

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

Consolidated Financial Statements

March 31, 2011

Six-Year Summary

	Millions of yen, except per-share amounts						Thousands of U.S. dollars, except per- share amounts
	2006	2007	2008	2009	2010	2011	2011
For the Year							
Net sales	¥184,176	¥181,041	¥246,806	¥181,554	¥174,762	¥178,318	\$2,144,541
Japan	99,511	93,365	151,015	105,991	93,892	93,089	1,119,542
Americas	43,725	49,537	55,497	46,440	55,499	59,611	716,911
Asia and Australia	15,063	14,475	12,952	12,461	11,886	13,963	167,932
Europe	25,877	23,663	27,340	16,661	13,482	11,653	140,154
Car audio-visual equipment	168,686	161,786	217,522	157,552	156,372	161,605	1,943,535
Special equipment	8,306	7,833	8,732	8,982	7,685	7,798	93,786
Others	7,183	11,422	20,551	15,018	10,704	8,915	107,218
Cost of sales	147,123	148,200	205,058	161,649	149,600	149,646	1,799,722
Selling, general and administrative expenses	31,824	29,768	36,281	32,354	24,537	23,735	285,454
Operating income (loss)	5,228	3,072	5,465	(12,449)	624	4,936	59,364
Other income (expenses), net	(694)	(2,905)	(1,167)	(2,758)	60	(2,482)	(29,850)
Income (loss) before income taxes and minority interests	4,534	167	4,298	(15,208)	684	2,454	29,514
Provision (benefit) for income taxes	(1,337)	938	2,903	4,776	129	1,063	12,792
Income (loss) before minority interests	5,871	(770)	1,378	(19,984)	555	1,390	16,721
Minority interests in subsidiaries	8	13	17	2	5	7	88
Net income (loss)	5,862	(784)	1,378	(19,987)	549	1,383	16,632
Research and development expenses	11,340	12,560	27,772	30,329	18,616	20,095	241,672
Capital investment	8,106	6,074	6,855	5,796	1,946	1,601	19,264
Net cash provided by (used in) operating activities	9,236	8,820	10,771	(2,851)	12,381	8,559	102,940
Net cash used in investing activities	(1,055)	(20,501)	(9,247)	(10,121)	(3,350)	(5,768)	(69,370)
Net cash provided by (used in) financing activities	(7,938)	10,054	1,061	10,014	(7,731)	(5,242)	(63,043)
Per share							
(Yen and U.S. dollars):							
Net income (loss)	¥20.76	¥(2.78)	¥4.88	¥(70.85)	¥1.95	¥4.90	\$0.06
Cash dividends	¥2.00	¥2.00	¥2.00	—	—	—	—
At year end							
Total assets	¥122,119	¥149,490	¥150,841	¥117,641	¥112,714	¥103,769	\$1,247,981
Total net assets	34,661	34,231	32,125	9,135	9,312	8,728	104,973
Interest-bearing debt	34,227	41,483	42,838	54,160	46,862	42,096	506,277
Ratio (%)							
Net assets ratio	28.3	22.9	21.3	7.8	8.3	8.4	8.4
ROE	19.2	(2.3)	4.2	(97.8)	6.1	15.7	15.7
ROA	4.9	(0.6)	0.9	(14.9)	0.5	1.3	1.3
Current ratio	125.5	115.2	113.5	106.1	144.8	99.6	99.6

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, 2011, which was ¥83.15 to U.S. \$1.

Consolidated Balance Sheets

	March 31		
	2011	2010	2011
	(Millions of yen)		(Thousands of U.S. dollars)
ASSETS			
Current assets:			
Cash on hand and in banks (Note 9)	¥ 7,421	¥ 10,192	\$ 89,252
Trade notes and accounts receivable (Note 9).....	24,931	27,635	299,840
Allowance for doubtful accounts	(277)	(429)	(3,337)
Inventories (Note 6).....	20,827	21,219	250,476
Deferred tax assets (Note 14)	2,738	2,716	32,933
Other current assets (Notes 9 and 22)	5,038	5,048	60,600
Total current assets	60,679	66,382	729,765
Investments in securities (Notes 7 and 9)	2,339	2,366	28,135
Property, plant and equipment (Note 5)			
Buildings and structures (Note 10)	18,655	19,097	224,354
Machinery and equipment (Note 10)	41,373	43,059	497,572
Land (Note 10)	8,997	9,106	108,206
Lease assets	1,649	1,227	19,833
Construction in progress.....	4	0	59
Accumulated depreciation	(48,692)	(48,381)	(585,596)
Property, plant and equipment, net	21,987	24,110	264,430
Other assets:			
Intangible assets.....	15,901	16,687	191,237
Deferred tax assets (Note 14)	473	641	5,694
Other	2,387	2,525	28,717
Total other assets.....	18,762	19,854	225,649
Total assets	¥ 103,769	¥ 112,714	\$ 1,247,981

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

	March 31		
	2011	2010	2011
	(Millions of yen)		(Thousands of U.S. dollars)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans (Notes 9 and 10).....	¥ 20,643	¥ 1,917	\$ 248,267
Trade notes and accounts payable (Notes 9 and 22)	23,704	28,489	285,086
Accrued bonuses.....	1,779	1,236	21,396
Lease obligations (Note 10).....	385	440	4,639
Accrued expenses (Note 22).....	6,818	6,603	81,998
Accrued income taxes.....	697	1,052	8,394
Accrued warranty costs	417	748	5,024
Accrued disaster losses	384	—	4,621
Other current liabilities (Note 9)	6,082	5,358	73,149
Total current liabilities.....	60,913	45,848	732,577
Long-term liabilities:			
Long-term loans (Notes 9, 10 and 22)	20,717	44,239	249,162
Lease obligations (Note 10).....	349	264	4,208
Accrued pension and severance costs (Note 11).....	9,874	10,029	118,756
Deferred tax liabilities on revaluation of land (Note 13)	644	644	7,749
Deferred tax liabilities (Note 14)	8	14	98
Accrued retirement benefit for directors and corporate auditors.....	194	273	2,339
Accrued warranty costs	375	433	4,521
Asset retirement obligations (Note 18)	139	—	1,681
Other long-term liabilities	1,822	1,653	21,912
Total long-term liabilities.....	34,127	57,553	410,429
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, 2011 and 2010	26,100	26,100	313,894
Additional paid-in capital.....	2,669	2,669	32,105
Accumulated deficit (Note 23).....	(10,335)	(11,592)	(124,298)
Treasury stock.....	(124)	(120)	(1,492)
Total shareholders' equity	18,310	17,057	220,208
Accumulated other comprehensive income:			
Net unrealized gains on revaluation of land (Note 13)	939	812	11,295
Net deferred (losses)/gains on hedge	(7)	(3)	(90)
Foreign currency translation adjustments	(10,803)	(8,822)	(129,930)
Net unrealized gains on other securities	96	68	1,156
Total accumulated other comprehensive income.....	(9,775)	(7,937)	(117,569)
Minority interests in subsidiaries	194	193	2,334
Total net assets	8,728	9,312	104,973
Total liabilities and net assets.....	¥103,769	¥112,714	\$1,247,981

Consolidated Statements of Operations

	Year ended March 31			2011 (Thousands of U.S. dollars)
	2011	2010	2009	
	(Millions of yen)			
Net sales.....	¥ 178,318	¥ 174,762	¥ 181,554	\$2,144,541
Cost of sales	149,646	149,600	161,649	1,799,722
Gross profit	28,671	25,161	19,904	344,818
Selling, general and administrative expenses (Notes 15 and 20).....	23,735	24,537	32,354	285,454
Operating income/(loss).....	4,936	624	(12,449)	59,364
Other income:				
Interest and dividend income.....	116	85	194	1,399
Exchange gains, net.....	—	284	—	—
Gain on sales of property, plant and equipment.....	165	274	39	1,989
Gain on reimbursement of development costs.....	—	528	—	—
Gain on sales of subsidiary shares	—	190	—	—
Gain on reversal of patent fee for prior years	137	—	814	1,655
Reversal of allowance for doubtful accounts.....	73	—	—	882
Gain on reversal of purification cost	—	2	247	—
Equity in earnings of affiliates	136	46	189	1,645
Other.....	384	607	1,944	4,619
	1,013	2,021	3,429	12,192
Other expenses:				
Interest expense (Note 22)	626	721	589	7,537
Expense related to patent	—	108	429	—
Exchange losses, net	242	—	1,434	2,913
Additional severance costs (Note 11)	21	51	343	263
Loss on sales and disposal of property, plant and equipment.....	171	111	93	2,057
Loss on disaster (Note 21)	1,182	—	—	14,221
Business structure improvement expenses (Note 11)	600	44	2,257	7,219
Cumulative effect on prior years of adopting the accounting standard for asset retirement obligations.....	111	—	—	1,337
Loss from transfer between retirement benefit plans	—	200	—	—
Impairment loss on fixed assets (Note 5).....	—	36	12	—
Other.....	539	686	1,026	6,492
	3,495	1,960	6,187	42,042
Income/(loss) before income taxes and minority interests.....	2,454	684	(15,208)	29,514
Income taxes (Note 14):				
Current.....	1,013	1,065	325	12,185
Deferred.....	50	(935)	4,450	607
	1,063	129	4,776	12,792
Income/(loss) before minority interests	1,390	555	(19,984)	16,721
Minority interests in subsidiaries.....	7	5	2	88
Net income/(loss).....	¥ 1,383	¥ 549	¥ (19,987)	\$ 16,632

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

Consolidated Statements of Comprehensive Income

	Year ended March 31			2011 (Thousands of U.S. dollars)
	2011	2010	2009	
	(Millions of yen)			
Income/(loss) before minority interests	¥ 1,390	¥ 555	¥ (19,984)	\$ 16,721
Other comprehensive income:				
Net unrealized gains/(losses) on other securities.....	27	203	(267)	335
Net deferred (losses)/gains on hedge	(10)	9	0	(130)
Foreign currency translation adjustments	(1,924)	(633)	(2,121)	(23,145)
Share of other comprehensive income of affiliates accounted for by the equity method.....	(63)	46	(60)	(760)
Total other comprehensive income	(1,970)	(375)	(2,448)	(23,700)
Comprehensive income	¥ (580)	¥ 179	¥ (22,433)	\$ (6,978)

	Year ended March 31			2011 (Thousands of U.S. dollars)
	2011	2010	2009	
	(Millions of yen)			
Comprehensive income attributable to:				
Shareholders	¥ (581)	¥ 163	¥ (22,407)	\$ (6,990)
Minority interests	0	16	(26)	11

Consolidated Statements of Changes in Net Assets

	Shareholders' equity						Accumulated other comprehensive income						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	Accumulated other comprehensive income	Minority interests in subsidiaries	
	(Thousands)						(Millions of yen)						
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
Net loss	—	—	—	(19,987)	—	(19,987)	—	—	—	—	—	—	(19,987)
Dividends.....	—	—	—	(564)	—	(564)	—	—	—	—	—	—	(564)
Acquisition of treasury stock.....	—	—	—	—	(23)	(23)	—	—	—	—	—	—	(23)
Changes in:													
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
Net income.....	—	—	—	549	—	549	—	—	—	—	—	—	549
Acquisition of treasury stock.....	—	—	—	—	(2)	(2)	—	—	—	—	—	—	(2)
Changes in:													
Items other than shareholders' equity.....	—	—	—	—	—	—	—	9	203	(598)	(385)	16	(369)
Balance at March 31, 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	<u>282,744</u>	<u>¥26,100</u>	<u>¥2,669</u>	<u>¥ (10,335)</u>	<u>¥ (124)</u>	<u>¥18,310</u>	<u>¥ 939</u>	<u>¥ (7)</u>	<u>¥ 96</u>	<u>¥ (10,803)</u>	<u>¥ (9,775)</u>	<u>¥ 194</u>	<u>¥ 8,728</u>

	Shareholders' equity						Accumulated other comprehensive income						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	Accumulated other comprehensive income	Minority interests in subsidiaries	
	(Thousands)						(Thousands of U.S. dollars)						
Balance at March 31, 2010.....	282,744	\$313,894	\$32,105	\$ (139,411)	\$(1,450)	\$205,137	\$ 9,776	\$ 39	\$ 820	\$(106,101)	\$ (95,465)	\$ 2,322	\$ 111,994
Net income.....	—	—	—	16,632	—	16,632	—	—	—	—	—	—	16,632
Acquisition of treasury stock.....	—	—	—	—	(42)	(42)	—	—	—	—	—	—	(42)
Changes in:													
Items other than shareholders' equity.....	—	—	—	(1,519)	—	(1,519)	1,519	(130)	335	(23,829)	(22,103)	11	(23,611)
Balance at March 31, 2011	<u>282,744</u>	<u>\$313,894</u>	<u>\$32,105</u>	<u>\$ (124,298)</u>	<u>\$(1,492)</u>	<u>\$220,208</u>	<u>\$ 11,295</u>	<u>\$ (90)</u>	<u>\$ 1,156</u>	<u>\$(129,930)</u>	<u>\$(117,569)</u>	<u>\$ 2,334</u>	<u>\$ 104,973</u>

Consolidated Statements of Cash Flows

	Year ended March 31			
	2011	2010	2009	2011
	(Millions of yen)			(Thousands of U.S. dollars)
Cash flows from operating activities:				
Income/(loss) before income taxes and minority interests	¥ 2,454	¥ 684	¥ (15,208)	\$ 29,514
Adjustments to reconcile income/(loss) before income taxes and minority interests to cash flows from operating activities:				
Depreciation and amortization	6,886	7,876	7,812	82,816
Amortization of goodwill	915	915	1,001	11,014
Equity in earnings of affiliates	(136)	(46)	(189)	(1,645)
(Decrease)/increase in allowance for doubtful accounts	(126)	45	(108)	(1,516)
(Decrease)/increase in accrued pension and severance costs, less payment	(142)	824	(1,325)	(1,710)
Decrease in accrued retirement benefit for directors and corporate auditors	(79)	(15)	(141)	(952)
Decrease in accrued warranty costs	(294)	(696)	(1,205)	(3,546)
Interest and dividend income	(116)	(85)	(194)	(1,399)
Interest expense	626	721	589	7,537
Gain on sales of property, plant and equipment	(165)	(274)	(39)	(1,989)
Gain on sales of subsidiary shares	—	(190)	—	—
Loss on sales and disposal of property, plant and equipment	171	111	93	2,057
Impairment loss on fixed assets	—	36	12	—
Loss on disaster	1,182	—	—	14,221
Business structure improvement expenses	600	44	2,257	7,219
Changes in assets and liabilities:				
Notes and accounts receivable	832	(2,749)	20,483	10,017
Inventories	(788)	3,314	505	(9,487)
Notes and accounts payable	(2,795)	6,480	(13,254)	(33,619)
Other, net	1,248	(3,285)	(2,763)	15,020
Sub-total	10,273	13,713	(1,673)	123,551
Interest and dividend received	140	109	244	1,684
Interest paid	(636)	(723)	(591)	(7,651)
Income taxes paid	(1,217)	(718)	(830)	(14,644)
Net cash provided by/(used in) operating activities	8,559	12,381	(2,851)	102,940
Cash flows from investing activities:				
Increase in time deposits	—	—	(391)	—
Decrease in time deposits	—	357	41	—
Payment for purchases of property, plant and equipment	(2,415)	(1,946)	(5,796)	(29,048)
Proceeds from sales of property, plant and equipment	127	480	117	1,529
Payment for purchases of intangible assets	(3,364)	(2,926)	(4,030)	(40,459)
Proceeds from sales of investments in securities	39	192	212	479
Proceed from sales of investments in subsidiary resulting in change in scope of consolidation	—	301	—	—
Increase in loans receivable	(29,060)	(3,539)	(1,532)	(349,493)
Decrease in loans receivable	28,955	3,754	1,815	348,227
Other, net	(50)	(24)	(557)	(606)
Net cash used in investing activities	(5,768)	(3,350)	(10,121)	(69,370)
Cash flows from financing activities:				
Decrease in short-term loans, net	(1,225)	(7,392)	(3,952)	(14,737)
Repayment of finance lease obligations	(523)	(439)	(202)	(6,292)
Proceeds from long-term loans	—	12,200	32,000	—
Repayment of long-term loans	(3,489)	(12,097)	(17,242)	(41,970)
Cash dividends	—	—	(564)	—
Other, net	(3)	(2)	(23)	(42)
Net cash (used in)/provided by financing activities	(5,242)	(7,731)	10,014	(63,043)
Effect of exchange rate changes on cash and cash equivalents	(320)	(145)	(566)	(3,851)
Net (decrease)/increase in cash and cash equivalents	(2,771)	1,153	(3,524)	(33,325)
Cash and cash equivalents at beginning of year	10,192	9,039	12,563	122,577
Cash and cash equivalents at end of year (Note 16)	¥ 7,421	¥ 10,192	¥ 9,039	\$ 89,252

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

Notes to the Consolidated Financial Statements

March 31, 2011

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 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 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 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 transactions 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.

(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 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.

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” (the Accounting Standards Board of Japan (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) Accrued disaster losses

For Clarion and its domestic subsidiary, accrued disaster losses are provided at the estimated amounts necessary to cover restoration costs for the property, plant and equipment damaged by the Great East Japan Earthquake.

(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 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.

(18) Revenue recognition

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

(19) 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. Accounting changes

(1) Adoption of the accounting standard for asset retirement obligations

Effective from the year ended March 31, 2011, Clarion and its domestic subsidiaries have applied “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18 issued on March 31, 2008) and its “Implementation Guidance” (ASBJ Guidance No. 21 issued on March 31, 2008). As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2011 decreased by ¥72 million (\$874 thousand) and ¥148 million (\$1,782 thousand), respectively, compared with those would have been recorded under previous method.

(2) Adoption of the accounting standard for presentation of comprehensive income

Effective from the year ended March 31, 2011, the Company has applied “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25 issued on June 30, 2010). The consolidated statements of comprehensive income have been included in the consolidated financial statements from the fiscal year ended March 31, 2011. Information for fiscal years ended March 31, 2009 and 2010 has also been included for comparative purpose.

(3) Changes in disclosure about segments of an enterprise and related information

Effective from the year ended March 31, 2011, the Company has applied “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No. 17 issued on March 27, 2009) and its implementation guidance (ASBJ Guidance No. 20 issued on March 21, 2008). The accounting standard and its implementation guidance follow the management approach adopted in IFRS and generally accepted accounting principles in the United States (USGAAP) as the segment reporting method.

Disclosure about segments of an enterprise and related information provides accurate information on the nature of various business activities in which a company is engaged and the economic environments in which it operates, so that users of financial statements can understand the enterprise’s performance and properly evaluate future cash flow projections.

An enterprise shall identify operating segments as units of segment reporting. An operating segment is a component of an enterprise:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same enterprise.)

– whose operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

– for which discrete financial information is available.

The term "chief operating decision maker" identifies a function, which is to allocate resources to and the performance of operating segments of an enterprise. An enterprise reports separately information about each operating segment that has been identified, or results from aggregating two or more of those segments in accordance with aggregation criteria, and exceeds the quantitative thresholds.

The Company mainly produces and sells car audio-visual equipment in the regions and countries of Japan, Americas, Asia and Australia and Europe. Each domestic and overseas subsidiary is independent management unit, and forms comprehensive strategy for the products to be handled in each area and develops business activities. Considering these criteria, the Company is composed of geographic segments based on the organization of production and sales. The Company's reportable segments are "Japan, Americas, Asia and Australia and Europe."

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 ¥83.15 = US\$1, the approximate rate of exchange as of March 31, 2011, 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 ¥36 million, ¥12 million, for the following group of assets as of March 31, 2010 and 2009 respectively.

Location	Use	Category	Impairment loss			
			2011	2010	2009	2011
			(Millions of yen)			(Thousands of U.S. dollars)
Kumamoto-shi, Kumamoto Prefecture and other	Other	Land	—	¥ 36	—	—
Yonago-shi, Tottori Prefecture	Other	Land	—	—	¥ 12	—

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, ¥12 million for the years ended March 31, 2010 and 2009, respectively which comprises of land totaling ¥36 million, ¥12 million.

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

6. Inventories

Inventories as of March 31, 2011 and 2010 consisted of the following:

	March 31		
	2011	2010	2011
	(Millions of yen)		(Thousands of U.S. dollars)
Finished goods.....	¥11,996	¥12,643	\$144,269
Work in process	859	887	10,341
Raw materials and supplies	7,971	7,688	95,865
Total.....	¥20,827	¥21,219	\$250,476

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, 2011 and 2010, are as follows:

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

	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, 2011			
	Cost	Gross unrealized		Fair value (carrying value)
		Gain	Loss	
		(Thousands of U.S. dollars)		
Equity securities	\$ 11,813	\$ 2,640	\$ (1,468)	\$ 12,986
Debt securities	—	—	—	—
Other.....	—	—	—	—
Total	\$ 11,813	\$ 2,640	\$ (1,468)	\$ 12,986

Other securities sold for the years ended March 31, 2011, 2010 and 2009 are as follows:

	Year ended March 31			2011 (Thousands of U.S. dollars)
	2011	2010	2009	
		(Millions of yen)		
Sales amount.....	¥ 39	¥ 192	¥ 212	\$ 479
Total gain on sales.....	—	25	—	—
Total loss on sales.....	—	—	(27)	—

At March 31, 2011 and 2010, the carrying value of the securities classified as other securities for which market quotation were unavailable were as follows:

	March 31		
	2011	2010	2010
	(Millions of yen)		(Thousands of U.S. dollars)
Other securities			
Unlisted equity securities	¥ 52	¥ 52	\$ 628
Others	258	332	3,110

8. 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, 2011 and 2010, for which hedged accounting has not been applied.

	March 31, 2011		
	Contract amount	Fair value	Unrealized gain/(loss)
<i>(Millions of yen)</i>			
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, 2010		
	Contract amount	Fair value	Unrealized gain/(loss)
<i>(Millions of yen)</i>			
Forward foreign exchange contracts:			
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 loss from forward foreign currency exchange contracts			¥ 24

	March 31, 2011		
	Contract amount	Fair value	Unrealized gain/(loss)
<i>(Thousands of U.S. dollars)</i>			
Forward foreign exchange contracts:			
Selling			
U.S. dollar	\$ 26,603	\$ (399)	\$ (399)
Euro	19,392	(1,066)	(1,066)
Canadian dollar	810	(13)	(13)
Australian dollar	300	(9)	(9)
Buying			
U.S. dollar	41,486	727	727
Euro	3,459	73	73
Canadian dollar	402	9	9
British pound	1,256	30	30
Total unrealized loss from forward foreign currency exchange contracts			\$ (647)

(2) Summarized below are the national amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2011 and 2010, for which hedged accounting has been applied.

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

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

	March 31, 2011		
	Contract amount	Fair value	Unrealized gain/(loss)
Forward foreign exchange contracts:	(Thousands of U.S. dollars)		
Selling			
Euro.....	\$ 6,164	\$ (167)	\$ (167)
Buying			
U.S. dollar.....	5,411	77	77
Total unrealized loss from forward foreign currency exchange contracts.....			\$ (90)

9. 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, 2011 and 2010 are as follows:

	March 31, 2011		
	Carrying value	Fair value (Millions of yen)	Difference
(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, 2010		
	Carrying value	Fair value (Millions of yen)	Difference
(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, 2011		
	Carrying value	Fair value (Thousands of U.S. dollars)	Difference
(1) Cash on hand and in banks	\$ 89,252	\$ 89,252	—
(2) Trade notes and accounts receivable (*1)	296,503	296,503	—
(3) Investments in securities			
Other securities	12,986	12,986	—
(4) Trade notes and accounts payable	(285,086)	(285,086)	—
(5) Short-term loans	(248,267)	(248,267)	—
(6) Other accounts payable	(64,580)	(64,580)	—
(7) Long-term loans	(249,162)	(249,162)	—
(8) Derivative transactions (*2)	(737)	(737)	—

(*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, 2011 and 2010 consisted of the following:

	March 31		2011 (Thousands of U.S. dollars)
	2011 (Millions of yen)	2010	
Short-term loans	¥ 352	¥ 1,624	\$ 4,241
Current portion of long-term loans	20,290	293	244,025
Current portion of long-term lease obligations	385	440	4,639
Total short-term debt	21,029	2,358	252,907
Long-term loans	20,717	44,239	249,162
Long-term lease obligations	349	264	4,208
Total long-term debt	21,067	44,503	253,370
Total	¥42,096	¥46,862	\$506,277

The weighted-average rates for short-term loans, current portion of long-term loans and long-term loans as of March 31, 2011 were 1.79%, 1.61% and 0.94%, 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)
2012	¥20,676	\$ 248,665
2013	453	5,458
2014	387	4,660
2015	20,106	241,810
2016	80	970

As of March 31, 2011 and 2010, assets pledged as collateral for short-term and long-term loans are as follow:

	March 31		2011 (Thousands of U.S. dollars)
	2011 (Millions of yen)	2010	
Buildings and structures, net	¥334	¥402	\$ 4,020
Machinery and equipment, net	1	6	14
Land	90	101	1,090
Total	¥426	¥510	\$ 5,125

Secured loans as of March 31, 2011 and 2010 are as follows:

	March 31		2011 (Thousands of U.S. dollars)
	2011 (Millions of yen)	2010	
Short-term loans	¥ 40	¥ 43	\$ 490
Long-term loans	217	289	2,620
Total	¥258	¥332	\$ 3,110

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 pen-

sion 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, 2011 and 2010 were as follows:

	March 31		2011 (Thousands of U.S. dollars)
	2011	2010	
	(Millions of yen)		
Projected benefit obligations	¥(12,981)	¥(14,433)	\$ (156,121)
Plan assets at fair value	2,608	2,419	31,373
Securities contributed to employee retirement benefit trust	276	291	3,322
Unfunded status.....	(10,096)	(11,722)	(121,426)
Unrecognized actuarial differences.....	238	1,298	2,866
Unrecognized prior service costs due to plan amendment.....	(16)	393	(196)
Accrued pension and severance costs.....	¥ (9,874)	¥(10,029)	\$ (118,756)

Net periodic pension expense relating to the retirement benefits for the years ended March 31, 2011, 2010 and 2009 were as follows:

	Year ended March 31			2011 (Thousands of U.S. dollars)
	2011	2010	2009	
	(Millions of yen)			
Service cost.....	¥ 709	¥ 883	¥ 942	\$ 8,527
Interest cost.....	262	285	350	3,159
Expected return on plan assets	(50)	(50)	(69)	(602)
Amortization of unrecognized net obligation at transition	—	17	14	—
Amortization of unrecognized prior service costs due to plan amendment.....	13	44	44	164
Amortization of unrecognized actuarial difference.....	227	460	171	2,738
Net periodic pension expense	1,162	1,640	1,452	13,986
Other (*)	119	—	—	1,436
Total	¥1,282	¥1,640	¥1,452	\$15,422

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

In addition to the above, extra employees' severance indemnities of ¥141 million (\$1,705 thousand), ¥51 million and ¥343 million were included in additional severance costs for the periods ended March 31, 2011, 2010 and 2009, respectively.

Assumptions used in calculating the above information were as follows:

	Year ended March 31		
	2011	2010	2009
Discount rates	1.6~2.0%	1.5~2.1%	2.0~2.3%
Expected rates of return on plan assets.....	2.0~2.1%	2.0~3.8%	2.0~4.0%
Amortization period for unrecognized prior service costs due to plan amendment	13 years	13 years	13 years
Amortization period for unrecognized actuarial difference	7~13 years	7~15 years	7~15 years
Amortization period for unrecognized net obligation at transition.....	—	10 years	10 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, 2011 and 2010, the differences between fair value and carrying amount after revaluation dated March 31, 2001 were as follows:

	March 31		2011 (Thousands of U.S. dollars)
	2011	2010	
	(Millions of yen)		
Difference between fair value and carrying amount after revaluation	¥(1,195)	¥(1,148)	\$(14,382)

14. Income taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2011 and 2010 were as follows:

	March 31		2011 (Thousands of U.S. dollars)
	2011	2010	
	(Millions of yen)		
Deferred tax assets:			
Net operating tax loss carryforwards	¥ 9,126	¥ 10,021	\$ 109,754
Accrued pension and severance costs	4,040	4,041	48,594
Accrued warranty cost	222	346	2,679
Loss on devaluation of inventories	634	638	7,632
Loss on devaluation of marketable securities	507	488	6,101
Accrued expenses	660	877	7,946
Other account payable	523	415	6,297
Allowance for doubtful accounts	44	68	539
Foreign tax credit carryforward	264	487	3,180
Accrued bonuses	701	493	8,437
Other	938	827	11,281
Sub-total	17,664	18,707	212,445
Deferred tax liabilities:			
Depreciation	39	42	472
Other	49	63	599
Sub-total	89	106	1,071
Less: Valuation allowance	(14,371)	(15,257)	(172,843)
Net deferred tax assets	¥ 3,203	¥ 3,343	\$ 38,529

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	
	2011	2010
Statutory income tax rate	40.7%	40.7%
Permanent differences	8.6	11.0
Fixed levy of local inhabitant taxes	1.4	5.5
Valuation allowance	(19.1)	(35.5)
Variance of effective tax rate between Clarion and the subsidiaries	5.0	6.5
Foreign income tax credit	9.1	(7.7)
Other	(2.4)	(1.6)
Effective income tax rates	43.3%	18.9%

15. Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2011, 2010 and 2009 totaled ¥142 million (\$1,715 thousand), ¥86 million and ¥1,596 million, respectively.

16. Cash flow information

Reconciliations between cash and cash equivalents and cash on hand and in bank as of March 31, 2011 and 2010 were as follows:

	March 31	
	2011	2010
	(Millions of yen)	
		2011 (Thousands of U.S. dollars)
Cash on hand and in banks.....	¥7,421	\$ 89,252
Cash and cash equivalents.....	¥7,421	\$ 89,252

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
	(Millions of yen)
Current assets.....	¥621
Fixed assets.....	153
Current liabilities.....	(543)
Fixed liabilities.....	(21)
Gain on sales of subsidiary shares.....	190
Amounts of sales of subsidiary shares.....	400
Cash and cash equivalents.....	(98)
Netting with cash and cash equivalents.....	¥301

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, 2011, 2010 and 2009 were ¥501 million (\$6,030 thousand), ¥823 million and ¥1,282 million, respectively.

The amount of outstanding future lease payments for finance leases as of March 31, 2011 and 2010, excluding the interest thereon, are summarized as follows:

	March 31	
	2011	2010
	(Millions of yen)	
		2011 (Thousands of U.S. dollars)
Future lease payments:		
Due within one year.....	¥ 317	\$ 3,819
Due after one year.....	248	2,992
Total.....	¥ 566	\$ 6,811

Pro forma information as of and for the years ended March 31, 2011 and 2010 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	
	2011	2010
	(Millions of yen)	
		2011 (Thousands of U.S. dollars)
Acquisition cost.....	¥ 3,521	\$42,352
Accumulated depreciation.....	(3,008)	(36,181)
Net book value.....	¥ 513	\$ 6,170
Depreciation expense.....	¥ 410	\$ 4,936
Interest expense.....	¥ 45	\$ 548

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, 2011 and 2010 follow:

	March 31		2011 (Thousands of U.S. dollars)
	2011 (Millions of yen)	2010	
Due within one year.....	¥ 274	¥ 311	\$ 3,300
Due after one year.....	406	561	4,890
Total	¥ 681	¥ 872	\$ 8,191

18. Asset retirement obligations

Information on asset retirement obligations on the consolidated balance sheets as of March 31, 2011 is as follows:

(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 8 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, 2011 are as follows:

	March 31	
	2011 (Millions of yen)	2011 (Thousands of U.S. dollars)
Balance at March 31, 2010.....	¥178	\$ 2,147
Accretion expense.....	1	14
Others.....	(40)	(481)
Balance at March 31, 2011.....	¥139	\$ 1,681

Balance at March 31, 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, 2011, 2010 and 2009, respectively, are summarized as follows:

	Year ended March 31, 2011					Consolidated total
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Adjustments	
	(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, 2010					Consolidated total
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Adjustments	
	(Millions of yen)					
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
Segment income/(loss).....	¥ (340)	¥ 1,519	¥ 56	¥ (643)	¥ 32	¥ 624
Segment assets.....	¥109,889	¥ 24,080	¥ 16,787	¥ 8,562	¥ (46,605)	¥112,714

	Year ended March 31, 2009					Consolidated total
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Adjustments	
	(Millions of yen)					
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
Segment (loss)/income.....	¥ (11,987)	¥ 12	¥ (74)	¥ (208)	¥ (192)	¥ (12,449)
Segment assets.....	¥113,453	¥23,463	¥14,958	¥ 8,719	¥(42,954)	¥117,641

	Year ended March 31, 2011					Consolidated total
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Adjustments	
	(Thousands of U.S. dollars)					
Sales to outside customers	\$1,119,542	\$ 716,911	\$ 167,932	\$ 140,154	\$ —	\$2,144,541
Inter-segment sales.....	556,234	7,658	353,675	2,212	(919,780)	—
Total sales.....	1,675,776	724,570	521,607	142,367	(919,780)	2,144,541
Segment income/(loss).....	\$ 35,686	\$ 22,833	\$ 1,406	\$ (1,277)	\$ 715	\$ 59,364
Segment assets.....	\$1,251,215	\$ 271,925	\$ 190,534	\$ 94,361	\$ (560,055)	\$1,247,981

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: 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, 2011, 2010 and 2009 were ¥173 million (\$2,090 thousand), ¥243 million and ¥246 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, 2011, 2010 and 2009 are as follows:

	Year ended March 31			2011 (Thousands of U.S. dollars)
	2011	2010	2009	
	(Millions of yen)			
Product and service:				
Car audio-visual equipment	¥161,605	¥156,372	¥157,552	\$1,943,535
Special equipment.....	7,798	7,685	8,982	93,786
Other.....	8,915	10,704	15,018	107,218
Consolidated net sales.....	¥178,318	¥174,762	¥181,554	\$2,144,541

(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, 2011, 2010 and 2009 are as follows:

Sales by region are classified based on areas in which significant customers are located.

	Year ended March 31			2011 (Thousands of U.S. dollars)
	2011	2010	2009	
	(Millions of yen)			
Japan.....	¥ 91,663	¥ 92,852	¥ 99,894	\$1,102,386
Americas.....	59,619	55,505	46,511	717,014
Asia and Australia.....	15,385	12,919	13,627	185,038
Europe	11,649	13,485	21,520	140,101
Consolidated net sales.....	¥178,318	¥174,762	¥181,554	\$2,144,541

20. Selling, general and administrative expenses

An analysis of selling, general and administrative expenses for the years ended March 31, 2011, 2010 and 2009 are as follows:

	Year ended March 31			2011 (Thousands of U.S. dollars)
	2011	2010	2009	
	(Millions of yen)			
Payroll costs.....	¥ 7,019	¥ 7,710	¥ 9,631	\$ 84,415
Provision for bonuses.....	480	393	598	5,779
Pension expenses.....	491	557	564	5,906
Freight out.....	3,349	3,220	3,479	40,281
Provision for retirement benefit for directors and corporate auditors.....	—	—	33	—
Provision for doubtful accounts.....	—	68	55	—
Other.....	12,395	12,585	17,990	149,071
Total.....	¥23,735	¥24,537	¥32,354	\$ 285,454

21. Loss on disaster

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

	Year ended March 31	
	2011 (Millions of yen)	2011 (Thousands of U.S. dollars)
Loss on destruction of inventory.....	¥ 426	\$ 5,128
Estimated amount of the restoration cost for the property, plant and equipment.....	384	4,621
Other.....	371	4,471
Total.....	¥1,182	\$ 14,221

22. Transactions with related parties

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)	(Thousands of U.S. dollars)		(Millions of yen)	(Thousands of U.S. dollars)
Lending fund	¥ 1,042	\$ 12,536	Short-term loans receivable	¥ 1,062	\$ 12,779
Borrowing of fund.....	¥ —	\$ —	Long-term loans	¥ 20,000	\$ 240,529
Interest expense.....	¥ 177	\$ 2,134	Accrued expenses.....	¥ 0	\$ 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 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)	(Thousands of U.S. dollars)		(Millions of yen)	(Thousands of U.S. dollars)
Factoring	¥13,677	\$164,490	Notes and accounts payable	¥ 4,012	\$ 48,256

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, 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	Subject	Balance at the end of period
	(Millions of yen)		(Millions of yen)
Lending fund	¥ (1,505)	Short-term loans receivable	¥ 20
Borrowing of fund.....	¥ —	Long-term loans	¥ 20,000
Interest expense	¥ 215	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, 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)		(Millions of yen)
Factoring	¥ 12,997	Notes and accounts payable	¥ 4,553
Category	Name	Ownership of Voting Rights/%	Relationship
Fellow subsidiary	Hitachi America Capital Ltd.	—	Loans receivable though Hitachi group pooling system
Description of Transaction	Amount of Transaction	Subject	Balance at the end of period
	(Millions of yen)		(Millions of yen)
Lending of fund	¥ 1,302	Short-term loans receivable	¥1,302

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.

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

23. Amounts per share

Net income/(loss) per share for the years ended March 31, 2011, 2010 and 2009 and net assets per share as of March 31, 2011 and 2010 are as follows:

	Year ended March 31			2011 (U.S. dollars)
	2011	2010	2009	
Net income/(loss) per share:		(Yen)		
Basic	¥ 4.90	¥ 1.95	¥ (70.85)	\$ 0.06
Diluted.....	—	—	—	—
	March 31			2011 (U.S. dollars)
	2011	2010		
Net assets per share	¥ 30.27	¥ 32.34		\$ 0.36

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, 2011 and 2010, and the related consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for each of the three years in the period ended March 31, 2011 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, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2011 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, 2011 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 4.

Ernst & Young ShinNihon LLC

June 24, 2011

Clarion Co., Ltd.