CLARION CO., LTD.
AND SUBSIDIARIES

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

	As of March 31, 2018	As of March 31, 2017	As of March 31, 2018
	Millions of yen		Thousands of U.S. dollars
Assets			
Current assets			
Cash and cash equivalents (note 20)	20,376	18,763	191,792
Trade receivables (notes 6 and 21)	32,030	29,231	301,487
Other receivables (note 21)	1,424	1,712	13,403
Inventories (note 7)	19,559	20,494	184,102
Other financial assets (note 21)	1,149	522	10,815
Other current assets	2,239	2,391	21,074
Total current assets	76,781	73,116	722,712
Non-current assets			
Property, plant and equipment (note 8)	23,774	24,153	223,776
Intangible assets (note 9)	20,251	24,609	190,615
Investments accounted for using the equity method	1,313	1,305	12,358
Investments in securities and other financial assets (note 21)	789	1,998	7,426
Deferred tax assets (note 10)	2,414	3,030	22,722
Other non-current assets (note 13)	1,430	1,198	13,460
Total non-current assets	49,973	56,297	470,378
Total assets	126,755	129,413	1,193,100
Liabilities			
Current liabilities			
Short-term debt (note 20 and 21)	261	239	2,456
Current portion of long-term debt (note 20 and 21)	6,257	9,663	58,894
Trade payables (notes 11 and 21)	22,324	23,891	210,128
Other payables (note 21)	6,211	7,381	58,461
Other financial liabilities (note 21)	135	185	1,270
Accrued expenses	7,958	9,681	74,905
Income tax payables (note 10)	1,633	1,458	15,370
Provisions (note 12)	2,563	609	24,124
Other current liabilities	434	393	4,085
Total current liabilities	47,779	53,504	449,727
Non-current liabilities			
Long-term debt (note 20 and 21)	23,946	20,893	225,395
Other financial liabilities (note 21)	1,291	1,908	12,151
Retirement and severance benefits (note 13)	8,035	8,620	75,630
Provisions (note 12)	411	401	3,868
Other non-current liabilities	186	220	1,750
Total non-current liabilities	33,871	32,044	318,815
Total liabilities	81,650	85,548	768,542
Equity			
Clarion Co., Ltd. stockholders’ equity			
Common stock (note 14)	20,346	20,346	191,509
Retained earnings (note 14)	23,102	21,260	217,451
Accumulated other comprehensive income (note 16)	1,635	2,256	15,389
Treasury stock, at cost (note 14)	(162)	(154)	(1,524)
Total Clarion Co., Ltd. stockholders’ equity	44,921	43,709	422,825
Non-controlling interests	182	154	1,713
Total equity	45,104	43,864	424,548
Total liabilities and equity	126,755	129,413	1,193,100

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, 2018 and 2017

	2018	2017	2018
	Millions of yen		Thousands of U.S. dollars
Revenues	183,056	194,841	1,723,042
Cost of sales (notes 7 and 13)	151,443	158,477	1,425,480
Gross profit	31,613	36,364	297,562
Selling, general and administrative expenses (note 13)	24,259	25,123	228,341
Other income (note 17)	512	538	4,819
Other expenses (note 17)	3,073	412	28,925
Operating income	4,792	11,367	45,105
Financial income (note 18)	188	169	1,769
Financial expenses (note 18)	497	782	4,678
Share of profits of investments accounted for using the equity method	32	238	301
Income before income taxes	4,515	10,992	42,498
Income taxes (note 10)	2,420	3,255	22,778
Net income	2,095	7,736	19,719
Net income attributable to:			
Clarion Co., Ltd. stockholders	2,079	7,727	19,568
Non-controlling interests	15	8	141
	Yen		U.S. dollars
Earnings per share attributable to Clarion Co., Ltd. stockholders (note 19):			
Basic	7.38	27.42	0.06
Diluted	-	-	-

Consolidated Statements of Comprehensive Income

Years ended March 31, 2018 and 2017

	2018	2017	2018
	Millions of yen		Thousands of U.S. dollars
Net income	2,095	7,736	19,719
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)	(83)	82	(781)
Remeasurements of defined benefit plans (note 16)	(302)	154	(2,842)
Share of OCI of investments accounted for using the equity method (note 16)	-	-	-
Total items not to be reclassified into net income	(386)	237	(3,633)
Items that can be reclassified into net income			
Foreign currency translation adjustments (note 16)	309	(991)	2,908
Net changes in cash flow hedges (notes 16 and 21)	(4)	7	(37)
Share of OCI of investments accounted for using the equity method (note 16)	79	(129)	743
Total items that can be reclassified into net income	385	(1,113)	3,623
Total other comprehensive income (OCI)	(0)	(876)	(0)
Comprehensive income	2,094	6,859	19,710
Comprehensive income attributable to:			
Clarion Co., Ltd. stockholders	2,066	6,871	19,446
Non-controlling interests	27	(11)	254

See accompanying notes to consolidated financial statements.

3) Consolidated Statements of Changes in Equity

Year ended March 31, 2018 Millions of yen

	Clarion Co., Ltd. stockholders' equity						
	Common stock	Retained earnings	Accumu-lated other compre-hensive income	Treasury stock, at cost	Total	Non-controlling interests	Total equity
Balance at beginning of year	20,346	21,260	2,256	(154)	43,709	154	43,864
Changes in equity							
Net income		2,079			2,079	15	2,095
Other comprehensive income (note 16)			(13)		(13)	12	(0)
Total comprehensive income		2,079	(13)		2,066	27	2,094
Dividend to Clarion Co., Ltd. stockholders (note 15)		(845)			(845)		(845)
Acquisition of treasury stock (note 14)				(8)	(8)		(8)
Reclassified into retained earnings (note 21)		608	(608)		-		-
Total changes in equity	-	1,842	(621)	(8)	1,211	27	1,239
Balance at end of year	20,346	23,102	1,635	(162)	44,921	182	45,104

Thousands of U.S. dollars

	Clarion Co., Ltd. stockholders' equity						
	Common stock	Retained earnings	Accumu-lated other compre-hensive income	Treasury stock, at cost	Total	Non-controlling interests	Total equity
Balance at beginning of year	191,509	200,112	21,234	(1,449)	411,417	1,449	412,876
Changes in equity							
Net income		19,568			19,568	141	19,719
Other comprehensive income (note 16)			(122)		(122)	112	(0)
Total comprehensive income		19,568	(122)		19,446	254	19,710
Dividend to Clarion Co., Ltd. stockholders (note 15)		(7,953)			(7,953)		(7,953)
Acquisition of treasury stock (note 14)				(75)	(75)		(75)
Reclassified into retained earnings (note 21)		5,722	(5,722)		-		-
Total changes in equity	-	17,338	(5,845)	(75)	11,398	254	11,662
Balance at end of year	191,509	217,451	15,389	(1,524)	422,825	1,713	424,548

Year ended March 31, 2017 Millions of yen

	Clarion Co., Ltd. stockholders' equity					Non-controlling interests	Total equity
	Common stock	Retained earnings	Accumu-lated other compre-hensive income	Treasury stock, at cost	Total		
Balance at beginning of year	20,346	14,124	3,366	(148)	37,688	166	37,855
Changes in equity							
Net income		7,727			7,727	8	7,736
Other comprehensive income (note 16)			(855)		(855)	(20)	(876)
Total comprehensive income		7,727	(855)		6,871	(11)	6,859
Dividend to Clarion Co., Ltd. stockholders (note 15)		(845)			(845)		(845)
Acquisition of treasury stock (note 14)				(5)	(5)		(5)
Reclassified into retained earnings (note 21)		253	(253)		-		-
Total changes in equity	-	7,135	(1,109)	(5)	6,020	(11)	6,008
Balance at end of year	20,346	21,260	2,256	(154)	43,709	154	43,864

See accompanying notes to consolidated financial statements.

4) Consolidated Statements of Cash Flows

Years ended March 31, 2018 and 2017

	2018	2017	2018
	Millions of yen		Thousands of U.S. dollars
Cash flows from operating activities:			
Net income	2,095	7,736	19,719
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	11,273	11,429	106,108
Impairment loss	156	-	1,468
Income taxes	2,420	3,255	22,778
Share of profits of investments accounted for using the equity method	(32)	(238)	(301)
Financial income and expenses	309	613	2,908
Gains on sale of property, plant and equipment	100	50	941
(Increase) decrease in trade receivables	(3,695)	852	(34,779)
Decrease in inventories	435	1,949	4,094
Decrease in trade payables	(1,021)	(1,685)	(9,610)
Increase in provisions	1,994	13	18,768
Decrease in retirement and severance benefits	(835)	(424)	(7,859)
Other	(3,024)	(544)	(28,463)
Subtotal	10,176	23,006	95,783
Interest received	162	111	1,524
Dividends received	129	115	1,214
Interest paid	(281)	(289)	(2,644)
Income taxes paid	(1,858)	(2,980)	(17,488)
Net cash provided by operating activities	8,328	19,964	78,388
Cash flows from investing activities:			
Purchase of property, plant and equipment	(3,025)	(2,884)	(28,473)
Purchase of intangible assets	(3,257)	(6,776)	(30,657)
Proceeds from sale of property, plant and equipment	273	57	2,569
Purchase of investments in securities and other financial assets	(14)	(107)	(131)
Proceeds from sale of investments in securities and other financial assets	1,140	649	10,730
Other	72	57	677
Net cash used in investing activities	(4,811)	(9,003)	(45,284)
Cash flows from financing activities:			
Proceeds from long-term debt (note 20)	23,600	-	222,138
Payments on long-term debt (note 20)	(24,576)	(5,787)	(231,325)
Dividends paid (note 15)	(845)	(845)	(7,953)
Increase in dividends payable	4	6	37
Acquisition of common stock for treasury	(8)	(5)	(75)
Net cash used in financing activities	(1,826)	(6,632)	(17,187)
Effect of exchange rate changes on cash and cash equivalents	(76)	108	(715)
Net increase in cash and cash equivalents	1,613	4,437	15,182
Cash and cash equivalents at beginning of year (note 20)	18,763	14,326	176,609
Cash and cash equivalents at end of year (note 20)	20,376	18,763	191,792

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 23. 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 impact of adopting IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Group's financial position and business performance will not be material. The Group is currently evaluating the potential impact of adopting IFRS 16 "Leases" on its financial position and business performance.

IFRSs	Title	Mandatory effective date (Fiscal year beginning on or after)	To be adopted by the Group	Description of new standards and amendments
IFRS 9	Financial Instruments	January 1, 2018	Fiscal year 2018	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 15	Revenue from Contracts with Customers	January 1, 2018	Fiscal year 2018	Revised accounting standard for revenue recognition and disclosure
IFRS 16	Leases	January 1, 2019	Fiscal year 2019	Definition of lease and mainly 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 ¥106.24 = US$1, the approximate rate of exchange as of March 31, 2018, 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 highest decision-making body 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, Hungary and Russia); 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
2018

Millions of yen

	Reportable segments					Adjustments (Note 2)	Total
	Japan	Americas	Europe	Asia and Australia	Total		
Revenues							
Revenues from outside customers	57,653	80,580	13,635	31,186	183,056	-	183,056
Revenues from intersegment transactions	61,230	1,753	3,893	48,347	115,225	(115,225)	-
Total	118,884	82,333	17,529	79,534	298,282	(115,225)	183,056
Segment profit (loss) (Note 1)	(596)	2,381	(190)	2,947	4,541	251	4,792
Financial income	-	-	-	-	-	-	188
Financial expenses	-	-	-	-	-	-	497
Share of profits of investments accounted for using the equity method	-	-	-	-	-	-	32
Income before income taxes	-	-	-	-	-	-	4,515
Income taxes	-	-	-	-	-	-	2,420
Net income	-	-	-	-	-	-	2,095
Segment assets	98,371	26,249	9,767	39,074	173,462	(46,707)	126,755
Other items							
Depreciation and amortization	7,562	464	326	2,918	11,273	-	11,273
Impairment loss	153	3	-	-	156	-	156
Investments accounted for using the equity method	865	447	-	-	1,313	-	1,313
Capital expenditures for property, plant and equipment and intangible assets	3,669	749	199	2,294	6,912	-	6,912

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 (loss) of ¥251 million is entirely the elimination of profit from intersegment transactions.
(2) The adjustment to segment assets of ¥(46,707) million includes intersegment elimination of ¥(46,910) million and corporate assets of ¥202 million which are not allocated to each reportable segment. Corporate assets consist of long-term investment funds.

Notes to Consolidated Financial Statements

2017

Millions of yen

	Reportable segments					Adjustments (Note 2)	Total
	Japan	Americas	Europe	Asia and Australia	Total		
Revenues							
Revenues from outside customers	70,368	87,658	13,331	23,482	194,841	-	194,841
Revenues from intersegment transactions	67,778	3,261	3,269	49,331	123,640	(123,640)	-
Total	138,146	90,920	16,601	72,814	318,482	(123,640)	194,841
Segment profit (Note 1)	5,591	2,382	219	3,193	11,386	(19)	11,367
Financial income	-	-	-	-	-	-	169
Financial expenses	-	-	-	-	-	-	782
Share of profits of investments accounted for using the equity method	-	-	-	-	-	-	238
Income before income taxes	-	-	-	-	-	-	10,992
Income taxes	-	-	-	-	-	-	3,255
Net income	-	-	-	-	-	-	7,736
Segment assets	104,121	28,400	8,855	33,005	174,383	(44,970)	129,413
Other items							
Depreciation and amortization	7,999	440	303	2,686	11,429	-	11,429
Investments accounted for using the equity method	925	380	-	-	1,305	-	1,305
Capital expenditures for property, plant and equipment and intangible assets	7,049	790	278	2,140	10,259	-	10,259

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 ¥(19) million is entirely the elimination of profit from intersegment transactions.
(2) The adjustment to segment assets of ¥(44,970) million includes intersegment elimination of ¥(45,191) million and corporate assets of ¥220 million which are not allocated to each reportable segment. Corporate assets consist of long-term investment funds.

Notes to Consolidated Financial Statements

(6) Trade Receivables

The components of trade receivables are as follows:

Millions of yen

	March 31, 2018	March 31, 2017
Accounts receivable	26,965	25,539
Notes receivable	5,064	3,692
Total	32,030	29,231

Amounts are stated net of the allowance for doubtful receivables.

(7) Inventories

The components of inventories are as follows:

Millions of yen

	March 31, 2018	March 31, 2017
Merchandise and finished goods	12,129	13,698
Work in process	777	722
Raw materials and supplies	6,653	6,073
Total	19,559	20,494

Notes: 1. Write-downs of inventories are recorded as Cost of sales. For the years ended March 31, 2018 and 2017, the write-downs of inventories recorded as Cost of sales were ¥1,427 million and ¥693 million, respectively.
2. For the years ended March 31, 2018 and 2017, the amount of inventories expensed and recorded as Cost of sales were ¥150,362 million and ¥157,191 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, 2016	7,431	7,489	5,746	2,637	1,094	214	24,614
Separate acquisition	-	417	1,590	993	650	213	3,865
Transfers between accounts	-	236	162	24	-	(422)	-
Sales and disposals	-	(12)	(8)	(28)	(0)	-	(49)
Depreciation	-	(541)	(1,198)	(1,181)	(766)	-	(3,687)
Currency translation effect	(24)	(143)	(323)	(96)	(2)	2	(586)
Other	-	-	0	-	(2)	(1)	(3)
March 31, 2017	7,407	7,445	5,968	2,349	974	7	24,153
Separate acquisition	-	222	1,411	978	566	300	3,478
Transfers between accounts	-	65	300	33	(104)	(295)	-
Sales and disposals	(153)	(14)	(18)	(19)	-	(1)	(207)
Depreciation	-	(610)	(1,268)	(1,155)	(679)	-	(3,714)
Impairment loss	-	(1)	(0)	(2)	-	-	(3)
Currency translation effect	27	88	(102)	50	8	3	76
Other	(11)	8	(1)	-	-	(4)	(8)
March 31, 2018	7,270	7,205	6,289	2,234	764	9	23,774

Notes to Consolidated Financial Statements

(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, 2016	3,707	16,216	6,351	26,274
Internal developments	-	2,975	487	3,462
Separate acquisition	-	279	2,651	2,931
Sales and disposals	-	(39)	(20)	(59)
Amortization	-	(5,118)	(2,623)	(7,742)
Currency translation effect	(1)	(187)	(69)	(257)
Other	-	-	-	-
March 31, 2017	3,705	14,126	6,777	24,609
Internal developments	-	2,049	383	2,432
Separate acquisition	-	530	470	1,001
Sales and disposals	-	(95)	(64)	(159)
Amortization	-	(5,202)	(2,356)	(7,558)
Impairment loss	-	(153)	-	(153)
Currency translation effect	(16)	69	26	79
Other	-	0	(0)	-
March 31, 2018	3,689	11,325	5,237	20,251

Millions of yen

	Goodwill	Software	Other	Total
Gross carrying amount				
April 1, 2016	3,707	33,172	13,404	50,284
March 31, 2017	3,705	35,469	13,740	52,916
March 31, 2018	3,689	37,412	13,034	54,135
Accumulated amortization and impairment losses				
April 1, 2016	-	16,956	7,053	24,010
March 31, 2017	-	21,343	6,963	28,306
March 31, 2018	-	26,086	7,797	33,883

Notes to Consolidated Financial Statements

(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

	2018	2017
Income taxes		
Current tax expense	1,607	2,330
Deferred tax expense	812	925
Temporary differences originated and reversed	594	925
Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and tax rates in Japan	218	-
Total	2,420	3,255
Deferred taxes recognized in OCI		
Net changes in financial assets measured at fair value through OCI	19	50
Total	19	50

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

	2018	2017
Combined statutory income tax rate	30.7%	30.7%
Permanent differences	12.1	6.9
Change in realizability of deferred tax assets	7.8	(1.9)
Difference in statutory tax rates of foreign subsidiaries	(4.3)	(3.0)
Tax deduction	(2.2)	(1.5)
Enacted changes in tax laws and rates	4.8	-
Other	4.7	(1.5)
Effective income tax rate	53.6%	29.6%

Changes in deferred tax assets and liabilities are as follows:

Millions of yen

	March 31, 2018	March 31, 2017
Deferred tax assets, net at beginning of year	3,030	3,986
Recognized in profit or loss	(812)	(925)
Recognized in OCI	248	(50)
Other	(51)	20
Deferred tax assets, net at end of year	2,414	3,030

Notes to Consolidated Financial Statements

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

Millions of yen

	March 31, 2018	March 31, 2017
Deferred tax assets		
Retirement and severance benefits	347	549
Accrued expenses	386	380
Loss on valuation of inventories	367	447
Product warranty provisions	134	119
Net operating loss carryforwards	164	322
Other	1,400	1,729
Total deferred tax assets	2,801	3,548
Deferred tax liabilities		
Retirement benefit trust	(191)	(191)
Other	(194)	(326)
Total deferred tax liabilities	(386)	(518)
Net deferred tax assets	2,414	3,030

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

Millions of yen

	March 31, 2018	March 31, 2017
Deductible temporary differences	14,519	13,876
Net operating loss carryforwards	2,161	2,569
Total	16,681	16,446

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

Millions of yen

	March 31, 2018	March 31, 2017
Within 5 years	36	325
After 5 years but not more than 10 years	746	888
More than 10 years	1,378	1,356
Total	2,161	2,569

(11) Trade Payables

The components of trade payables are as follows:

Millions of yen

	March 31, 2018	March 31, 2017
Accounts payable	17,894	18,214
Notes payable	229	140
Electronically recorded monetary obligations	4,200	5,536
Total	22,324	23,891

(12) Provisions

Changes in the balance and components of provisions for the year ended March 31, 2018 are as follows:

Millions of yen

	Asset retirement obligations	Product warranty provisions	Business structure reform provisions	Total
March 31, 2017	56	954	-	1,010
Additions	19	324	2,521	2,866
Utilized	(38)	(196)	(638)	(873)
Currency translation effects	-	(13)	(15)	(29)
March 31, 2018	37	1,068	1,867	2,974
Current	-	695	1,867	2,563
Non-current	37	373	-	411

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.

Business Structure Reform Provisions

The Group recognizes provisions based on the estimated expenditures incurred in connection with the business structure reform when it has a detailed formal plan for the business structure reform regarding the whole or part of its business, and a valid expectation that the said business structure reform will certainly be implemented is created in related parties which are affected by the implementation or disclosure of the plan.

(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

	2018	2017
Defined benefit obligations		
At beginning of year	15,785	15,320
Service cost	727	735
Interest cost	36	27
Actuarial gains or losses	563	427
Benefits paid	(1,777)	(707)
Other	14	1
Currency translation effect	34	(18)
At end of year	15,385	15,785
Fair value of plan assets		
At beginning of year	7,527	6,631
Interest income	19	12
Return on plan assets (excluding interest income)	261	587
Employers' contributions	426	429
Benefits paid	(272)	(133)
At end of year	7,962	7,527
Net liability amount recognized in the consolidated statements of financial position	7,422	8,258
Retirement and severance benefit assets (other non-current assets)	613	362
Retirement and severance benefit liabilities	8,035	8,620

The components of actuarial gains or losses are as follows:

Millions of yen

	March 31, 2018	March 31, 2017
Arising from changes in financial assumptions	454	407
Arising from changes in demographic assumptions	108	19

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, 2018	March 31, 2017
Discount rate	0.2%	0.2%

If, at March 31, 2018, the discount rate rose by 0.1%, the defined benefit obligations would decrease by ¥146 million, and if the discount rate decreased by 0.1%, the defined benefit obligations would increase by ¥148 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, 2018 and 2017 were ¥39,787 million and ¥37,160 million, respectively.

(14) Equity

(a) Common Stock

	March 31, 2018	March 31, 2017
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, 2016	282,744,185	20,346
Change	-	-
March 31, 2017	282,744,185	20,346
Change	-	-
March 31, 2018	282,744,185	20,346

Shares issued by the Company are non-par value common stock. The issued shares above include treasury stock.

The changes in treasury stock are as follows:

	Treasury stock	
	(Number of shares)	(Millions of yen)
April 1, 2016	883,594	148
Acquisition of treasury stock	15,391	5
March 31, 2017	898,985	154
Acquisition of treasury stock	20,875	8
March 31, 2018	919,860	162

(b) Surplus

Retained Earnings

The Companies Act 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.

(15) Dividends

(a) Dividends Paid

Decision	Cash dividends (Millions of yen)	Appropriation from	Cash dividends per share (Yen)	Record date	Effective date
Board of Directors Meeting on May 10, 2017	845	Retained earnings	3.00	March 31, 2017	June 5, 2017

(b) The dividend on common stock whose record date falls in to the year ended March 31, 2018 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
Board of Directors Meeting on May 8, 2018	563	Retained earnings	2.00	March 31, 2018	June 4, 2018

Notes to Consolidated Financial Statements

(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

	2018	2017
Foreign currency translation adjustments		
Balance at beginning of year	1,630	2,730
OCI, net of reclassification	377	(1,100)
Net transfer from non-controlling interests	-	-
Balance at end of year	2,007	1,630
Remeasurements of defined benefit plans		
Balance at beginning of year	(194)	(349)
OCI	(302)	154
Reclassified into retained earnings	-	-
Net transfer from non-controlling interests	-	-
Balance at end of year	(496)	(194)
Net changes in financial assets measured at FVTOCI		
Balance at beginning of year	817	988
OCI	(83)	82
Reclassified into retained earnings	(608)	(253)
Net transfer from non-controlling interests	-	-
Balance at end of year	124	817
Net changes in cash flow hedges		
Balance at beginning of year	3	(3)
OCI, net of reclassification	(4)	7
Net transfer from non-controlling interests	-	-
Balance at end of year	(0)	3
Total AOCI		
Balance at beginning of year	2,256	3,366
OCI, net of reclassification	(13)	(855)
Reclassified into retained earnings	(608)	(253)
Net transfer from non-controlling interests	-	-
Balance at end of year	1,635	2,256

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

	2018	2017
Commission income	111	21
Gains on sale of property, plant and equipment	105	31
Dividend income of insurance	57	50
Rent income	51	38
Other	185	397
Total other income	512	538

Other Expenses

Millions of yen

	2018	2017
Business structure reform expenses	2,521	171
Losses on sale and disposal of property, plant and equipment	205	81
Term insurance expenses	58	58
Other	286	101
Total other expenses	3,073	412

(18) Financial Income and Expenses

Main components of financial income and expenses are as follows:

Financial Income

Millions of yen

	2018	2017
Interest received	162	113
Dividend received	25	56
Total financial income	188	169

Dividends received for the years ended March 31, 2018 and 2017 are from FVTOCI financial assets.

Financial Expenses

Millions of yen

	2018	2017
Interest charges and lease charges	286	290
Foreign exchange loss	159	434
Other	51	57
Total financial expenses	497	782

Notes to Consolidated Financial Statements

(19) Earnings Per Share (EPS) Information

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

	2018	2017
Weighted average number of issued shares of common stock (Number of shares)	281,833,539	281,854,543
Net income attributable to Clarion, Co., Ltd. stockholders (Millions of yen)	2,079	7,727
Basic EPS (Yen)	7.38	27.42

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, 2018	March 31, 2017
Cash and deposits (excluding time deposits with maturities over 3 months)	11,217	11,693
Short-term investments with maturities within 3 months from acquisition	9,159	7,069
Cash and cash equivalents in consolidated statements of financial position	20,376	18,763
Cash and cash equivalents in consolidated statements of cash flows	20,376	18,763

(b) Changes in Liabilities Arising from Financing Activities

Changes in liabilities arising from financing activities are as follows:

Millions of yen

	Short-term debt	Long-term debt	Lease payables	Total
April 1, 2017	239	29,450	1,107	30,796
Changes arising from cash flows	-	(100)	(876)	(976)
Non-cash changes				
Lease payables incurred	-	-	572	572
Currency translation effect and others	21	-	51	73
March 31, 2018	261	29,350	854	30,465

(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, 2018				
	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	926	764	107	49	4

Millions of yen

	March 31, 2017				
	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	726	483	85	56	100

The Company has guarantee deposits of ¥36 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, 2016	163
Impairment loss provision	82
Amounts written off	(12)
Reversal of impairment loss	(23)
Currency translation effect	0
Other increases	0
March 31, 2017	210
Impairment loss provision	13
Amounts written off	(56)
Reversal of impairment loss	(66)
Currency translation effect	1
Other increases	(0)
March 31, 2018	103

Notes to Consolidated Financial Statements

As of March 31, 2018 and 2017, the total balances of trade and other receivables individually determined to be impaired were ¥78 million and ¥131 million, respectively, and the allowance for doubtful receivables corresponding to such receivables was recorded in the amounts of ¥78 million and ¥131 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, 2018 is described in note 23. 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, 2018			
	Carrying amount	Contractual cash flows	Within 1 year	More than 1 year
Short-term debt	261	261	261	-
Current portion of long-term debt	6,257	6,260	6,260	-
Long-term debt	5,700	5,700	5,700	-
Lease payables	557	560	560	-
Long-term debt	23,946	23,950	-	23,950
Long-term debt	23,650	23,650	-	23,650
Lease payables	296	300	-	300
Trade payables	22,324	22,324	22,324	-
Other payables	6,211	6,211	6,211	-
Other current financial liabilities	132	132	132	-
Other non-current financial liabilities	1,291	1,291	-	1,291

Millions of yen

	March 31, 2017			
	Carrying amount	Contractual cash flows	Within 1 year	More than 1 year
Short-term debt	239	239	239	-
Current portion of long-term debt	9,663	9,667	9,667	-
Long-term debt	9,100	9,100	9,100	-
Lease payables	563	567	567	-
Long-term debt	20,893	20,898	-	20,898
Long-term debt	20,350	20,350	-	20,350
Lease payables	543	548	-	548
Trade payables	23,891	23,891	23,891	-
Other payables	7,381	7,381	7,381	-
Other current financial liabilities	167	167	167	-
Other non-current financial liabilities	1,908	1,908	-	1,908

The weighted average interest rate for short-term debt is 0.6%, and the weighted average interest rate for long-term debt is 0.5% with maturities ranging from April 2018 to September 2020.

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

		March 31, 2018	March 31, 2017
Forward exchange contracts	In	7,364	7,124
	Out	3,555	2,923

(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 is 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, 2018 and 2017, 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, 2018 and 2017 are described in note 16. Accumulated Other Comprehensive Income (AOCI) and Other Comprehensive Income (OCI).

Notes to Consolidated Financial Statements

As of March 31, 2018, 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, 2018 and March 31, 2019.

Details of derivatives held by the Group as of March 31, 2018 and 2017 are as follows.

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

Millions of yen

Category	March 31, 2018		March 31, 2017	
	Contract amount	Fair value	Contract amount	Fair value
Forward exchange contracts				
Selling	6,779	0	6,404	(27)
Buying	3,555	(2)	2,923	4
Total	10,334	(2)	9,328	(23)

(ii) Derivative transactions to which hedge accounting is applied

Millions of yen

Category	March 31, 2018		March 31, 2017	
	Contract amount	Fair value	Contract amount	Fair value
Forward exchange contracts				
Selling	585	(0)	719	5
Buying	-	-	-	-
Total	585	(0)	719	5

(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, 2018 and 2017.

(22) 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, 2018

Millions of yen

Type	Relationship between related parties	Transaction amount	Outstanding balance
Parent of the Company (Hitachi, Ltd.)	Deposit of funds	2,089	9,159
	Borrowing of funds	-	14,600

March 31, 2017

Millions of yen

Type	Relationship between related parties	Transaction amount	Outstanding balance
Parent of the Company (Hitachi, Ltd.)	Deposit of funds	2,867	7,069
	Repayment of loans	2,400	14,600

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

Millions of yen

	March 31, 2018	March 31, 2017
Monthly salary, year-end allowance and performance-based fee	258	245

(23) 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, 2018 and 2017 amounted to ¥9,738 million and ¥9,760 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.

(24) Subsequent Events

(Share Consolidation and Change in the Number of Shares Constituting One Unit)

At the Board of Directors Meeting held on May 8, 2018, the Company resolved to submit a proposal for share consolidation and change in the number of shares constituting one unit to the 78th Ordinary General Meeting of Shareholders held on June 22, 2018, and the proposal was approved at the said general meeting of shareholders.

(a) Reasons for Share Consolidation and Change in the Number of Shares Constituting One Unit

The "Action Plan for Consolidating Trading Units" announced by national Stock Exchanges aims to unify the trading unit of common stock of domestic listed companies to 100 shares by October 1, 2018.

Respecting such intention as a company listed on the Tokyo Stock Exchange, the Company has decided to change the number of its shares constituting one unit from 1,000 shares to 100 shares. Following this change, the Company will consolidate its shares in order to adjust the investment unit to the appropriate level, considering the medium- to long-term price movements of the Company's shares.

(b) Details of the Share Consolidation

(i) Type of Shares to Be Consolidated

Common stock

(ii) Method and Ratio of the Consolidation

On October 1, 2018, the Company will consolidate its shares owned by shareholders who are recorded in the final register of shareholders as of September 30, 2018 (actually, September 28, 2018) at a ratio of one (1) share for every five (5) shares.

(iii) Number of Shares to Be Reduced by the Consolidation

Total number of issued shares before the consolidation (as of March 31, 2018)	282,744,185 shares
Number of shares to be reduced by the consolidation	226,195,348 shares
Total number of issued shares after the consolidation	56,548,837 shares

Note: The "number of shares to be reduced by the consolidation" and the "total number of issued shares after the consolidation" are theoretical values derived based on the "total number of issued shares before the consolidation" and the ratio of share consolidation.

(c) Number of Shareholders to Be Reduced by the Share Consolidation

The shareholder composition based on the register of shareholders as of March 31, 2018 is as follows:

	Number of shareholders (percentage)	Number of shares held (percentage)
Less than five shares	192 persons (1.7%)	313 shares (0.0%)
Five or more shares	11,391 persons (98.3%)	282,743,872 shares (100.0%)
Total	11,583 persons (100.0%)	282,744,185 shares (100.0%)

Note: When the share consolidation is conducted based on the above shareholder composition, each of 192 shareholders who owns less than five shares will lose its status as a shareholder.

(d) Handling of Fractions Less Than One Share

If any fraction less than one share arises as a result of the share consolidation, the Company will collectively dispose of such fractions and distribute the proceeds of the disposition to the shareholders who held the fractions in proportion to their respective fractions, pursuant to the provisions of Article 235 of the Companies Act.

(e) Total Number of Authorized Shares to Be Issued on the Effective Date

In line with the decrease in the total number of issued shares due to the share consolidation, in order to adjust the total number of authorized shares to be issued to a proper level, the Company will reduce the total number of authorized shares to be issued by the same ratio as the share consolidation (one fifth) on the effective date (October 1, 2018), pursuant to the provisions of Article 182, Paragraph 2 of the Companies Act.

Total number of authorized shares to be issued before the change	Total number of authorized shares to be issued after the change (as of October 1, 2018)
450,000,000 shares	90,000,000 shares

(f) Details of Change in the Number of Shares Constituting One Unit

The Company will change the number of shares of its common stock constituting one unit from 1,000 shares to 100 shares on October 1, 2018.

(g) Effects on Per Share Information

Assuming that the share consolidation was conducted at the beginning of the fiscal year ended March 31, 2017, per share information for the fiscal years ended March 31, 2018 and 2017 are as follows:

	2018	2017
Clarion Co., Ltd. stockholders' equity per share (Yen)	796.98	775.42
Basic EPS attributable to Clarion Co., Ltd. stockholders (Yen)	36.89	137.09

Note: Diluted EPS attributable to Clarion Co., Ltd. stockholders is not disclosed because the Company has no dilutive shares.

(25) Approval of Consolidated Financial Statements

The consolidated financial statements were approved on June 22, 2018 by Atsushi Kawabata, President & CEO of the Company.