(2,803)**	(10,335)	**(34,106)**
Treasury stock	**(125)**	(124)	**(1,525)**
Total shareholders' equity	**25,841**	18,310	**314,409**
Accumulated other comprehensive income:			
Net unrealized gains on revaluation of land (Note 13)	**1,014**	939	**12,340**
Net deferred losses on hedge	**(6)**	(7)	**(73)**
Foreign currency translation adjustments	**(10,795)**	(10,803)	**(131,353)**
Net unrealized gains on other securities	**331**	96	**4,036**
Total accumulated other comprehensive income	**(9,455)**	(9,775)	**(115,049)**
Minority interests in subsidiaries	**193**	194	**2,357**
Total net assets	**16,579**	8,728	**201,717**
Total liabilities and net assets	**¥122,821**	¥103,769	**$1,494,358**

Consolidated Statements of Income

	Year eanded March 31		
	2012	2011	2012
	(Millions of yen)		*(Thousands of U.S. dollars)*
Net sales	**¥ 186,711**	¥ 178,318	**$2,271,702**
Cost of sales	**155,783**	149,646	**1,895,410**
Gross profit	**30,927**	28,671	**376,292**
Selling, general and administrative expenses (Notes 15 and 20)	**23,053**	23,735	**280,495**
Operating income	**7,873**	4,936	**95,796**
Other income:			
Interest and dividend income	**98**	116	**1,192**
Gain on sales of property, plant and equipment	**106**	165	**1,298**
Insurance income	**527**	—	**6,424**
Equity in earnings of affiliates	**177**	136	**2,153**
Other	**390**	595	**4,754**
	1,300	1,013	**15,824**
Other expenses:			
Interest expense (Note 22)	**499**	626	**6,076**
Rental expense	**180**	6	**2,199**
Exchange losses, net	**164**	242	**2,002**
Additional severance costs (Note 11)	**16**	21	**203**
Loss on sales and disposal of property, plant and equipment	**90**	171	**1,101**
Cancellation fee of lease contract	**202**	—	**2,458**
Loss on valuation of investment securities	**130**	45	**1,587**
Loss on disaster (Note 21)	**—**	1,182	**—**
Business structure improvement expenses (Note 11)	**—**	600	**—**
Cumulative effect on prior years of adopting the accounting standard for asset retirement obligations	**—**	111	**—**
Other	**498**	486	**6,068**
	1,783	3,495	**21,699**
Income before income taxes and minority interests	**7,390**	2,454	**89,922**
Income taxes (Note14):			
Current	**1,135**	1,013	**13,818**
Deferred	**(1,285)**	50	**(15,644)**
	(150)	1,063	**(1,826)**
Income before minority interests	**7,540**	1,390	**91,748**
Minority interests in subsidiaries	**8**	7	**104**
Net income	**¥ 7,532**	¥ 1,383	**$ 91,643**

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

Consolidated Statements of Comprehensive Income

	Year eanded March 31		
	2012	2011	2012
	(Millions of yen)		*(Thousands of U.S. dollars)*
Income before minority interests	**¥ 7,540**	¥ 1,390	**$ 91,748**
Other comprehensive income (Note 24):			
Net unrealized gains on other securities	**235**	27	**2,867**
Net deferred gains/(losses) on hedge	**1**	(10)	**18**
Net unrealized gains on revaluation of land	**75**	—	**912**
Foreign currency translation adjustments	**17**	(1,924)	**217**
Share of other comprehensive income of affiliates accounted for by the equity method	**(33)**	(63)	**(405)**
Total other comprehensive income	**296**	(1,970)	**3,610**
Comprehensive income	**¥ 7,837**	¥ (580)	**$ 95,358**

	Year eanded March 31		
	2012	2011	2012
	(Millions of yen)		*(Thousands of U.S. dollars)*
Comprehensive income attributable to:			
Shareholders	**¥ 7,852**	¥ (581)	**$ 95,536**
Minority interests	**(14)**	0	**(178)**

Consolidated Statements of Changes in Net Assets

		Shareholders' equity					Accumulated other comprehensive income						
	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 on other securities	Foreign currency translation adjustments	Accumulated other com-prehensive income	Minority interests in subsidiaries	Total net assets
	(Thousands)						(Millions of yen)						
Balance at April 1, 2010	282,744	¥26,100	¥2,669	¥ (11,592)	¥ (120)	¥17,057	¥ 812	¥ 3	¥ 68	¥ (8,822)	¥ (7,937)	¥ 193	¥ 9,312
Net income	–	–	–	1,383	–	1,383	–	–	–	–	–	–	1,383
Acquisition of treasury stock	–	–	–	–	(3)	(3)	–	–	–	–	–	–	(3)
Changes in:													
Items other than shareholders' equity	–	–	–	(126)	–	(126)	126	(10)	27	(1,981)	(1,837)	0	(1,963)
Balance at March 31, 2011	282,744	26,100	2,669	(10,335)	(124)	18,310	939	(7)	96	(10,803)	(9,775)	194	8,728
Balance at April 1, 2011	282,744	26,100	2,669	(10,335)	(124)	18,310	939	(7)	96	(10,803)	(9,775)	194	8,728
Net income	–	–	–	**7,532**	–	**7,532**	–	–	–	–	–	–	**7,532**
Acquisition of treasury stock	–	–	–	–	**(1)**	**(1)**	–	–	–	–	–	–	**(1)**
Changes in:													
Items other than shareholders' equity	–	–	–	–	–	–	**75**	**1**	**235**	**7**	**319**	**(0)**	**319**
Balance at March 31, 2012	**282,744**	**¥26,100**	**¥2,669**	**¥ (2,803)**	**¥ (125)**	**¥25,841**	**¥ 1,014**	**¥ (6)**	**¥ 331**	**¥ (10,795)**	**¥ (9,455)**	**¥ 193**	**¥ 16,579**

		Shareholders' equity					Accumulated other comprehensive income						
	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 on other securities	Foreign currency translation adjustments	Accumulated other com-prehensive income	Minority interests in subsidiaries	Total net assets
	(Thousands)						(Thousands of U.S. dollars)						
Balance at April 1, 2011	282,744	$317,560	$32,480	$(125,750)	$(1,510)	$222,780	$ 11,427	$ (91)	$ 1,169	$(131,448)	$(118,942)	$ 2,361	$106,199
Net income	–	–	–	**91,643**	–	**91,643**	–	–	–	–	–	–	**91,643**
Acquisition of treasury stock	–	–	–	–	**(15)**	**(15)**	–	–	–	–	–	–	**(15)**
Changes in:													
Items other than shareholders' equity	–	–	–	–	–	–	**912**	**18**	**2,867**	**94**	**3,892**	**(3)**	**3,889**
Balance at March 31, 2012	**282,744**	**$317,560**	**$32,480**	**$ (34,106)**	**$(1,525)**	**$314,409**	**$ 12,340**	**$ (73)**	**$ 4,036**	**$(131,353)**	**$(115,049)**	**$ 2,357**	**$ 201,717**

Consolidated Statements of Cash Flows

	Year eanded March 31		
	2012	2011	**2012**
	(Millions of yen)		(Thousands of U.S. dollars)
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 7,390**	¥ 2,454	**$ 89,922**
Adjustments to reconcile income before income taxes and minority interests to cash flows from operating activities:			
Depreciation and amortization	**6,584**	6,886	**80,109**
Amortization of goodwill	**933**	915	**11,356**
Equity in earnings of affiliates	**(177)**	(136)	**(2,153)**
Loss on devaluations of investments in securities	**130**	45	**1,587**
Decrease in allowance for doubtful accounts	**(76)**	(126)	**(932)**
Increase/(decrease) in accrued pension and severance costs, less payment	**223**	(142)	**2,716**
Decrease in accrued retirement benefit for directors and corporate auditors	**–**	(79)	**–**
Decrease in accrued warranty costs	**(76)**	(294)	**(934)**
Interest and dividend income	**(98)**	(116)	**(1,192)**
Interest expense	**499**	626	**6,076**
Gain on sales of property, plant and equipment	**(106)**	(165)	**(1,298)**
Loss on sales and disposal of property, plant and equipment	**90**	171	**1,101**
Loss on disaster	**–**	1,182	**–**
Business structure improvement expenses	**–**	600	**–**
Changes in assets and liabilities:			
Notes and accounts receivable	**(5,541)**	832	**(67,426)**
Inventories	**(1,504)**	(788)	**(18,310)**
Notes and accounts payable	**7,856**	(2,795)	**95,585**
Other, net	**1,555**	1,202	**18,921**
Sub-total	**17,681**	10,273	**215,128**
Interest and dividend received	**145**	140	**1,766**
Interest paid	**(502)**	(636)	**(6,108)**
Income taxes paid	**(1,019)**	(1,217)	**(12,405)**
Net cash provided by operating activities	**16,304**	8,559	**198,381**
Cash flows from investing activities:			
Increase in time deposits	**(1)**	–	**(13)**
Payment for purchases of property, plant and equipment	**(3,361)**	(2,415)	**(40,894)**
Proceeds from sales of property, plant and equipment	**1,315**	127	**16,011**
Payment for purchases of intangible assets	**(5,235)**	(3,364)	**(63,700)**
Proceeds from sales of investments in securities	**38**	39	**471**
Increase in loans receivable	**(18,020)**	(29,060)	**(219,253)**
Decrease in loans receivable	**13,868**	28,955	**(168,732)**
Payment for acquisition of shares of a subsidiary	**(164)**	–	**(1,997)**
Other, net	**(28)**	(50)	**(345)**
Net cash used in investing activities	**(11,587)**	(5,768)	**(140,988)**
Cash flows from financing activities:			
Decrease in short-term loans, net	**–**	(1,225)	**–**
Repayment of finance lease obligations	**(495)**	(523)	**(6,031)**
Proceeds from long-term loans	**20,000**	–	**243,338**
Repayment of long-term loans	**(20,288)**	(3,489)	**(246,851)**
Proceeds from minority shareholders	**34**	–	**417**
Other, net	**(1)**	(3)	**(15)**
Net cash used in financing activities	**(751)**	(5,242)	**(9,142)**
Effect of exchange rate changes on cash and cash equivalents	**69**	(320)	**841**
Net increase/(decrease) in cash and cash equivalents	**4,034**	(2,771)	**49,091**
Cash and cash equivalents at beginning of year	**7,421**	10,192	**90,294**
Increase due to inclusion in consolidation	**154**	–	**1,880**
Cash and cash equivalents at end of year (Note 16)	**¥ 11,610**	¥ 7,421	**$ 141,226**

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

Notes to the Consolidated Financial Statements

March 31, 2012

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Clarion Co., Ltd. ("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 IFRS, 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 the accounts of Clarion and any significant companies controlled directly or indirectly by Clarion.

Companies over which Clarion exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. Clarion applies the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No.18) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for using Equity Method" (PITF No.24). In accordance with these PITF, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries and affiliates prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items.

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.

Until the year ended March 31, 2011, the fiscal year end of some subsidiaries differed from that of Clarion. For significant transactions occurring in the period between the fiscal year end of those subsidiaries and the year end of Clarion, necessary adjustments were made in the consolidated financial statements.

As of the year ended March 31, 2012, the Company and its subsidiaries have unified their fiscal year end. With this unification, some subsidiaries changed their statutory closing date. In the case where subsidiaries are not permitted to change their statutory closing date in accordance with national regulations, such subsidiaries prepare their financial statements preliminarily as of the consolidated closing date in line with regular closing procedures. Therefore, due to the change in year end, the results of operations and cash flows of these subsidiaries for the period from January 1, 2011 to March 31, 2012 have been included in the accompanying 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) Notes receivable and notes payable maturing at year-end

Notes receivable and notes payable are settled on the date of clearance. As March 31, 2012 was a bank holiday, notes receivable and notes payable maturing on that date could not be settled and are included in the ending balance of notes and accounts receivable, trade and notes and accounts payable, trade, as follows:

	March 31		
	2012	2011	**2012**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Notes receivable	**¥ 152**	¥ —	**$1,850**
Notes payable	**429**	—	**5,226**

(7) 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.

(8) 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.

(9) 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.

(10) 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.

(11) Impairment of fixed assets
The accumulated impairment loss is deducted from the net book value of each asset.

(12) 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.

(13) 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 actuarial differences of Clarion and its domestic subsidiaries are amortized on a straight-line basis over a period of 7 to 13 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.

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

(15) 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.

(16) Research and development costs
Research and development costs are expensed as incurred.

(17) Income taxes
The provision for income taxes is computed based on income before income taxes and minority interests in the consolidated statements of income. 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.

(18) Revenue recognition
Sales are generally recognized at the time goods are delivered to customers.

(19) Amount per share
Basic net income per share is computed based on the net income 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. Accounting change

Effective April 1, 2011, the Company adopted the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24 issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24 issued on December 4, 2009).

4. 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 ¥82.19 = US$1, the approximate rate of exchange as of March 31, 2012, 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.

5. Impairment loss on fixed assets

The Company has recognized impairment loss of ¥21 million ($261 thousand) for the year ended March 31, 2012.

6. Inventories

Inventories as of March 31, 2012 and 2011 consisted of the following:

	March 31		
	2012	2011	**2012**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Finished goods	**¥13,286**	¥11,996	**$161,652**
Work in process	**1,681**	859	**20,462**
Raw materials and supplies	**7,417**	7,971	**90,249**
Total	**¥22,385**	¥20,827	**$272,363**

7. 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, 2012 and 2011, are as follows:

	March 31, 2012			
		Gross unrealized		
	Cost	Gain	Loss	Fair value (carrying value)
		(Millions of yen)		
Equity securities	**¥ 880**	**¥ 369**	**¥ (26)**	**¥ 1,223**
Debt securities	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**
Total	**¥ 880**	**¥ 369**	**¥ (26)**	**¥ 1,223**

	March 31, 2011			
		Gross unrealized		
	Cost	Gain	Loss	Fair value (carrying value)
		(Millions of yen)		
Equity securities	¥ 982	¥ 219	¥ (122)	¥ 1,079
Debt securities	—	—	—	—
Other	—	—	—	—
Total	¥ 982	¥ 219	¥ (122)	¥ 1,079

	March 31, 2012			
		Gross unrealized		
	Cost	Gain	Loss	Fair value (carrying value)
		(Thousands of U.S. dollars)		
Equity securities	**$ 10,708**	**$ 4,492**	**$ (319)**	**$ 14,882**
Debt securities	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**
Total	**$ 10,708**	**$ 4,492**	**$ (319)**	**$ 14,882**

Other securities sold for the years ended March 31, 2012 and 2011 are as follows:

	Year ended March 31 2012	2011	2012
	(Millions of yen)		(Thousands of U.S. dollars)
Sales amount	**¥ 38**	¥ 39	**$ 471**

At March 31, 2012 and 2011, the carrying value of the securities classified as other securities for which market quotation were unavailable were as follows:

	March 31 2012	2011	2012
	(Millions of yen)		(Thousands of U.S. dollars)
Other securities			
Unlisted equity securities	**¥ 52**	¥ 52	**$ 636**
Others	**215**	258	**2,620**

An impairment loss of ¥130 million (US$1,587 thousand) was recognized for the year ended March 31, 2012. In the event that fair value of an other security as of the year end declines more than 50%, an impairment loss is recognized. In the event that fair value of a security declined from 30% to 50%, the related impairment amount is determined considering the recoverability.

8. Fair values of derivative financial instruments

(1) Summarized below are the notional amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2012 and 2011, for which hedged accounting has not been applied.

	March 31, 2012 Contract amount	Fair value	Unrealized loss
		(Millions of yen)	
Forward foreign exchange contracts:			
Selling			
U.S. dollar	**¥ 3,288**	**¥ (6)**	**¥ (6)**
Euro	**1,951**	**(144)**	**(144)**
Buying			
U.S. dollar	**4,544**	**(37)**	**(37)**
Euro	**271**	**(2)**	**(2)**
British pound	**62**	**(0)**	**(0)**
Total unrealized loss from forward foreign currency exchange contracts			**¥ (191)**

	March 31, 2011 Contract amount	Fair value	Unrealized gain/(loss)
		(Millions of yen)	
Forward foreign exchange contracts:			
Selling			
U.S. dollar	¥ 2,212	¥ (33)	¥ (33)
Euro	1,612	(88)	(88)
Canadian dollar	67	(1)	(1)
Australian dollar	24	(0)	(0)
Buying			
U.S. dollar	3,449	60	60
Euro	287	6	6
Canadian dollar	33	0	0
British pound	104	2	2
Total unrealized loss from forward foreign currency exchange contracts			¥ (53)

	March 31, 2012 Contract amount	Fair value	Unrealized loss
		(Thousands of U.S. dollars)	
Forward foreign exchange contracts:			
Selling			
U.S. dollar	**$ 40,011**	**$ (82)**	**$ (82)**
Euro	**23,741**	**(1,753)**	**(1,753)**
Buying			
U.S. dollar	**55,287**	**(461)**	**(461)**
Euro	**3,299**	**(27)**	**(27)**
British pound	**765**	**(7)**	**(7)**
Total unrealized loss from forward foreign currency exchange contracts			**$ (2,331)**

(2) Summarized below are the national amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2012 and 2011, for which hedged accounting has been applied.

	March 31, 2012 Contract amount	Fair value	Unrealized loss
		(Millions of yen)	
Forward foreign exchange contracts:			
Selling			
Euro	**¥ 500**	**¥ (3)**	**¥ (3)**
Buying			
U.S. dollar	**494**	**(2)**	**(2)**
Total unrealized loss from forward foreign currency exchange contracts			**¥ (6)**

	March 31, 2011 Contract amount	Fair value	Unrealized gain/(loss)
		(Millions of yen)	
Forward foreign exchange contracts:			
Selling			
Euro	¥ 512	¥ (13)	¥ (13)
Buying			
U.S. dollar	450	6	6
Total unrealized gain from forward foreign currency exchange contracts			¥ (7)

	March 31, 2012 Contract amount	Fair value	Unrealized loss
		(Thousands of U.S. dollars)	
Forward foreign exchange contracts:			
Selling			
Euro	**$ 6,091**	**$ (45)**	**$ (45)**
Buying			
U.S. dollar	**6,019**	**(27)**	**(27)**
Total unrealized loss from forward foreign currency exchange contracts			**$ (73)**

9. Financial instruments

(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, 2012 and 2011 are as follows:

	March 31, 2012		
	Carrying value	Fair value	Difference
	(Millions of yen)		
(1) Cash on hand and in banks	**¥ 11,611**	**¥ 11,611**	**—**
(2) Trade notes and accounts receivable (*1)	**30,500**	**30,500**	**—**
(3) Investments in securities			
Other securities	**1,223**	**1,223**	**—**
(4) Trade notes and accounts payable	**(32,153)**	**(32,153)**	**—**
(5) Short-term loans	**(621)**	**(621)**	**—**
(6) Other accounts payable	**(7,534)**	**(7,534)**	**—**
(7) Long-term loans	**(40,423)**	**(40,423)**	**—**
(8) Derivative transactions (*2)	**(197)**	**(197)**	**—**

	March 31, 2011		
	Carrying value	Fair value	Difference
	(Millions of yen)		
(1) Cash on hand and in banks	¥ 7,421	¥ 7,421	—
(2) Trade notes and accounts receivable (*1)	24,654	24,654	—
(3) Investments in securities			
Other securities	1,079	1,079	—
(4) Trade notes and accounts payable	(23,704)	(23,704)	—
(5) Short-term loans	(20,643)	(20,643)	—
(6) Other accounts payable	(5,369)	(5,369)	—
(7) Long-term loans	(20,717)	(20,717)	—
(8) Derivative transactions (*2)	(61)	(61)	—

	March 31, 2012		
	Carrying value	Fair value	Difference
	(Thousands of U.S. dollars)		
(1) Cash on hand and in banks	**$ 141,280**	**$ 141,280**	**—**
(2) Trade notes and accounts receivable (*1)	**371,098**	**371,098**	**—**
(3) Investments in securities			
Other securities	**14,882**	**14,882**	**—**
(4) Trade notes and accounts payable	**(391,204)**	**(391,204)**	**—**
(5) Short-term loans	**(7,559)**	**(7,559)**	**—**
(6) Other accounts payable	**(91,677)**	**(91,677)**	**—**
(7) Long-term loans	**(491,828)**	**(491,828)**	**—**
(8) Derivative transactions (*2)	**(2,404)**	**(2,404)**	**—**

(*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).

10. Short-term and long-term debt

Short-term and long-term debt as of March 31, 2012 and 2011 consisted of the following:

	March 31		
	2012	2011	**2012**
	(Millions of yen)		(Thousands of U.S. dollars)
Short-term loans	**¥ 329**	¥ 352	**$ 4,007**
Current portion of long-term loans	**291**	20,290	**3,551**
Current portion of long-term lease obligations	**422**	385	**5,142**
Total short-term debt	**1,043**	21,029	**12,701**
Long-term loans	**40,423**	20,717	**491,828**
Long-term lease obligations	**460**	349	**5,601**
Total long-term debt	**40,883**	21,067	**497,430**
Total	**¥41,927**	¥42,096	**$510,132**

The weighted-average rates for short-term loans, current portion of long-term loans and long-term loans as of March 31, 2012 were 1.12%, 3.14% and 0.92%, 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	(Millions of yen)	(Thousands of U.S. dollars)
2013	¥714	$ 8,694
2014	8,546	103,985
2015	32,149	391,156
2016	118	1,439
2017	66	804

As of March 31, 2012 and 2011, assets pledged as collateral for short-term and long-term loans are as follows:

	March 31		
	2012	2011	2012
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures, net	¥306	¥334	$ 3,728
Machinery and equipment, net	0	1	0
Land	89	90	1,090
Total	¥396	¥426	$ 4,819

Secured loans as of March 31, 2012 and 2011 are as follows:

	March 31		
	2012	2011	2012
	(Millions of yen)		(Thousands of U.S. dollars)
Short-term loans	¥ 41	¥ 40	$ 510
Long-term loans	173	217	2,110
Total	¥215	¥258	$ 2,620

11. 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, 2012 and 2011 were as follows:

	March 31		
	2012	2011	2012
	(Millions of yen)		(Thousands of U.S. dollars)
Projected benefit obligations	¥ (13,629)	¥(12,981)	$(165,829)
Plan assets at fair value	2,835	2,608	34,493
Securities contributed to employee retirement benefit trust	253	276	3,089
Unfunded status	(10,540)	(10,096)	(128,246)
Unrecognized actuarial differences	472	238	5,753
Unrecognized prior service costs due to plan amendment	(30)	(16)	(365)
Accrued pension and severance costs	¥ (10,097)	¥ (9,874)	$(122,857)

Net periodic pension expense relating to the retirement benefits for the years ended March 31, 2012 and 2011 were as follows:

	Year ended March 31		
	2012	2011	2012
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥ 693	¥ 709	$ 8,436
Interest cost	242	262	2,949
Expected return on plan assets	(52)	(50)	(643)
Amortization of unrecognized prior service costs due to plan amendment	13	13	166
Amortization of unrecognized actuarial difference	136	227	1,660
Net periodic pension expense	1,032	1,162	12,568
Other (*)	119	119	1,450
Total	¥1,152	¥1,282	$14,018

* Other is contribution of annuity premium to defined contribution pension plan.

In addition to the above, extra employees' severance indemnities of ¥16 million ($203 thousand) and ¥141 million were included in additional severance costs for the periods ended March 31, 2012 and 2011, respectively.

Assumptions used in calculating the above information were as follows:

	Year ended March 31	
	2012	2011
Discount rates	1.2~1.7%	1.6~2.0%
Expected rates of return on plan assets	1.9~2.0%	2.0~2.1%
Amortization period for unrecognized prior service costs due to plan amendment	13 years	13 years
Amortization period for unrecognized actuarial difference	7~13 years	7~13 years

12. 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.

13. 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, 2012 and 2011, the differences between fair value and carrying amount after revaluation dated March 31, 2001 were as follows:

	March 31		
	2012	2011	2012
	(Millions of yen)		(Thousands of U.S. dollars)
Difference between fair value and carrying amount after revaluation	¥(1,300)	¥(1,195)	$(15,821)

14. Income taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2012 and 2011 were as follows:

	March 31		
	2012	2011	2012
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Net operating tax loss carryforwards	¥ 5,191	¥ 9,126	$ 63,158
Accrued pension and severance costs	3,876	4,040	47,161
Accrued warranty cost	176	222	2,143
Loss on devaluation of inventories	360	634	4,382
Loss on devaluation of marketable securities	523	507	6,369
Accrued expenses	1,064	660	12,951
Other account payable	431	523	5,245
Allowance for doubtful accounts	36	44	441
Foreign tax credit carryforward	121	264	1,476
Accrued bonuses	698	701	8,492
Other	853	938	10,390
Sub-total	13,332	17,664	162,212
Deferred tax liabilities:			
Depreciation	37	39	453
Other	75	49	923
Sub-total	113	89	1,376
Less: Valuation allowance	(8,763)	(14,371)	(106,627)
Net deferred tax assets	¥ 4,455	¥ 3,203	$ 54,209

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

	March 31	
	2012	2011
Statutory income tax rate	40.7%	40.7%
Permanent differences	4.8	8.6
Fixed levy of local inhabitant taxes	0.3	1.4
Valuation allowance	(52.1)	(19.1)
Variance of effective tax rate between Clarion and the subsidiaries	(1.3)	5.0
Foreign income tax credit	1.6	9.1
Reduction of deferred tax assets by the change of tax rate	3.3	—
Other	0.7	(2.4)
Effective income tax rates	(2.0)%	43.3%

The "Act for Partial Revision of the Income Tax Act etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act for Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011) were promulgated on December 2, 2011 and the staged reduction of the national corporate tax rate and a special reconstruction corporate tax will apply to corporate taxes effective for fiscal years beginning on or after April 1, 2012.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 40.7% to 38.0% for the temporary differences expected to be realized or settled in the period from April 1, 2012 to March 31, 2015 and from 38.0% to 35.6% for temporary differences expected to be realized or settled from fiscal years beginning April 1, 2015.

The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets, net by ¥215 million ($3,055 thousand) and net unrealized gains on other securities by ¥1 million ($15 thousand), respectively, and increase deferred income taxes by ¥252 million ($3,071 thousand) as of and for the year ended March 31, 2012. Deferred tax liabilities on revaluation of land decreased by ¥76 million ($1,050 thousand) and net unrealized gains on revaluation of land increased by ¥76 million ($1,050 thousand). In addition, under new tax regulations on net operating tax loss carryforwards, effective April 1, 2012, net operating tax loss carryforwards available to offset taxable income are limited to 80% of taxable income for a fiscal year. In line with this change, deferred tax assets decreased by ¥383 million ($4,669 thousand) and deferred income taxes increased by ¥383 million ($4,669 thousand) as of and for the year ended March 31, 2012.

15. Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2012 and 2011 totaled ¥14 million ($181 thousand) and ¥142 million, respectively.

16. Cash flow information

Reconciliations between cash and cash equivalents and cash on hand and in bank as of March 31, 2012 and 2011 were as follows:

	March 31		
	2012	2011	2012
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥11,611	¥7,421	$ 141,280
Time deposits with maturities of more than three months	(1)	—	(13)
Cash and cash equivalents	¥11,610	¥7,421	$ 141,266

17. 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, 2012 and 2011 were ¥316 million ($3,852 thousand) and ¥501 million, respectively.

The amount of outstanding future lease payments for finance leases as of March 31, 2012 and 2011, excluding the interest thereon, are summarized as follows:

	March 31		
	2012	2011	2012
	(Millions of yen)		(Thousands of U.S. dollars)
Future lease payments:			
Due within one year	¥ 85	¥ 317	$ 1,038
Due after one year	63	248	769
Total	¥ 148	¥ 566	$ 1,808

Pro forma information as of and for the years ended March 31, 2012 and 2011 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		
	2012	2011	2012
	(Millions of yen)		(Thousands of U.S. dollars)
Acquisition cost	¥ 616	¥ 3,521	$ 7,506
Accumulated depreciation	(480)	(3,008)	(5,850)
Net book value	¥ 136	¥ 513	$ 1,656
Depreciation expense	¥ 276	¥ 410	$ 3,364
Interest expense	¥ 24	¥ 45	$ 298

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, 2012 and 2011 follow:

	March 31		
	2012	2011	2012
	(Millions of yen)		(Thousands of U.S. dollars)
Due within one year	**¥ 264**	¥ 274	**$ 3,223**
Due after one year	**347**	406	**4,222**
Total	**¥ 611**	¥ 681	**$ 7,445**

18. Asset retirement obligations

Information on asset retirement obligations on the consolidated balance sheets at March 31, 2012 and 2011 follow:

(a) Outline of asset retirement obligations:

The scope of the obligations is the duty to restore facilities in line with the real estate contracts for land and buildings used for business activities.

(b) Calculation method of the obligations:

The Company calculates the amounts of the obligations over the estimated useful lives of 3 to 24 years from acquisition and with discount rates ranging from 0.1 to 1.9%.

(c) Changes in the asset retirement obligations for the year ended March 31, 2012 and 2011 were as follows:.

	March 31		
	2012	2011	2012
	(Millions of yen)		(Thousands of U.S. dollars)
Balance at beginning of year	**¥ 139**	¥ 178	**$ 1,700**
Liabilities incurred due to the acquisition of property, plant and equipment	**106**	—	**1,301**
Accretion expense	**1**	1	**18**
Liabilities settled	**(18)**	—	**(221)**
Others	**(53)**	(40)	**(656)**
Balance at end of year	**¥ 176**	¥ 139	**$ 2,142**

Balance at April 1, 2010 represents the beginning balance based on application of "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18) and its implementation guidance (ASBJ Guidance No. 21).

19. Segment information

(1) Information by reportable segment

Sales of the Company classified by reportable segment for the years ended March 31, 2012 and 2011, respectively, are summarized as follows:

	Year ended March 31, 2012					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Adjustments	Consolidated total
	(Millions of yen)					
Sales to outside customers	**¥ 96,917**	**¥ 62,024**	**¥ 16,928**	**¥ 10,840**	**¥ —**	**¥186,711**
Inter-segment sales	**41,714**	**648**	**39,114**	**190**	**(81,667)**	**—**
Total sales	**138,632**	**62,672**	**56,042**	**11,030**	**(81,667)**	**186,711**
Segment income	**¥ 6,327**	**¥ 1,331**	**¥ 400**	**¥ 2**	**¥ (188)**	**¥ 7,873**
Segment assets	**¥119,142**	**¥ 24,501**	**¥ 21,806**	**¥ 7,556**	**¥ (50,185)**	**¥122,821**

	Year ended March 31, 2011					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Adjustments	Consolidated total
	(Millions of yen)					
Sales to outside customers	¥ 93,089	¥ 59,611	¥ 13,963	¥ 11,653	¥ —	¥178,318
Inter-segment sales	46,250	636	29,408	183	(76,479)	—
Total sales	139,340	60,248	43,371	11,837	(76,479)	178,318
Segment income/(loss)	¥ 2,967	¥ 1,898	¥ 116	¥ (106)	¥ 59	¥ 4,936
Segment assets	¥104,038	¥ 22,610	¥ 15,842	¥ 7,846	¥ (46,568)	¥103,769

	Year ended March 31, 2012					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Adjustments	Consolidated total
	(Thousands of U.S. dollars)					
Sales to outside customers	**$1,179,191**	**$ 754,649**	**$ 205,963**	**$ 131,898**	**$ —**	**$2,271,702**
Inter-segment sales	**507,541**	**7,886**	**475,899**	**2,314**	**(993,642)**	**—**
Total sales	**1,686,732**	**762,536**	**681,863**	**134,212**	**(993,642)**	**2,271,702**
Segment income	**$ 76,984**	**$ 16,204**	**$ 4,871**	**$ 32**	**$ (2,296)**	**$ 95,796**
Segment assets	**$1,449,599**	**$ 298,107**	**$ 265,314**	**$ 91,939**	**$ (610,602)**	**$1,494,358**

Notes:
(*1) Americas: U.S.A., Canada, Mexico and Brazil
(*2) Asia and Australia: People's Republic of China, Taiwan R.O.C., Malaysia, Thailand, Philippines and Australia
(*3) Europe: France, Germany, U.K. and Hungary

Corporate assets included in "Adjustments" mainly consist of investments in securities. Such investments in securities for the years ended March 31, 2012 and 2011 were ¥183 million ($2,230 thousand) and ¥173 million, respectively.

(2) Information by product and service

The Company principally provides the following products and services.
(a) Car audio-visual equipment: Car navigation systems, car audio equipment, car multimedia equipment, and peripheral devices
(b) Special equipment: Audio and visual equipment for public transportation, bus location systems, and CCD (Charged-Coupled Devices) surrounding view cameras
(c) Other: SS (Spread Spectrum) wireless communication equipment, EMS (Electronics Manufacturing Service) business, and other.

Sales by product and service for the years ended March 31, 2012 and 2011 are as follows:

	Year ended March 31		
	2012	2011	2012
	(Millions of yen)		(Thousands of U.S. dollars)
Product and service:			
Car audio-visual equipment	**¥167,148**	¥161,605	**$2,033,689**
Special equipment	**8,008**	7,798	**97,435**
Other	**11,554**	8,915	**140,576**
Consolidated net sales	**¥186,711**	¥178,318	**$2,271,702**

(3) Information on sales by region

Information on sales by the region categorized as Japan, Americas, Asia and Australia and Europe, for the year ended March 31, 2012 and 2011 are as follows:
Sales by region are classified based on areas in which significant customers are located.

	Year ended March 31		
	2012	2011	2012
	(Millions of yen)		(Thousands of U.S. dollars)
Japan	**¥ 96,245**	¥ 91,663	**$1,171,016**
Americas	**62,026**	59,619	**754,667**
Asia and Australia	**17,600**	15,385	**214,138**
Europe	**10,839**	11,649	**131,879**
Consolidated net sales	**¥186,711**	¥178,318	**$2,271,702**

20. Selling, general and administrative expenses

An analysis of selling, general and administrative expenses for the years ended March 31, 2012 and 2011 are as follows:

	Year ended March 31		
	2012	2011	**2012**
	(Millions of yen)		(Thousands of U.S. dollars)
Payroll costs	**¥ 7,017**	¥ 7,019	**$ 85,387**
Provision for bonuses	**531**	480	**6,465**
Pension expenses	**414**	491	**5,040**
Freight out	**3,270**	3,349	**39,789**
Other	**11,819**	12,395	**143,812**
Total	**¥23,053**	¥23,735	**$ 280,495**

21. Loss on disaster

Loss on disaster due to the Great East Japan Earthquake for the year ended March 31, 2011 is as follows:

	March 31
	2011
	(Millions of yen)
Loss on destruction of inventory	¥ 426
Estimated amount of the restoration cost for the property, plant and equipment	384
Other	371
Total	¥1,182

22. Transactions with related parties

Year ended March 31, 2012:

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)	(Thousands of U.S. dollars)		(Millions of yen)	(Thousands of U.S. dollars)
Lending fund	**¥ 4,269**	**$ 51,940**	Short-term loans receivable	**¥ 5,331**	**$ 64,869**
Borrowing of fund	**¥ —**	**$ —**	Long-term loans	**¥ 20,000**	**$ 243,338**
Interest expense	**¥ 170**	**$ 2,070**	Accrued expenses	**¥ 0**	**$ 7**

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 long-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, 2012 compared with that as of March 31, 2011. 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	**¥12,063**	**$146,770**	Notes and accounts payable	**¥ 5,733**	**$ 69,754**

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.

Year ended March 31, 2011:

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)
Lending fund	¥ 1,042	Short-term loans receivable	¥ 1,062
Borrowing of fund	¥ —	Long-term loans	¥ 20,000
Interest expense	¥ 177	Accrued expenses	¥ 0

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 long-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, 2011 compared with that as of March 31, 2010. 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)		(Millions of yen)
Factoring	¥ 13,677	Notes and accounts payable	¥ 4,012

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.

23. Amounts per share

Net income per share and net asset per share for the years ended March 31, 2012 and 2011 are as follows:

	Year ended March 31		
	2012	2011	**2012**
	(Yen)		(U.S. dollars)
Net income per share:			
Basic	**¥ 26.71**	¥ 4.90	**$ 0.32**
Diluted	**—**	—	**—**

	March 31		
	2012	2011	**2012**
	(Yen)		(U.S. dollars)
Net assets per share	**¥ 58.12**	¥ 30.27	**$ 0.70**

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

24. Other comprehensive income

The following table presents reclassifications adjustments and tax effects allocated to each component of other comprehensive income for the year ended March 31, 2012:

	Year ended March 31	
	2012	2012
	(Millions of yen)	(Thousands of U.S. dollars)
Net unrealized gains on other securities:		
Amount arising during the year	¥ 114	$ 1,399
Reclassification adjustment for gains and losses included in net income	130	1,587
Amount before tax effect	245	2,987
Tax effect	(9)	(119)
Net unrealized gains on other securities	235	2,867
Net deferred gains on hedge:		
Amount arising during the year	1	18
Net unrealized gains on revaluation of land:		
Tax effect	75	912
Foreign currency transaction adjustments:		
Amount arising during the year	17	217
Share of other comprehensive income of affiliates accounted for by the equity method:		
Amount arising during the year	(33)	(405)
Total other comprehensive income	¥ 296	$ 3,610

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Independent Auditor's Report

The Board of Directors
Clarion Co., Ltd.

We have audited the accompanying consolidated financial statements of Clarion Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clarion Co., Ltd. and consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

Ernst & Young ShinNihon LLC

June 22, 2012
Tokyo, Japan