Clarion Co., Ltd.
and
Subsidiaries

Consolidated Financial Statements

March 31, 2013

Clarion Co., Ltd.

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
	2008	2009	2010	2011	2012	**2013**	**2013**
For the Year							
Net sales	¥246,806	¥181,554	¥174,762	¥178,318	¥186,711	**¥177,288**	**$1,885,048**
Japan	151,015	105,991	93,892	93,089	96,917	**96,406**	**1,025,052**
Americas	55,497	46,440	55,499	59,611	62,024	**54,288**	**577,224**
Asia and Australia	12,952	12,461	11,886	13,963	16,928	**16,861**	**179,282**
Europe	27,340	16,661	13,482	11,653	10,840	**9,733**	**103,489**
Car audio-visual equipment	217,522	157,552	156,372	161,605	167,148	**158,391**	**1,684,116**
Special equipment	8,732	8,982	7,685	7,798	8,008	**10,536**	**112,035**
Others	20,551	15,018	10,704	8,915	11,554	**8,360**	**88,897**
Cost of sales	205,058	161,649	149,600	149,646	155,783	**150,305**	**1,598,145**
Selling, general and administrative expenses	36,281	32,354	24,537	23,735	23,053	**23,772**	**252,762**
Operating income (loss)	5,465	(12,449)	624	4,936	7,873	**3,210**	**34,141**
Other income (expenses), net	(1,167)	(2,758)	60	(2,482)	(482)	**218**	**2,321**
Income (loss) before income taxes and minority interests	4,298	(15,208)	684	2,454	7,390	**3,429**	**36,463**
Provision (benefit) for income taxes	2,903	4,776	129	1,063	(150)	**2,069**	**22,004**
Income (loss) before minority interests	1,378	(19,984)	555	1,390	7,540	**1,359**	**14,458**
Minority interests in subsidiaries	17	2	5	7	8	**1**	**12**
Net income (loss)	1,378	(19,987)	549	1,383	7,532	**1,358**	**14,445**
Research and development expenses	27,772	30,329	18,616	20,095	22,343	**23,073**	**245,331**
Capital investment	6,855	5,796	1,946	1,601	3,361	**4,298**	**45,699**
Net cash provided by (used in) operating activities	10,771	(2,851)	12,381	8,559	16,304	**5,488**	**58,359**
Net cash used in investing activities	(9,247)	(10,121)	(3,350)	(5,768)	(11,587)	**(11,350)**	**(120,682)**
Net cash provided by (used in) financing activities	1,061	10,014	(7,731)	(5,242)	(751)	**(564)**	**(6,007)**
Per share							
(Yen and U.S. dollars):							
Net income (loss)	¥4.88	¥(70.85)	¥1.95	¥4.90	¥26.71	**¥4.82**	**$0.05**
Cash dividends	¥2.00	—	—	—	—	**—**	**—**
At year end							
Total assets	¥150,841	¥117,641	¥112,714	¥103,769	¥122,821	**¥117,398**	**$1,248,258**
Total net assets	32,125	9,135	9,312	8,728	16,579	**22,002**	**233,948**
Interesting-bearing debt	42,838	54,160	46,862	42,096	41,927	**41,921**	**445,733**
Ratio (%)							
Net assets ratio	21.3	7.8	8.3	8.4	13.5	**18.8**	**18.8**
ROE	4.2	(97.8)	6.1	15.7	60.5	**7.1**	**7.1**
ROA	0.9	(14.9)	0.5	1.3	6.6	**1.1**	**1.1**
Current ratio	113.5	106.1	144.8	99.6	147.3	**134.0**	**134.0**

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, 2013, which was ¥94.05 to U.S. $1.

Consolidated Balance Sheets

	March 31 2013	2012	2013
	(Millions of yen)		*(Thousands of U.S. dollars)*
ASSETS			
Current assets:			
Cash on hand and in banks (Notes 8 and 15)	¥ 5,565	¥ 11,611	$ 59,174
Trade notes and accounts receivable (Notes 8 and 18)	26,944	30,717	286,486
Allowance for doubtful accounts	(186)	(217)	(1,988)
Inventories (Note 5)	20,200	22,385	214,783
Deferred tax assets (Note 13)	2,614	3,865	27,797
Other current assets (Notes 8 and 21)	11,258	8,468	119,705
Total current assets	66,395	76,832	705,959
Investment securities (Notes 6 and 8)	3,318	2,469	35,288
Property, plant and equipment			
Buildings and structures (Note 9)	19,333	18,149	205,566
Machinery, equipment and vehicles (Note 9)	41,794	41,863	444,386
Land (Note 9)	9,073	9,106	96,477
Lease assets	3,020	2,255	32,117
Construction in progress	107	1,252	1,147
Accumulated depreciation	(47,562)	(49,516)	(505,714)
Property, plant and equipment, net	25,767	23,110	273,981
Other assets:			
Intangible assets	19,001	17,345	202,041
Deferred tax assets (Note 13)	694	629	7,382
Other	2,220	2,432	23,605
Total other assets	21,916	20,408	233,029
Total assets	¥ 117,398	¥ 122,821	$ 1,248,258

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

	March 31 2013	2012	2013
	(Millions of yen)		*(Thousands of U.S. dollars)*
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans (Notes 8 and 9)	¥ 8,662	¥ 621	$ 92,105
Trade notes and accounts payable (Notes 8 and 21)	23,402	32,153	248,835
Accrued bonuses	1,842	1,914	19,593
Lease obligations (Note 9)	474	422	5,045
Accrued expenses (Note 21)	6,593	7,645	70,109
Accrued income taxes	727	769	7,734
Accrued warranty costs	463	327	4,929
Other current liabilities (Note 8)	7,386	8,289	78,535
Total current liabilities	49,553	52,142	526,889
Long-term liabilities:			
Long-term loans (Notes 8, 9 and 21)	32,148	40,423	341,819
Lease obligations (Note 9)	636	460	6,762
Accrued pension and severance costs (Note 10)	10,126	10,097	107,674
Deferred tax liabilities on revaluation of land (Note 12)	564	569	5,996
Deferred tax liabilities (Note 13)	45	39	481
Accrued retirement benefit for directors and corporate auditors	169	194	1,797
Accrued warranty costs	414	409	4,407
Asset retirement obligations (Note 17)	193	176	2,059
Other long-term liabilities	1,544	1,728	16,421
Total long-term liabilities	45,842	54,099	487,421
Commitments and contingencies (Note 18)			
Net assets:			
Shareholders' equity (Note 11):			
Common stock, no par value			
Authorized: 450,000,000 shares			
Issued: 282,744,185 shares at March 31, 2013 and 2012	26,100	26,100	277,515
Additional paid-in capital	2,669	2,669	28,384
Accumulated deficit (Note 22)	(1,444)	(2,803)	(15,359)
Treasury stock	(126)	(125)	(1,347)
Total shareholders' equity	27,198	25,841	289,192
Accumulated other comprehensive income:			
Net unrealized gains on revaluation of land (Note 12)	1,019	1,014	10,841
Net deferred losses on hedge	0	(6)	0
Foreign currency translation adjustments	(7,363)	(10,795)	(78,292)
Net unrealized gains on other securities	947	331	10,078
Total accumulated other comprehensive income	(5,395)	(9,455)	(57,372)
Minority interests in subsidiaries	200	193	2,127
Total net assets	22,002	16,579	233,948
Total liabilities and net assets	¥ 117,398	¥ 122,821	$1,248,258

Consolidated Statements of Income

	Year eanded March 31 2013	2012	2013
	(Millions of yen)		*(Thousands of U.S. dollars)*
Net sales	¥ 177,288	¥ 186,711	$ 1,885,048
Cost of sales	150,305	155,783	1,598,145
Gross profit	26,983	30,927	286,903
Selling, general and administrative expenses (Notes 14 and 20)	23,772	23,053	252,762
Operating income	3,210	7,873	34,141
Other income:			
Interest and dividend income	91	98	967
Equity in earnings of affiliates	124	177	1,329
Exchange gains, net	176	—	1,881
Gain on sales of property, plant and equipment	117	106	1,246
Gains on sales of investment securities	14	—	149
Insurance income	—	527	—
Subsidy income	28	44	303
Other	449	345	4,783
	1,002	1,300	10,661
Other expenses:			
Interest expense (Note 21)	407	499	4,333
Rental expense	—	180	—
Discount expense	90	88	967
Exchange losses, net	—	164	—
Additional severance costs (Note 10)	31	16	335
Loss on sales and disposal of property, plant and equipment	50	90	534
Cancellation fee of lease contract	—	202	—
Loss on devaluation of investment securities	—	130	—
Office relocation expenses	21	5	223
Other	183	405	1,946
	784	1,783	8,339
Income before income taxes and minority interests	3,429	7,390	36,463
Income taxes (Note13):			
Current	776	1,135	8,256
Deferred	1,293	(1,285)	13,748
	2,069	(150)	22,004
Income before minority interests	1,359	7,540	14,458
Minority interests in subsidiaries	1	8	12
Net income	¥ 1,358	¥ 7,532	$ 14,445

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

Clarion Co., Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income

	Year eanded March 31 2013	2012	2013
	(Millions of yen)		*(Thousands of U.S. dollars)*
Income before minority interests	¥ 1,359	¥ 7,540	$ 14,458
Other comprehensive income (Note 23):			
Net unrealized gains on other securities	616	235	6,550
Net deferred gains on hedge	6	1	64
Net unrealized gains on revaluation of land	5	75	56
Foreign currency translation adjustments	3,322	17	35,324
Share of other comprehensive income of affiliates accounted for by the equity method	134	(33)	1,433
Total other comprehensive income	4,084	296	43,430
Comprehensive income	¥ 5,444	¥ 7,837	$ 57,888

	Year eanded March 31 2013	2012	2013
	(Millions of yen)		*(Thousands of U.S. dollars)*
Comprehensive income attributable to:			
Shareholders	¥ 5,418	¥ 7,852	$ 57,615
Minority interests	25	(14)	273

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 comprehensive income	Minority interests in subsidiaries	Total net assets
	(Thousands)						*(Millions of yen)*						
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
Balance at April 1, 2012	282,744	26,100	2,669	(2,803)	(125)	25,841	1,014	(6)	331	(10,795)	(9,455)	193	16,579
Net income	**–**	**–**	**–**	**1,358**	**–**	**1,358**	**–**	**–**	**–**	**–**	**–**	**–**	**1,358**
Acquisition of treasury stock	**–**	**–**	**–**	**–**	**(1)**	**(1)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**
Changes in:													
Items other than shareholders' equity	**–**	**–**	**–**	**–**	**–**	**–**	**5**	**6**	**616**	**3,432**	**4,060**	**6**	**4,066**
Balance at March 31, 2013	**282,744**	**¥26,100**	**¥2,669**	**¥ (1,444)**	**¥ (126)**	**¥27,198**	**¥ 1,019**	**¥ 0**	**¥ 947**	**¥ (7,363)**	**¥ (5,395)**	**¥ 200**	**¥ 22,002**

		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 comprehensive income	Minority interests in subsidiaries	Total net assets
	(Thousands)						*(Thousands of U.S. dollars)*						
Balance at April 1, 2012	282,744	$277,515	$28,384	$ (29,805)	$(1,333)	$274,761	$ 10,784	$ (63)	$ 3,527	$(114,789)	$(100,541)	$ 2,060	$176,280
Net income	**–**	**–**	**–**	**14,445**	**–**	**14,445**	**–**	**–**	**–**	**–**	**–**	**–**	**14,445**
Acquisition of treasury stock	**–**	**–**	**–**	**–**	**(14)**	**(14)**	**–**	**–**	**–**	**–**	**–**	**–**	**(14)**
Changes in:													
Items other than shareholders' equity	**–**	**–**	**–**	**–**	**–**	**–**	**56**	**64**	**6,550**	**36,497**	**43,169**	**67**	**43,236**
Balance at March 31, 2013	**282,744**	**$277,515**	**$28,384**	**$ (15,359)**	**$(1,347)**	**$289,192**	**$ 10,841**	**$ 0**	**$ 10,078**	**$ (78,292)**	**$ (57,372)**	**$ 2,127**	**$ 233,948**

Consolidated Statements of Cash Flows

	Year eanded March 31		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 3,429**	¥ 7,390	**$ 36,463**
Adjustments to reconcile income before income taxes and minority interests to cash flows from operating activities:			
Depreciation and amortization	**6,715**	6,584	**71,408**
Amortization of goodwill	**915**	933	**9,737**
Equity in earnings of affiliates	**(124)**	(177)	**(1,329)**
Gain on sales of investment securities	**(14)**	—	**(149)**
Loss on devaluations of investment securities	**—**	130	**—**
Decrease in allowance for doubtful accounts	**(48)**	(76)	**(515)**
Increase in accrued pension and severance costs, less payment	**7**	223	**84**
(Decrease)/increase in accrued bonuses	**(92)**	134	**(978)**
Decrease in accrued retirement benefit for directors and corporate auditors	**(25)**	—	**(271)**
Increase/(decrease) in accrued warranty costs	**53**	(76)	**572**
Interest and dividend income	**(91)**	(98)	**(967)**
Interest expense	**407**	499	**4,333**
Gain on sales of property, plant and equipment	**(117)**	(106)	**(1,246)**
Loss on sales and disposal of property, plant and equipment	**50**	90	**534**
Changes in assets and liabilities:			
Notes and accounts receivable	**6,363**	(5,541)	**67,656**
Inventories	**3,836**	(1,504)	**40,790**
Notes and accounts payable	**(11,074)**	7,856	**(117,751)**
Other, net	**(3,555)**	1,421	**(37,802)**
Sub-total	**6,636**	17,681	**70,567**
Interest and dividend received	**173**	145	**1,845**
Interest paid	**(401)**	(502)	**(4,269)**
Income taxes paid	**(920)**	(1,019)	**(9,783)**
Net cash provided by operating activities	**5,488**	16,304	**58,359**
Cash flows from investing activities:			
Increase in time deposits	**—**	(1)	**—**
Payment for purchases of property, plant and equipment	**(4,298)**	(3,361)	**(45,699)**
Proceeds from sales of property, plant and equipment	**381**	1,315	**4,055**
Payment for purchases of intangible assets	**(6,209)**	(5,235)	**(66,025)**
Proceeds from sales of investments in securities	**67**	38	**718**
Increase in loans receivable	**(25,466)**	(18,020)	**(270,770)**
Decrease in loans receivable	**24,184**	13,868	**257,143**
Payment for acquisition of shares of a subsidiary	**—**	(164)	**—**
Other, net	**(9)**	(28)	**(104)**
Net cash used in investing activities	**(11,350)**	(11,587)	**(120,682)**
Cash flows from financing activities:			
Repayment of finance lease obligations	**(530)**	(495)	**(5,643)**
Proceeds from long-term loans	**—**	20,000	**—**
Repayment of long-term loans	**(292)**	(20,288)	**(3,108)**
Proceeds from minority shareholders	**—**	34	**—**
Cash dividend to minority shareholders	**(35)**	—	**(375)**
Proceeds from sale and leaseback transactions	**294**	—	**3,135**
Other, net	**(1)**	(1)	**(14)**
Net cash used in financing activities	**(564)**	(751)	**(6,007)**
Effect of exchange rate changes on cash and cash equivalents	**379**	69	**4,038**
Net (decrease)/increase in cash and cash equivalents	**(6,046)**	4,034	**(64,291)**
Cash and cash equivalents at beginning of year	**11,610**	7,421	**123,452**
Increase due to inclusion in consolidation	**—**	154	**—**
Cash and cash equivalents at end of year (Note 15)	**¥ 5,564**	¥ 11,610	**$ 59,160**

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

Notes to the Consolidated Financial Statements

March 31, 2013

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.

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, 2013 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		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Notes receivable	**¥ 50**	¥ 152	**$ 538**
Notes payable	**201**	429	**2,143**

(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 is computed under the straight-line method at rates based on the estimated useful lives of the assets, which are prescribed by the Corporation Tax Law of Japan. For overseas subsidiaries, depreciation is computed under the straight-line method.

(Change in depreciation method)

Effective from the beginning of the year ended March 31, 2013, Clarion and its domestic subsidiaries have changed their depreciation method of all of property, plant and equipment (except for the building acquired by them on or after April 1, 1998) from declining-balance method at rates based on the estimated useful lives of the assets to the straight-line method.

As the Company has been accelerating their business overseas, the Company is in the process of a shift of production places to overseas in terms of ensuring their business competitiveness. In addition, after experiencing a production halt at domestic production base located at Koriyama-shi, Fukushima caused by the Great East Japan Earthquake dated March 11, 2011, the Company newly reviewed mid-term business plan from FY2011 (April 2011 – March 2012) through FY2013 (April 2013 – March 2014) in March 2011. In terms of risk dispersion, the Company decided definite company policy to build structure for plural production bases in order to produce the same product units at domestic production base as well as at overseas production base since FY2012, production would be stable because domestic production base was assigned to supply products with high function to domestic customers, and to create new business and new products. In addition, utilization of property, plant and equipment would be stable, because nature of the capital investment in domestic area since FY2012 changed to rationalization of production and maintenance and/or renewal of current property, plant and equipment. Accordingly, the Company concluded that it would be appropriate situation for Clarion and its domestic subsidiaries to change depreciation method of property, plant and equipment to the straight-line method as it better reflects the actual conditions of use.

As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2013 increased by ¥119 million ($1,268 thousand) compared with those would have been recorded under previous 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 Standards which were already published but not applicable

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 issued on May 17, 2012) and its "Implementation Guidance" (ASBJ Guidance No. 25 issued on May 17, 2012)

(1) Outline of the Accounting Standard and the Guidance
Under the Accounting Standard and the Guidance, actuarial differences and prior service costs that are yet to be recognized in profit or loss shall be recognized within the net asset section in consolidated balance sheet, after adjusting for tax effects, and deficit or surplus would be recognized as a liability or asset. The retirement benefit obligation can be attributed to each period by the benefit formula basis in addition to the straight-line basis and the method for calculating the discount rate shall be amended.

(2) Effective date
The Company will adopt the Accounting Standard and the Guidance from the beginning of the year ending March 31, 2014.

(3) Influence after adopting the Accounting Standard and the Guidance
As a result of the adoption, as of beginning of the year ending March 31, 2014, total accumulated other comprehensive income will decrease by ¥892 million ($9,487 thousand) and accumulated deficit will increase by ¥342 million ($3,642 thousand), respectively, compared with those would have been recorded before the adoption.

The impact on consolidated statement of income is still under evaluation when the consolidated financial statements as of March 31, 2013 were made.

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 ¥94.05 = US$1, the approximate rate of exchange as of March 31, 2013, 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. Inventories

Inventories as of March 31, 2013 and 2012 consisted of the following:

	March 31		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Finished goods	**¥11,599**	¥13,286	**$123,329**
Work in process	**1,215**	1,681	**12,928**
Raw materials and supplies	**7,385**	7,417	**78,524**
Total	**¥20,200**	¥22,385	**$214,783**

6. Marketable securities and investment securities

The aggregate cost and fair value of other securities, which were included in investments in securities as of March 31, 2013 and 2012, are as follows:

	March 31, 2013			
		Gross unrealized		
	Cost	Gain	Loss	Fair value (carrying value)
	(Millions of yen)			
Equity securities	**¥ 909**	**¥ 1,006**	**¥ (3)**	**¥ 1,912**
Debt securities	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**
Total	**¥ 909**	**¥ 1,006**	**¥ (3)**	**¥ 1,912**

	March 31, 2011			
		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, 2013			
		Gross unrealized		
	Cost	Gain	Loss	Fair value (carrying value)
	(Thousands of U.S. dollars)			
Equity securities	**$ 9,673**	**$ 10,699**	**$ (42)**	**$ 20,331**
Debt securities	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**
Total	**$ 9,673**	**$ 10,699**	**$ (42)**	**$ 20,331**

Other securities sold for the years ended March 31, 2013 and 2012 are as follows:

	Year ended March 31		
	2013	2012	2013
	(Millions of yen)		(Thousands of U.S. dollars)
Sales amount	¥ 67	¥ 38	$ 718

At March 31, 2013 and 2012, the carrying value of the securities classified as other securities for which market quotation were unavailable were as follows:

	March 31		
	2013	2012	2013
	(Millions of yen)		(Thousands of U.S. dollars)
Other securities			
Unlisted equity securities	¥ 41	¥ 52	$ 436
Others	198	215	2,110

An impairment loss of ¥130 million 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.

7. 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, 2013 and 2012, for which hedged accounting has not been applied.

	March 31, 2013		
	Contract amount	Fair value	Unrealized loss
	(Millions of yen)		
Forward foreign exchange contracts:			
Selling			
U.S. dollar	¥ 6,167	¥ (4)	¥ (4)
Euro	1,080	(42)	(42)
Buying			
U.S. dollar	2,952	(8)	(8)
Euro	60	(0)	(0)
British pound	68	(0)	(0)
Total unrealized loss from forward foreign currency exchange contracts			¥ (55)

	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, 2013		
	Contract amount	Fair value	Unrealized loss
	(Thousands of U.S. dollars)		
Forward foreign exchange contracts:			
Selling			
U.S. dollar	$ 65,581	$ (48)	$ (48)
Euro	11,487	(447)	(447)
Buying			
U.S. dollar	31,397	(90)	(90)
Euro	644	(2)	(2)
British pound	723	(0)	(0)
Total unrealized loss from forward foreign currency exchange contracts			$ (590)

(2) Summarized below are the notional amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2013 and 2012, for which hedged accounting has been applied.

	March 31, 2013		
	Contract amount	Fair value	Unrealized gain/(loss)
	(Millions of yen)		
Forward foreign exchange contracts:			
Selling			
Euro	¥ 245	¥ 4	¥ 4
Buying			
U.S. dollar	521	(4)	(4)
Total unrealized loss from forward foreign currency exchange contracts			¥ 0

	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, 2013		
	Contract amount	Fair value	Unrealized gain/(loss)
	(Thousands of U.S. dollars)		
Forward foreign exchange contracts:			
Selling			
Euro	$ 2,613	$ 47	$ 47
Buying			
U.S. dollar	5,543	(46)	(46)
Total unrealized loss from forward foreign currency exchange contracts			$ 1

8. 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.

Investment 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, 2013 and 2012 are as follows:

	March 31, 2013		
	Carrying value	Fair value	Difference
		(Millions of yen)	
(1) Cash on hand and in banks	**¥ 5,565**	**¥ 5,565**	**—**
(2) Trade notes and accounts receivable (*1)	**26,757**	**26,757**	**—**
(3) Investment securities			
Other securities	**1,912**	**1,912**	**—**
(4) Trade notes and accounts payable	**(23,402)**	**(23,402)**	**—**
(5) Short-term loans	**(8,662)**	**(8,662)**	**—**
(6) Other accounts payable	**(6,476)**	**(6,476)**	**—**
(7) Long-term loans	**(32,148)**	**(32,148)**	**—**
(8) Derivative transactions (*2)	**(55)**	**(55)**	**—**

	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) Investment 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, 2013		
	Carrying value	Fair value	Difference
		(Thousands of U.S. dollars)	
(1) Cash on hand and in banks	**$ 59,174**	**$ 59,174**	**—**
(2) Trade notes and accounts receivable (*1)	**284,498**	**284,498**	**—**
(3) Investment securities			
Other securities	**20,331**	**20,331**	**—**
(4) Trade notes and accounts payable	**(248,835)**	**(248,835)**	**—**
(5) Short-term loans	**(92,105)**	**(92,105)**	**—**
(6) Other accounts payable	**(68,862)**	**(68,862)**	**—**
(7) Long-term loans	**(341,819)**	**(341,819)**	**—**
(8) Derivative transactions (*2)	**(589)**	**(589)**	**—**

(*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 7.

9. Short-term and long-term debt

Short-term and long-term debt as of March 31, 2013 and 2012 consisted of the following:

	March 31		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Short-term loans	**¥ 362**	¥ 329	**$ 3,851**
Current portion of long-term loans	**8,300**	291	**88,254**
Current portion of long-term lease obligations	**474**	422	**5,045**
Total short-term debt	**9,137**	1,043	**97,150**
Long-term loans	**32,148**	40,423	**341,819**
Long-term lease obligations	**636**	460	**6,762**
Total long-term debt	**32,784**	40,883	**348,582**
Total	**¥41,921**	¥41,927	**$445,733**

The weighted-average rates for short-term loans, current portion of long-term loans and long-term loans as of March 31, 2013 were 0.86%, 1.19% and 0.73%, 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)*
2014	¥ 8,774	$ 93,299
2015	32,490	345,464
2016	167	1,780
2017	107	1,147
2018	16	179

As of March 31, 2013 and 2012, assets pledged as collateral for short-term and long-term loans are as follows:

	March 31		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Buildings and structures, net	**¥323**	¥306	**$ 3,442**
Machinery, equipment and vehicles	**—**	0	**—**
Land	**102**	89	**1,090**
Total	**¥426**	¥396	**$ 4,533**

Secured loans as of March 31, 2013 and 2012 are as follows:

	March 31		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Short-term loans	**¥ 50**	¥ 41	**$ 535**
Long-term loans	**148**	173	**1,575**
Total	**¥198**	¥215	**$ 2,110**

10. Accrued retirement benefits to employees

Clarion maintain defined benefit plan, retirement lump sum grants and defined contribution pension plan, as defined benefit pension plans. 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, 2013 and 2012 were as follows:

	March 31		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Projected benefit obligations	**¥ (14,567)**	¥ (13,629)	**$(154,895)**
Plan assets at fair value	**3,254**	2,835	**34,609**
Securities contributed to employee retirement benefit trust	**293**	253	**3,123**
Unfunded status	**(11,019)**	(10,540)	**(117,162)**
Unrecognized actuarial differences	**936**	472	**9,952**
Unrecognized prior service costs due to plan amendment	**(43)**	(30)	**(464)**
Accrued pension and severance costs	**¥ (10,126)**	¥ (10,097)	**$(107,674)**

Net periodic pension expense relating to the retirement benefits for the years ended March 31, 2013 and 2012 were as follows:

	Year ended March 31		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	**¥ 714**	¥ 693	**$ 7,592**
Interest cost	**211**	242	**2,250**
Expected return on plan assets	**(48)**	(52)	**(516)**
Amortization of unrecognized prior service costs due to plan amendment	**13**	13	**145**
Amortization of unrecognized actuarial difference	**145**	136	**1,547**
Net periodic pension expense	**1,036**	1,032	**11,018**
Other (*)	**120**	119	**1,276**
Total	**¥1,156**	¥1,152	**$12,294**

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

In addition to the above, extra employees' severance indemnities of ¥31 million ($335 thousand) and ¥16 million were included in additional severance costs for the periods ended March 31, 2013 and 2012, respectively.

Assumptions used in calculating the above information were as follows:

	Year ended March 31	
	2013	2012
Discount rates	**0.6~1.1%**	1.2~1.7%
Expected rates of return on plan assets	**1.5~1.7%**	1.9~2.0%
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

11. Shareholders' equity

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

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

In accordance with Article 119 of 1998 Cabinet Order – Article 2-1 of the Enforcement Ordinance relating to the Land Revaluation Law, revaluation is performed by the method of calculating land value for the standard basis of land in accordance with the Law for Government Appraisal of Land Prices. Under Article 2-4 of the Enforcement Ordinance, revaluation is performed by using the method of calculating land value for a taxable basis of the Land Value Tax amounts along with reasonable adjustments, such as shape of the land and accessibility, in accordance with the Article 16 of the Land-Holding Tax Law. This method is established and published by the Director General of the National Tax Administration, and the land is valued by the real estate appraiser in accordance with Article 2-5. As a result, deferred income taxes on revaluation of land is recorded as liabilities and net unrealized gain on revaluation of land, net of tax, was recorded as a component of net assets.

As of March 31, 2013 and 2012, the differences between fair value and carrying amount after revaluation dated March 31, 2001 were as follows:

	March 31		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Difference between fair value and carrying amount after revaluation	**¥(1,565)**	¥(1,300)	**$(16,649)**

13. Income taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2013 and 2012 were as follows:

	March 31		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Net operating tax loss carryforwards	**¥ 4,737**	¥ 5,191	**$ 50,368**
Accrued pension and severance costs	**3,863**	3,876	**41,074**
Accrued warranty cost	**209**	176	**2,227**
Loss on devaluation of inventories	**510**	360	**5,430**
Loss on devaluation of marketable securities	**489**	523	**5,205**
Accrued expenses	**868**	1,064	**9,231**
Other account payable	**375**	431	**3,988**
Allowance for doubtful accounts	**31**	36	**334**
Foreign tax credit carryforward	**255**	121	**2,716**
Accrued bonuses	**643**	698	**6,842**
Other	**1,066**	853	**11,334**
Sub-total	**13,049**	13,332	**138,754**
Deferred tax liabilities:			
Depreciation	**39**	37	**415**
Other	**120**	75	**1,281**
Sub-total	**159**	113	**1,696**
Less: Valuation allowance	**(9,626)**	(8,763)	**(102,359)**
Net deferred tax assets	**¥ 3,263**	¥ 4,455	**$ 34,698**

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	
	2013	2012
Statutory income tax rate	**38.0%**	40.7%
Permanent differences	**1.9**	4.8
Fixed levy of local inhabitant taxes	**0.6**	0.3
Valuation allowance	**30.1**	(52.1)
Variance of effective tax rate between Clarion and the subsidiaries	**(2.9)**	(1.3)
Income tax credit	**(6.8)**	0.9
Reduction of deferred tax assets by the change of tax rate	**—**	3.3
Other	**(0.6)**	1.4
Effective income tax rates	**60.3%**	(2.0)%

14. Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2013 and 2012 totaled ¥15 million ($163 thousand) and ¥14 million, respectively.

15. Cash flow information

Reconciliations between cash and cash equivalents and cash on hand and in bank as of March 31, 2013 and 2012 were as follows:

	March 31		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash on hand and in banks	**¥5,565**	¥11,611	**$ 59,174**
Time deposits with maturities of more than three months	**(1)**	(1)	**(14)**
Cash and cash equivalents	**¥5,564**	¥11,610	**$ 59,160**

16. Leases

The Company, as a lessee, charges periodic lease payments for finance leases which do not transfer ownership of the leased property to the lessee and have been entered into before April 1, 2008, to expense on payment. Such payments for the years ended March 31, 2013 and 2012 were ¥87 million ($928 thousand) and ¥316 million, respectively.

The amount of outstanding future lease payments for finance leases as of March 31, 2013 and 2012, excluding the interest thereon, are summarized as follows:

	March 31		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Future lease payments:			
Due within one year	**¥ 44**	¥ 85	**$ 470**
Due after one year	**16**	63	**170**
Total	**¥ 60**	¥ 148	**$ 641**

Pro forma information as of and for the years ended March 31, 2013 and 2012 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		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Acquisition cost	**¥ 372**	¥ 616	**$ 3,959**
Accumulated depreciation	**(318)**	(480)	**(3,385)**
Net book value	**¥ 53**	¥ 136	**$ 573**
Depreciation expense	**¥ 78**	¥ 276	**$ 839**
Interest expense	**¥ 1**	¥ 24	**$ 18**

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, 2013 and 2012 follow:

	March 31		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Due within one year	**¥ 291**	¥ 264	**$ 3,096**
Due after one year	**706**	347	**7,509**
Total	**¥ 997**	¥ 611	**$ 10,606**

17. Asset retirement obligations

Information on asset retirement obligations on the consolidated balance sheets at March 31, 2013 and 2012 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 20 years from acquisition and with discount rates ranging from 0.3 to 1.6%.

(c) Changes in the asset retirement obligations for the year ended March 31, 2013 and 2012 were as follows:

	March 31		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at beginning of year	**¥ 176**	¥ 139	**$ 1,871**
Liabilities incurred due to the acquisition of property, plant and equipment	**—**	106	**—**
Accretion expense	**1**	1	**15**
Liabilities settled	**—**	(18)	**—**
Change of estimation	**22**	—	**237**
Others	**(6)**	(53)	**(67)**
Balance at end of year	**¥ 193**	¥ 176	**$ 2,057**

18. Commitments and contingencies

The Company was contingently liable for notes receivable discounted, amounting to ¥294 million ($3,129 thousand) as of March 31, 2013.

19. Segment information

(1) Information by reportable segment
Sales of the Company classified by reportable segment for the years ended March 31, 2013 and 2012, respectively, are summarized as follows:

	Year ended March 31, 2013					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Adjustments	Consolidated total
	(Millions of yen)					
Sales to outside customers	**¥ 96,406**	**¥ 54,288**	**¥ 16,861**	**¥ 9,733**	**¥ —**	**¥177,288**
Inter-segment sales	**37,814**	**742**	**43,957**	**296**	**(82,811)**	**—**
Total sales	**134,220**	**55,030**	**60,819**	**10,029**	**(82,811)**	**177,288**
Segment income/(loss)	**¥ 1,963**	**¥ 761**	**¥ 323**	**¥ (0)**	**¥ 163**	**¥ 3,210**
Segment assets	**¥108,872**	**¥ 23,478**	**¥ 28,058**	**¥ 7,101**	**¥ (50,112)**	**¥117,398**

	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, 2013					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Adjustments	Consolidated total
	(Thousands of U.S. dollars)					
Sales to outside customers	**$1,025,052**	**$ 577,224**	**$ 179,282**	**$ 103,489**	**$ —**	**$1,885,048**
Inter-segment sales	**402,065**	**7,898**	**467,384**	**3,150**	**(880,500)**	**—**
Total sales	**1,427,117**	**585,123**	**646,667**	**106,639**	**(880,500)**	**1,885,048**
Segment income/(loss)	**$ 20,875**	**$ 8,095**	**$ 3,444**	**$ (8)**	**$ 1,733**	**$ 34,141**
Segment assets	**$1,159,968**	**$ 249,643**	**$ 298,335**	**$ 75,510**	**$ (535,199)**	**$1,248,258**

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, 2013 and 2012 were ¥222 million ($2,369 thousand) and ¥183 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, 2013 and 2012 are as follows:

	Year ended March 31		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Product and service:			
Car audio-visual equipment	**¥158,391**	¥167,148	**$1,684,116**
Special equipment	**10,536**	8,008	**112,035**
Other	**8,360**	11,554	**88,897**
Consolidated net sales	**¥177,288**	¥186,711	**$1,885,048**

(3) Information on sales by region
Information on sales by the region categorized as Japan, Americas, Asia and Australia and Europe, for the years ended March 31, 2013 and 2012 are as follows:
Sales by region are classified based on areas in which significant customers are located.

	Year ended March 31		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Japan	**¥ 95,999**	¥ 96,245	**$1,020,731**
Americas	**54,313**	62,026	**577,497**
Asia and Australia	**17,256**	17,600	**183,480**
Europe	**9,719**	10,839	**103,338**
Consolidated net sales	**¥177,288**	¥186,711	**$1,885,048**

20. Selling, general and administrative expenses

An analysis of selling, general and administrative expenses for the years ended March 31, 2013 and 2012 are as follows:

	Year ended March 31		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Payroll costs	**¥ 7,479**	¥ 7,017	**$ 79,526**
Provision for bonuses	**486**	531	**5,175**
Pension expenses	**433**	414	**4,607**
Freight out	**2,905**	3,270	**30,891**
Other	**12,467**	11,819	**132,562**
Total	**¥23,772**	¥23,053	**$ 252,762**

21. Transactions with related parties

Year ended March 31, 2013:

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	**¥ 1,524**	**$ 16,212**	Short-term loans receivable	**¥ 6,856**	**$ 72,901**
Borrowing of fund	**¥ —**	**$ —**	Long-term loans	**¥ 20,000**	**$212,652**
Interest expense	**¥ 113**	**$ 1,210**	Accrued expenses	**¥ 0**	**$ 8**

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, 2013 compared with that as of March 31, 2012. 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	**¥11,473**	**$121,998**	Notes and accounts payable	**¥ 3,735**	**$ 39,720**

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, 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)		*(Millions of yen)*
Lending fund	¥ 4,269	Short-term loans receivable	¥ 5,331
Borrowing of fund	¥ —	Long-term loans	¥ 20,000
Interest expense	¥ 170	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, 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)		*(Millions of yen)*
Factoring	¥ 12,063	Notes and accounts payable	¥ 5,733

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.

22. Amounts per share

Net income per share and net assets per share for the years ended March 31, 2013 and 2012 are as follows:

	Year ended March 31		
	2013	2012	**2013**
Net income per share:	*(Yen)*		*(U.S. dollars)*
Basic	**¥ 4.82**	¥ 26.71	**$ 0.05**
Diluted	**—**	—	**—**

	March 31		
	2013	2012	**2013**
	(Yen)		*(U.S. dollars)*
Net assets per share	**¥ 77.33**	¥ 58.12	**$ 0.82**

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

23. Other comprehensive income

The following table presents reclassifications adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2013 and 2012;

	Year ended March 31		
	2013	2012	2013
	(Millions of yen)		(Thousands of U.S. dollars)
Net unrealized gains on other securities:			
Amount arising during the year	¥ 659	¥ 114	$ 7,010
Reclassification adjustment for gains and losses included in net income	—	130	—
Amount before tax effect	659	245	7,010
Tax effect	(43)	(9)	(460)
Net unrealized gains on other securities	616	235	6,550
Net deferred gains on hedge:			
Amount arising during the year	6	1	64
Tax effect	(0)	—	(0)
Net deferred gains on hedge	6	1	64
Net unrealized gains on revaluation of land:			
Tax effect	5	75	56
Foreign currency transaction adjustments:			
Amount arising during the year	3,322	17	35,324
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount arising during the year	134	(33)	1,433
Total other comprehensive income	¥ 4,084	¥ 296	$ 43,430

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Building a better working world

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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, 2013, 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 its consolidated subsidiaries as at March 31, 2013, 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 21, 2013
Tokyo, Japan