CLARION CO., LTD.
AND SUBSIDIARIES

Consolidated Financial Statements, etc.
Consolidated Financial Statements
1) Consolidated Statements of Financial Position

	As of March 31, 2016	As of March 31, 2015	As of March 31, 2016
	Millions of yen		Thousands of U.S. dollars
Assets			
Current assets			
Cash and cash equivalents (note 20)	14,326	8,257	127,138
Trade receivables (notes 6 and 21)	30,427	32,519	270,030
Other receivables (note 21)	1,245	1,380	11,048
Inventories (note 7)	22,419	22,489	198,961
Other financial assets (note 21)	866	499	7,685
Other current assets	1,960	2,061	17,394
Total current assets	71,245	67,207	632,277
Non-current assets			
Property, plant and equipment (notes 8 and 22)	24,614	26,754	218,441
Intangible assets (note 9)	26,274	26,380	233,173
Investments accounted for using the equity method	1,262	1,121	11,199
Investments in securities and other financial assets (note 21)	2,393	2,591	21,237
Deferred tax assets (note 10)	3,986	4,096	35,374
Other non-current assets (note 13)	1,253	1,345	11,119
Total non-current assets	59,786	62,290	530,582
Total assets	131,031	129,498	1,162,859
Liabilities			
Current liabilities			
Short-term debt (note 21)	255	260	2,263
Current portion of long-term debt (note 21)	833	8,901	7,392
Trade payables (notes 11 and 21)	25,650	24,932	227,635
Other payables (note 21)	7,458	10,086	66,187
Other financial liabilities (note 21)	169	251	1,499
Accrued expenses	10,312	10,110	91,515
Income tax payables (note 10)	1,910	1,781	16,950
Provisions (note 12)	581	621	5,156
Other current liabilities	561	74	4,978
Total current liabilities	47,732	57,020	423,606
Non-current liabilities			
Long-term debt (note 21)	34,788	27,176	308,732
Other financial liabilities (note 21)	1,286	1,422	11,412
Retirement and severance benefits (note 13)	8,707	8,131	77,271
Provisions (note 12)	406	495	3,603
Other non-current liabilities	254	257	2,254
Total non-current liabilities	45,443	37,483	403,292
Total liabilities	93,176	94,504	826,908
Equity			
Clarion Co., Ltd. stockholders’ equity			
Common stock (note 14)	20,346	20,346	180,564
Capital surplus (note 14)	-	-	-
Retained earnings (note 14)	14,124	6,934	125,346
Accumulated other comprehensive income (note 16)	3,366	7,681	29,872
Treasury stock, at cost (note 14)	(148)	(139)	(1,313)
Total Clarion Co., Ltd. stockholders’ equity	37,688	34,823	334,469
Non-controlling interests	166	171	1,473
Total equity	37,855	34,994	335,951
Total liabilities and equity	131,031	129,498	1,162,859

See accompanying notes to consolidated financial statements.

2) Consolidated Statements of Profit or Loss and Consolidated Statements of Comprehensive Income

Consolidated Statements of Profit or Loss

Years ended March 31, 2016 and 2015

	2016	2015	2016
	Millions of yen		Thousands of U.S. dollars
Revenues	216,227	198,632	1,918,947
Cost of sales (notes 7 and 13)	178,950	166,596	1,588,125
Gross profit	37,276	32,036	330,812
Selling, general and administrative expenses (note 13)	26,304	24,468	233,439
Other income (note 17)	1,071	818	9,504
Other expenses (note 17)	492	999	4,366
Operating income	11,551	7,386	102,511
Financial income (note 18)	145	156	1,286
Financial expenses (note 18)	1,373	1,481	12,184
Share of profits of investments accounted for using the equity method	172	70	1,526
Income before income taxes	10,495	6,131	93,139
Income taxes (note 10)	2,744	1,255	24,352
Net income	7,750	4,876	68,778
Net income attributable to:			
Clarion Co., Ltd. stockholders	7,743	4,875	68,716
Non-controlling interests	7	0	62
	Yen		U.S. dollars
Earnings per share attributable to Clarion Co., Ltd. stockholders (note 19):			
Basic	27.47	17.30	0.24
Diluted	-	-	-

Consolidated Statements of Comprehensive Income

Years ended March 31, 2016 and 2015

	2016	2015	2016
	Millions of yen		Thousands of U.S. dollars
Net income	7,750	4,876	68,778
Other comprehensive income (OCI)			
Items not to be reclassified into net income			
Net changes in financial assets measured at fair value through OCI (note 16)	(51)	454	(452)
Remeasurements of defined benefit plans (note 16)	(917)	90	(8,138)
Share of OCI of investments accounted for using the equity method (note 16)	-	-	-
Total items not to be reclassified into net income	(968)	544	(8,590)
Items that can be reclassified into net income			
Foreign currency translation adjustments (note 16)	(3,226)	3,428	(28,629)
Net changes in cash flow hedges (notes 16 and 21)	(2)	(2)	(17)
Share of OCI of investments accounted for using the equity method (note 16)	(126)	27	(1,118)
Total items that can be reclassified into net income	(3,355)	3,453	(29,774)
Total other comprehensive income (OCI)	(4,324)	3,998	(38,374)
Comprehensive income	3,426	8,874	30,404
Comprehensive income attributable to:			
Clarion Co., Ltd. stockholders	3,438	8,869	30,511
Non-controlling interests	(11)	5	(97)

See accompanying notes to consolidated financial statements.

3) Consolidated Statements of Changes in Equity

Year ended March 31, 2016 — Millions of yen

	Clarion Co., Ltd. stockholders' equity						Non-controlling interests	Total equity
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total		
Balance at beginning of year	20,346	-	6,934	7,681	(139)	34,823	171	34,994
Changes in equity								
Net income			7,743			7,743	7	7,750
Other comprehensive income (note 16)				(4,305)		(4,305)	(19)	(4,324)
Total comprehensive income			7,743	(4,305)		3,438	(11)	3,426
Dividend to Clarion Co., Ltd. stockholders (note 15)			(563)			(563)		(563)
Acquisition of treasury stock (note 14)					(9)	(9)		(9)
Reclassified into retained earnings (note 21)			10	(10)		-		-
Changes due to business combination							7	7
Total changes in equity	-	-	7,189	(4,315)	(9)	2,865	(4)	2,860
Balance at end of year	20,346	-	14,124	3,366	(148)	37,688	166	37,855

Thousands of U.S. dollars

	Clarion Co., Ltd. stockholders' equity						Non-controlling interests	Total equity
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total		
Balance at beginning of year	180,564	-	61,537	68,166	(1,233)	309,043	1,517	310,560
Changes in equity								
Net income			68,716			68,716	62	68,778
Other comprehensive income (note 16)				(38,205)		(38,205)	(168)	(38,374)
Total comprehensive income			68,716	(38,205)		30,511	(97)	30,404
Dividend to Clarion Co., Ltd. stockholders (note 15)			(4,996)			(4,996)		(4,996)
Acquisition of treasury stock (note 14)					(79)	(79)		(79)
Reclassified into retained earnings (note 21)			88	(88)		-		-
Changes due to business combination							62	62
Total changes in equity	-	-	63,800	(38,294)	(79)	25,425	(35)	25,381
Balance at end of year	180,564	-	125,346	29,872	(1,313)	334,469	1,473	335,951

Year ended March 31, 2015 Millions of yen

	Clarion Co., Ltd. stockholders' equity							
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total	Non-controlling interests	Total equity
Balance at beginning of year	26,100	2,669	(6,542)	3,865	(129)	25,963	165	26,129
Changes in equity								
Net income			4,875			4,875	0	4,876
Other comprehensive income (note 16)				3,993		3,993	4	3,998
Total comprehensive income			4,875	3,993		8,869	5	8,874
Reclassified into surplus from common stock	(5,753)	5,753				-		-
Compensation for loss		(8,421)	8,421			-		-
Acquisition of treasury stock (note 14)					(9)	(9)		(9)
Reclassified into retained earnings (note 21)			178	(178)		-		-
Other		(1)	1			-		-
Total changes in equity	(5,753)	(2,669)	13,476	3,815	(9)	8,859	5	8,864
Balance at end of year	20,346	-	6,934	7,681	(139)	34,823	171	34,994

See accompanying notes to consolidated financial statements.

4) Consolidated Statements of Cash Flows

Years ended March 31, 2016 and 2015

	2016	2015	2016
	Millions of yen		Thousands of U.S. dollars
Cash flows from operating activities:			
Net income	7,750	4,876	68,778
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	11,850	10,416	105,165
Income taxes	2,744	1,255	24,352
Share of profits of investments accounted for using the equity method	(172)	(70)	(1,526)
Financial income and expenses	1,228	1,324	10,898
Gains on sale of property, plant and equipment	(478)	(173)	(4,242)
(Increase) decrease in trade receivables	564	(382)	5,005
(Increase) decrease in inventories	(1,273)	558	(11,297)
Increase (decrease) in trade payables	2,316	(782)	20,553
Decrease in provisions	(40)	(48)	(354)
Increase (decrease) in retirement and severance benefits	517	(1,285)	4,588
Other	(2,847)	(546)	(25,266)
Subtotal	22,159	15,142	196,654
Interest received	101	122	896
Dividends received	110	71	976
Interest paid	(357)	(397)	(3,168)
Income taxes paid	(2,549)	(1,593)	(22,621)
Net cash provided by operating activities	19,465	13,344	172,745
Cash flows from investing activities:			
Purchase of property, plant and equipment	(3,583)	(3,698)	(31,798)
Purchase of intangible assets	(8,531)	(8,942)	(75,709)
Proceeds from sale of property, plant and equipment	1,255	283	11,137
Proceeds from sale of intangible assets	0	-	0
Purchase of investments in securities and other financial assets	(228)	(167)	(2,023)
Proceeds from sale of investments in securities and other financial assets	14	266	124
Other	79	(44)	701
Net cash used in investing activities	(10,993)	(12,303)	(97,559)
Cash flows from financing activities:			
Decrease in short-term debt, net	-	(701)	-
Proceeds from long-term debt	8,000	26,500	70,997
Payments on long-term debt	(9,014)	(32,889)	(79,996)
Dividends paid	(563)	-	(4,996)
Increase in dividends payable	4	-	35
Acquisition of common stock for treasury	(9)	(9)	(79)
Proceeds from sale and leaseback	-	192	-
Net cash used in financing activities	(1,583)	(6,908)	(14,048)
Effect of exchange rate changes on cash and cash equivalents	(819)	713	(7,268)
Net increase (decrease) in cash and cash equivalents	6,068	(5,153)	53,851
Cash and cash equivalents at beginning of year (note 20)	8,257	13,411	73,278
Cash and cash equivalents at end of year (note 20)	14,326	8,257	127,138

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Nature of Operations

Clarion Co., Ltd. (the Company) is a corporation domiciled in Japan, whose shares are listed on the Tokyo Stock Exchange. The Company’s head office is located at 7-2 Shintoshin, Chuo-ku, Saitama-shi, Saitama. The accompanying consolidated financial statements comprise the Company and its subsidiaries (collectively, the Group) and the Company’s interests in associates. The Group’s businesses mainly consist of development, manufacturing, sales and services of products including in-vehicle information devices, car audio equipment, cloud-based information network services for vehicles and safety and information systems.

(2) Basis of Presentation

As the Company meets the requirements of a “Specified Company for Specified International Financial Reporting Standards” pursuant to Article 1-2 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements, the consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, as permitted by the provision of Article 93 of the Ordinance.

The Group’s consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments measured at fair value, financial instruments measured at fair value through profit or loss (FVTPL), financial instruments measured at fair value through other comprehensive income (FVTOCI) and assets and liabilities associated with defined benefit plans.

The consolidated financial statements are presented in millions of Japanese yen, the functional currency of the Company. The amounts presented in millions of yen are truncated for amount less than one million yen. Totals may not add up exactly because of such truncation.

Management of the Company has made a number of judgments, estimates and assumptions relating to the application of accounting policies, reporting of revenues, expenses, assets and liabilities in the preparation of these consolidated financial statements. Actual results could differ from those estimates.

Estimates and assumptions are continually evaluated. The effect of a change in accounting estimates, if any, is recognized in the reporting period in which the change was made and in future periods.

The information regarding judgments used in applying accounting policies that could have a material effect on the Group’s consolidated financial statements is included in the following notes:

- note 3. *(a) Basis of Consolidation*
- note 3. *(d) Financial Instruments* and note 21. Financial Instruments and Related Disclosures

The information regarding uncertainties arising from assumptions and estimates that could result in material adjustments in the subsequent consolidated financial statements is included in the following notes:

- note 3. *(h) Impairment of Non-financial Assets*
- note 3. *(i) Retirement and Severance Benefits* and note 13. Employee Benefits
- note 3. *(j) Provisions*, note 12. Provisions and note 24. Commitments and Contingencies (Excluding Contingent Liabilities Recognized as Provisions)
- note 3. *(k) Revenue*
- note 3. *(l) Income Taxes* and note 10. Deferred Taxes and Income Taxes

(3) Significant Accounting Policies

(a) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control is obtained when the Group has risks or rights to variable returns from its involvement with the entity and has the ability to use its power over the entity to affect the variable returns.

The Company consolidates all subsidiaries from the date on which the Group acquires control until the date on which the Group loses control.

Subsidiaries’ financial statements are adjusted, if necessary, when their accounting policies differ from those of the Group.

Changes in ownership interests in subsidiaries without a loss of control are accounted for as equity transactions.

Changes in ownership interests in subsidiaries with a loss of control are accounted for by derecognizing assets and liabilities, non-controlling interests and accumulated other comprehensive income (AOCI) attributable to the subsidiaries.

(ii) Associates

Associates are entities over which the Group has the ability to exercise significant influence over their operational and financial policies, but which are not controlled by the Group.

Investments in associates are accounted for using the equity method. The consolidated financial statements of the Group include changes in profit or loss and other comprehensive income (OCI) of these associates from the date on which the Group obtains significant influence to the date on which it loses significant influence. The financial statements of the associates are adjusted, if necessary, when their accounting policies differ from those of the Group.

(b) Cash Equivalents

Cash equivalents comprise cash on hand, demand deposits and short-term investments with original maturities of three months or less which are readily convertible into cash and exposed to a minor risk of fluctuations in value.

(c) Foreign Currency Translation

The consolidated financial statements are presented in Japanese yen, which is the Group's functional currency.

(i) Foreign Currency Transactions

Foreign currency transactions are converted into the functional currency of each company using the exchange rate prevailing at the transaction date or a rate that approximates such rate. Monetary assets and liabilities denominated in foreign currencies are converted into the functional currency using the exchange rate at the end of the reporting period. Foreign exchange gains and losses resulting from the currency conversion and settlement are recognized in profit or loss, except where gains and losses on assets or liabilities are recognized in OCI, foreign exchange effects relating to such assets or liabilities are also recognized in OCI.

(ii) Foreign Operations

Assets and liabilities of foreign entities are translated into Japanese yen using the exchange rate at the end of the reporting period, and revenue and expense items are translated using the average exchange rates during the period unless the exchange rates significantly fluctuated.

Gains or losses derived from translating foreign entities' financial statements are recognized in OCI, and presented in AOCI.

(d) Financial Instruments

The Group has adopted IFRS 9 "Financial Instruments" (IFRS 9) (issued in November 2009, amended in October 2010).

(i) Non-derivative Financial Assets

The Group initially recognizes trade and other receivables on the date such receivables arise. All other financial assets are initially recognized at the transaction date, on which the Group becomes a party to the agreement.

The Group derecognizes financial assets when contractual rights to cash flows from the financial assets expire or when the contractual rights to receive cash flows from the financial assets are transferred in transactions where the risks and economic rewards of owning the financial assets are substantially transferred. In transactions where the risks and economic rewards of owning the financial assets are neither substantially transferred nor retained, the Group continues to recognize the financial assets to the extent of its continuing involvement and only derecognizes such financial assets when its control is transferred.

The classification and measurement model of non-derivative financial assets is summarized as follows:

<u>Financial Assets Measured at Amortized Cost</u>

Financial assets are subsequently measured at amortized cost when they meet the following requirements:

- The financial asset is held within a business model the objective of which is to hold the asset to collect contractual cash flows.
- The contractual terms of the financial asset provide cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially measured at fair value (including direct transaction costs). The carrying amount of financial assets measured at amortized cost is subsequently measured using the effective interest method. Interest accrued on financial assets measured at amortized cost is included in financial income in the consolidated statements of profit or loss.

FVTOCI Financial Assets

The Group holds certain equity instruments with the purpose of expanding its revenue base by maintaining and strengthening business relations with the investees. These equity instruments are classified as FVTOCI financial assets by designation. They are initially and subsequently measured at fair value, and the changes in fair value are recognized in OCI. The cumulative amount of OCI is recognized in equity as AOCI. Dividends on equity instruments designated as FVTOCI are recognized in profit or loss, except where they are considered to be a return of the investment.

FVTPL Financial Assets

Equity instruments not designated as FVTOCI financial assets and debt instruments not classified as financial assets measured at amortized cost are classified as FVTPL financial assets. These instruments are subsequently measured at fair value and the changes in fair value are recognized in profit or loss.

Impairment of Financial Assets Measured at Amortized Cost

On a regular basis, but no less frequently than at the end of each quarterly reporting period, the Group evaluates financial assets measured at amortized cost for impairment. Impairment is deemed to have occurred when there is an objective evidence of impairment after initial recognition and when the estimated future cash flows from the financial assets falls below their respective carrying amounts. Objective evidence of impairment includes historical credit loss experience, existence of overdue payments, extended payment terms, negative evaluation by third party credit rating agencies, and deteriorated financial position and operating results, such as a capital deficit.

Impairment losses on debt instruments are recognized when the carrying amount of the financial asset exceeds either its estimated future cash flows discounted by the initial effective interest rate or its estimated fair value using the observable market price, and measured as the difference.

In addition to impairment losses described above, assessing impairment losses on trade receivables and other receivables requires a considerable amount of judgment, involving historical experience and analysis, including the current creditworthiness of each customer. The Group measures an impairment loss based on the credit loss ratio calculated taking into consideration factors including historical experience or the estimate of collectible amount after assessing multiple potential risks associated with the country in which a debtor conducts business or business environment including special business customs particular to the region.

Impairment losses on debt instruments other than trade receivables and other receivables directly reduce the carrying amount of the assets, while the impairment losses on trade receivables and other receivables indirectly reduce the carrying amount through the use of an allowance account. For trade receivables and other receivables, account balances are generally written off against the allowance only after all means of collection have been exhausted and the potential for recovery is considered remote. When subsequent events or circumstances decrease the amount of the impairment loss recognized, the impairment loss is reversed through profit or loss.

(ii) Non-derivative Financial Liabilities

The Group initially recognizes debt instruments on the date of issuance. All other financial liabilities are initially recognized at the transaction date, on which the Group becomes a party to the agreement.

The Group derecognizes financial liabilities when extinguished, when the obligation in the contract is redeemed or the liability is discharged, cancelled or expires.

Non-derivative financial liabilities the Group holds include debts, trade payables and other financial liabilities. They are initially measured at fair value (less direct transaction costs), and long-term debt is subsequently measured at amortized cost using the effective interest method. Interest accrued on these financial liabilities is included in financial expenses in the consolidated statements of profit or loss.

(iii) Derivatives and Hedge Accounting

The Group uses derivative instruments including forward exchange contracts in order to hedge foreign currency exchange risks. All derivatives are measured at fair value irrespective of the objective and intent of holding them.

The Group accounts for hedging derivatives as follows:

- Cash flow hedge: a hedge of a forecast transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability. The changes in fair value of the derivatives designated as cash flow hedges are recorded in OCI if the hedge is considered highly effective. This treatment continues until profit or loss is affected by the variability of cash flows or the unrecognized firm commitment of the designated hedged item, at which point changes in fair value of the derivative are recognized in profit or loss.

The Group follows the documentation requirements as prescribed by International Accounting Standards (IAS) 39 "Financial Instruments: Recognition and Measurement," which includes the risk management objective and strategy for undertaking various hedge transactions. In addition, a formal assessment is made at the hedge's inception and subsequently on a periodic basis, as to whether the derivative used in hedging activities is highly effective in offsetting changes in cash flows of the hedged items. Hedge accounting is discontinued when a hedge becomes ineffective, and changes in fair value of derivatives are recognized in profit or loss in accordance with IAS 39 "Financial Instruments: Recognition and Measurement."

(iv) Offsetting Financial Assets and Liabilities

Financial assets and liabilities are offset and reported as net amounts in the consolidated statements of financial position, only when the Group currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

(e) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the weighted-average method or the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to sell.

(f) Property, Plant and Equipment

The Group uses the cost method to measure property, plant and equipment. They are stated at cost, less accumulated depreciation and accumulated impairment losses. Acquisition cost includes direct costs of acquisition, costs of dismantling, removing and restoration of the assets. Property, plant and equipment are principally depreciated using the straight-line method over the following estimated useful lives for major classes of assets:

Buildings and structures	2 to 50 years
Machinery, equipment and vehicles	2 to 15 years
Tools, furniture and fixtures	2 to 15 years

Estimated useful lives and the method of depreciation are reviewed at the fiscal year end. Changes in estimated useful lives or depreciation method are accounted for on a prospective basis as a change in accounting estimate.

(g) Intangible Assets

(i) Goodwill

Goodwill is measured at cost less any accumulated impairment losses.

(ii) Other Intangible Assets

The cost model has been adopted for other intangible assets, which measures such assets at cost less accumulated amortization and impairment losses.

Intangible assets with finite useful lives are amortized generally using the straight-line method over the following estimated useful lives for major classes of assets:

Software	2 to 5 years
Other	2 to 20 years

(h) Impairment of Non-financial Assets

For each non-financial asset, the Group reviews the carrying amount and tests for impairment when there are events or circumstances indicating an asset's carrying amount may not be recoverable. For an asset that does not generate cash flows that are largely independent of the cash flows from other assets, the Group considers indicators of impairment based on a cash generating unit (CGU) or a group of CGUs. Irrespective of any indicators of impairment, the Group tests goodwill and intangible assets with indefinite-lives for impairment annually by estimating the recoverable amount of each CGU (or group of CGUs) to which such assets are allocated.

The Group measures the recoverable amount of an asset or a CGU (or a group of CGUs) as the higher of fair value less costs of disposal and value in use. In measuring fair values, the Group primarily uses the income approach (present value technique) based on the estimated future cash flows expected to result from the use of the asset and its eventual disposal or the market approach to derive reasonable estimates of values in orderly market transactions, such as comparisons of similar public companies and the current gross value of the asset. The Group consults with outside specialists, as appropriate, depending on the complexity of estimating fair values. Value in use is calculated by the estimated future cash flows based on business plans approved by management, discounted at the discount rate which is derived from the weighted average cost of capital. The business plan used is based on external information, reflects historical experiences, and generally has a maximum of five years. Appropriate external information for each business activity is used for evaluating value in use for each business of the Group. Cash flows beyond the period covered by the business plan are calculated using the estimated growth rate not exceeding the long-term average growth rate of the market to which the asset belongs.

If the carrying amount of the asset or the CGU (or the group of CGUs) exceeds its recoverable amount, an impairment loss is recognized at the excess amount.

For an asset or a CGU (or a group of CGUs) other than goodwill, its recoverable amount is subsequently estimated when there is a significant change in facts and circumstances and there is an indication that an impairment loss previously recognized on the asset may no longer exist or has decreased. If the estimated recoverable amount exceeds the carrying amount, the impairment loss recognized previously is reversed to the extent of the carrying amount that would have been recorded, net of depreciation or amortization, if impairment had not been recognized previously.

(i) Retirement and Severance Benefits

The Company and certain subsidiaries have defined benefit corporate pension plans and severance lump-sum payment plans to provide retirement and severance benefits to employees. The present value of defined benefit obligations and retirement benefit costs are measured based on the projected unit credit method.

The present value of defined benefit obligations and the fair value of plan assets are remeasured as of the end of the reporting period. Actuarial differences arising during the year and changes in fair value of plan assets (excluding interest income) are recognized in OCI and are not subsequently reclassified into profit or loss. Any prior service cost, which arises at the time of a plan amendment, is recognized immediately in profit or loss when such an amendment occurs.

The net amount of defined benefit asset or liability, calculated as the present value of defined benefit obligations less the fair value of plan assets, is recognized in the consolidated statements of financial position as non-current assets or liabilities.

(j) Provisions

The Group recognizes provisions when it has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of obligation can be reliably estimated.

When the time to settle an obligation is expected to be long, and thus the time value of money is material, the amount of a provision is measured at the present value of the amount of expenditures expected to be required to settle the obligation.

The nature and the amount of provisions recognized by the Group are described in note 12. Provisions.

(k) Revenue

The Group measures revenue at the fair value of the consideration received, net of sales related taxes, in exchange for goods or services provided in ordinary commercial transactions.

Revenue recognition criteria are as follows:

Sale of Goods

Revenue from the sale of goods is recognized when all of the following conditions are met.

- The significant risks and rewards of ownership of the goods have been transferred to the customer
- The Group has neither continuing managerial involvement nor effective control over the goods sold
- The amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the Group

The Group recognizes revenue when goods are delivered to the customer or contractual terms of delivery are performed.

Rendering of Services

Revenue from the rendering of services is recognized when all of the following conditions are met.

- The stage of completion of the transaction at the end of the reporting period can be measured reliably
- The amount of revenue and the costs incurred for the transaction at the end of the reporting period can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the Group

The Group recognizes revenue from services when services are rendered. Revenue from long-term fixed price service contracts is recognized ratably over the contractual period.

(l) Income Taxes

Deferred tax assets and liabilities resulting from temporary differences and others are accounted for based on the asset and liability approach. A deferred tax liability is not recognized for temporary differences arising from goodwill, temporary differences arising from an asset or liability in a transaction other than a business combination which at the time of transaction affects neither accounting nor taxable income; and future taxable difference arising from investments in subsidiaries and associates where that the Group is able to control the timing of reversal of the temporary difference while it is probable that the temporary difference will not reverse in the foreseeable future. A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which unused tax losses, unused tax credits and future deductible temporary differences can be utilized. Current tax expense and deferred tax expense on items recognized in OCI are also recognized in OCI.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss and OCI in the period that includes the enactment date.

(m) Consumption Tax

Consumption tax collected and remitted to taxing authorities is excluded from revenues, cost of sales and expenses in the consolidated statements of profit or loss.

(n) Earnings Per Share

Basic earnings per share (EPS) is calculated by dividing net income attributable to Clarion Co., Ltd. stockholders by the weighted average number of issued shares of common stock, adjusted for treasury stock, during the period. Diluted EPS is not calculated because the Company has no dilutive potential common stock.

(o) New Accounting Standards not yet Adopted by the Group

The following table lists the principal new accounting standards and interpretations issued or amended prior to the approval date of the consolidated financial statements that are not yet adopted by the Group as of the reporting date. The Group is currently evaluating the potential impact of adopting these new standards and amendments on its financial position and business performance.

Notes to Consolidated Financial Statements

IFRSs	Title	Mandatory effective date (Fiscal year beginning on or after)	To be adopted by the Group	Description of new standards and amendments
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	To be determined	Revised accounting standard for revenue recognition and disclosure
IFRS 9	Financial Instruments	January 1, 2018	To be determined	Amendments for hedge accounting (amended in November 2013) Amendments for the classification and measurement of financial instruments, and adoption of expected credit loss impairment model for financial assets (amended in July 2014)
IFRS 16	Lease	January 1, 2019	To be determined	Definition of lease and amendments for the accounting treatment of lessee

(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 ¥112.68 = US$1, the approximate rate of exchange as of March 31, 2016, 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) Segment Information

(a) Overview of Reportable Segments

The reportable segments of the Group are the components for which separate financial information is available and which are evaluated regularly by the Board of Directors in deciding how to allocate management resources and in assessing performance.

The Group’s principal businesses are production and sales of car audio-visual equipment. The operation in Japan is managed by the Company and two domestic consolidated subsidiaries, and overseas operations are managed by local entities in each of the following regions: Americas (U.S.A., Canada, Mexico and Brazil); Europe (Germany, U.K., France and Hungary); and Asia and Australia (People’s Republic of China, Taiwan R.O.C., Malaysia, Thailand, India and Australia). Each local entity is an independent operating unit, which develops comprehensive strategies for the product lines in each region and performs its business activities.

Therefore, the Group comprises geographical segments based on the production and sales structure consisting of four reportable segments: Japan; Americas; Europe; and Asia and Australia. Each reportable segment engages in production and sales of car audio-visual equipment as well as special equipment and others.

Intersegment transactions are recorded at the same value used in transactions with outside customers.

Notes to Consolidated Financial Statements

(b) Revenue, Profit or Loss, Assets and Other Items by Reportable Segment
2016

Millions of yen

	Reportable segments					Adjustments (Note 2)	Total
	Japan	Americas	Europe	Asia and Australia	Total		
Revenues							
Revenues from outside customers	84,119	90,853	13,845	27,408	216,227	-	216,227
Revenues from intersegment transactions	68,994	4,620	3,691	59,757	137,063	(137,063)	-
Total	153,113	95,473	17,537	87,166	353,290	(137,063)	216,227
Segment profit (Note 1)	4,232	3,196	573	3,640	11,643	(92)	11,551
Financial income	-	-	-	-	-	-	145
Financial expenses	-	-	-	-	-	-	1,373
Share of profits of investments accounted for using the equity method	-	-	-	-	-	-	172
Income before income taxes	-	-	-	-	-	-	10,495
Income taxes	-	-	-	-	-	-	2,744
Net income	-	-	-	-	-	-	7,750
Segment assets	106,749	29,442	8,935	33,178	178,306	(47,274)	131,031
Other items							
Depreciation and amortization	7,807	462	312	3,266	11,850	-	11,850
Investments accounted for using the equity method	1,035	227	-	-	1,262	-	1,262
Capital expenditures for property, plant and equipment and intangible assets	8,024	565	403	3,131	12,124	-	12,124

Notes: 1. The segment profit was adjusted to the operating income reported in the consolidated financial statements.
2. Adjustments include the following:
(1) The adjustment to segment profit of ¥(92) million is entirely the elimination of profit from intersegment transactions.
(2) The adjustment to segment assets of ¥(47,274) million includes intersegment elimination of ¥(47,676) million and corporate assets of ¥402 million which are not allocated to each reportable segment. Corporate assets consist of long-term investment funds.

Notes to Consolidated Financial Statements

2015

Millions of yen

	Reportable segments					Adjustments (Note 2)	Total
	Japan	Americas	Europe	Asia and Australia	Total		
Revenues							
Revenues from outside customers	96,490	61,556	16,073	24,511	198,632	-	198,632
Revenues from intersegment transactions	41,836	5,173	3,717	59,867	110,594	(110,594)	-
Total	138,327	66,730	19,790	84,378	309,226	(110,594)	198,632
Segment profit (Note 1)	2,140	1,458	536	3,255	7,391	(4)	7,386
Financial income	-	-	-	-	-	-	156
Financial expenses	-	-	-	-	-	-	1,481
Share of profits of investments accounted for using the equity method	-	-	-	-	-	-	70
Income before income taxes	-	-	-	-	-	-	6,131
Income taxes	-	-	-	-	-	-	1,255
Net income	-	-	-	-	-	-	4,876
Segment assets	107,690	28,670	9,110	36,388	181,860	(52,361)	129,498
Other items							
Depreciation and amortization	6,608	409	319	3,078	10,416	-	10,416
Investments accounted for using the equity method	1,121	-	-	-	1,121	-	1,121
Capital expenditures for property, plant and equipment and intangible assets	8,170	782	169	4,791	13,914	-	13,914

Notes: 1. The segment profit was adjusted to the operating income reported in the consolidated financial statements.
2. Adjustments include the following:
(1) The adjustment to segment profit of ¥(4) million is entirely the elimination of profit from intersegment transactions.
(2) The adjustment to segment assets of ¥(52,361) million includes intersegment elimination of ¥(52,636) million and corporate assets of ¥274 million which are not allocated to each reportable segment. Corporate assets consist of long-term investment funds.

(6) Trade Receivables

The components of trade receivables are as follows:

Millions of yen

	March 31, 2016	March 31, 2015
Accounts receivable	27,950	31,150
Notes receivable	2,476	1,368
Total	30,427	32,519

Amounts are stated net of the allowance for doubtful receivables.

Notes to Consolidated Financial Statements

(7) Inventories

The components of inventories are as follows:

Millions of yen

	March 31, 2016	March 31, 2015
Merchandise and finished goods	14,936	13,643
Work in process	810	949
Raw materials and supplies	6,672	7,896
Total	22,419	22,489

Notes: 1. Write-downs of inventories are recorded as Cost of sales. For the years ended March 31, 2016 and 2015, the write-downs of inventories recorded as Cost of sales were ¥1,095 million and ¥666 million, respectively.

2. For the years ended March 31, 2016 and 2015, the amount of inventories expensed and recorded as Cost of sales were ¥177,556 million and ¥166,078 million, respectively, which include the write-downs of inventories described in Note 1 above.

3. There is no inventory pledged as collateral.

(8) Property, Plant and Equipment

The following tables show the changes in the net carrying amounts, the gross carrying amounts and accumulated depreciation and impairment losses of property, plant and equipment.

Millions of yen

	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Other	Construction in progress	Total
Net carrying amount							
April 1, 2014	7,429	8,423	4,515	2,906	1,146	286	24,707
Separate acquisition	-	120	1,796	2,128	775	177	4,999
Transfers between accounts	-	138	250	58	-	(447)	-
Sales and disposals	(4)	(29)	(20)	(21)	(2)	-	(77)
Depreciation	-	(596)	(1,068)	(1,701)	(729)	-	(4,095)
Reversal of impairment losses	78	18	-	-	-	-	96
Currency translation effect	19	276	516	289	32	7	1,142
Other	-	0	(185)	1	165	-	(18)
March 31, 2015	7,523	8,352	5,804	3,660	1,388	24	26,754
Separate acquisition	-	102	1,471	1,217	555	541	3,888
Transfers between accounts	-	70	240	38	-	(349)	-
Sales and disposals	(103)	(138)	(22)	(311)	-	-	(577)
Depreciation	-	(589)	(1,263)	(1,554)	(789)	-	(4,197)
Reversal of impairment losses	-	-	-	-	-	-	-
Currency translation effect	(39)	(310)	(475)	(259)	(46)	(1)	(1,133)
Other	51	2	(8)	(152)	(13)	(0)	(121)
March 31, 2016	7,431	7,489	5,746	2,637	1,094	214	24,614

Millions of yen

	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Other	Construction in progress	Total
Gross carrying amount							
April 1, 2014	7,716	20,055	17,062	25,115	2,310	286	72,546
March 31, 2015	7,699	20,719	19,128	25,794	2,645	24	76,011
March 31, 2016	7,604	18,740	18,589	23,680	2,418	214	71,248
Accumulated depreciation and impairment losses							
April 1, 2014	286	11,632	12,547	22,209	1,164	-	47,839
March 31, 2015	176	12,366	13,323	22,133	1,257	-	49,256
March 31, 2016	172	11,251	12,842	21,042	1,324	-	46,634

(9) Intangible Assets

The following tables show the changes in the net carrying amounts, the gross carrying amounts and accumulated amortization and impairment losses of intangible assets.

Millions of yen

	Goodwill	Software	Other	Total
Net carrying amount				
April 1, 2014	3,652	13,304	5,531	22,488
Internal developments	-	5,888	1,848	7,737
Separate acquisition	-	500	677	1,177
Sales and disposals	-	(8)	-	(8)
Amortization	-	(4,320)	(1,428)	(5,748)
Currency translation effect	-	317	111	428
Other	-	134	171	305
March 31, 2015	3,652	15,815	6,912	26,380
Internal developments	-	5,373	987	6,361
Separate acquisition	-	374	1,500	1,874
Sales and disposals	-	(132)	(67)	(199)
Amortization	-	(4,795)	(2,857)	(7,652)
Currency translation effect	55	(316)	(100)	(362)
Other	-	(101)	(24)	(126)
March 31, 2016	3,707	16,216	6,351	26,274

Millions of yen

	Goodwill	Software	Other	Total
Gross carrying amount				
April 1, 2014	3,652	23,197	10,967	37,816
March 31, 2015	3,652	27,674	14,024	45,351
March 31, 2016	3,707	33,172	13,404	50,284
Accumulated amortization and impairment losses				
April 1, 2014	-	9,892	5,435	15,328
March 31, 2015	-	11,858	7,112	18,971
March 31, 2016	-	16,956	7,053	24,010

(10) Deferred Taxes and Income Taxes

The components of income taxes recognized in the consolidated statements of profit or loss and deferred taxes recognized in the consolidated statements of comprehensive income are as follows:

Millions of yen

	2016	2015
Income taxes		
Current tax expense	2,809	2,487
Deferred tax expense	(64)	(1,231)
Temporary differences originated and reversed	(164)	(1,665)
Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and tax rates in Japan	99	434
Total	2,744	1,255
Deferred taxes recognized in OCI		
Net changes in financial assets measured at fair value through OCI	(50)	132
Other	-	(0)
Total	(50)	132

Reconciliations between the combined statutory income tax rate and the effective income tax rate are as follows:

	2016	2015
Combined statutory income tax rate	32.8%	35.6%
Permanent differences	3.7	5.4
Change in realizability of deferred tax assets	(7.0)	(22.9)
Difference in statutory tax rates of foreign subsidiaries	(3.8)	(7.7)
Tax deduction	(1.0)	(0.0)
Enacted changes in tax laws and rates	1.0	7.1
Other	0.4	3.1
Effective income tax rate	26.2%	20.5%

Changes in deferred tax assets and liabilities are as follows:

Millions of yen

	March 31, 2016	March 31, 2015
Deferred tax assets, net at beginning of year	4,096	2,919
Recognized in profit or loss	64	1,231
Recognized in OCI	50	(132)
Other	(225)	78
Deferred tax assets, net at end of year	3,986	4,096

Notes to Consolidated Financial Statements

Significant components of the deferred tax assets and liabilities are as follows:

Millions of yen

	March 31, 2016	March 31, 2015
Deferred tax assets		
Retirement and severance benefits	552	421
Accrued expenses	710	1,154
Loss on valuation of inventories	450	475
Product warranty provisions	151	174
Net operating loss carryforwards	416	711
Other	2,285	1,802
Total deferred tax assets	4,567	4,741
Deferred tax liabilities		
Retirement benefit trust	(191)	(201)
Other	(389)	(443)
Total deferred tax liabilities	(580)	(644)
Net deferred tax assets	3,986	4,096

Deductible temporary differences and net operating loss carryforwards for unrecognized deferred tax assets are as follows:

Millions of yen

	March 31, 2016	March 31, 2015
Deductible temporary differences	13,477	12,475
Net operating loss carryforwards	5,687	8,895
Total	19,164	21,371

Net operating loss carryforwards for unrecognized deferred tax assets will expire as follows:

Millions of yen

	March 31, 2016	March 31, 2015
Within 5 years	2,471	5,113
After 5 years but not more than 10 years	1,590	1,887
More than 10 years	1,625	1,894
Total	5,687	8,895

(11) Trade Payables

The components of trade payables are as follows:

Millions of yen

	March 31, 2016	March 31, 2015
Accounts payable	20,373	23,839
Notes payable	196	1,093
Electronically recorded monetary obligations	5,081	-
Total	25,650	24,932

(12) Provisions

Changes in the balance and components of provisions for the year ended March 31, 2016 are as follows:

Millions of yen

	Asset retirement obligations	Product warranty provisions	Total
March 31, 2015	56	1,060	1,116
Additions	0	184	184
Utilized	-	(186)	(186)
Currency translation effects	-	(126)	(126)
March 31, 2016	56	931	987
Current	-	581	581
Non-current	56	349	406

Asset Retirement Obligations

The Group recognizes asset retirement obligations principally based on the estimated future expenditures using historical experience when the Group has a legal or contractual obligation associated with the retirement of tangible fixed assets used in normal operations, such as lease dilapidations of factory facilities and premises.

Product Warranty Provisions

The Group provides warranties for certain products. Product warranty provisions are recognized by estimating future expenditures based principally on historical experience of warranty claims.

(13) Employee Benefits

(a) Retirement and Severance Benefits

The Company and certain subsidiaries have defined benefit corporate pension plans and defined benefit severance lump-sum payment plans, as well as defined contribution pension plans.

The amount of benefits provided under the defined benefit plans are determined primarily based on the points employees have earned in each year of service, salary level at retirement, years of service, and other conditions. Defined contribution pension plans require a fixed amount of contribution over a participation period, and plan participants themselves are responsible for the management of the contributions. Benefits are paid by the trustee, and the Company and certain subsidiaries' responsibility is limited to making contributions.

Pursuant to the Japanese Defined Benefit Corporate Pension Plan Act, etc., the Company and certain subsidiaries have an obligation to make contributions to defined benefit corporate pension plans. The amount of contribution is periodically reviewed to the extent allowed by laws and regulations. The Company adopted fund-type defined benefit corporate pension plans, which are managed by a pension fund legally independent from the Group. The directors of the fund are responsible for complying with the resolution of the Board of Representatives and faithfully executing operations as required by laws and regulations and rules of the fund, etc. The directors of the fund are also responsible for managing plan assets in accordance with established policies, and if breached, they are jointly and severally held responsible for the fund. The Board of Representatives of the fund comprises an equal number of representatives selected by the Company and certain subsidiaries and representatives from the employee side. The proceedings of a Board of Representatives are decided by a majority vote of the members attending. In case of a tied vote, the chairman has the power to decide, except for exceptionally significant matters.

For the defined benefit severance lump-sum payment plans, the Company and certain subsidiaries have an obligation to pay benefits directly to beneficiaries. Although there are no legal requirements, the Company has plan assets that the Company has discretionally contributed to retirement benefit trusts.

Notes to Consolidated Financial Statements

Changes in the present value of defined benefit obligations and the fair value of plan assets are as follows:

Millions of yen

	2016	2015
Defined benefit obligations		
At beginning of year	14,864	14,733
Service cost	714	792
Interest cost	58	101
Actuarial gains or losses	589	644
Benefits paid	(920)	(1,401)
Changes in scope of consolidation	55	-
Currency translation effect	(41)	(5)
At end of year	15,320	14,864
Fair value of plan assets		
At beginning of year	6,733	5,345
Interest income	26	37
Return on plan assets (excluding interest income)	(327)	735
Employers' contributions	431	450
Benefits paid	(232)	(207)
Contributions to retirement benefit trust	-	373
At end of year	6,631	6,733
Net liability amount recognized in the consolidated statements of financial position	8,688	8,131
Retirement and severance benefit assets (other non-current assets)	19	-
Retirement and severance benefit liabilities	8,707	8,131

The components of actuarial gains or losses are as follows:

Millions of yen

	March 31, 2016	March 31, 2015
Arising from changes in financial assumptions	586	606
Arising from changes in demographic assumptions	3	38

The Company and all subsidiaries that have defined benefit plans remeasure the defined benefit obligations and plan assets at the end of the fiscal year. The discount rates used in actuarial calculation of defined benefit obligations are as follows:

	March 31, 2016	March 31, 2015
Discount rate	0.2%	0.4%

If, at March 31, 2016, the discount rate rose by 0.1%, the defined benefit obligations would decrease by ¥141 million, and if the discount rate decreased by 0.1%, the defined benefit obligations would increase by ¥143 million.

The sensitivity analysis is based on an assumption that all other variables other than the one analyzed are held constant; in reality, changes in other assumptions may impact the outcome of the analysis.

The fund’s plan asset management is based on the safe and efficient management of the contributions, diversified investments and determination of the investment ratio that should be sustained over the long term. The fund seeks to maintain current value of assets sufficient for future obligations. A target rate of return is established to ensure a stable long term rate of return on assets. A diversified investment strategy is carried out while a target asset allocation is established to achieve the target rate of return. The target asset allocation is based on the expected rate of return by each class of asset, the standard deviation of the rate of return and the correlation coefficient among the assets. If market values fluctuate exceeding certain levels, the investment ratio is adjusted to the target allocation ratio in order to control risks.

In selecting trustees or asset management companies, the fund takes into account appropriate quantitative and qualitative evaluations. The fund also presents its management policies to the trustees or asset management companies, and periodically receives asset management reports.

(b) Employee Benefit Expenses

The aggregated amounts of employee benefit expenses including salary recognized in the consolidated statements of profit or loss for the years ended March 31, 2016 and 2015 were ¥39,105 million and ¥34,677 million, respectively.

(14) Equity

(a) Common Stock

	March 31, 2016	March 31, 2015
Total number of authorized shares (Number of shares)	450,000,000	450,000,000

	Issued shares outstanding (Number of shares)	Capital amount (Millions of yen)
April 1, 2014	282,744,185	26,100
Change	-	(5,753)
March 31, 2015	282,744,185	20,346
Change	-	-
March 31, 2016	282,744,185	20,346

Shares issued by the Company are non-par value common stock. The issued shares above include treasury stock. The change in the capital amount during the period was due to the transfer to surplus.

The changes in treasury stock are as follows:

	Treasury stock	
	(Number of shares)	(Millions of yen)
April 1, 2014	830,750	129
Acquisition of treasury stock	27,983	9
March 31, 2015	858,733	139
Acquisition of treasury stock	24,861	9
March 31, 2016	883,594	148

(b) Surplus

(i) Capital Surplus

The Japanese Company Law (JCL) mandates that at least half of paid-in capital be appropriated as common stock and the rest be appropriated as capital reserve within capital surplus.

(ii) Retained Earnings

The JCL requires that ten percent of retained earnings appropriated for dividends be retained until the total amount of earned reserves included in capital reserve and retained earnings reaches a quarter of the nominal value of common stock. Earned reserves may be available for dividends by resolution at the general meeting of shareholders.

(c) Reduction of Common Stock, Capital Reserve and Earned Reserves, and Appropriation of Surplus

As of July 25, 2014, the Company reduced common stock, capital reserve and earned reserves pursuant to the provisions of Article 447, Paragraph 1 and Article 448, Paragraph 1 of the Companies Act, and made the appropriation of surplus pursuant to the provision of Article 452 of the said Act to cover the deficit based on the resolution at the ordinary general meeting of shareholders held on June 20, 2014.

As a result, common stock and capital surplus decreased by ¥5,753 million and ¥2,667 million, respectively, and retained earnings increased by ¥8,421 million as of March 31, 2015.

(15) Dividends

(a) Dividends Paid

Decision	Cash dividends (Millions of yen)	Appropriation from	Cash dividends per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders on June 19, 2015	563	Retained earnings	2.00	March 31, 2015	June 22, 2015

(b) The dividend on common stock whose record date falls in to the year ended March 31, 2016 and the effective date falls in the next fiscal year are as follows:

Decision	Cash dividends (Millions of yen)	Appropriation from	Cash dividends per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders on June 24, 2016	845	Retained earnings	3.00	March 31, 2016	June 27, 2016

(16) Accumulated Other Comprehensive Income (AOCI) and Other Comprehensive Income (OCI)

Components of AOCI, net of related tax effects, presented in the consolidated statements of changes in equity, and changes in each component are as follows:

Millions of yen

	2016	2015
Foreign currency translation adjustments		
Balance at beginning of year	6,064	2,613
OCI, net of reclassification	(3,333)	3,450
Net transfer from non-controlling interests	-	-
Balance at end of year	2,730	6,064
Remeasurements of defined benefit plans		
Balance at beginning of year	568	477
OCI	(917)	90
Reclassified into retained earnings	-	-
Net transfer from non-controlling interests	-	-
Balance at end of year	(349)	568
Net changes in financial assets measured at FVTOCI		
Balance at beginning of year	1,049	773
OCI	(51)	454
Reclassified into retained earnings	(10)	(178)
Net transfer from non-controlling interests	-	-
Balance at end of year	988	1,049
Net changes in cash flow hedges		
Balance at beginning of year	(0)	1
OCI, net of reclassification	(2)	(2)
Net transfer from non-controlling interests	-	-
Balance at end of year	(3)	(0)
Total AOCI		
Balance at beginning of year	7,681	3,865
OCI, net of reclassification	(4,305)	3,993
Reclassified into retained earnings	(10)	(178)
Net transfer from non-controlling interests	-	-
Balance at end of year	3,366	7,681

Notes to Consolidated Financial Statements

(17) Other Income and Expenses

Main components of other income and expenses are as follows:

Other Income

Millions of yen

	2016	2015
Gains on sale of property, plant and equipment	736	251
Commission income	135	119
Reversal of impairment loss	-	96
Rent income	37	61
Other	161	288
Total other income	1,071	818

Other Expenses

Millions of yen

	2016	2015
Losses on sale and disposal of property, plant and equipment	258	77
Special termination benefits	91	551
Other	142	369
Total other expenses	492	999

(18) Financial Income and Expenses

Main components of financial income and expenses are as follows:

Financial Income

Millions of yen

	2016	2015
Dividend received	45	34
Interest received	100	122
Total financial income	145	156

Dividends received for the years ended March 31, 2016 and 2015 are from FVTOCI financial assets.

Financial Expenses

Millions of yen

	2016	2015
Interest charges and lease charges	264	314
Discount expenses	76	84
Foreign exchange loss	979	1,082
Other	52	-
Total financial expenses	1,373	1,481

(19) Earnings Per Share (EPS) Information

The computations of net income to derive basic EPS are as follows:

	2016	2015
Weighted average number of issued shares of common stock (Number of shares)	281,873,344	281,898,910
Net income attributable to Clarion, Co., Ltd. stockholders (Millions of yen)	7,743	4,875
Basic EPS (Yen)	27.47	17.30

Diluted EPS is not disclosed because the Company has no dilutive shares.

(20) Cash Flow Information

(a) Cash and Cash Equivalents

Reconciliations between the components of cash and cash equivalents and the balances stated in the consolidated statements of financial position are as follows:

Millions of yen

	March 31, 2016	March 31, 2015
Cash and deposits (excluding time deposits with maturities over 3 months)	10,123	8,049
Short-term investments with maturities within 3 months from acquisition	4,202	207
Cash and cash equivalents in consolidated statements of financial position	14,326	8,257
Cash and cash equivalents in consolidated statements of cash flows	14,326	8,257

(b) Non-cash Transactions

Non-cash transactions are as follows:

Millions of yen

	2016	2015
Finance lease assets acquired and obligations incurred	583	792
Contribution of securities to retirement benefit trust	-	373
Total	583	1,165

(21) Financial Instruments and Related Disclosures

(a) Financial Risks

The Group is engaged in business activities world-wide, and may be affected by various risks such as market risks (mainly currency exchange risk and interest rate risk), credit risk and liquidity risk. The Group implements risk management policies to mitigate these financial risks.

(i) Interest Rate Risk

In order to manage interest risk associated with financing, the Group assesses the amount and terms of a debt arrangement thoroughly considering current economic conditions when entering the arrangement as well as future economic conditions, and continues to assess the effectiveness of the debt arrangement even after the inception of the arrangement.

(ii) Currency Exchange Risk

The Group holds assets and liabilities exposed to currency exchange risk. In order to hedge this risk, the management uses forward exchange contracts.

As for currency exchange risk associated with sales and purchase transactions, the Group measures the net future cash flows per currency on a monthly basis, and enters into forward exchange contracts using a constant ratio with the purpose of fixing the future cash flows arising from receivables and payables and forecast transactions denominated in foreign currencies. The terms of forward exchange contracts are largely within one year.

(iii) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The credit risk associated with financial instruments other than trade and other receivables is limited given that the counterparties are financial institutions with high credit rating. As for the credit risk associated with trade and other receivables, the sales administration department regularly monitors conditions of major counterparties as well as the due dates and outstanding balances for each counterparty in accordance with the policy of credit administration to detect and mitigate the risk of uncollectible receivables due to deterioration in the financial condition of the counterparty.

The Group's maximum exposure to the credit risk equals the financial assets' carrying amount after impairment in the consolidated statements of financial position, if collateral held is not included.

The Company considers that financial assets that are neither past due nor impaired as of the end of each fiscal year are all collectible. The contractual amount of financial assets by due dates, which are past due but not impaired are as follows:

Millions of yen

	March 31, 2016				
	Total	Past due within 30 days	Past due between 31 and 90 days	Past due between 91 days and 1 year	Past due over 1 year
Trade receivables	1,572	1,094	352	28	97

The Company has guarantee deposits of ¥37 million received as credit enhancement for the trade receivables stated in the table above.

Millions of yen

	March 31, 2015				
	Total	Past due within 30 days	Past due between 31 and 90 days	Past due between 91 days and 1 year	Past due over 1 year
Trade receivables	1,235	718	290	159	66

The Company has guarantee deposits of ¥40 million received as credit enhancement for the trade receivables stated in the table above.

When trade and other receivables are impaired, the Group reduces the receivable balance through the use of an allowance account, instead of directly reducing the carrying amount.

The changes in the balance of allowance for doubtful receivables are as follows:

Millions of yen

	Trade and other receivables
April 1, 2014	148
Impairment loss provision	67
Amounts written off	(5)
Reversal of impairment loss	(53)
Currency translation effect	5
March 31, 2015	162
Impairment loss provision	51
Amounts written off	(1)
Reversal of impairment loss	(42)
Currency translation effect	(6)
March 31, 2016	163

As of March 31, 2016 and 2015, the total balances of trade and other receivables individually determined to be impaired were ¥131 million and ¥113 million, respectively, and the allowance for doubtful receivables corresponding to such receivables was recorded in the amounts of ¥131 million and ¥113 million, respectively.

(iv) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets. The Group is exposed to liquidity risk; however, the Group manages such risk by preparing and updating cash receipt and disbursement schedules in a timely manner and by maintaining liquidity on hand and lines of credit.

The Company maintains line of credit arrangements by establishing commitment lines with more than one financial institution in order to secure efficient financing for finance needs. The total unused line of credit under commitment line arrangements of the Company as of March 31, 2016 is described in note 24. Commitments and Contingencies (Excluding Contingent Liabilities Recognized as Provisions).

The following tables present the maturities of non-derivative financial liabilities held by the Group.

Millions of yen

	March 31, 2016			
	Carrying amount	Contractual cash flows	Within 1 year	More than 1 year
Short-term debt	255	255	255	-
Current portion of long-term debt	833	843	843	-
Long-term debt	147	147	147	-
Lease payables	685	696	696	-
Long-term debt	34,788	34,797	-	34,797
Long-term debt	34,250	34,250	-	34,250
Lease payables	538	547	-	547
Trade payables	25,650	25,650	25,650	-
Other payables	7,458	7,458	7,458	-
Other current financial liabilities	154	154	154	-
Other non-current financial liabilities	1,286	1,286	-	1,286

Millions of yen

	March 31, 2015			
	Carrying amount	Contractual cash flows	Within 1 year	More than 1 year
Short-term debt	260	260	260	-
Current portion of long-term debt	8,901	8,918	8,918	-
Long-term debt	8,170	8,170	8,170	-
Lease payables	730	747	747	-
Long-term debt	27,176	27,198	-	27,198
Long-term debt	26,401	26,401	-	26,401
Lease payables	775	797	-	797
Trade payables	24,932	24,932	24,932	-
Other payables	10,086	10,086	10,086	-
Other current financial liabilities	251	251	251	-
Other non-current financial liabilities	1,422	1,422	-	1,422

The weighted average interest rate for short-term debt is 0.7%, and the weighted average interest rate for long-term debt is 0.6% with maturities ranging from September 2016 to September 2019.

The Group's liquidity analysis for derivatives is summarized in the table below. The maturities of all derivatives are within one year.

		March 31, 2016	March 31, 2015
Forward exchange contracts	In	8,160	9,476
	Out	2,380	6,610

(v) Capital Management

Constant capital and development investments are essential for the Group to achieve sustainable growth by maintaining and strengthening competitiveness of the Group's businesses. The Group pursues the customers' needs and strives to develop and offer new attractive products such as car audio equipment and information communication devices. As the Group raises funds as necessary to meet the finance needs for those investments, the Group closely monitors the balance of cash and cash equivalents as well as the balance between interest-bearing debts and equity.

(b) Fair Value of Financial Instruments

Assumptions and Methods Underlying Fair Value Measurement

The following methods and assumptions are used to measure the fair value of financial assets and liabilities held by the Group.

Cash and cash equivalents, Trade receivables, Other receivables, Short-term debt, Trade payables and Other payables

The carrying amount approximates the fair value because of the short maturity of these instruments.

Investments in securities

Investment securities with quoted market prices are estimated using the quoted share prices. Investment securities include common stock issued by unlisted entities and investments in investment partnerships. Fair value of such investment securities without quoted market prices such as unlisted common stock are measured using the discounted future cash flows, the valuation model based on revenue, profit and net assets and other valuation technique.

Long-term debt

Since long-term debts are floating rate interest bearing, their carrying amount stated in the consolidated statements of financial position approximates the estimated fair value.

Fair value of lease payables is estimated at the present value of future cash flows calculated using the market rate under the terms of a similar lease contact.

Other financial assets and liabilities

Fair values of forward exchange contracts are measured based on the quoted forward exchange rate at the end of the reporting period.

Carrying amounts of non-derivative financial assets and non-derivative financial liabilities measured at amortized cost stated in the consolidated statements of financial position approximate their estimated fair values.

(c) Derivative Transactions and Hedging Activities

Cash Flow Hedge

The Group mainly designates forward exchange contracts as a cash flow hedge to fix the cash flows from forecast transactions denominated in foreign currencies.

For the years ended March 31, 2016 and 2015, no profit or loss was recognized for hedge ineffective portion or portion excluded from the hedge effectiveness assessment. There was no reclassification from net changes in cash flow hedges recognized in OCI to profit or loss as a result that forecast transactions became no longer expected to occur.

Net changes in cash flow hedges recognized in OCI and net changes in cash flow hedges reclassified to profit or loss for the years ended March 31, 2016 and 2015 are described in note 16. Accumulated Other Comprehensive Income (AOCI) and Other Comprehensive Income (OCI).

As of March 31, 2016, the period in which the cash flows from the hedged items are expected to occur and in which they are expected to affect profit or loss is between April 1, 2016 and March 31, 2017.

Details of derivatives held by the Group as of March 31, 2016 and 2015 are as follows.

(i) Derivative transactions to which hedge accounting is not applied

Millions of yen

Category	March 31, 2016		March 31, 2015	
	Contract amount	Fair value	Contract amount	Fair value
Forward exchange contracts				
Selling	7,547	19	9,260	32
Buying	2,380	(1)	5,840	40
Total	9,928	18	15,101	73

(ii) Derivative transactions to which hedge accounting is applied

Millions of yen

Category	March 31, 2016		March 31, 2015	
	Contract amount	Fair value	Contract amount	Fair value
Forward exchange contracts				
Selling	612	(3)	215	0
Buying	-	-	770	(1)
Total	612	(3)	985	(0)

(d) Transfers of Financial Assets

The Group liquidates certain trade receivables by transferring receivables and discounting notes. However, the Group may be obligated to make payments as recourse for some liquidated receivables in case of non-payment by the debtor. The Group continues to recognize such transferred assets as they do not meet the criteria for derecognition of financial assets.

The Group did not have such transferred assets as of March 31, 2016 and 2015.

(22) Pledged Assets

As a general contractual term for a part of long-term debt and current portion of long-term debt, banks may demand collateral and guarantees for present and future obligations, and retain rights to offset the liabilities with bank deposits when repayment is overdue or any breach of contract occurs.

Assets pledged as collateral are as follows:

Millions of yen

	March 31, 2016	March 31, 2015
Land	122	130
Buildings and structures	294	347
Total	417	478

Notes to Consolidated Financial Statements

(23) Related Party Transactions

(a) Related Party Transactions

Transactions between the Group and its related parties and balances of receivable from and payable to related parties are as follows:

March 31, 2016

Millions of yen

Type	Relationship between related parties	Transaction amount	Outstanding balance
Parent of the Company (Hitachi, Ltd.)	Deposit of funds	3,998	4,202
	Borrowing of funds	-	17,000
	Payment of patent fees and map royalties	5,150	952

March 31, 2015

Millions of yen

Type	Relationship between related parties	Transaction amount	Outstanding balance
Parent of the Company (Hitachi, Ltd.)	Withdrawals from the cash pooling system	6,717	204
	Repayment of loans	3,000	17,000
	Payment of patent fees and map royalties	6,238	1,687
Fellow subsidiary	Factoring transactions	11,373	3,498

(b) Compensation for Directors and Executive Officers of the Company

Millions of yen

	March 31, 2016	March 31, 2015
Short-term employee benefits	202	193

(24) Commitments and Contingencies (Excluding Contingent Liabilities Recognized as Provisions)

(a) Loan Commitments

Commitments with Financial Institutions

The Company has concluded syndicated commitment line contracts with financial institutions to efficiently finance operating activities. The Company pays commitment fees as consideration for these commitment agreements. These commitment agreements generally provide a one year term with renewal at the end of the term. The unused line of credit under these arrangements as of March 31, 2016 and 2015 amounted to ¥9,744 million and ¥9,739 million, respectively.

(b) Contingencies

In July 2014, a class action lawsuit was filed against the United States subsidiary by the Alliance of Artists and Recording Companies, Inc. (AARC) alleging that it was in violation of the Audio Home Recording Act (AHRA) in the manufacture, import, and sales of digital audio recording devices (DARD).

Although the subsidiary filed a motion to dismiss the lawsuit in October 2014, the motion was denied by the court in February 2016 for the reason that, “at this point in time, there remain matters that must be examined from a technological perspective,” and the trial is to continue. The plaintiff is requesting a reevaluation, etc., in objection to the reasoning behind the court’s decision.

It is the Company’s understanding that this circumstance does not demonstrate an infringement of the AHRA as alleged by the AARC, and as such, the Company’s policy is to continue asserting the rightfulness of its claim in a courtroom setting.

(25) Subsequent Events

Not applicable.

(26) Approval of Consolidated Financial Statements

The consolidated financial statements were approved on June 24, 2016 by Hidetoshi Kawamoto, President & COO of the Company.