Clarion Co., Ltd.
and
Subsidiaries

Consolidated Financial Statements

March 31, 2014

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
	2009	2010	2011	2012	2013	**2014**	**2014**
For the Year							
Net sales	¥181,554	¥174,762	¥178,318	¥186,711	¥177,288	**¥191,337**	**$1,859,092**
Japan	105,991	93,892	93,089	96,917	96,406	**101,360**	**984,844**
Americas	46,440	55,499	59,611	62,024	54,288	**56,558**	**549,533**
Asia and Australia	12,461	11,886	13,963	16,928	16,861	**20,467**	**198,871**
Europe	16,661	13,482	11,653	10,840	9,733	**12,951**	**125,843**
Car audio-visual equipment	157,552	156,372	161,605	167,148	158,391	**159,029**	**1,545,180**
Special equipment	8,982	7,685	7,798	8,008	10,536	**18,262**	**177,445**
Others	15,018	10,704	8,915	11,554	8,360	**14,045**	**136,466**
Cost of sales	161,649	149,600	149,646	155,783	150,305	**161,343**	**1,567,660**
Selling, general and administrative expenses	32,354	24,537	23,735	23,053	23,772	**24,763**	**240,605**
Operating income (loss)	(12,449)	624	4,936	7,873	3,210	**5,231**	**50,827**
Other income (expenses), net	(2,758)	60	(2,482)	(482)	218	**(543)**	**(5,282)**
Income (loss) before income taxes and minority interests	(15,208)	684	2,454	7,390	3,429	**4,687**	**45,545**
Provision (benefit) for income taxes	4,776	129	1,063	(150)	2,069	**1,343**	**13,049**
Income (loss) before minority interests	(19,984)	555	1,390	7,540	1,359	**3,344**	**32,495**
Minority interests in subsidiaries	2	5	7	8	1	**1**	**18**
Net income (loss)	(19,987)	549	1,383	7,532	1,358	**3,342**	**32,476**
Research and development expenses	30,329	18,616	20,095	22,343	23,073	**22,459**	**218,223**
Capital investment	5,796	1,946	1,601	3,361	4,298	**2,888**	**28,069**
Net cash provided by (used in) operating activities	(2,851)	12,381	8,559	16,304	5,488	**10,418**	**101,232**
Net cash used in investing activities	(10,121)	(3,350)	(5,768)	(11,587)	(11,350)	**(9,683)**	**(94,089)**
Net cash provided by (used in) financing activities	10,014	(7,731)	(5,242)	(751)	(564)	**(959)**	**(9,325)**
Per share							
(Yen and U.S. dollars):							
Net income (loss)	¥(70.85)	¥1.95	¥4.90	¥26.71	¥4.82	**¥11.86**	**$0.12**
Cash dividends	—	—	—	—	—	**—**	**—**
At year end							
Total assets	¥117,641	¥112,714	¥103,769	¥122,821	¥117,398	**¥125,384**	**$1,218,274**
Total net assets	9,135	9,312	8,728	16,579	22,002	**27,881**	**270,901**
Interesting-bearing debt	54,160	46,862	42,096	41,927	41,921	**41,720**	**405,365**
Ratio (%)							
Net assets ratio	7.8	8.3	8.4	13.5	18.8	**22.1**	**22.1**
ROE	(97.8)	6.1	15.7	60.5	7.1	**13.5**	**13.5**
ROA	(14.9)	0.5	1.3	6.6	1.1	**2.8**	**2.8**
Current ratio	106.1	144.8	99.6	147.3	134.0	**127.7**	**127.7**

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, 2014, which was ¥102.92 to U.S. $1.

Consolidated Balance Sheets

	March 31 2014	March 31 2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
ASSETS			
Current assets:			
Cash on hand and in banks (Notes 8 and 15)	¥ 6,486	¥ 5,565	$ 63,023
Trade notes and accounts receivable (Notes 8 and 18)	29,638	26,944	287,974
Allowance for doubtful accounts	(136)	(186)	(1,330)
Inventories (Note 5)	21,119	20,200	205,204
Deferred tax assets (Note 13)	2,582	2,614	25,091
Other current assets (Notes 8 and 21)	11,247	11,258	109,281
Total current assets	70,937	66,395	689,245
Investment securities (Notes 6 and 8)	2,765	3,318	26,873
Property, plant and equipment			
Buildings and structures (Note 9)	20,023	19,333	194,558
Machinery, equipment and vehicles	42,204	41,794	410,074
Land (Note 9)	9,135	9,073	88,767
Leased assets	1,940	3,020	18,850
Construction in progress	286	107	2,785
Accumulated depreciation	(47,246)	(47,562)	(459,064)
Property, plant and equipment, net	26,344	25,767	255,971
Other assets:			
Intangible assets	20,655	19,001	200,695
Deferred tax assets (Note 13)	1,096	694	10,650
Other	3,585	2,220	34,839
Total other assets	25,337	21,916	246,184
Total assets	¥ 125,384	¥ 117,398	$1,218,274

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

	March 31 2014	March 31 2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans (Notes 8 and 9)	¥ 12,482	¥ 8,662	$ 121,284
Trade notes and accounts payable (Notes 8 and 21)	23,534	23,402	228,672
Accrued bonuses	2,221	1,842	21,588
Lease obligations (Note 9)	549	474	5,337
Accrued expenses (Note 20)	6,552	6,593	63,667
Accrued income taxes	1,066	727	10,363
Accrued warranty costs	573	463	5,573
Other current liabilities (Notes 8 and 21)	8,575	7,386	83,321
Total current liabilities	55,557	49,553	539,807
Long-term liabilities:			
Long-term loans (Notes 8, 9 and 21)	28,104	32,148	273,070
Lease obligations (Note 9)	583	636	5,673
Accrued pension and severance costs (Note 10)	—	10,126	—
Liability for retirement benefits (Note 10)	9,381	—	91,150
Deferred tax liabilities on revaluation of land (Note 12)	564	564	5,480
Deferred tax liabilities (Note 13)	386	45	3,759
Accrued retirement benefit for directors and corporate auditors	129	169	1,261
Accrued warranty costs	422	414	4,101
Asset retirement obligations (Note 17)	95	193	924
Other long-term liabilities	2,278	1,544	22,142
Total long-term liabilities	41,946	45,842	407,564
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, 2014 and 2013	26,100	26,100	253,597
Additional paid-in capital	2,669	2,669	25,938
Retained earnings (Note 22)	1,555	(1,444)	15,112
Treasury stock	(129)	(126)	(1,257)
Total shareholders' equity	30,195	27,198	293,391
Accumulated other comprehensive income:			
Net unrealized gains on revaluation of land (Note 12)	1,019	1,019	9,906
Net deferred losses on hedge	1	0	10
Foreign currency translation adjustments	(3,987)	(7,363)	(38,742)
Retirement benefits liability adjustments	(201)	—	(1,956)
Net unrealized gains on other securities	687	947	6,680
Total accumulated other comprehensive income	(2,480)	(5,395)	(24,101)
Minority interests in subsidiaries	165	200	1,611
Total net assets	27,881	22,002	270,901
Total liabilities and net assets	¥ 125,384	¥ 117,398	$1,218,274

Consolidated Statements of Income

	Year eanded March 31 2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars)*
Net sales	¥ 191,337	¥ 177,288	$1,859,092
Cost of sales	161,343	150,305	1,567,660
Gross profit	29,994	26,983	291,432
Selling, general and administrative expenses (Notes 14 and 20)	24,763	23,772	240,605
Operating income	5,231	3,210	50,827
Other income:			
Interest and dividend income	131	91	1,276
Equity in earnings of affiliates	0	124	7
Exchange gains, net	—	176	—
Commission income	95	60	923
Gain on sales of valuables	85	56	832
Gain on sales of property, plant and equipment	132	117	1,282
Gains on sales of investment securities	—	14	—
Subsidy income	29	28	284
Gain on contribution of securities to retirement benefit trust	906	—	8,811
Other	253	332	2,459
	1,634	1,002	15,878
Other expenses:			
Interest expense (Note 21)	381	407	3,707
Discount expense	79	90	769
Exchange losses, net	565	—	5,491
Additional severance costs (Note 10)	28	31	272
Loss on sales and disposal of property, plant and equipment	58	50	568
Office relocation expenses	18	21	182
Loss on liquidation of subsidiary	745	—	7,241
Other	301	183	2,925
	2,177	784	21,160
Income before income taxes and minority interests in subsidiaries	4,687	3,429	45,545
Income taxes (Note 13):			
Current	1,484	776	14,427
Deferred	(141)	1,293	(1,378)
	1,343	2,069	13,049
Income before minority interests in subsidiaries	3,344	1,359	32,495
Minority interests in subsidiaries	1	1	18
Net income	¥ 3,342	¥ 1,358	$ 32,476

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 2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars)*
Income before minority interests	¥ 3,344	¥ 1,359	$ 32,495
Other comprehensive income (Note 23)			
Net unrealized gains on other securities	(260)	616	(2,528)
Net deferred gains on hedge	1	6	9
Net unrealized gains on revaluation of land	—	5	—
Foreign currency translation adjustments	3,342	3,322	32,477
Retirement benefits liability adjustments	690	—	6,713
Share of other comprehensive income of affiliates accounted for by the equity method	39	134	387
Total other comprehensive income	3,814	4,084	37,059
Comprehensive income	¥ 7,158	¥ 5,444	$ 69,555

	Year eanded March 31 2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars)*
Comprehensive income attributable to:			
Shareholders	¥ 7,150	¥ 5,418	$ 69,473
Minority interests	8	25	81

Consolidated Statement of Changes in Net Assets

	Number of common shares outstanding	Shareholders' equity: Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Accumulated other comprehensive income: Net unrealized gains on revaluation of land	Net deferred gains/(losses) on hedge	Net unrealized gains on other securities	Foreign currency translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Minority interests in subsidiaries	Total net assets
	(Thousands)						(Millions of yen)							
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
Cumulative effect of changes in accounting policies	–	–	–	(342)	–	(342)	–	–	–	–	(892)	(892)	–	(1,234)
Restated balance at April 1, 2013	282,744	26,100	2,669	(1,787)	(126)	26,856	1,019	0	947	(7,363)	(892)	(6,288)	200	20,767
Net income	**–**	**–**	**–**	**3,342**	**–**	**3,342**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,342**
Acquisition of treasury stock	**–**	**–**	**–**	**–**	**(2)**	**(2)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**
Changes in:														
Items other than shareholders' equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**(260)**	**3,376**	**690**	**3,807**	**(34)**	**3,773**
Balance at March 31, 2014	**282,744**	**¥26,100**	**¥2,669**	**¥ 1,555**	**¥ (129)**	**¥30,195**	**¥ 1,019**	**¥ 1**	**¥ 687**	**¥ (3,987)**	**¥ (201)**	**¥(2,480)**	**¥ 165**	**¥ 27,881**

	Number of common shares outstanding	Shareholders' equity: Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Accumulated other comprehensive income: Net unrealized gains on revaluation of land	Net deferred gains/(losses) on hedge	Net unrealized gains on other securities	Foreign currency translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Minority interests in subsidiaries	Total net assets
	(Thousands)						(Thousands of U.S. dollars)							
Balance at April 1, 2013	282,744	$253,597	$25,938	$ (14,036)	$ (1,231)	$264,269	$ 9,906	$ 0	$ 9,209	$ (71,545)	–	$ (52,428)	$ 1,944	$213,784
Cumulative effect of changes in accounting policies	–	–	–	(3,328)	–	(3,328)	–	–	–	–	(8,669)	(8,669)	–	(11,998)
Restated balance at April 1, 2013	282,744	253,597	25,938	(17,364)	(1,231)	260,940	9,906	0	9,209	(71,545)	(8,669)	(61,098)	1,944	201,786
Net income	**–**	**–**	**–**	**32,476**	**–**	**32,476**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**32,476**
Acquisition of treasury stock	**–**	**–**	**–**	**–**	**(26)**	**(26)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(26)**
Changes in:														
Items other than shareholders' equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9**	**(2,528)**	**32,802**	**6,713**	**36,996**	**(332)**	**36,664**
Balance at March 31, 2014	**282,744**	**$253,597**	**$25,938**	**$ 15,112**	**$ (1,257)**	**$293,391**	**$ 9,906**	**$10**	**$ 6,680**	**$ (38,742)**	**$ (1,956)**	**$ (24,101)**	**$ 1,611**	**$270,901**

Consolidated Statements of Cash Flows

	Year ended March 31: 2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Cash flows from operating activities:			
Income before income taxes and minority interests in subsidiaries	**¥ 4,687**	¥ 3,429	**$ 45,545**
Adjustments to reconcile income before income taxes and minority interests in subsidiaries to cash flows from operating activities:			
Depreciation and amortization	**8,322**	6,715	**80,867**
Amortization of goodwill	**915**	915	**8,898**
Equity in earnings of affiliates	**(0)**	(124)	**(7)**
Gain on sales of investment securities	**—**	(14)	**—**
Decrease in allowance for doubtful accounts	**(57)**	(48)	**(557)**
Increase in accrued pension and severance costs, less payment	**—**	7	**—**
Decrease in liability for retirement benefits	**(952)**	—	**(9,251)**
Increase/(decrease) in accrued bonuses	**355**	(92)	**3,457**
Decrease in accrued retirement benefit for directors and corporate auditors	**(39)**	(25)	**(381)**
Increase in accrued warranty costs	**63**	53	**617**
Interest and dividend income	**(131)**	(91)	**(1,276)**
Interest expense	**381**	407	**3,707**
Gain on sales of property, plant and equipment	**(132)**	(117)	**(1,282)**
Loss on sales and disposal of property, plant and equipment	**58**	50	**568**
Changes in assets and liabilities:			
Notes and accounts receivable	**(968)**	6,363	**(9,413)**
Inventories	**246**	3,836	**2,394**
Notes and accounts payable	**(1,472)**	(11,074)	**(14,303)**
Other, net	**56**	(3,555)	**545**
Sub-total	**11,334**	6,636	**110,128**
Interest and dividend received	**349**	173	**3,395**
Interest paid	**(386)**	(401)	**(3,754)**
Income taxes paid	**(878)**	(920)	**(8,536)**
Net cash provided by operating activities	**10,418**	5,488	**101,232**
Cash flows from investing activities:			
Payment for purchases of property, plant and equipment	**(2,888)**	(4,298)	**(28,069)**
Proceeds from sales of property, plant and equipment	**215**	381	**2,090**
Payment for purchases of intangible assets	**(6,966)**	(6,209)	**(67,686)**
Proceeds from sales of investments in securities	**53**	67	**517**
Increase in loans receivable	**(51,671)**	(25,466)	**(502,056)**
Decrease in loans receivable	**51,609**	24,184	**501,450**
Decrease in time deposits	**1**	—	**13**
Other, net	**(35)**	(9)	**(349)**
Net cash used in investing activities	**(9,683)**	(11,350)	**(94,089)**
Cash flows from financing activities:			
Repayment of finance lease obligations	**(576)**	(530)	**(5,600)**
Proceeds from long-term loans	**8,000**	—	**77,730**
Repayment of long-term loans	**(8,303)**	(292)	**(80,676)**
Cash dividend to minority shareholders	**(77)**	(35)	**(752)**
Proceeds from sale and leaseback transactions	**—**	294	**—**
Other, net	**(2)**	(1)	**(26)**
Net cash used in financing activities	**(959)**	(564)	**(9,325)**
Effect of exchange rate changes on cash and cash equivalents	**1,147**	379	**11,144**
Net increase/(decrease) in cash and cash equivalents	**922**	(6,046)	**8,962**
Cash and cash equivalents at beginning of year	**5,564**	11,610	**54,062**
Cash and cash equivalents at end of year (Note 15)	**¥ 6,486**	¥ 5,564	**$ 63,023**

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

Notes to the Consolidated Financial Statements

March 31, 2014

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 International Financial Reporting Standards ("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 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	
	2014	2013
	(Millions of yen)	
Notes receivable	–	¥ 50
Notes payable	–	201

(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.

(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) Retirement benefits

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 changes

Adoption of "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 issued of May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued of May 17, 2012)
The Company adopted the Accounting Standard and the Guidance from the beginning of the year ended March 31, 2014. According to this adoption, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized through other comprehensive income (retirement benefits liability adjustments) to recognize retirement benefit obligation, after deducting plan assets, as liability for retirement benefits. Also the Company changed the attribution method of retirement benefits to periods of employee service from straight-line method to the method based on the benefit formula of the retirement benefit plan, and calculation method of discount rate. Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Clause 37 of the standard, the effects of recording projected benefit obligation, after deducting plan assets, as of the beginning of the current fiscal year as liability for retirement benefits have been recorded in retirement benefits liability adjustments of accumulated other comprehensive income. As a result of the adoption, as of beginning of the year ended March 31, 2014, liability for retirement benefits was recorded by ¥1,234 million ($11,997 thousand), accumulated other comprehensive income decreased by ¥892 million ($8,669 thousand) and retained earnings decreased by ¥342 million ($3,328 thousand), respectively. The impact on consolidated statement of income for the year ended March 31, 2014 was immaterial. In addition, net assets per share as of March 31, 2014 decreased by ¥1.93 ($0.02) and the impact on net income per share for the year ended March 31, 2014 was immaterial.

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 ¥102.92 = US$1, the approximate rate of exchange as of March 31, 2014, 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, 2014 and 2013 consisted of the following:

	March 31		
	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Finished goods	**¥12,474**	¥11,599	**$121,207**
Work in process	**1,170**	1,215	**11,376**
Raw materials and supplies	**7,474**	7,385	**72,620**
Total	**¥21,119**	¥20,200	**$205,204**

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, 2014 and 2013, are as follows:

	March 31, 2014			
		Gross unrealized		
	Cost	Gain	Loss	Fair value (carrying value)
	(Millions of yen)			
Equity securities	**¥ 587**	**¥ 953**	**¥ (2)**	**¥ 1,537**
Debt securities	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**
Total	**¥ 587**	**¥ 953**	**¥ (2)**	**¥ 1,537**

	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, 2014			
		Gross unrealized		
	Cost	Gain	Loss	Fair value (carrying value)
	(Thousands of U.S. dollars)			
Equity securities	**$ 5,705**	**$ 9,262**	**$ (28)**	**$ 14,939**
Debt securities	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**
Total	**$ 5,705**	**$ 9,262**	**$ (28)**	**$ 14,939**

Other securities sold for the years ended March 31, 2014 and 2013 are as follows:

	Year ended March 31		
	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Sales amount	**¥ 53**	¥ 67	**$ 517**

At March 31, 2014 and 2013, the carrying value of the securities classified as other securities for which market quotation were unavailable were as follows:

	March 31		
	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Other securities			
Unlisted equity securities	¥ 41	¥ 41	$ 398
Others	162	198	1,575

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, 2014 and 2013, for which hedged accounting has not been applied.

	March 31, 2014		
	Contract amount	Fair value	Unrealized gain/(loss)
Forward foreign exchange contracts:	(Millions of yen)		
Selling			
U.S. dollar	¥ 6,354	¥ (61)	¥ (61)
Euro	2,625	(27)	(27)
Brazilian real	46	(2)	(2)
Buying			
U.S. dollar	4,131	30	30
Euro	1,067	8	8
British pound	168	2	2
Total unrealized loss from forward foreign currency exchange contracts			¥ (50)

	March 31, 2013		
	Contract amount	Fair value	Unrealized loss
Forward foreign exchange contracts:	(Millions of yen)		
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, 2014		
	Contract amount	Fair value	Unrealized gain/(loss)
Forward foreign exchange contracts:	(Thousands of U.S. dollars)		
Selling			
U.S. dollar	$ 61,746	$ (599)	$ (599)
Euro	25,510	(266)	(266)
Brazilian real	450	(23)	(23)
Buying			
U.S. dollar	40,141	296	296
Euro	10,371	78	78
British pound	1,641	22	22
Total unrealized loss from forward foreign currency exchange contracts			$ (491)

(2) Summarized below are the notional amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2014 and 2013, for which hedged accounting has been applied.

	March 31, 2014		
	Contract amount	Fair value	Unrealized gain/(loss)
Forward foreign exchange contracts:	(Millions of yen)		
Selling			
Euro	¥ 460	¥ (0)	¥ (0)
Brazil real	86	(1)	(1)
Buying			
U.S. dollar	572	3	3
Total unrealized gain from forward foreign currency exchange contracts			¥ 1

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

	March 31, 2014		
	Contract amount	Fair value	Unrealized gain/(loss)
Forward foreign exchange contracts:	(Thousands of U.S. dollars)		
Selling			
Euro	$ 4,474	$ (4)	$ (4)
Brazil real	844	(10)	(10)
Buying			
U.S. dollar	5,564	31	31
Total unrealized gain from forward foreign currency exchange contracts			$ 16

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, 2014 and 2013 are as follows:

	March 31, 2014		
	Carrying value	Fair value	Difference
		(Millions of yen)	
(1) Cash on hand and in banks	**¥ 6,486**	**¥ 6,486**	**–**
(2) Trade notes and accounts receivable (*1)	**29,501**	**29,501**	**–**
(3) Investment securities			
Other securities	**1,537**	**1,537**	**–**
(4) Trade notes and accounts payable	**(23,534)**	**(23,534)**	**–**
(5) Short-term loans	**(12,482)**	**(12,482)**	**–**
(6) Other accounts payable	**(7,663)**	**(7,663)**	**–**
(7) Long-term loans	**(28,104)**	**(28,104)**	**–**
(8) Derivative transactions (*2)	**(48)**	**(48)**	**–**

	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, 2014		
	Carrying value	Fair value	Difference
		(Thousands of U.S. dollars)	
(1) Cash on hand and in banks	**$ 63,023**	**$ 63,023**	**–**
(2) Trade notes and accounts receivable (*1)	**286,644**	**286,644**	**–**
(3) Investment securities			
Other securities	**14,939**	**14,939**	**–**
(4) Trade notes and accounts payable	**(228,672)**	**(228,672)**	**–**
(5) Short-term loans	**(121,284)**	**(121,284)**	**–**
(6) Other accounts payable	**(74,457)**	**(74,457)**	**–**
(7) Long-term loans	**(273,070)**	**(273,070)**	**–**
(8) Derivative transactions (*2)	**(475)**	**(475)**	**–**

(*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, 2014 and 2013 consisted of the following:

	March 31		
	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Short-term loans	**¥ 424**	¥ 362	**$ 4,128**
Current portion of long-term loans	**12,057**	8,300	**117,155**
Current portion of long-term lease obligations	**549**	474	**5,337**
Total short-term debt	**13,031**	9,137	**126,621**
Long-term loans	**28,104**	32,148	**273,070**
Long-term lease obligations	**583**	636	**5,673**
Total long-term debt	**28,688**	32,784	**278,744**
Total	**¥41,720**	¥41,921	**$405,365**

The weighted-average rates for short-term loans, current portion of long-term loans and long-term loans as of March 31, 2014 were 1.05%, 1.09% and 0.61%, 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)
2015	¥ 12,606	$ 122,492
2016	28,406	276,007
2017	215	2,090
2018	65	635
2019	0	6

As of March 31, 2014 and 2013, assets pledged as collateral for short-term and long-term loans are as follows:

	March 31		
	2014	2013	**2014**
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures, net	**¥325**	¥323	**$ 3,161**
Land	**112**	102	**1,090**
Total	**¥437**	¥426	**$ 4,252**

Secured loans as of March 31, 2014 and 2013 are as follows:

	March 31		
	2014	2013	**2014**
	(Millions of yen)		(Thousands of U.S. dollars)
Short-term loans	**¥ 57**	¥ 50	**$ 559**
Long-term loans	**104**	148	**1,015**
Total	**¥162**	¥198	**$ 1,575**

10. Retirement benefit plans

Clarion maintain defined benefit corporate pension plan and retirement lump-sum grants as defined benefit pension plans, and defined contribution pension plan. In addition, Clarion became a member of corporate pension fund under multi-employer plan. One of domestic subsidiaries maintains defined benefit corporate pension plan 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. Furthermore, retirement benefit trusts are established for a part of defined benefit corporate pension plan and retirement lump-sum grants. In addition, some overseas subsidiaries have defined contribution pension plans.

For the year ended March 31, 2014

The funded status of retirement benefit plans as of March 31, 2014, net periodic pension expense relating to the retirement benefits for the year ended March 31, 2014 and other relating information were as follows:

(Defined benefit plan)

Details of reconciliation for retirement benefit obligation between April 1, 2013 and March 31, 2014 were as follows:

	March 31	
	2014	**2014**
	(Millions of yen)	(Thousands of U.S. dollars)
Balance of retirement benefit obligations at April 1, 2013	**¥ 14,567**	**$141,545**
Cumulative effects of change in accounting policies	**342**	**3,328**
Restated balance at April 1, 2013	**14,910**	**144,874**
Service cost	**773**	**7,514**
Interest cost	**84**	**823**
Actuarial difference	**(189)**	**(1,844)**
Actual payment of retirement benefit	**(806)**	**(7,832)**
Others	**(46)**	**(449)**
Balance of retirement benefit obligations at March 31, 2014	**¥ 14,726**	**$143,086**

Details of reconciliation for plan assets at fair value between April 1, 2013 and March 31, 2014 were as follows:

	March 31	
	2014	**2014**
	(Millions of yen)	(Thousands of U.S. dollars)
Balance of plan assets at fair value at April 1, 2013	**¥ 3,548**	**$ 34,481**
Expected return on plan assets	**20**	**203**
Actuarial difference	**287**	**2,796**
Contribution from employers	**456**	**4,432**
Actual payment of retirement benefit	**(174)**	**(1,691)**
Contribution to retirement benefit trust	**1,265**	**12,297**
Others	**(60)**	**(584)**
Balance of plan assets at fair value at March 31, 2014	**¥5,345**	**$51,934**

Details of reconciliation between balance of retirement benefit obligations and plan assets at March 31, 2014 and net defined benefit liability on consolidated balance sheet were as follows:

	March 31	
	2014	**2014**
	(Millions of yen)	(Thousands of U.S. dollars)
Retirement benefit obligations under the funded plans	**¥ 11,954**	**$ 116,148**
Plan assets	**(5,345)**	**(51,934)**
	6,608	**64,213**
Retirement benefit obligations under the funded plans	**2,772**	**26,937**
Net liability for retirement benefits on consolidated balance sheet	**9,381**	**91,150**
Liability for retirement benefit	**9,381**	**91,150**
Net liability for retirement benefits on consolidated balance sheet	**¥ 9,381**	**$ 91,150**

Details of retirement benefit expense were as follows:

	Year ended March 31	
	2014	**2014**
	(Millions of yen)	(Thousands of U.S. dollars)
Service cost	**¥ 773**	**$ 7,514**
Interest cost	**84**	**823**
Expected return on plan assets	**(20)**	**(203)**
Amortization of actuarial difference	**199**	**1,939**
Amortization of prior service costs	**13**	**132**
Net periodic pension expense	**1,050**	**10,206**
Others	**28**	**272**
Total	**¥1,078**	**$ 10,479**

Others were extra employees' severance indemnities. It was included in additional retirement benefit expenses for the period ended March 31, 2014.

Breakdown of retirement benefits liability adjustments, included in other comprehensive income, before tax effect adjustments was as follows:

	March 31	
	2014	**2014**
	(Millions of yen)	(Thousands of U.S. dollars)
Actuarial difference	**¥ 677**	**$ 6,580**
Prior service costs	**13**	**132**
Total	**¥ 690**	**$ 6,713**

Breakdown of retirement benefits liability adjustments, included in accumulated other comprehensive income, before tax effect adjustments was as follows:

	March 31	
	2014	**2014**
	(Millions of yen)	*(Thousands of U.S. dollars)*
Unrecognized actuarial difference	**¥ 258**	**$ 2,514**
Unrecognized prior service costs	**(57)**	**(557)**
Total	**¥ 201**	**$ 1,956**

Fair value of plan assets by category as a percentage of total plan assets as of March 31, 2014 was as follows:

	Portion
Bonds	28%
Securities	43
Cash on hand and in banks	1
General accounts in life insurance	20
Others	8
Total	100

Plan assets include retirement benefit trust contributed to the corporate pension plan which represents 29% of the total plan assets at fair value.

The Company consider current and predicted allocation of plan assets and current and expected long-term rate of return generated from various kind of plan assets in order to determine long-term expected rate of return for plan assets.

Assumption used in calculating actuarial basis was as follows. The rates stand for weighted-average ratio, respectively.

Discount rate	0.7%
Long-term expected rate of return on plan assets	0.6%

(Defined contribution pension plan)

Clarion and some of overseas subsidiaries contributed ¥216 million ($2,100 thousand) to the plan for the year ended March 31, 2014.

For the year ended March 31, 2013

The funded status of retirement benefit plans as of March 31, 2013, net periodic pension expense relating to the retirement benefits for the year ended March 31, 2013 and assumptions used in calculating the information were as follows:

	March 31
	2013
	(Millions of yen)
Projected benefit obligations	¥ (14,567)
Plan assets at fair value	3,254
Securities contributed to employee retirement benefit trust	293
Unfunded status	(11,019)
Unrecognized actuarial differences	936
Unrecognized prior service costs due to plan amendment	(43)
Accrued pension and severance costs	¥ (10,126)

	Year ended March 31
	2013
	(Millions of yen)
Service cost	¥ 714
Interest cost	211
Expected return on plan assets	(48)
Amortization of unrecognized prior service costs due to plan amendment	13
Amortization of unrecognized actuarial difference	145
Net periodic pension expense	1,036
Other (*)	120
Total	¥1,156

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

In addition to the above, extra employees' severance indemnities of ¥31 million was included in additional severance costs for the year ended March 31, 2013.

	Year ended March 31
	2013
Discount rates	0.6~1.1%
Expected rates of return on plan assets	1.5~1.7%
Amortization period for unrecognized prior service costs due to plan amendment	13 years
Amortization periods for unrecognized actuarial difference	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, 2014 and 2013, the differences between fair value and carrying amount after revaluation dated March 31, 2001 were as follows:

	March 31		
	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Difference between fair value and carrying amount after revaluation	**¥ (1,560)**	¥ (1,565)	**$ (15,163)**

13. Income taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2014 and 2013 were as follows:

	March 31		
	2014	2013	2014
Deferred tax assets:	(Millions of yen)		(Thousands of U.S. dollars)
Net operating tax loss carryforwards	**¥ 3,448**	¥ 4,737	**$ 33,509**
Accrued pension and severance costs	**—**	3,863	**—**
Liability for retirement benefits	**3,422**	—	**33,255**
Accrued warranty cost	**233**	209	**2,269**
Loss on devaluation of inventories	**510**	510	**4,960**
Loss on devaluation of marketable securities	**459**	489	**4,460**
Accrued expenses	**1,011**	868	**9,823**
Other account payable	**338**	375	**3,291**
Allowance for doubtful accounts	**17**	31	**165**
Foreign tax credit carryforward	**332**	255	**3,233**
Accrued bonuses	**642**	643	**6,242**
Other	**1,244**	1,066	**12,089**
Sub-total	**11,661**	13,049	**113,302**
Deferred tax liabilities:			
Depreciation	**45**	39	**444**
Gain on contribution of securities to retirement benefit trust	**158**	—	**1,541**
Other	**270**	120	**2,631**
Sub-total	**475**	159	**4,617**
Less: Valuation allowance	**(7,894)**	(9,626)	**(76,702)**
Net deferred tax assets	**¥ 3,291**	¥ 3,263	**$ 31,982**

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	
	2014	2013
Statutory income tax rate	**38.0%**	38.0%
Permanent differences	**6.7**	1.9
Fixed levy of local inhabitant taxes	**0.5**	0.6
Valuation allowance	**(18.4)**	27.2
Income tax credit	**(3.3)**	(6.8)
Reduction of deferred tax assets by the change of tax rate	**3.0**	—
Other	**2.2**	(0.6)
Effective income tax rates	**28.7%**	60.3%

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on March 31, 2014 and a special reconstruction corporate tax will not apply to corporate taxes effective for fiscal years beginning on or after April 1, 2014.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 38.0% to 35.6% for the temporary differences expected to be realized or settled from fiscal year beginning on April 1, 2014. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets, net by ¥139 million ($1,359 thousand) and increase deferred income taxes by the same amount as of and for the year ended March 31, 2014.

14. Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2014 and 2013 totaled ¥166 million ($1,618 thousand) and ¥15 million, respectively.

15. Cash flow information

Reconciliations between cash and cash equivalents and cash on hand and in bank as of March 31, 2014 and 2013 were as follows:

	March 31		
	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	**¥6,486**	¥5,565	**$ 63,023**
Time deposits with maturities of more than three months	**—**	(1)	**—**
Cash and cash equivalents	**¥6,486**	¥5,564	**$ 63,023**

Securities, amount of ¥1,265 million ($12,297 thousand) were contributed to retirement benefit trust for the year ended March 31, 2014.

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, 2014 and 2013 were ¥43 million ($424 thousand) and ¥87 million, respectively.

The amount of outstanding future lease payments for finance leases as of March 31, 2014 and 2013, excluding the interest thereon, are summarized as follows:

	March 31		
	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Future lease payments:			
Due within one year	**¥ 15**	¥ 44	**$ 148**
Due after one year	**—**	16	**—**
Total	**¥ 15**	¥ 60	**$ 148**

Pro forma information as of and for the years ended March 31, 2014 and 2013 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		
	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Acquisition cost	**¥ 204**	¥ 372	**$ 1,989**
Accumulated depreciation	**(192)**	(318)	**(1,871)**
Net book value	**¥ 12**	¥ 53	**$ 118**
Depreciation expense	**¥ 39**	¥ 78	**$ 387**
Interest expense	**¥ 0**	¥ 1	**$ 4**

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, 2014 and 2013 follow:

	March 31		
	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Due within one year	**¥ 392**	¥ 291	**$ 3,817**
Due after one year	**873**	706	**8,489**
Total	**¥ 1,266**	¥ 997	**$ 12,306**

17. Asset retirement obligations

Information on asset retirement obligations on the consolidated balance sheets at March 31, 2014 and 2013 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, 2014 and 2013 were as follows:

	March 31		
	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at beginning of year	**¥ 193**	¥ 176	**$ 1,881**
Accretion expense	**1**	1	**11**
Liabilities settled	**(59)**	—	**(579)**
Change of estimation	**—**	22	**—**
Decrease due to sales of property, plant and equipment	**(40)**	(6)	**(389)**
Balance at end of year	**¥ 95**	¥ 193	**$ 924**

18. Commitments and contingencies

The Company was contingently liable for notes receivable discounted, amounting to ¥294 million 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, 2014 and 2013, respectively, are summarized as follow:

	Year ended March 31, 2014					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Adjustments	Consolidated total
	(Millions of yen)					
Sales to outside customers	**¥101,360**	**¥ 56,558**	**¥ 20,467**	**¥ 12,951**	**¥ —**	**¥191,337**
Inter-segment sales	**38,251**	**4,749**	**57,617**	**3,782**	**(104,401)**	**—**
Total sales	**139,611**	**61,308**	**78,085**	**16,734**	**(104,401)**	**191,337**
Segment income	**¥ 1,949**	**¥ 1,130**	**¥ 1,810**	**¥ 187**	**¥ 152**	**¥ 5,231**
Segment assets	**¥113,665**	**¥ 24,025**	**¥ 30,387**	**¥ 10,228**	**¥ (52,922)**	**¥125,384**

	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, 2014					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Adjustments	Consolidated total
	(Thousands of U.S. dollars)					
Sales to outside customers	**$ 984,844**	**$ 549,533**	**$ 198,871**	**$ 125,843**	**$ —**	**$1,859,092**
Inter-segment sales	**371,662**	**46,152**	**559,829**	**36,754**	**(1,014,398)**	**—**
Total sales	**1,356,506**	**595,686**	**758,700**	**162,597**	**(1,014,398)**	**1,859,092**
Segment income	**$ 18,946**	**$ 10,987**	**$ 17,592**	**$ 1,817**	**$ 1,483**	**$ 50,827**
Segment assets	**$1,104,407**	**$ 233,437**	**$ 295,254**	**$ 99,386**	**$ (514,211)**	**$1,218,274**

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, India 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, 2014 and 2013 were ¥219 million ($2,136 thousand) and ¥222 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, 2014 and 2013 are as follows:

	Year ended March 31		
	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Product and service:			
Car audio-visual equipment	**¥159,029**	¥158,391	**$1,545,180**
Special equipment	**18,262**	10,536	**177,445**
Other	**14,045**	8,360	**136,466**
Consolidated net sales	**¥191,337**	¥177,288	**$1,859,092**

(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, 2014 and 2013 are as follows:
Sales by region are classified based on areas in which significant customers are located.

	Year ended March 31		
	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Japan	**¥100,751**	¥ 95,999	**$ 978,930**
Americas	**56,688**	54,313	**550,803**
Asia and Australia	**20,816**	17,256	**202,259**
Europe	**13,081**	9,719	**127,100**
Consolidated net sales	**¥191,337**	¥177,288	**$1,859,092**

20. Selling, general and administrative expenses

An analysis of selling, general and administrative expenses for the years ended March 31, 2014 and 2013 are as follows:

	Year ended March 31		
	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Payroll costs	¥ 8,464	¥ 7,479	$ 82,242
Provision for bonuses	278	486	2,701
Pension expenses	502	433	4,883
Freight out	2,608	2,905	25,349
Other	12,909	12,467	125,428
Total	¥24,763	¥23,772	$ 240,605

21. Transactions with related parties

Year ended March 31, 2014:

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

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	¥ 65	$ 636	Other current assets	¥ 6,921	$ 67,255
Borrowing of fund	¥ —	$ —	Long-term loans	¥ 20,000	$194,325
Interest expense	¥ 72	$ 704	Accrued expenses	¥ 0	$ 2
Payment of patent fee and map royalty	¥ 9,110	$ 88,517	Other current liabilities and accrued expenses	¥ 1,271	$ 12,351

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, 2014 compared with that as of March 31, 2013. 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	¥10,624	$103,226	Trade notes and accounts payable	¥ 3,628	$ 35,255

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, 2013:

Category	Name	Ownership of Voting Rights/%	Relationship
Parent Company	Hitachi, Ltd.	Hitachi: 64.01%	Loans receivable and oans 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	¥ 1,524	Short-term loans receivable	¥ 6,856
Borrowing of fund	¥ —	Long-term loans	¥ 20,000
Interest expense	¥ 113	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, 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)		(Millions of yen)
Factoring	¥ 10,994	Notes and accounts payable	¥ 3,631

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, 2014 and 2013 are as follows:

	Year ended March 31		
	2014	2013	2014
Net income per share:	(Yen)		(U.S. dollars)
Basic	¥ 11.86	¥ 4.82	$ 0.12
Diluted	—	—	—

	March 31		
	2014	2013	2014
	(Yen)		(U.S. dollars)
Net assets per share	¥ 98.31	¥ 77.33	$ 0.96

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, 2014 and 2013.

	Year ended March 31		
	2014	2013	**2014**
	(Millions of yen)		(Thousands of U.S. dollars)
Net unrealized gains on other securities;			
Amount arising during the year	**¥ 854**	¥ 659	**$ 8,305**
Reclassification adjustment for gains and losses included in net income	**(906)**	—	**(8,811)**
Amount before tax effect	**(52)**	659	**(505)**
Tax effect	**(208)**	(43)	**(2,023)**
Net unrealized gains on other securities	**(260)**	616	**(2,528)**
Net deferred gains on hedge;			
Amount arising during the year	**1**	6	**15**
Tax effect	**(0)**	0	**(5)**
Net deferred gains on hedge	**1**	6	**9**
Net unrealized gains on revaluation of land;			
Tax effect	**—**	5	**—**
Foreign currency transaction adjustments;			
Amount arising during the year	**2,594**	3,322	**25,211**
Reclassification adjustment for gains and losses included in net income	**747**	—	**7,265**
Amount before tax effect	**3,342**	3,322	**32,477**
Tax effect	**—**	—	**—**
Foreign currency transaction adjustments	**3,342**	3,322	**32,477**
Remeasurements of defined benefit plans, net of tax			
Amount arising during the year	**477**	—	**4,640**
Reclassification adjustment for gains and losses included in net income	**213**	—	**2,072**
Amount before tax effect	**690**	—	**6,713**
Tax effect	**—**	—	**—**
Remeasurements of defined benefit plans, net of tax	**690**	—	**6,713**
Share of other comprehensive income of affiliates accounted for by the equity method;			
Amount arising during the year	**39**	134	**387**
Total other comprehensive income	**¥ 3,814**	¥ 4,084	**$ 37,059**

24. Subsequent events

Reduction of common stock, capital reserve and legal reserve, and appropriation of surpluses

Clarion passed a resolution at its board of directors meeting held on April 22, 2014 to submit a proposal on reduction of common stock, capital reserve and legal reserve, and on appropriation of surpluses to the 74th ordinary general meeting of shareholders to be held on June 20, 2014, and the resolution was then approved.

(1) Purpose of reduction of common stock, capital reserve and legal reserve, and appropriation of surpluses

In order to prepare mobile and flexible implementation of future capital policy, by covering the deficit, Clarion will reduce common stock, capital reserve and legal reserve, and appropriation of surpluses.

(2) Reduction of common stock, capital reserve and legal reserve, and appropriation of surpluses

Pursuant to the provisions of Article 447, Paragraph 1 and Article 448, Paragraph 1, of the Companies Act, Clarion will reduce part of common stock, entire capital reserve and legal reserve, and whereby transfer the reduced amounts to other capital surplus in additional paid-in capital and retained earnings.

Details of reduction of common stock, capital reserve and legal reserve are as follow;

Common stock .... 5,753 million yen out of 26,100 million yen, total common stock
Capital reserve.................. 2,667 million yen
Legal reserve .... 180 million yen

(3) Appropriation of surpluses

Pursuant to the provision of Article 452 of the Companies Act, Clarion will transfer other capital surplus in additional paid-in capital increased by the reduction common stock and capital reserve described above to retained earnings carried forward to cover the deficit.

(a) Item and amount of surplus to be reduced
Other capital surplus in additional paid-in capital .... 8,421 million yen

(b) Item and amount of surplus to be increased
Retained earnings carried forward... 8,421 million yen

(c) Item and amount of surpluses to be increased and decreased
Other capital surplus in additional paid-in capital .... — yen
Retained earnings carried forward... — yen

(4) Schedule

April 22, 2014 .... Resolution of the board of directors meeting
June 20, 2014... Resolution of the ordinary general meeting of shareholders
June 23, 2014... Initial date of public notice for creditors to make objections
July 24, 2014 .... Final due date of public notice for creditors to make objections
July 25, 2014 .... Effective date

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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, 2014, 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, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 24. Subsequent Event to the consolidated financial statements, which describes that Clarion Co., Ltd. passed a resolution at its board of directors meeting held on April 22, 2014 to submit a proposal on reduction of common stock, capital reserve and legal reserve, and on appropriation of surpluses to the ordinary general meeting of shareholders to be held on June 20, 2014, and the resolution was then approved by the shareholders' meeting. Our opinion is not qualified in respect of this matter.

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.

June 20, 2014
Tokyo, Japan

Ernst Young ShinNihon LLC