

# clarion

## Annual Report 2007

For the fiscal year ended March 2007



# Clarion

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Printed in Japan

Clarion Co., Ltd.

## Profile

Since its establishment in 1940, Clarion Co., Ltd. has created a number of advanced products as a pioneer connecting automobiles with music and information. In 1951, we introduced Japan's first car radio dedicated to passenger cars; in 1963, Japan's first car stereo; and in 1998, the world's first PC for automobiles (AutoPC). Our product range has expanded beyond car audio products to include car navigation systems, rear-view monitor systems and networked auto-guidance systems for community buses. Under the corporate philosophy to strive "to improve society by seeking to develop the relationship between sound, information and human interaction, and by creating products to meet those needs," Clarion will constantly pursue new fields of business for in-vehicle devices.

Clarion became a member of the Hitachi Group in December 2006. Through this structural reorganization, we aim to maximize synergies as a means to strengthen our product planning and R&D competencies as well as sales network for car navigation systems and in-vehicle entertainment systems.

# Clarion



Clarion H.M.I. "Feel So Good."



Moray

The Clarion H.M.I. concept car created by Italdesign-Giugiaro, one of the world's top automotive and industrial design firms.

GIUGIARO

Jay Kay

Vocalist for the world-famous jazz-funk band Jamiroquai.



2007 Selected world-famous musician Jay Kay of Jamiroquai, and Giugiaro Design's concept car Moray, as brand communicators to spread the Clarion brand worldwide.

MAX9700DT  
iPod® and Bluetooth® compatible  
HDD AV navigation system

MAX670  
iPod® and Bluetooth® compatible  
HDD AV navigation system

### Forward-Looking Statements

The figures contained in this annual report with respect to Clarion's plans and strategies and other statements that are not historical facts are forward-looking statements about the future performance of Clarion. Such statements are based on management's assumptions and beliefs in light of the information currently available to it and involve risks and uncertainties. Actual results may differ from those in the forward-looking statements as a result of various factors. Potential risks and uncertainties include, without limitation, general economic conditions in Clarion's market.

## Financial Highlight

Clarion Co., Ltd. and its Consolidated Subsidiaries  
Years ended March 31

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>For the Year:</b>			
Net sales	¥ 181,041	¥ 184,176	\$ 1,533,602
Operating income	3,072	5,228	26,030
Net income (loss)	(784)	5,862	(6,644)
<b>At Year-end:</b>			
Total assets	149,490	122,119	1,266,335
Shareholders' equity	34,231	34,484	289,977
Interest-bearing borrowings	41,483	34,227	351,406

	Yen		U.S. Dollars
	2007	2006	2007
<b>Per Share:</b>			
Net income (loss)	¥ (2.78)	¥ 20.76	\$ (0.024)
Cash dividends	2.00	2.00	0.017

#### Notes:

1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of US\$1 = ¥118.05, the approximate exchange rate on March 31, 2007.
2. Shareholders' equity in the fiscal year ended March 31, 2007 in the above table represent the sum of total shareholders' equity and minority interests in subsidiaries in the consolidated balance sheets due to the adoption of a new accounting standard for the presentation of net assets in the balance sheets. In the financial section, both categories are listed separately.

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## Aiming for New Growth through Forward-looking Business Strategies

### Review of Operations for Fiscal 2006, Ended March 31, 2007

First of all, I would like to inform readers about efforts to strengthen ties with the Hitachi Group and business reorganization. As a result of the TOB (tender offer bid) launched by Hitachi in November 2006, Clarion became a consolidated subsidiary of Hitachi, Ltd. At the same time, Xanavi Informatics Corporation (Xanavi), a wholly owned subsidiary of Hitachi, became a wholly owned subsidiary of Clarion through a share transfer.

Amid these changes, we posted strong sales in our EMS (Electronic Manufacturing Services) business in Central and South America and in the OEM (Original Equipment Manufacturers) market in North America. In Japan, however, sales were adversely affected due to a decrease in car sales and reduced product prices owing to changes in the composition of car grades in the OEM market, while sales prices dropped dramatically in the aftermarket owing to intensified sales competition. As a result, consolidated net sales for fiscal 2006 amounted to ¥181,041 million, down 1.7% year-on-year.

With regard to income, consolidated operating income totaled ¥3,072 million, down 41.2%. Despite a reduction in distribution/logistics costs and expenses, this was due to an increase in strategic investments in R&D and advertising expenses associated with the launch of the new "Clarion" global brand, coupled with lower profits due to a decline in unit sales.

We posted a consolidated net loss of ¥784 million (compared with net income of ¥5,862 million in the previous year). This was because we posted other expenses of ¥4,000 million, of which ¥1,436 million was for purification cost for land\* as well as a loss on sales and disposal of property, plant and equipment despite other income in the amount of ¥1,095 million, which arose mainly from interest and dividend income of ¥336 million. Of all the aforementioned factors attributing to the net loss, expenses for environmental countermeasures were unforeseen and temporary. All expenses were posted as of March 2007, and implementation of countermeasures is duly underway.

\*After a voluntary survey, fluorine content was found in a part of land owned by the Company, which had to be removed and purified.

Tatsuhiko Izumi  
President

### Changes in Market Environment

Competition continues to intensify in the aftermarket for car audio-visual devices as well as navigation systems, and consequently, has driven prices down. We foresee a further shift in sales to the OEM market within the market segments. As for the products themselves, we anticipate a shift from conventional car audio-visual devices to navigation systems, and by 2010 in the OEM market, the percentage of navigation systems is expected to exceed that of car audio-visual devices.

### Priority Management Issues

Clarion has set mid-term management targets of net sales of ¥270,000 million and an operating income ratio of 5% by March 2010. To achieve these goals, we are promoting activities dubbed "BN1 (Be Number One)" that aim to quickly reap the benefits of the business alliance among Clarion, Hitachi and Xanavi. We hope these activities will propel us to Be Number One in the fields of sales/marketing, product planning, R&D, purchase/procurement, production, quality and services through concerted efforts throughout the world.

Specifically, we will devote our energy to the following areas:

#### 1) Design and implementation of measures to boost quality

We are working to increase quality awareness as a means to increase customers' confidence, trust and satisfaction.

#### 2) Sales expansion to propel profitability

We are in the process of shifting sales activities from the Japanese market to overseas markets, mainly to North America, Europe and Asia. We will undertake a global marketing approach to identify precise market needs, strengthen product competitiveness and secure new markets.

#### 3) Brand strategy

Seeking to increase brand value, we will increase the added value of all activities within the Clarion Group and advance "Clarion H.M.I. (Human Mobile Music Media Interface)" as our brand slogan.

#### 4) Cost strategy

We will aim to reduce costs by optimizing the Group-wide concerted cost management process.

#### 5) Product development capabilities

By integrating the development structure and environment across the Group, we will achieve a more competitive level of development efficiency.

### 6) Enhancement of organizational competence

With the objective of quickly capturing synergies with Xanavi, we will create an organizational structure that promotes integration in the respective areas of sales/marketing, product planning, engineering, production, purchase/procurement, quality and services.

### 7) CSR promotion

Based on basic regulations concerning corporate ethics and compliance, we will advance corporate ethics and establish an internal control system.

### Significance of Alliance with Hitachi and Business Reorganization

Clarion has identified three key realms surrounding automobiles: information services, including the provision of telematics services and content; social infrastructure, such as ETC (Electronic Toll Collection) and vehicle information and communication systems; and hardware, including computerized vehicle control. The Hitachi Group is one of the few that comprehensively covers each of these business areas.

Clarion's car navigation systems lie at the center of where these three areas converge. Apart from car audio-visual devices and navigation systems, Clarion possesses camera technology, and in combination with Hitachi's control technologies, we can increase driving safety through synergies in the driver visibility support field. Fusing technologies of the Hitachi Group and Clarion will facilitate speedier market response.

In the near future, we believe we can develop technologies for ITS (Intelligent Transport System) vehicle coordinated safety systems that support safe driving and Adaptive Cruise Control, an automatic driving system following a preceding vehicle. We can also expect to leverage Xanavi's technological prowess and resources in navigation systems in Clarion's markets and products.

The Hitachi Group is working to strengthen this field as a CIS (Car Information System) business. As a key company in next-generation advanced car navigation systems, we intend to maximize synergies within the Hitachi Group and strive for market expansion.





**Specific Synergetic Effects**

Through the business reorganization, we will strive to bring forth the following core synergetic effects.

First, we seek to enhance R&D efficiency. Clarion aims to boost development efficiency by 30% by 2010 compared with fiscal 2006 levels through the integration and standardization of development platforms among Hitachi, Clarion and Xanavi while at the same time working to enable us to handle CTO (Configure to Order) frameworks and promoting the optimal allocation of development resources.

Second, we will strengthen the marketing structure that combines the advantages of all three companies. The framework for product strategy will be concentrated on Clarion with efforts made to uncover and secure new customers and strategically important new markets.

Third, we aim to reinforce sales with OEMs worldwide through an integrated sales structure.

Our fourth objective is to bolster the purchasing/procurement function. We aim to reduce annual material costs by 8 to 10% through joint purchasing/procurement efforts for the entire Group.

There will also be a negative, albeit temporary, impact from the reorganization. For example, we expect increased expenses of approximately ¥1,600 million during fiscal 2007 and ¥1,200 million the following fiscal year. These include upfront investment in the form of site reorganization

and IT infrastructure integration expenses, as well as management costs/ expenses associated with accounting systems and internal controls. Moreover, the cost of goodwill on Xanavi shares is estimated at ¥8,566 million, which will be amortized at ¥860 million annually.

**Business Outlook**

Consolidated net sales in the fiscal year ending March 2008 are forecast to increase by 27.0% year-on-year to ¥230,000 million, while consolidated operating income is projected to surge 79.0% to ¥5,500 million due primarily to the contribution of business results by Xanavi, which is strong in high-end models of navigation systems and car audio-visual devices in the OEM market. Net income is forecast to be ¥800 million.

**Basic Approach to CSR**

Clarion formulated compliance guidelines (“Guiding Principles of Conducts and Behaviors”) as the basic foundation for all CSR (Corporate Social Responsibility) activities from quality management to environmental protection and compliance. The compliance guidelines stipulated by the Head Office are deployed at all Group sites worldwide. We will foster a corporate culture with a strong awareness of CSR and fulfill our responsibility to society as a global enterprise.



**Corporate Governance**

We have developed a corporate governance structure in recognition of its importance to the Company. Through efforts to enhance our risk management system and internal control system, we strive to respond swiftly and appropriately to any kind of risk while ensuring management transparency.

**To Our Shareholders and Investors**

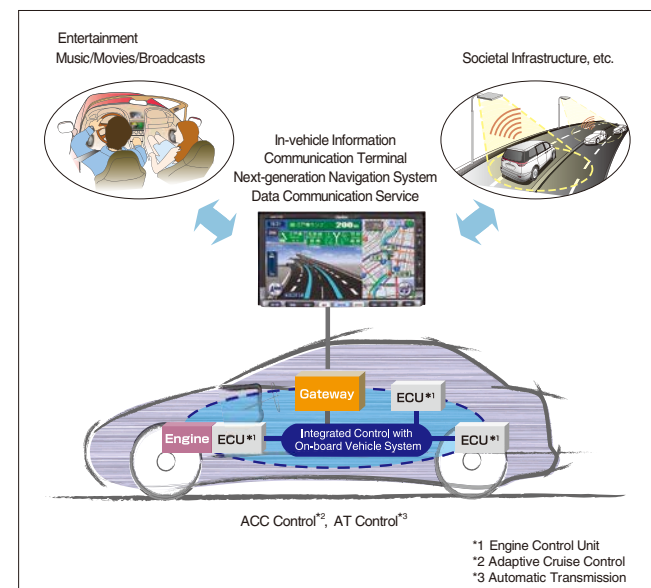
Clarion views keeping good communication with our stakeholder as a very important responsibility. With this in mind, we will transform ourselves to become a more valuable enterprise while executing aggressive strategic investment for the future. We aim to become a company which all stakeholders trust and have confidence in as we pursue further growth and development.

I ask for your continued support and guidance as we forge ahead.

August 2007

*T. Izumi*  
Tatsuhiko Izumi  
President

Clarion is jointly developing with Hitachi in the fields of ITS vehicle coordinated safety systems, vehicle information terminal systems and next-generation navigation systems.





## Pursuing a Growth Strategy through Strengthened Ties with Hitachi

Clarion became a consolidated subsidiary of Hitachi, Ltd. in November 2006 through a TOB (tender offer bid). The two companies seek to further strengthen ties in the CIS (Car Information System) field, with car navigation systems at the core, and capture synergies as a means to expand business.

### Market Environment

Against the backdrop of an aging society and technological breakthroughs in the data communication field, society's demands on the automotive market have begun a major shift toward "Security & Safety," "Ecology & Efficiency" and "Comfort & Usability."

To meet these needs, three closely related, even overlapping, realms exist surrounding automobiles: (1) information services, including the provision of content such as telematics services and music; (2) social infrastructure, namely, transportation systems such as ETC (Electronic Toll Collection) and vehicle information and communication systems; and (3) hardware with advancements in electronics and computerized control.

The CIS field, with car navigation systems at its core, lies at the center of where these three fields converge, and as such, its potential for growth and expansion is expected to be significant. Specifically, the car navigation systems market is projected to grow at an average rate of 7.2% annually between 2006 and 2010. By 2010, we expect a predominance of CIS products, namely, next-generation navigation systems incorporating a safe driving support system, information and communications system as well as audio-visual function compatible with a variety of media.



### Aims of Alliance and Business Reorganization

Clarion became a consolidated subsidiary of Hitachi, Ltd. in November 2006 subsequent to a TOB for the Company's shares. At the same time, Xanavi Informatics Corporation (Xanavi), a wholly owned subsidiary of Hitachi, became a wholly owned subsidiary of Clarion through a share transfer.

Hitachi, Clarion and Xanavi have been cooperating in technological development and material procurement for navigation systems and other products and systems. The alliance will enable the three companies to maximize synergies by integrating R&D, production, planning and sales/marketing under a common operational platform and business strategy.

The Hitachi Group has an extensive range of management resources, including cutting-edge technological development capabilities, global operations, intellectual property, procurement of materials and IT. Xanavi, meanwhile, has accumulated R&D competencies as well as selling power in the domestic OEM market.

By integrating these strengths with Clarion's expertise in product planning, marketing and sales power in the aftermarket for car audio-visual devices, we aim to establish a solid position in the global market for navigation systems. Further, the reorganization aims to bolster not merely individual dedicated devices but also the overall functionality of CIS-related products.

### Mid-term Management Targets

Clarion has set mid-term management targets of net sales of ¥270,000 million and an operating income ratio of 5% by March 2010.

### Key Initiatives

To achieve the aforementioned targets, the following key initiatives will be implemented, notably in the car navigation systems sector: (1) expansion of sales, (2) enhancement of R&D efficiency, (3) enforcement of sales structure, and (4) reduction of costs in material procurement and production.

#### 1. Expansion of sales

Through the alliance, we will strive to realize an industry-leading sales volume in the respective fields of car navigation systems, cameras and AV equipment in Japan, Europe and North America. We will also make concerted efforts to expand sales in the ITS (Intelligent Transport Systems) market that includes ITS vehicle coordinated safety systems that support safe driving and Adaptive Cruise Control, an automatic driving system following a preceding vehicle.

#### 2. Enhancement of R&D efficiency

Clarion aims to boost development efficiency by 30% by 2010 through the implementation of the following measures.

First, we are aggressively promoting the integration of car navigation hardware, software and map databases with a plan to release new products before the end of 2008. In addition, we have been pushing ahead with the development of standardized platforms while at the same time working to enable us to handle CTO (Configure to Order) frameworks.

The concept of the framework is that we focus on the advanced development of technological seeds based on anticipated market requirements to ensure an extensive range of components. This strategy will enable us to provide a diverse array of distinctive and unique products within a relatively short development lead time at low cost and high quality that are closely tailored to customer needs.

As a means to raise development efficiency, we have created development tools that help reduce the time required to develop operation displays, or HMI (Human Machine Interface), of car navigation systems, and these will be fully introduced in our actual development process from fiscal 2007. By sharing these tools with OEM customers from the concept stage, we can minimize differences in understanding between customers' concepts and actual development.

Further, we will aim for a 2008 worldwide launch of an AV navigation system that falls into a strategic price range. The new product will be positioned between conventional AV navigation systems and PNDs (Portable Navigation Devices), the market for which is expanding particularly in Europe and the United States. This global strategic model seeks to offer vehicle specifications at a price requested by the majority of users. By making the most effective use of Clarion's and Xanavi's long-accumulated experience and know-how in in-vehicle navigation technology, we aim to meet the requirements of car manufacturers and consumers alike with sophisticated technology and advanced HMI.

In addition, we will clarify the roles of each development unit, lay the groundwork for a comprehensive structure and gradually ensure optimal distribution of resources.

#### 3. Enforcement of sales structure

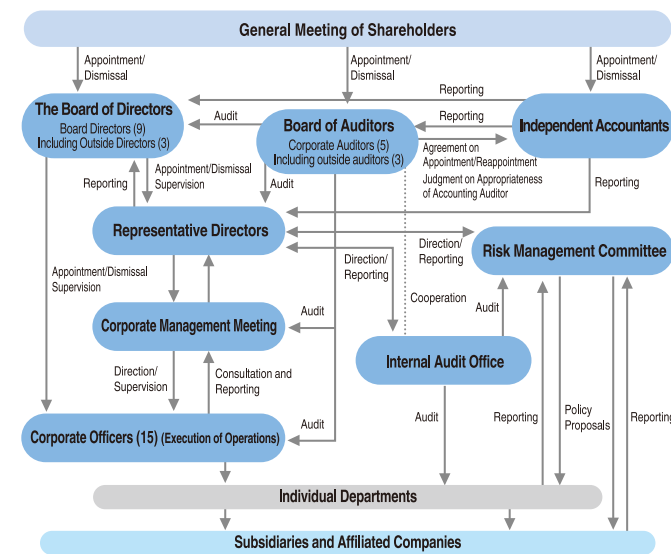
We will integrate the sales organization for each OEM, customer by customer. Each headquarters in Japan, North America and Europe shall identify and enforce sales activities for core and strategic OEM customers.

#### 4. Reduction of costs in material procurement and production

Clarion and Xanavi will establish a joint procurement system in tandem with Hitachi, expanding its centralized procurement. This will enable us to reduce annual material costs by 8% to 10%, contributing to the reduction of production costs.

## Pursuing Sound and Highly Transparent Management

Clarion places importance on corporate governance and has developed a system that embodies that awareness. Through its efforts to develop a risk management system and redevelop internal controls, Clarion is striving to ensure the transparency of management at all times and respond promptly and appropriately to risks.



### Corporate Governance Structure

Clarion operates under an auditor system. The Board of Directors sets basic management policies from a Group-wide perspective and supervises important managerial decision-making and other business administration matters. An executive officer system has been instituted to facilitate the quick execution of business. The Corporate Management Meeting, comprised of directors and corporate officers, has been created as a consultative body to assist the Board. It is here that management direction and policies are clarified. The term of office for directors and corporate officers has been set at one year to clarify responsibilities and enable greater flexibility.

### Efforts to Enhance the Internal Control System

The Internal Audit Office conducts regular audits of all the Company's departments and Group companies. The Office verifies business activities in terms of efficiency, conformity and compliance with laws and internal regulations. The findings are reported to the President, and corrective actions are taken if found necessary.

We reviewed our internal control system in line with the enforcement of the Corporate Law of Japan in May 2006. As a new member of the Hitachi Group, we will review and enhance the internal control system in fiscal 2007 in view of the Financial Instruments and Exchange Law as well as to meet the requirements of the U.S. Sarbanes-Oxley (SOX) Act.

### Enhancing Risk Management

Clarion formulated "Regulations for Risk Management" to identify the various risks we face in business in order to maintain/increase corporate value. The Risk Management Committee oversees and responds to risks encountered in general management. Under the umbrella of this organ, various committees respond to risks in specific areas such as crisis management, compliance, information disclosure, information security, security trade control and the environment. The Internal Audit Office regularly monitors these efforts and implements the PDCA (Plan-Do-Check-Act) cycle to drive ongoing improvement.

### Information Disclosure

Clarion strives to fulfill its accountability to stakeholders and raise management transparency. As part of these efforts, we deliver Shareholders Bulletins (in Japanese) twice a year, while annual reports and Clarion Reports are published every year and the Company's Website is periodically updated. Through these activities, we ensure that fair and accurate corporate information is disclosed in a timely manner. In relation, the Information Disclosure Committee has been established to guarantee the appropriateness of information and the method of disclosure.

## Promoting Sincere Compliance and Environmental Protection Activities

We acknowledge that compliance management and environmental protection activities are key issues in ensuring sound corporate activities. Based on this belief, we make diverse efforts aimed at being a company that society may trust and have confidence in. The following outlines key compliance and environment-related initiatives.

### Bolstering Compliance Management

As a good corporate citizen and member of society, Clarion not only observes laws but also promotes Group-wide awareness of business ethics. As the foundation of such activities, in July 2003 we established compliance guidelines ("Guiding Principles of Conducts and Behaviors") to which employees must adhere in conducting business activities. In conjunction, level-specific compliance education and training are continuously provided throughout the Company to boost employee awareness. Compliance audits have been conducted since 2004 to regularly check and ensure compliance guidelines are being observed and no compliance related problems have arisen. Through these periodic audits, we issue directions for improvement when deemed necessary.

### Compliance Promotion Framework

Clarion has established the Compliance Committee, chaired by the President. Regular meetings are held, with the CSR Promotion Department acting as secretariat. In these sessions, reports are made on the compliance activities of each department, and ideas and opinions on compliance-related issues are exchanged and shared by the members.

### Promotional Framework of Environmental Management System

At Clarion, we engage in business activities aimed at a sustainable enterprise seeking harmony among people, society and nature. We are committed to striving for corporate activities with consideration to the environment, including the effective utilization of the Earth's finite resources and the efficient use of energy.

A Standing Committee on the Environment, chaired by the President, has been set up in order to advance environmental protection activities throughout the Company. Within the Committee are seven subcommittees to address environmental protection issues in each specific field from a Company-wide perspective.

### ISO 14001 Certification

Clarion completed establishment of a Company-wide environmental management system, and ISO 14001 certification was awarded to the entire Company in April 2000. At our overseas affiliates and subsidiaries, 10 sites, mainly production sites, have successfully been certified, while one site underwent the first review in February 2007.

### Mid-term Environmental Plan

In order to reduce environmental load to the extent possible, every year Clarion reviews its mid-term environmental plan based on an evaluation of environmental performance in the previous year. In fiscal 2007, we formulated a new three-year environmental plan covering the period through March 2009. The plan sets ambitious objectives covering the diverse fields of our activities from the deployment of product lifecycle assessments, the application of lead-free solders and the promotion of green purchasing to energy-saving activities and zero-waste output through a recycling rate of over 99%.

### Promoting Communication with Stakeholders

The Clarion Report is published annually, detailing initiatives and results concerning environmental protection and social contribution activities as one measure to maintain communications with a wide range of stakeholders. The report can also be viewed on the Company's Website.





## Review of Operations

The Japanese economy in fiscal 2006 (ended March 31, 2007) maintained a moderately stable growth track owing to an improved employment environment, recovery in consumer spending and upward momentum in capital investment supported by higher corporate earnings. Overseas, the Asian economies were robust on the whole, led by China, while in the United States the economy remained strong despite future uncertainties particularly due to deterioration in the housing market. In Europe, the economies registered steady growth on the back of expansion of the EU economic bloc.

Consolidated net sales for fiscal 2006 amounted to ¥181,041 million, down 1.7% year-on-year. Although sales of the EMS business in Central and South America and sales in the OEM market in North America were brisk, net sales were adversely affected by factors such as decreased car sales as well as changes in the composition of car grades in the domestic market, affecting the model-mix of our products and prices to come down. Additionally, as other key factors, we suffered from a dramatic decline in prices in the domestic aftermarket due to intensified sales competition.

With regard to income, consolidated operating income totaled ¥3,072 million, down 41.2%. Despite a reduction in distribution/logistics costs, this was due to an increase in strategic investments, such as R&D and advertising expenses associated with the launch of the new "Clarion" global brand, coupled with lower profits due to a decline in unit sales. Income before income taxes amounted to ¥167 million, down 96.3%. Other income amounted to ¥1,095 million, of which ¥336 million was for interest and dividend income. Other expenses amounted to ¥4,000 million, of which ¥1,436 million was for purification cost for land from environmental survey and countermeasures\*1. Also, net loss on foreign currency transactions amounted to ¥9 million, down ¥317 million, or 97.1% year-on-year, due to a decrease in exchange loss caused by the strong euro. After income taxes (both current and deferred) and a deduction of minority interests, consolidated net loss amounted to ¥784 million as opposed to net income of ¥5,862 million in the previous fiscal year. Net loss per share was ¥2.78 compared with net income per share of ¥20.76.

\*1: We made a voluntary survey of the land owned by us in accordance with our "Environment Policy" based on ISO 14001, which revealed that part of the land was contaminated with fluorine.

An overview by business segment is as follows.

### Car Audio-Visual Equipment

This segment is our core segment that involves the manufacture and sales of car navigation systems, car audio-visual devices and car multimedia devices. Despite sales increases in OEM markets in North America and China, sales were down in the domestic OEM market due primarily to sluggish car sales and changes in car model/grade-mix. Combined with this, sales competition intensified and sales prices declined in the aftermarket worldwide. Overall segment sales decreased 4.1% year-on-year to ¥161,786 million. Operating income was down 53.9% to ¥1,648 million due to an increase in strategic investments such as development costs and advertising expenses associated with the launch of the new "Clarion" global brand, though we saw some decrease in distribution/logistics costs.

### Specialty Equipment

In this segment, which includes AV equipment for commercial vehicles, we made efforts to increase sales of auto-guide systems and our IT-based Bus Location System for tourist and community buses. We also strove to boost sales of rear-view monitor equipment with CCD cameras for drivers, which were developed to accommodate growing interest in vehicle operation safety. Because switch-over purchases came to certain saturation, however, causing a decrease in new sales, the sales resulted in a year-on-year decrease of 5.7% in segment sales to ¥7,833 million. Operating income was down 17.0% to ¥1,204 million.

### Others Business

In the Others Business Segment, Clarion is actively developing EMS business mainly in the Americas and Europe. Thanks to new orders taken in the Americas, along with the launch of the business in Japan, sales in this segment is expanding steadily. As a result, segment sales surged 59.0% to ¥11,422 million and operating income was up 10.5% to ¥220 million.

Results by geographic segments are as follows.

### Japan

In the automobile industry, despite brisk sales of subcompact ("kei" category) cars, overall sales of new cars in Japan went down compared to the previous year. In terms of results, since there was a significant decline in unit sales in the OEM market and a sales price drop in the aftermarket, net sales decreased 6.2% year-on-year to ¥93,365 million. Operating income was down 66.4% to ¥1,275 million due primarily to an increase in strategic investments, including R&D and the launch of the new "Clarion" global brand, which offset a reduction in selling, general and administrative expenses.

### Americas

An increase in sales in the OEM market and considerable sales growth in the EMS business led to net sales of ¥49,537 million, up 13.3% from the previous fiscal year. Operating income was up 7.3% to ¥1,135 million due mainly to the positive effects of higher sales and a reduction in selling, general and administrative expenses, which outweighed sales price erosion in the aftermarket.

### Asia and Australia

In Asia, we saw a substantial increase in new car sales reflecting brisk growth in China, and consumer spending remained buoyant. On the other hand, car sales in Taiwan declined on account of a cutback in credit allowances to individual credit card holders. As a result, net sales dipped 3.9% to ¥14,475 million. Operating income was down 35.4% to ¥470 million due mainly to sales price erosion in the aftermarket in Southeast Asia and increased development costs in China.

### Europe

Sales price declines due to intense price competition in the aftermarket together with the changeover period for OEM orders resulted in an 8.6% decline in net sales to ¥23,663 million. Operating income stood at ¥1 million compared with an operating loss of ¥354 million in the previous fiscal year, a remarkable turnaround as a result of a positive effect of a reduction in fixed costs through structural reforms.

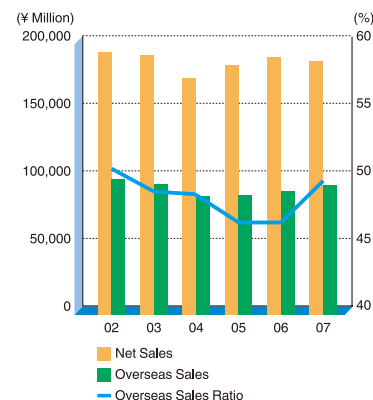
## Financial Position

Total assets at year-end increased by ¥27,371 million, or 22.4% compared with the previous fiscal year-end, to ¥149,490 million. The primary factor for this was an increase in assets through the purchase of shares of Xanavi Informatics Corporation (Xanavi) and making the company into a wholly owned subsidiary. As a result, current assets were up ¥14,419 million, or 18.9%, to ¥90,908 million. The main reasons were an increase of ¥9,143 million in notes and accounts receivable to ¥44,598 million and an increase of ¥5,092 million in inventories to ¥29,606 million. Property, plant and equipment rose ¥3,814 million, or 16.6% versus the previous fiscal year-end, to ¥26,747 million. The main factor was investment costs associated with the new Head Office and Technical Center completed in June 2007 and an increase in assets due mainly to the acquisition of shares of Xanavi. Intangible assets increased ¥9,494 million, or 109.8%, to ¥18,141 million due mainly to an increase in goodwill resulting from the acquisition of shares of Xanavi. Investments in securities and other assets were down ¥356 million, or 2.5%, to ¥13,693 million.

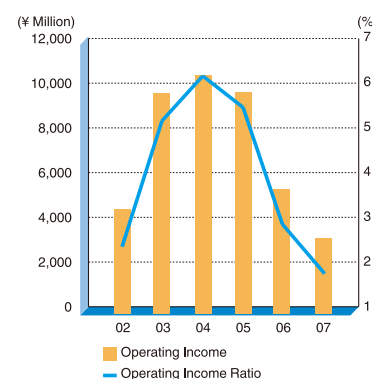
Total liabilities increased ¥27,800 million, or 31.8%, from the previous fiscal year-end, to ¥115,259 million. Current liabilities were up ¥17,965 million, or 29.5%, to ¥78,919 million. Total long-term liabilities increased ¥9,835 million, or 37.1%, to ¥36,339 million, attributable mainly to the acquisition of shares of Xanavi and the accompanying increase in demand for funds.

Total shareholders' equity totaled ¥34,027 million. The shareholders' equity ratio was down 5.4 percentage points to 22.8%.

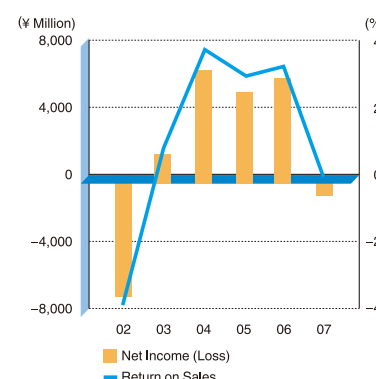
Net Sales, Overseas Sales and Overseas Sales Ratio



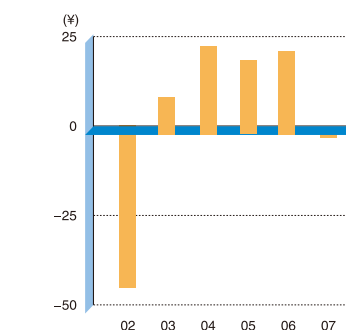
Operating Income and Operating Income Ratio



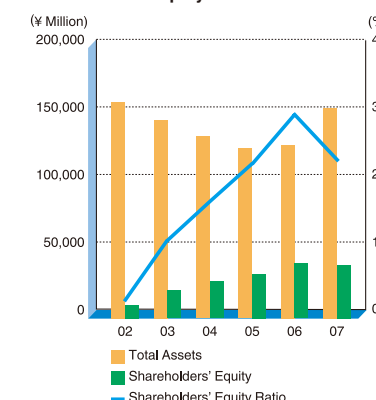
Net Income (Loss) and Return on Sales



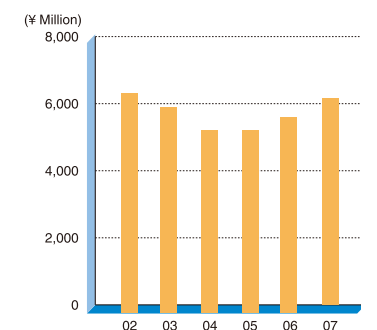
Net Income (Loss) per Share



Total Assets, Shareholders' Equity and Shareholders' Equity Ratio



Depreciation and Amortization



\* Years ended March 31

## Cash Flows

Net cash provided by operating activities was ¥8,820 million. This was due mainly to income before income taxes of ¥167 million, depreciation and amortization of ¥5,447 million, reserve of ¥1,436 million for environmental research and measures, and an increase in notes and accounts payable. Net cash provided at the end of the previous fiscal year was ¥9,236 million.

Net cash used in investing activities was ¥20,501 million compared with ¥1,055 million at the previous fiscal year-end. This was due primarily to payment for purchases of shares in an amount of ¥13,716 million in line with the consolidation of Xanavi. Other factors included ¥6,074 million in payment for purchases of property, plant and equipment primarily for die-cast and production equipment as well as investment in construction of the new Head Office and Technical Center, in addition to ¥2,768 million in payment for purchases of intangible assets, including software, and sale of the Gunma office land.

Net cash provided by financing activities was ¥10,054 million due mainly to an increase in borrowings associated with the purchase of shares in Xanavi and dividends paid. Net cash used at the end of the previous fiscal year was ¥7,938 million.

As a result of the above, cash and cash equivalents at the end of the year were ¥10,691 million, a decrease of ¥1,262 million versus ¥11,954 million at the previous fiscal year-end.

## Outlook for Fiscal 2007, Ending March 31, 2008

Stable growth is projected to continue in the Japanese economy in fiscal 2007, driven by improved export earnings on account of the weak yen, an increase in capital investment and revitalization of consumer spending due to an improvement in the employment environment. The Asian economy is expected to remain robust, particularly in China, where growth is especially pronounced. U.S. and European economies are expected to keep growing steadily, spurred by improvements in consumer spending and the employment environment. It is still unclear, however, what impact the projected increase in raw material prices due to rising steel costs and the risk of exchange rate fluctuations will have on business results.

In the automobile industry, technological innovations continue at break-neck speed in the car information systems field, necessitating R&D and capital investment to develop attractive content tailored to customer needs and to promote modularization. In particular, in the car audio-visual equipment field, in addition to single-function audio-visual and navigation devices, integrated AV-Navigation devices are expected to become more widespread.

Amid such a business environment, Clarion has become a consolidated subsidiary of Hitachi, Ltd., upon which Xanavi has been made into a wholly owned subsidiary of Clarion. This move will enable the integration of Clarion's accumulated expertise in car navigation and audio-visual systems as well as technical development prowess with the technological know-how of the Hitachi Group. Incorporating Xanavi into the Clarion Group is expected to bolster sales, enhance development efficiency and reduce material procurement and production costs. For fiscal 2007, we forecast consolidated net sales of ¥230,000 million, an increase of 27.0% year-on-year, operating income of ¥5,500 million, an increase of 79.0%, and net income of ¥800 million. The exchange rate is projected to be ¥110 to the U.S. dollar.

Clarion Co., Ltd. and Subsidiaries

## Risk Information

Risks that may have material impacts on the results of operation, financial condition and cash flow of Clarion Co., Ltd., its subsidiaries and affiliates (collectively, "the Company") include, but are not limited to, the factors listed below. In addition, forward-looking statements presented herein are based on judgments made by the Company at the time of publishing this annual report.

### (1) Economic Conditions

The Company conducts business worldwide primarily in the areas of car audio-visual, information and communication equipment. The economic conditions in respective markets, including shrinking demand caused by economic recession or rapid changes in the economic environment (currency or price fluctuations, changes in accounting standards, etc.) in key markets such as Japan, the United States, Europe, Asia or Australia, may have an adverse effect on the performance and financial position of the Company.

### (2) Fluctuations in Foreign Currency Exchange Rates

The Company conducts production and sales activities in many parts of the world, and financial items denominated in local currencies such as sales, expenses and assets are translated into yen in our financial statements. Exchange rates at the time of translation may impact results even if there have been no changes to amounts in local currencies. Any sharp fluctuation in the exchange rates among currencies may have an adverse effect on the business of the Company.

Also, appreciation of the local currency in any of the regions where the Company conducts production activities will push up manufacturing costs, which may reduce price competitiveness in the market. There is a possibility that such events may lead to deterioration in the performance and financial position of the Company.

### (3) Price Competition

The segment of markets where the Company conducts business, namely, the car audio-visual, information and communication equipment sectors, is very price competitive because of numerous domestic and foreign competitors. Car manufacturers, who are primary customers for the Company's OEM business, conduct global purchasing and there is fierce global competition regarding the supply price, which is one of the most important criterion for the selection of the supplier. Additionally, customers' procurement policies demand, from time to time, more stringent cost reduction efforts after business has been awarded. If the supply price drops beyond expectations or the market price in domestic and overseas aftermarkets declines significantly, the performance and financial position of the Company may be adversely impacted.

### (4) Reliance on Performance of Core Customers

The Company's core customers include car manufacturers and mass merchandisers in Japan and overseas. Changes in customers' purchasing policies, leading to requests for unexpected price reductions and lower trade volume, or a downturn in customer business itself may lead to a decline in Company sales and profit (margins), among others. In the event that car sales at one of our car manufacturer customers decreases due to a lack of consumer support, sales of products provided by the Company for such customers will be influenced accordingly. This would have an adverse effect on the performance and financial position of the Company.

### (5) Effects of Alliance

Since technological advancements in products handled by the Company are very rapid, the Company seeks technological alliances and promotes joint development projects in order to ensure efficient new product development capabilities and expansion of business

opportunities with limited management resources. In particular, Clarion has been building a closer and more comprehensive alliance with Hitachi, Ltd., our parent company, in order to expand and enhance business. The alliance covers wide areas of business activities, including from joint development of designing tools to material procurement, after-sales services, product planning and business processes. However, external and internal circumstances or changes in market demand could prevent the Company from deriving the intended benefits from its alliances. This could reduce future growth potential and profitability, and therefore have an adverse effect on the performance and financial position of the Company.

### (6) New Product Development Capabilities and Development Resources

The Company strives to increase sales by delivering to market attractive new products that meet customer needs in the car audio-visual, information and communication equipment sectors. However, new products are more and more dependent on advanced technologies, which are subject to rapid change. There could therefore be various risk factors involved in the Company's new product development, including difficulty in securing and nurturing competent R&D personnel due to increased labor mobility; an inability to keep pace with technical requests demanded by customers in a timely manner; and difficulty in securing core technologies needed for the future. Such factors may adversely impact future growth potential and have a negative effect on the performance and financial position of the Company.

### (7) Product Defects

The Company pays utmost attention to the quality of its products through quality management and the after-sales service structure that strictly follows the requirements of ISO/TS16949 frameworks. However, there could be a claim that might lead to a large-scale product recall or product liability compensation in the future. The Company covers risks against product liability claims by insurance, but there is no guarantee that this insurance is sufficient to cover such payments. In the unlikely event of such unexpected quality-related problems that may lead to major expenses to deal with such issues or deterioration of the Company's reputation, loss of sales and diminishing profits may have a negative effect on the performance and financial position of the Company.

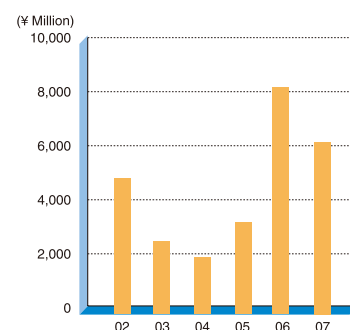
### (8) Intellectual Properties of the Company and Third Parties

To differentiate its products from the competition, the Company accumulates technologies and know-how (intellectual properties). In some countries or regions, some of these intellectual properties cannot be fully protected, or only marginally protected, because of the limitations of legal systems there. As a result, there may be cases where the Company cannot effectively prevent third parties from misusing its intellectual properties and manufacturing and selling similar products.

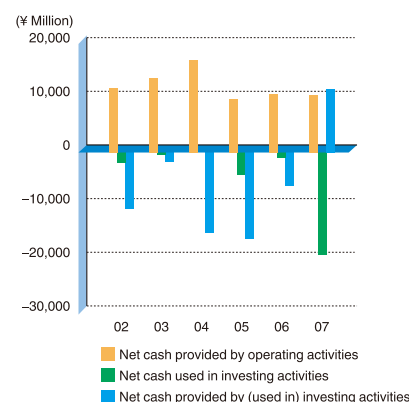
On the other hand, the Company implements measures to ensure that it does not infringe upon the intellectual property rights of others. However, there is a potential risk that the Company's products might be judged as infringing upon a third party's intellectual property rights, and this may have an adverse effect on the performance and financial position of the Company.

In addition, the Company modified its reward system for employee inventions on April 1, 2005 based on Japan's Revised Patent Law, but there is still a risk that the inventor may file a lawsuit regarding compensation.

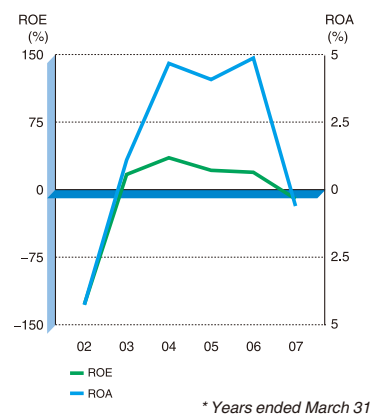
Capital Investment



Cash Flows



ROE and ROA





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In addition, the Company modified its reward system for employee inventions on April 1, 2005 based on Japan's Revised Patent Law, but there is still a risk that the inventor may file a lawsuit regarding compensation.

#### (9) Component Procurement from Outside the Company

Clarion Co., Ltd. and Subsidiaries  
Years ended March 31

## Six-Year Financial Summary

	Millions of yen, except per-share amounts						Thousands of U.S. dollars, except per- share amounts
	2002	2003	2004	2005	2006	2007	2007
<b>For the Year</b>							
Net sales	¥187,954	¥185,530	¥168,947	¥178,325	¥184,176	¥181,041	\$1,533,602
Car audio-visual equipment	167,348	168,716	159,544	166,365	168,686	161,786	1,370,489
Audio entertainment equipment	8,091	5,162	—	—	—	—	—
Specialty equipment	5,298	5,235	6,126	6,949	8,306	7,833	66,355
Others	7,215	6,416	3,275	5,010	7,183	11,422	96,757
Japan	95,459	97,333	88,843	96,658	99,511	93,365	790,894
Americas	45,674	39,291	33,657	38,577	43,725	49,537	419,633
Asia and Australia	9,942	10,141	9,893	10,737	15,063	14,475	122,618
Europe	36,878	38,763	36,552	32,351	25,877	23,663	200,457
Cost of sales	153,424	146,946	132,103	140,786	147,123	148,200	1,255,403
Selling, general and administrative expenses	30,194	29,049	26,491	27,956	31,824	29,768	252,168
Operating income	4,335	9,534	10,352	9,582	5,228	3,072	26,030
Other expenses, net	12,162	7,132	4,451	6,631	694	2,905	24,609
Income (loss) before income taxes	(7,826)	2,402	5,900	2,950	4,534	167	1,421
Provision (benefit) for income taxes	(729)	727	(514)	(2,328)	(1,337)	938	7,950
Minority interests in subsidiaries	177	119	109	167	8	13	116
Net income (loss)	(7,274)	1,555	6,305	5,111	5,862	(784)	(6,644)
Research and development expenses	8,986	9,569	9,943	10,659	11,340	12,560	106,395
Capital investment	4,676	2,410	1,816	3,066	8,106	6,074	51,458
Net cash provided by operating activities	10,434	12,153	16,058	8,038	9,236	8,820	74,716
Net cash used in investing activities	(2,373)	(530)	(158)	(6,030)	(1,055)	(20,501)	(173,666)
Net cash provided by (used in) financing activities	(11,912)	(2,158)	(16,467)	(17,537)	(7,938)	10,054	85,175
<b>Per share</b>							
(Yen and U.S. dollars):							
Net income	¥(45.25)	¥7.82	¥22.32	¥18.09	¥20.76	¥(2.78)	\$(0.024)
Cash dividends	—	—	—	—	¥2.00	¥2.00	\$0.017
<b>At year-end</b>							
Total assets	¥154,138	¥140,621	¥128,536	¥119,527	¥122,119	¥149,490	\$1,266,335
Total shareholders' equity	3,930	14,617	20,987	26,729	34,484	34,027	288,250
Interest-bearing debt	93,066	74,416	58,585	41,619	34,227	41,483	351,406
<b>Ratio (%)</b>							
Equity ratio	2.6	10.4	16.3	22.4	28.2	22.8	22.8
ROE	(128.2)	16.8	35.4	21.4	19.2	(2.3)	(2.3)
ROA	(4.3)	1.1	4.7	4.1	4.9	(0.6)	(0.6)
Current ratio	85.7	90.9	100.0	108.7	125.5	115.2	115.2

Note: 1. Research and development expenses include labor and other expenses reported as cost of sales.

2. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2007, which was ¥118.05 to US\$1.

Clarion Co., Ltd. and Subsidiaries

## Consolidated Balance Sheets

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2007	2006	March 31
<b>ASSETS</b>			
Current assets:			
Cash on hand and in banks.....	¥ 10,746	¥ 12,148	\$ 91,030
Notes and accounts receivable.....	44,598	35,454	377,789
Allowance for doubtful accounts .....	(1,255)	(1,285)	(10,636)
Inventories (Note 5).....	29,606	24,513	250,797
Deferred income taxes (Note 11).....	3,288	1,908	27,859
Other current assets .....	3,924	3,749	33,247
Total current assets .....	90,908	76,489	770,087
Investments in securities (Note 6) .....	3,300	3,750	27,962
Property, plant and equipment: (Note 4)			
Buildings and structures (Note 8) .....	17,129	15,938	145,103
Machinery and equipment (Note 8) .....	47,393	36,828	401,473
Land (Note 8) .....	10,496	11,265	88,918
Construction in progress.....	2,811	222	23,817
Accumulated depreciation .....	(51,084)	(41,322)	(432,737)
Total property, plant and equipment .....	26,747	22,933	226,576
Other assets:			
Intangible assets .....	18,141	8,647	153,674
Other (Note 4).....	10,392	10,298	88,034
Total other assets .....	28,533	18,946	241,709
Total assets.....	¥149,490	¥122,119	\$1,266,335

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2007	2006	March 31
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Short-term loans (Note 8).....	¥ 18,687	¥ 20,187	\$ 158,305
Notes and accounts payable.....	37,859	24,785	320,709
Accrued bonuses.....	593	614	5,024
Accrued expenses .....	12,054	7,656	102,113
Income taxes payable.....	302	300	2,563
Provision for warranty costs.....	2,919	1,114	24,734
Other current liabilities .....	6,501	6,295	55,073
Total current liabilities .....	78,919	60,953	668,524
Long-term liabilities:			
Long-term loans (Note 8) .....	22,795	14,040	193,100
Accrued pension and severance costs (Note 9) .....	11,334	10,413	96,013
Deferred income taxes on revaluation of land .....	651	651	5,518
Deferred income taxes (Note 11).....	238	167	2,019
Provision for warranty costs.....	249	10	2,113
Other long-term liabilities .....	1,070	1,221	9,067
Total long-term liabilities .....	36,339	26,504	307,833
Minority interests in subsidiaries.....	203	176	1,726
Shareholders' equity:			
Common stock, no par value			
Authorized: 450,000,000 shares			
Issued: 282,744,185 shares at March 31, 2007 and 2006 .....	26,100	26,100	221,095
Additional paid-in capital.....	2,669	2,669	22,614
Retained earnings .....	7,349	8,483	62,257
Treasury stock.....	(83)	(39)	(709)
Net unrealized gain on revaluation of land (Note 10) .....	1,029	1,244	8,718
Gain on deferred hedge.....	7	—	61
Net unrealized gain on other securities .....	622	918	5,272
Foreign currency translation adjustments .....	(3,666)	(4,891)	(31,059)
Total shareholders' equity.....	34,027	34,484	288,250
Commitments and contingencies (Note 15)			
Total liabilities and shareholders' equity.....	¥149,490	¥122,119	\$1,266,335

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



Clarion Co., Ltd. and Subsidiaries

Clarion Co., Ltd. and Subsidiaries

## Consolidated Statements of Income

	Millions of yen, except per-share amounts			Thousands of U.S. dollars, except per- share amounts
	Year ended March 31			Year ended March 31
	2007	2006	2005	2007
Net sales.....	<b>¥181,041</b>	¥184,176	¥178,325	<b>\$1,533,602</b>
Cost of sales.....	<b>148,200</b>	147,123	140,786	<b>1,255,403</b>
Gross profit.....	<b>32,841</b>	37,053	37,538	<b>278,198</b>
Selling, general and administrative expenses (Notes 12 and 17).....	<b>29,768</b>	31,824	27,956	<b>252,168</b>
Operating income.....	<b>3,072</b>	5,228	9,582	<b>26,030</b>
Other income:				
Interest and dividend income.....	<b>336</b>	270	255	<b>2,848</b>
Gain on sales of property, plant and equipment.....	<b>259</b>	2,000	55	<b>2,199</b>
Gain on sales of investments in securities.....	<b>50</b>	1,373	78	<b>426</b>
Gain on transfer of logistic operation.....	—	270	—	—
Equity in gain of affiliates.....	<b>22</b>	222	136	<b>193</b>
Others.....	<b>426</b>	1,055	609	<b>3,610</b>
	<b>1,095</b>	5,192	1,134	<b>9,278</b>
Other expenses:				
Interest expenses.....	<b>867</b>	835	1,501	<b>7,344</b>
Net loss on foreign currency transactions.....	<b>9</b>	327	468	<b>81</b>
Loss on sales and disposal of property, plant and equipment.....	<b>341</b>	812	89	<b>2,892</b>
Impairment loss on fixed assets.....	<b>113</b>	1,335	270	<b>963</b>
Purification cost for land.....	<b>1,436</b>	—	—	<b>12,164</b>
Additional severance costs.....	<b>112</b>	417	—	<b>949</b>
Patent fee for prior years.....	—	335	120	—
Loss on devaluation of investments in securities.....	<b>16</b>	54	96	<b>140</b>
Provision for doubtful accounts.....	—	—	2,690	—
Others.....	<b>1,103</b>	1,767	2,529	<b>9,351</b>
	<b>4,000</b>	5,886	7,766	<b>33,887</b>
Income before income taxes.....	<b>167</b>	4,534	2,950	<b>1,421</b>
Provision/(benefit) for income taxes:				
Current.....	<b>651</b>	588	546	<b>5,518</b>
Deferred.....	<b>287</b>	(1,925)	(2,874)	<b>2,431</b>
	<b>938</b>	(1,337)	(2,328)	<b>7,950</b>
(Loss)/Income before minority interests.....	<b>(770)</b>	5,871	5,279	<b>(6,528)</b>
Minority interests in subsidiaries.....	<b>13</b>	8	167	<b>116</b>
Net (loss)/income.....	<b>¥ (784)</b>	¥ 5,862	¥ 5,111	<b>\$ (6,644)</b>
Per share:				
Net income/(loss).....	<b>¥ (2.78)</b>	¥20.76	¥18.09	<b>\$ (0.024)</b>
Cash dividends.....	<b>¥ 2.00</b>	¥ 2.00	¥ —	<b>\$ 0.017</b>

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## Consolidated Statements of Shareholders' Equity

	Millions of yen									
	Number of common shares outstanding (Thousands)	Common stock	Additional paid-in capital	Retained earnings/ (losses)	Net unrealized gain on revaluation of land	Gain on deferred hedge	Net unrealized gain on other securities	Foreign currency translation adjustments	Treasury stock	Total shareholders' equity
Balance at March 31, 2004.....	282,744	¥26,100	¥ 33,559	¥(33,062)	¥2,572	¥—	¥ 561	¥(8,726)	¥(17)	¥20,987
Transfer to retained earnings.....	—	—	(30,889)	30,889	—	—	—	—	—	—
Net income.....	—	—	—	5,111	—	—	—	—	—	5,111
Change in treasury stock.....	—	—	—	—	—	—	—	—	(11)	(11)
Net unrealized loss on revaluation of land.....	—	—	—	—	(300)	—	—	—	—	(300)
Net unrealized gain on securities.....	—	—	—	—	—	—	251	—	—	251
Foreign currency translation adjustments.....	—	—	—	—	—	—	—	695	—	695
Others.....	—	—	—	(4)	—	—	—	—	—	(747)
Balance at March 31, 2005.....	282,744	26,100	2,669	2,934	2,272	—	813	(8,031)	(29)	26,729
Net income.....	—	—	—	5,862	—	—	—	—	—	5,862
Change in accounting standard for overseas subsidiary.....	—	—	—	(1,331)	—	—	—	1,367	—	35
Change in treasury stock.....	—	—	—	—	—	—	—	—	(10)	(10)
Net unrealized gain/(loss) on revaluation of land.....	—	—	—	1,020	(1,028)	—	—	—	—	(8)
Net unrealized gain on securities.....	—	—	—	—	—	—	104	—	—	104
Foreign currency translation adjustments.....	—	—	—	—	—	—	—	1,771	—	1,771
Others.....	—	—	—	(2)	—	—	—	—	—	(25)
Balance at March 31, 2006.....	282,744	26,100	2,669	8,483	1,244	—	918	(4,891)	(39)	34,484
Net loss.....	—	—	—	(784)	—	—	—	—	—	(784)
Dividends from surplus.....	—	—	—	(564)	—	—	—	—	—	(564)
Change in treasury stock.....	—	—	—	—	—	—	—	—	(43)	(43)
Net unrealized gain/(loss) on revaluation of land.....	—	—	—	215	(215)	—	—	—	—	—
Net unrealized loss on securities.....	—	—	—	—	—	—	(295)	—	—	(295)
Foreign currency translation adjustments.....	—	—	—	—	—	—	—	1,225	—	1,225
Others.....	—	—	—	—	—	—	—	—	—	34
Balance at March 31, 2007.....	<b>282,744</b>	<b>¥26,100</b>	<b>¥ 2,669</b>	<b>¥ 7,349</b>	<b>¥1,029</b>	<b>¥ 7</b>	<b>¥ 622</b>	<b>¥(3,666)</b>	<b>¥(83)</b>	<b>¥34,027</b>

	Thousands of U.S. dollars									
	Number of common shares outstanding (Thousands)	Common stock	Additional paid-in capital	Retained earnings/ (losses)	Net unrealized gain on revaluation of land	Gain on deferred hedge	Net unrealized gain on other securities	Foreign currency translation adjustments	Treasury stock	Total shareholders' equity
Balance at March 31, 2006.....	282,744	\$221,095	\$22,614	\$71,864	\$10,542	\$—	\$7,778	\$(41,438)	\$(337)	\$292,118
Net loss.....	—	—	—	(6,644)	—	—	—	—	—	(6,644)
Dividends from surplus.....	—	—	—	(4,785)	—	—	—	—	—	(4,785)
Change in treasury stock.....	—	—	—	—	—	—	—	—	(371)	(371)
Net unrealized gain/(loss) on revaluation of land.....	—	—	—	1,823	(1,823)	—	—	—	—	—
Net unrealized gain on securities.....	—	—	—	—	—	—	(2,506)	—	—	(2,506)
Foreign currency translation adjustments.....	—	—	—	—	—	—	—	10,379	—	10,379
Others.....	—	—	—	—	—	—	—	—	—	61
Balance at March 31, 2007.....	<b>282,744</b>	<b>\$221,095</b>	<b>\$22,614</b>	<b>\$62,257</b>	<b>\$8,718</b>	<b>\$61</b>	<b>\$5,272</b>	<b>\$(31,059)</b>	<b>\$(709)</b>	<b>\$288,250</b>

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

Clarion Co., Ltd. and Subsidiaries

Clarion Co., Ltd. and Subsidiaries

## Consolidated Statements of Cash Flows

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2007	2006	2005	2007
<b>Cash flows from operating activities:</b>				
Income before income taxes .....	¥ 167	¥ 4,534	¥ 2,950	\$ 1,421
Adjustments—				
Depreciation and amortization .....	5,447	4,955	4,497	46,147
Amortization of goodwill .....	85	82	78	726
Equity in gain of affiliates .....	(22)	(222)	(136)	(193)
(Decrease)/increase in allowance for doubtful accounts .....	(243)	(67)	2,591	(2,060)
Increase in accrued pension and severance costs, less payment .....	161	382	629	1,369
Interest and dividend income .....	(336)	(270)	(255)	(2,848)
Interest expense .....	867	835	1,501	7,344
Devaluation of investments in securities .....	16	54	96	140
Gain on sales of investments in securities .....	(50)	(1,373)	(78)	(426)
Gain on sales of property, plant and equipment .....	(259)	(2,000)	(55)	(2,199)
Impairment loss on fixed assets .....	113	1,335	270	963
Purification cost for land .....	1,436	—	—	12,164
Changes in assets and liabilities:				
Decrease/(increase) in notes and accounts receivable .....	1,618	1,446	(3,671)	13,709
Increase in inventories .....	(1,128)	(732)	(210)	(9,560)
Increase in notes and accounts payable .....	2,898	553	331	24,551
Others, net .....	(851)	780	1,193	(7,215)
Subtotal .....	9,920	10,295	9,734	84,032
Interest and dividend received .....	385	270	255	3,268
Interest paid .....	(849)	(849)	(1,448)	(7,192)
Income taxes paid .....	(636)	(479)	(502)	(5,391)
Net cash provided by operating activities .....	8,820	9,236	8,038	74,716
<b>Cash flows from investing activities:</b>				
Increase in time deposits .....	—	(134)	(43)	—
Decrease in time deposits .....	145	—	—	1,231
Payment for purchases of property, plant and equipment .....	(6,074)	(8,106)	(3,066)	(51,458)
Proceeds from sales of property, plant and equipment .....	1,108	7,802	77	9,394
Payment for purchases of intangible assets .....	(2,768)	(3,092)	(2,709)	(23,455)
Proceeds from sales of investments in securities .....	673	2,430	329	5,707
Increase in loans receivable .....	(7)	(6)	(9)	(60)
Decrease in loans receivable .....	155	65	95	1,318
Payment for acquisition of shares of a subsidiary .....	(13,716)	—	—	(116,191)
Payment for acquisition of shares from minority shareholders .....	—	—	(690)	—
Others, net .....	(17)	(13)	(15)	(151)
Net cash used in investing activities .....	(20,501)	(1,055)	(6,030)	(173,666)
<b>Cash flows from financing activities:</b>				
Increase/(decrease) in short-term loans, net .....	5,709	(10,880)	(19,540)	48,363
Proceeds from long-term loans .....	12,000	10,000	20,019	101,651
Repayment of long-term loans .....	(7,045)	(7,047)	(17,886)	(59,683)
Cash dividends .....	(564)	—	—	(4,785)
Others, net .....	(43)	(10)	(130)	(371)
Net cash provided by/(used in) financing activities .....	10,054	(7,938)	(17,537)	85,175
Effect of exchange rate changes on cash and cash equivalents .....	363	694	540	3,079
Net (decrease)/increase in cash and cash equivalents .....	(1,262)	937	(14,989)	(10,694)
Cash and cash equivalents at beginning of year .....	11,954	11,016	26,005	101,265
Cash and cash equivalents at end of year (Note 13) .....	¥10,691	¥11,954	¥11,016	\$90,571

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

## Notes to the Consolidated Financial Statements

## 1. Basis of presenting consolidated financial statements:

Clarion Co., Ltd. ("Clarion") and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in their respective countries. The accompanying consolidated financial statements of Clarion, its subsidiaries and affiliates (collectively, "the Company") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application of and disclosure requirements of International Financial Reporting Standards, and are compiled from consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The accompanying consolidated financial statements include certain reclassifications and rearrangements in order to present them in a form that is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information that is not required under generally accepted accounting principles and practices in Japan, but which is provided herein as additional information. None of the reclassifications nor rearrangements have a material effect on the consolidated financial statements.

Certain notes and amounts previously reported have been rearranged and reclassified to conform to the current year presentation.

The amounts presented in millions of yen are truncated for amounts less than 1 million. Totals may not be added up exactly because of such truncation.

## 2. Summary of significant accounting policies:

## (1) Consolidation and investments in affiliates

The accompanying consolidated financial statements include the accounts of Clarion and its subsidiaries that are controlled by Clarion. Under the effective control approach, all majority-owned companies are to be consolidated. Additionally, companies in which share ownership equals 50% or less may be required to be consolidated in cases where such companies are effectively controlled by other companies through the interests held by a party who has a close relationship with the parent in accordance with Japanese accounting standards. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation.

Investments in affiliates in which Clarion has significant influence are accounted for using the equity method. Consolidated income includes Clarion's current equity in net income or loss of affiliates after elimination of unrealized intercompany profits.

A difference in fiscal periods of Clarion and its subsidiaries does not by itself justify the exclusion of a subsidiary from consolidation. As the difference is not more than three months, it is acceptable to use, for consolidation purposes, the subsidiaries' statements for its fiscal period. For significant transactions during the period between those subsidiaries' fiscal year-end and the balance sheet date, necessary adjustments are included in the consolidated financial statements.

The excess of the cost over the underlying fair value of investments in subsidiaries is recognized as goodwill. Goodwill relating to the Mexican subsidiaries is amortized over 20 years. Goodwill relating to Xanavi Informatics Corp. is amortized in equal amounts over 10 years from consolidated fiscal year beginning from April 1, 2007.

## (2) Translation of foreign currency balances and transactions

Foreign currency transactions are generally translated using foreign exchange rates prevailing at the transaction dates. Assets and liabilities denominated in foreign currencies are translated at the current exchange rates at the balance sheet date.

All assets and liabilities of overseas subsidiaries are translated at current rates at the respective balance sheet dates whereas the shareholders' equity is translated at historical rates and all income and expense accounts are translated at average rates for the respective periods.

## (3) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows is comprised of cash on hand, bank deposits able to be withdrawn on demand, and short-term highly liquid investments with original maturities of three months or less, which represent a minor risk of fluctuations in value.

## (4) Financial instruments

## (a) Securities:

Investments in debt and equity securities are classified into three categories: 1) trading securities, 2) held-to-maturity debt securities and 3) other securities.

These categories are treated differently for the purpose of measuring and accounting for changes in fair value.

Trading securities held for the purpose of generating profits from changes in market value are recognized at their fair value in the



consolidated balance sheets. Unrealized gains and losses are included in current income. Held-to-maturity debt securities are expected to be held to maturity and are recognized at historical or amortized cost in the consolidated balance sheets. Other securities, for which market quotations are available, are recognized at fair value in the accompanying consolidated balance sheets as of March 31, 2007 and 2006, respectively. Unrealized gains and losses for these other securities were classified as a separate component of shareholders' equity.

Other securities for which market quotations are unavailable are stated at cost, based on the weighted-average cost method.

Investments in securities as of March 31, 2007 and 2006, included net unrealized gains on other securities amounting to ¥622 million and ¥918 million, respectively, which were included as a separate component of shareholders' equity.

**(b) Derivative financial instruments:**

All derivatives are stated at fair value, with changes in fair value charged to current income for the period in which they arise, except for derivatives that are designated as "hedging instruments" (see (c) Hedge accounting below).

**(c) Hedge accounting:**

The Company has a policy to utilize hedging instruments to reduce their exposure to the risk of fluctuation in foreign currency exchange rates and interest rates.

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and charged to income in the same period the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are principally forward foreign currency exchange contracts.

Effective from the year ended March 31, 2007, the Company has applied "Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No.5)" and "Implementaion guidance for Accounting standards for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No.8)," both issued by the Accounting Standard Board of Japan on December 9, 2005.

The amounts corresponding to the conventional "Shareholders' equity" in the balance sheet is ¥34,020 million.

**(5) Allowance for doubtful accounts**

The allowance for doubtful accounts is calculated based on the aggregate amount of estimated credit losses for doubtful receivables, in addition to an amount for receivables, other than doubtful receivables calculated using historical write-off experience from certain prior periods.

**(6) Notes receivable and notes payable maturing at year-end**

Notes receivable and notes payable are settled on the date of clearance. As March 31, 2007 was a bank holiday, notes receivable and notes payable maturing on that date could not be settled and are included in the ending balance of notes and accounts receivable, trade and notes and accounts payable, trade, as follows:

	Millions of yen	Thousands of U.S. dollars
Notes receivable.....	¥ 133	\$ 1,129
Notes payable .....	¥1,133	\$10,052

**(7) Inventories**

Inventories are stated at cost and determined by the weighted-average method. Supplies are stated at cost, which is determined by the last purchase price method.

**(8) Property, plant and equipment**

Property, plant and equipment, including significant renewals and improvements, are carried at cost less accumulated depreciation. Maintenance and repairs, including minor renewals, are charged to income as incurred.

For Clarion and its domestic subsidiaries, depreciation, except for dies, is computed under the declining-balance method at rates based on the estimated useful lives of the assets, which are prescribed by the Japanese income tax laws. Dies, included in machinery and equipment, are depreciated under the straight-line method over the estimated useful lives of the assets. For the overseas subsidiaries, depreciation is computed under the straight-line method in accordance with the generally accepted accounting principles prevailing in the respective countries.

**(9) Intangible assets**

Intangible assets, including goodwill and capitalized software costs, are carried at cost less accumulated amortization.

Goodwill represents the excess of purchase price and related costs over the value assigned to the fair value of the business acquired and is amortized using the straight-line method.

Capitalized software costs consist of costs of purchased or developed software. All capitalized software costs are amortized using the straight-line method over five years.

**(10) Impairment of fixed assets**

On August 9, 2002, the Business Accounting Council of Japan issued new accounting standards entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets." Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6 — "Application Guidance on Accounting Standards for Impairment of Fixed Assets." These standards are effective from the fiscal years beginning April 1, 2005.

From the fiscal year ended March 31, 2006, Clarion and its domestic subsidiaries adopted these standards. The accumulated impairment loss is deducted from the net book value of each asset.

**(11) Accrued bonuses**

Accrued bonuses to employees are provided for the estimated amounts which Clarion and its several subsidiaries expect to pay to employees after the fiscal year-end, based on services provided during the current period.

**(12) Accrued pension and severance costs**

Accrued pension and severance costs at the end of each fiscal year represent the estimated present value of projected benefit obligation in excess of the fair value of pension plan assets. The unrecognized transition amounts are amortized over 10 years. The unrecognized actuarial differences are amortized on a straight-line basis over 7-15 years from the next fiscal year in which they arise. Prior service costs of Clarion are amortized on a straight-line basis by the number of specific years not exceeding the average remaining years of employment (13 years) from this consolidated fiscal year. Aforementioned prior service costs are accrued due to adoption of a new pension plan and employees' severance indemnities plan of Clarion.

**(13) Provision for warranty costs**

A provision for future warranty costs are provided based on the past actual results of such expense.

Some of the overseas consolidated subsidiaries are posting necessary amounts as required by the generally accepted accounting principles prevailing in the respective countries.

**(14) Research and development costs**

Research and development costs are expensed as incurred.

**(15) Income taxes**

The provision for income tax is computed based on income before income taxes and minority interests in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax base assets and liabilities.

Clarion obtained approval from the Japan national tax agency to file a consolidated tax return system effective from the year beginning

April 1, 2002. Clarion has adopted the consolidated tax return system for the calculation of income taxes effective from the year ended March 31, 2003. Under the consolidated tax return system, Clarion consolidates all wholly owned domestic subsidiaries based on the Japanese tax regulations.

**(16) Revenue recognition**

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

**(17) Leases**

Capital leases, other than those which involve transfer of ownership of the leased assets to the lessee by the end of the lease terms, are allowed to be accounted for as operating leases, with footnote disclosure of the estimated acquisition cost, accumulated depreciation and future lease payments under the Japanese accounting standards.

**(18) Net loss per share**

Calculation of net loss per share for the year ended March 31, 2007 follows:

	Millions of yen	Thousands of U.S. dollars
Net loss .....	¥(784)	\$ (6,644)
Weighted-average number of shares outstanding.....		282,372,675

There were 496,072 of treasury shares as of March 31, 2007.

	Yen	U.S. dollars
Net loss per share .....	¥(2.78)	\$ (0.024)

Clarion has no dilutive potential common shares, such as convertible bond or warrants, outstanding during the current year.

"Bonuses to directors and corporate auditors," which is determined through appropriation of retained earnings by resolution at the general shareholders' meeting subsequent to the fiscal year-end and not reflected in the statements of income for the current year, should be reflected in the calculation of net income per share, as if "bonuses to directors and corporate auditors" was charged to income in the current year.

**3. 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 ¥118.05 = US\$1, the approximate rate of exchange as of March 31, 2007, 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.

**4. Impairment loss on fixed assets:**

The Company has recognized impairment loss of ¥113 million (\$963 thousand) and ¥1,335 million for the following group of assets as of March 31, 2007 and 2006, respectively.

Location	Use	Category	Impairment loss (millions of yen)	
			2007	2006
Gunma office in Japan	Logistic warehouse	Land and buildings and structures	—	¥1,181
Others	Others	Land and intangible assets	¥113	¥ 153

The Company assessed impairment of each group of assets, which are grouped on the basis of managerial accounting and investment decision-making purpose.

Due to the decline in real estate value and poor performance of assets, operating profitability has worsened substantially. Therefore, the Company has decided to mark the assets down to the recoverable

value, and recognized impairment loss of ¥133 million (\$963 thousand), which comprises of land ¥68 million (\$577 thousand), and other totaling ¥45 million (\$385 thousand).

The recoverable value is determined as the higher of the net selling value or the value in use.

**5. Inventories:**

Inventories as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Finished products.....	¥16,234	¥16,563	\$137,522
Work in process.....	2,813	480	23,832
Raw materials and supplies.....	10,558	7,469	89,441
Total.....	¥29,606	¥24,513	\$250,797

**6. Marketable securities and investments in securities:**

The aggregate cost and market value of other securities with market values, which were included in investment securities as of March 31, 2007 and 2006 follow:

	Millions of yen			
	March 31, 2007			
	Cost	Gross unrealized		Market value (carrying value)
Gain		Loss		
Other securities.....	¥1,753	¥918	¥(153)	¥2,517
Debt securities.....	—	—	—	—
Other.....	—	—	—	—
Total.....	¥1,753	¥918	¥(153)	¥2,517

	Millions of yen			
	March 31, 2006			
	Cost	Gross unrealized		Market value (carrying value)
Gain		Loss		
Other securities.....	¥1,812	¥1,263	¥(110)	¥2,965
Debt securities.....	—	—	—	—
Other.....	—	—	—	—
Total.....	¥1,812	¥1,263	¥(110)	¥2,965

	Thousands of U.S. dollars			
	March 31, 2007			
	Cost	Gross unrealized		Market value (carrying value)
Gain		Loss		
Other securities.....	\$14,851	\$7,779	\$(1,301)	\$21,329
Debt securities.....	—	—	—	—
Other.....	—	—	—	—
Total.....	\$14,851	\$7,779	\$(1,301)	\$21,329

Other securities sold for the years ended March 31, 2007, 2006 and 2005, respectively, follow:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2007	2006	2005	2007
Sales amount.....	¥128	¥2,430	¥329	\$1,090
Total gain on sales.....	50	1,373	78	426
Total loss on sales.....	—	(0)	—	—

The carrying value of unlisted investment equity securities and other as of March 31, 2007 and 2006 follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Other securities			
Unlisted equity securities.....	¥69	¥77	\$592



**7. Fair values of derivative financial instruments:**

The Company enters into forward foreign currency exchange contracts and interest rate swaps to manage market risks relating to fluctuations in the foreign currency exchange rates and interest rates. The Company

does not hold or issue financial instruments for trading purposes. The listed contract amount and fair values as of March 31, 2007 and 2006 follow:

	Millions of yen		
	March 31, 2007		
	Contract amount	Fair value	Unrealized gain/(loss)
Forward foreign exchange contracts:			
Sold			
U.S. dollar .....	¥4,536	¥4,527	¥ 9
Euro .....	4,580	4,637	(57)
Singapore dollar .....	337	341	(3)
Purchased			
U.S. dollar .....	800	803	3
Euro .....	780	785	4
U.K. pound .....	229	231	1
Total unrealized loss from forward foreign currency exchange contracts.....			¥(41)

	Millions of yen		
	March 31, 2006		
	Contract amount	Fair value	Unrealized gain/(loss)
Forward foreign exchange contract:			
Sold			
U.S. dollar .....	¥2,185	¥2,201	¥(16)
Euro .....	2,608	2,661	(53)
U.K. pound .....	539	550	(10)
Singapore dollar .....	528	541	(13)
Purchased			
U.S. dollar .....	1,126	1,129	2
Total unrealized loss from forward foreign currency exchange contracts.....			¥(90)

	Thousands of U.S. dollars		
	March 31, 2007		
	Contract amount	Fair value	Unrealized gain/(loss)
Forward foreign exchange contracts:			
Sold			
U.S. dollar .....	\$38,430	\$38,351	\$ 79
Euro .....	38,797	39,281	(483)
Singapore dollar .....	2,862	2,890	(28)
Purchased			
U.S. dollar .....	6,780	6,807	27
Euro .....	6,612	6,649	36
U.K. pound .....	1,942	1,957	14
Total unrealized loss from forward foreign currency exchange contracts.....			\$(354)

These forward foreign currency exchange contracts were entered into for hedging purposes. Unrealized gains and losses from these contracts are recognized in earnings. Forward foreign currency

exchange contracts designated to monetary items denominated in foreign currencies are excluded from the above table.

	Millions of yen		
	March 31, 2007		
	Nominal amount	Fair value	Unrealized loss
Interest rate swaps:			
Pay-fixed, receive-floating	¥—	¥—	¥—

	Millions of yen		
	March 31, 2006		
	Nominal amount	Fair value	Unrealized loss
Interest rate swaps:			
Pay-fixed, receive-floating	¥2,825	¥(19)	¥(19)

	Thousands of U.S. dollars		
	March 31, 2007		
	Nominal amount	Fair value	Unrealized loss
Interest rate swaps:			
Pay-fixed, receive-floating	\$—	\$—	\$—

**8. Short-term and long-term loans:**

Short-term and long-term loans as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2007	2006	March 31, 2007
Short-term loans .....	¥15,440	¥13,141	\$130,793
Current portion of long-term loans from banks and insurance companies.....	3,247	7,045	27,512
Total short-term loans.....	18,687	20,187	158,305
Long-term loans from banks and insurance companies .....	22,795	14,040	193,100
Total .....	¥41,483	¥34,227	\$351,406

The weighted-average rates for short-term loans, current portion of long-term loans and long-term loans as of March 31, 2007 were 1.78%, 1.34% and 1.45%, respectively.

The maturity of long-term loans from banks and insurance companies follow:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 3,247	\$27,512
2009	10,250	86,829
2010	12,052	102,096
2011	54	465
2012	57	490

As of March 31, 2007 and 2006, assets pledged as collateral for short-term and long-term loans follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Buildings and structures, net .....	¥627	¥2,137	\$5,313
Machinery and equipment, net .....	46	69	393
Land .....	128	3,818	1,090
Total.....	¥802	¥6,026	\$6,797

In addition to the above, time deposits of ¥7 million (\$60 thousand) and ¥7 million were pledged as a guarantee as of March 31, 2007 and 2006, respectively.

Secured loans and debt as of March 31, 2007 and 2006 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Short-term loans .....	¥ 47	¥ 7,045	\$ 405
Long-term loans .....	595	4,040	5,045
Total.....	¥643	¥11,086	\$5,450

## 9. Accrued retirement benefits to employees:

Clarion newly adopts tax-qualified corporate defined pension plan and employees' severance indemnities plan, which are defined benefit pension plans covering all employees. Some of the domestic subsidiaries maintain tax-qualified pension plans and employees' severance

indemnities plans as defined benefit pension plans, and other domestic subsidiaries and some of the overseas subsidiaries apply employees' severance indemnities plans as defined benefit pension plans. In addition, some overseas subsidiaries adopt defined contribution pension plans.

The funded status of retirement benefit obligations as of March 31, 2007 and 2006 follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Projected benefit obligations .....	¥(16,132)	¥(14,584)	\$(136,655)
Plan assets at fair value .....	3,158	2,557	26,754
Securities contributed to employee retirement benefit trust .....	344	321	2,921
Unfunded status.....	(12,628)	(11,705)	(106,979)
Unrecognized transition amount .....	45	—	381
Unrecognized actuarial differences .....	723	722	6,127
Unrecognized prior service costs due to plan amendment.....	526	570	4,458
Accrued pension and severance costs.....	¥(11,334)	¥(10,413)	\$ (96,013)

Net periodic pension expense relating to the retirement benefits for the years ended March 31, 2007, 2006 and 2005 follow:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2007	2006	2005	2007
Service cost.....	¥ 741	¥ 732	¥ 720	\$6,279
Interest cost.....	331	327	328	2,805
Expected return on plan assets .....	(61)	(56)	(42)	(517)
Amortization of transition amount.....	—	—	464	—
Amortization of prior service costs due to plan amendment.....	44	3	—	374
Amortization of actuarial difference .....	112	122	110	951
Net periodic pension expense .....	¥1,167	¥1,130	¥1,581	\$9,893

In addition to the above, extra employees' severance indemnities of ¥138 million (\$1,173 thousand), ¥452 million and ¥46 million were included in other expenses for the periods ended March 31, 2007, 2006 and 2005, respectively.

Assumptions used in calculating the above information follow:

	Year ended March 31		
	2007	2006	2005
Discount rate .....	2.0-2.5%	2.0-2.5%	2.0-2.5%
Expected rate of return on plan assets.....	2.0-3.0%	2.0-2.5%	2.0-2.5%
Amortization term of prior service costs due to plan amendment.....	13 years	13 years	—
Amortization term of actuarial difference (Amortized from the next fiscal year).....	7-15 years	7-13 years	10-15 years
Amortization term of transition obligation.....	10 years	—	5 years

## 10. Revaluation of land used for business operations in accordance with the land revaluation law:

In accordance with Article 119 of 1998 Cabinet Order—Article 2-1 of the Enforcement Ordinance relating to the Land Revaluation Law, revaluation is performed by the method of calculating land value for the standard basis of land in accordance with the Law for Government Appraisal of Land Prices. Under Article 2-4 of the Enforcement Ordinance, revaluation is performed by using the method of calculating land value for a taxable basis of land value tax amounts along with reasonable adjustments, such as shape of the land and accessibility, in accordance

with the Article 16 of the Land-Holding Tax Law. This method is established and published by the Director General of National Tax Administration, and the land is valued by the real estate appraiser in accordance with Article 2-5.

As a result, deferred income taxes on revaluation of land is recorded as liabilities and net unrealized gain on revaluation of land, net of tax, was recorded as a component of shareholders' equity.

The differences between fair value and carrying amount after revaluation as of March 31, 2007 and 2006 follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Difference between fair value and carrying amount after revaluation .....	¥(1,160)	¥(966)	\$(9,831)

Date of latest revaluation: March 31, 2001



**11. Income taxes:**

Significant components of the Company's deferred income tax assets and liabilities as of March 31, 2007 and 2006 follow:

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2007	2006	March 31
Deferred income tax assets:			
Net operating tax losses carried forward .....	<b>¥4,363</b>	¥8,239	<b>\$36,964</b>
Accrued pension and severance costs .....	<b>4,635</b>	3,875	<b>39,268</b>
Loss on devaluation of inventories .....	<b>809</b>	332	<b>6,856</b>
Loss on devaluation of marketable securities .....	<b>969</b>	1,536	<b>8,213</b>
Accrued expenses .....	<b>2,003</b>	—	<b>16,968</b>
Allowance for doubtful accounts .....	<b>174</b>	1,014	<b>1,480</b>
Foreign taxes paid .....	<b>170</b>	219	<b>1,444</b>
Accrued bonuses .....	<b>473</b>	225	<b>4,012</b>
Other .....	<b>1,562</b>	2,150	<b>13,235</b>
Subtotal .....	<b>15,562</b>	17,592	<b>128,444</b>
Deferred income tax liabilities:			
Inventory valuation .....	—	32	—
Other .....	<b>239</b>	167	<b>2,031</b>
Subtotal .....	<b>239</b>	200	<b>2,031</b>
Less: valuation allowance .....	<b>(6,764)</b>	(10,883)	<b>(57,300)</b>
Net deferred income tax assets .....	<b>¥8,158</b>	¥6,509	<b>\$69,112</b>

The difference between the Company's statutory income tax rate and income rate reflected in the consolidated statements of income were reconciled as follows:

	March 31	
	2007	2006
Statutory income tax rate .....	<b>40.7%</b>	40.7%
Permanent differences .....	<b>31.7</b>	0.6
Fixed levy of local inhabitant taxes .....	<b>24.3</b>	0.8
Valuation allowance .....	<b>539.6</b>	(63.0)
Variance of effective tax rate between Clarion and the subsidiaries .....	<b>(61.7)</b>	(4.5)
Foreign income tax credit .....	<b>(11.8)</b>	—
Reversal of net unrealized gain on revaluation of land .....	—	(5.5)
Other .....	<b>(3.4)</b>	1.4
Effective income tax rate .....	<b>559.4%</b>	(29.5)%

**12. Research and development expenses:**

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2007, 2006 and

2005 totaled ¥975 million (\$8,263 thousand), ¥710 million and ¥309 million, respectively.

**13. Cash flow information:**

Cash and cash equivalents as of March 31, 2007 and 2006 were comprised of the following:

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2007	2006	March 31
Cash on hand and in banks .....	<b>¥10,746</b>	¥12,148	<b>\$91,030</b>
Deposits with original maturities of more than three months .....	<b>(54)</b>	(194)	<b>(459)</b>
Cash and cash equivalents .....	<b>¥10,691</b>	¥11,954	<b>\$90,571</b>

The following assets and liabilities have been included into subsidiaries after the acquisition of common stock of Xanavi informatics Corp. and the acquisition amount of the common stock follow:

	Millions of yen	Thousands of
	March 31, 2007	U.S. dollars
Current assets .....	<b>¥ 21,007</b>	<b>\$ 177,954</b>
Fixed assets .....	<b>2,865</b>	<b>24,273</b>
Goodwill .....	<b>8,566</b>	<b>72,567</b>
Current liabilities .....	<b>(17,526)</b>	<b>(148,470)</b>
Fixed liabilities .....	<b>(822)</b>	<b>(6,968)</b>
Acquisition amount of the common stock .....	<b>14,090</b>	<b>119,356</b>
Cash and cash equivalents .....	<b>(373)</b>	<b>(3,164)</b>
Netting with cash and cash equivalents .....	<b>¥ 13,716</b>	<b>\$ 116,191</b>

**14. Leases:**

The Company, as a lessee, charges periodic lease payments for capital leases to expense on payment. Such payments for the years ended March 31, 2007, 2006 and 2005 were ¥1,587 million (\$13,447 thousand), ¥1,757 million and ¥1,591 million, respectively.

The amount of outstanding future lease payments for capital leases as of March 31, 2007 and 2006, excluding the interest thereon, are summarized as follows:

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2007	2006	March 31
Future lease payments:			
Due within one year .....	<b>¥1,291</b>	¥1,359	<b>\$10,941</b>
Due after one year .....	<b>2,098</b>	1,387	<b>17,773</b>
Total .....	<b>¥3,389</b>	¥2,746	<b>\$28,714</b>

Pro forma information for capital leases as of March 31, 2007 and 2006 (acquisition cost, accumulated depreciation, depreciation expense and interest expense for the period) follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Acquisition cost.....	¥6,674	¥4,678	\$56,535
Accumulated depreciation .....	(3,891)	(1,932)	(32,968)
Carrying value .....	¥2,782	¥2,746	\$23,567
Depreciation expense.....	¥1,474	¥1,613	\$12,494
Interest expense.....	¥ 104	¥ 150	\$ 888

Depreciation is calculated based on using the straight-line method over the lease term of the assets with no residual value. Interest expense on leased assets is calculated as the difference between the total lease payments and the assumed acquisition cost for the asset and is allocated over the lease term using the effective interest method.

Future lease obligations for non-cancelable operating leases at March 31, 2007 and 2006 follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Due within one year .....	¥ 397	¥327	\$ 3,363
Due after one year .....	1,063	573	9,007
Total .....	¥1,460	¥900	\$12,370

**15. Commitments and contingencies:**

The Company was contingently liable for transfer of notes receivables due to factoring, amounting to ¥333 million (\$2,822 thousand) and ¥403 million as of March 31, 2007 and 2006, respectively.

**16. Segment information:**

**(1) Information by business segment**

The Company operates principally in three business segments.

(a) Car audio-visual equipment: Car audios, Car navigation system, Car multimedia equipments and the peripheral devices

(b) Specialty equipment: Audio and visual equipment for public

transportation, Bus location system and CCD (Charged-Coupled Devices) rear view cameras

(c) Others: SS (Spread Spectrum) wireless communication equipment, Mobile phone, EMS (Electronics Manufacturing Service) business and others

	Millions of yen				
	Year ended March 31, 2007				
	Car audio-visual equipment	Specialty equipment	Others	Elimination and corporate	Consolidated total
Net sales.....	¥161,786	¥7,833	¥11,422	¥ —	¥181,041
Operating expenses .....	160,138	6,628	11,202	—	177,968
Operating income .....	¥ 1,648	¥1,204	¥ 220	¥ —	¥ 3,072
Total assets .....	¥144,056	¥5,305	¥12,964	¥(12,836)	¥149,490
Depreciation .....	¥ 5,817	¥ 204	¥ 127	¥ —	¥ 6,149
Impairment loss.....	¥ —	¥ —	¥ —	¥ 113	¥113
Capital expenditures .....	¥ 8,900	¥ 386	¥ 224	¥ —	¥ 9,511

	Millions of yen				
	Year ended March 31, 2006				
	Car audio-visual equipment	Specialty equipment	Others	Elimination and corporate	Consolidated total
Net sales.....	¥168,686	¥8,306	¥ 7,183	¥ —	¥184,176
Operating expenses .....	165,108	6,855	6,984	—	178,948
Operating income .....	¥ 3,578	¥1,451	¥ 199	¥ —	¥ 5,228
Total assets .....	¥120,939	¥5,880	¥10,569	¥(15,270)	¥122,119
Depreciation .....	¥ 5,373	¥ 178	¥ 39	¥ —	¥ 5,591
Impairment loss.....	¥ 1,278	¥ 56	¥ —	¥ —	¥ 1,335
Capital expenditures .....	¥ 11,728	¥ 517	¥ 74	¥ —	¥ 12,320

	Millions of yen				
	Year ended March 31, 2005				
	Car audio-visual equipment	Specialty equipment	Others	Elimination and corporate	Consolidated total
Net sales.....	¥166,365	¥6,949	¥ 5,010	¥ —	¥178,325
Operating expenses .....	158,232	5,716	4,794	—	168,742
Operating income .....	¥ 8,132	¥1,233	¥ 216	¥ —	¥ 9,582
Total assets .....	¥124,264	¥5,427	¥18,018	¥(28,183)	¥119,527
Depreciation .....	¥ 5,004	¥ 155	¥ 56	¥ —	¥ 5,216
Capital expenditures .....	¥ 6,329	¥ 166	¥ 32	¥ —	¥ 6,527

	Thousands of U.S. dollars				
	Year ended March 31, 2007				
	Car audio-visual equipment	Specialty equipment	Others	Elimination and corporate	Consolidated total
Net sales.....	\$1,370,489	\$66,355	\$ 96,757	\$ —	\$1,533,602
Operating expenses .....	1,356,528	56,150	94,893	—	1,507,571
Operating income .....	\$ 13,960	\$10,205	\$ 1,864	\$ —	\$ 26,030
Total assets .....	\$1,220,302	\$44,946	\$109,822	\$(108,735)	\$1,266,335
Depreciation .....	\$ 49,284	\$ 1,729	\$ 1,078	\$ —	\$ 52,091
Impairment loss.....	\$ —	\$ —	\$ —	\$ 963	\$ 963
Capital expenditures .....	\$ 75,392	\$ 3,270	\$ 1,905	\$ —	\$ 80,568



Corporate assets included in "Elimination and corporate" mainly consist of investments in securities. Such investments in securities for the years ended March 31, 2007, 2006 and 2005 were ¥492 million (\$4,172 thousand), ¥1,392 million and ¥2,564 million, respectively.

In order to achieve a more unified cash management of the Company, Clarion introduced a commitment line and term loan on a syndicated

## (2) Information by geographic segment

Sales of the Company classified by geographic area for the years ended March 31, 2007, 2006 and 2005, respectively, are summarized as follows:

Millions of yen						
Year ended March 31, 2007						
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
Sales to outside customers .....	¥ 93,365	¥49,537	¥14,475	¥23,663	¥ —	¥181,041
Inter-segment sales.....	40,424	1,051	48,130	284	(89,890)	—
Total sales .....	133,789	50,588	62,605	23,948	(89,890)	181,041
Operating expenses .....	132,513	49,453	62,134	23,947	(90,080)	177,968
Operating income.....	¥ 1,275	¥ 1,135	¥ 470	¥ 1	¥ 189	¥ 3,072
Total assets .....	¥135,707	¥25,908	¥20,757	¥14,883	¥(47,766)	¥149,490

Millions of yen						
Year ended March 31, 2006						
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
Sales to outside customers .....	¥ 99,511	¥43,725	¥15,063	¥25,877	¥ —	¥184,176
Inter-segment sales.....	41,179	1,024	50,228	250	(92,683)	—
Total sales .....	140,690	44,749	65,292	26,128	(92,683)	184,176
Operating expenses .....	136,892	43,692	64,563	26,482	(92,681)	178,948
Operating income (loss) .....	¥ 3,798	¥ 1,057	¥ 728	¥ (354)	¥ (1)	¥ 5,228
Total assets .....	¥112,284	¥20,575	¥21,771	¥15,063	¥(47,575)	¥122,119

Millions of yen						
Year ended March 31, 2005						
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
Sales to outside customers .....	¥ 96,658	¥38,577	¥10,737	¥32,351	¥ —	¥178,325
Inter-segment sales.....	41,561	1,354	41,839	2,184	(86,940)	—
Total sales .....	138,220	39,931	52,577	34,536	(86,940)	178,325
Operating expenses .....	131,915	38,256	51,786	34,188	(87,403)	168,742
Operating income.....	¥ 6,304	¥ 1,675	¥ 790	¥ 348	¥ 463	¥ 9,582
Total assets .....	¥115,363	¥22,185	¥17,678	¥17,350	¥(53,050)	¥119,527

loan during the year ended March 31, 2005, and reconstituted the scheme during the year ended March 31, 2006 and 2007. As a result, loans to subsidiaries, which belong to the "Car audio-visual equipment" segment and the "Special equipment" segment, were carried out through Clarion Finance Co., Ltd., which belongs to "Others" segment.

Thousands of U.S. dollars						
Year ended March 31, 2007						
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
Sales to outside customers .....	\$ 790,894	\$419,633	\$122,618	\$200,457	\$ —	\$1,533,602
Inter-segment sales.....	342,436	8,905	407,710	2,412	(761,464)	—
Total sales .....	1,133,330	428,538	530,328	202,869	(761,464)	1,533,602
Operating expenses .....	1,122,521	418,923	526,341	202,855	(763,069)	1,507,571
Operating Income.....	\$ 10,808	\$ 9,615	\$ 3,987	\$ 14	\$ 1,604	\$ 26,030
Total assets .....	\$1,149,578	\$219,473	\$175,834	\$126,080	\$(404,631)	\$1,266,335

Notes:

(\*1) Americas: U.S.A., Canada, Mexico, Brazil

(\*2) Asia and Australia: People's Republic of China, Taiwan R.O.C., Singapore, Malaysia, Philippines, Australia

(\*3) Europe: Germany, U.K., Spain, France, Hungary

Corporate assets included in "Elimination and corporate" mainly consist of investments in securities. Such investments in securities for the years ended March 31, 2007, 2006 and 2005 were ¥492 million (\$4,172 thousand), ¥1,392 million and ¥2,564 million, respectively.

In order to achieve a more unified cash management of the Company, Clarion introduced a commitment line and term loan on a syndicated

loan during the year ended March 31, 2005, and reconstituted the scheme during the year ended March 31, 2006 and 2007. As a result, loans to subsidiaries, which belong to "Americas," "Asia and Australia" and "Europe," were carried out through Clarion Finance Co., Ltd., which belongs to "Japan."

## (3) Export sales and sales by overseas subsidiaries

Export sales information of the Company for the years ended March 31, 2007, 2006 and 2005, respectively, follow:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2007	2006	2005	2007
Export sales and sales by overseas subsidiaries:				
Americas (*1).....	¥ 49,357	¥ 43,701	¥ 38,610	\$ 418,108
Europe (*2) .....	23,668	25,874	32,361	200,498
Others (*3) .....	16,268	15,431	11,412	137,810
	89,295	85,007	82,384	756,417
Consolidated net sales.....	¥181,041	¥184,176	¥178,325	\$1,533,602
Ratio .....	49.3%	46.2%	46.2%	49.3%

Notes:

(\*1) Americas: U.S.A., Canada, Mexico, Brazil, Venezuela

(\*2) Europe: Germany, U.K., Spain, France

(\*3) Others: Australia, People's Republic of China, Republic of Korea, Taiwan R.O.C., Singapore, Malaysia

**17. Analysis of selling, general and administrative expenses:**

An analysis of selling, general and administrative expenses for the years ended March 31, 2007, 2006 and 2005, respectively, follow:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2007	2006	2005	2007
Provision of allowance for doubtful accounts.....	¥ 45	¥ 105	¥ 64	\$ 388
Payroll costs.....	9,394	9,108	9,016	79,578
Provision of accrued bonuses.....	261	293	468	2,218
Pension expenses.....	516	496	499	4,375
Freight out.....	3,859	4,340	2,103	32,691
Other.....	15,690	17,480	15,804	132,916
<b>Total.....</b>	<b>¥29,768</b>	<b>¥31,824</b>	<b>¥27,956</b>	<b>\$252,168</b>

**18. Transactions with related parties**

As a result of TOB on Company's common stocks, as of December 7, 2006, Hitachi, Ltd. newly acquired 139,108,174 shares (49.29%).

Category	Name	Ownership of voting rights/%	Relationship
Parent Company	Hitachi, Ltd.	Hitachi: 64.02%	Loans from Hitachi's pooling system

Description of Transaction	Amount of Transaction		Subject	Balance at the end of period	
	Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Borrowing of fund.....	¥14,000	\$118,593	Short-term loans .....	¥12,056	\$102,126
Acquisition of shares of subsidiary .....	¥14,000	\$118,593			

Misuzu Audit Corporation



**Misuzu Audit Corporation**  
 Kasumigaseki Bldg., 32nd Floor  
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 Facsimile 81-3-5532-2901

**Report of Independent Auditors**

To the Board of Directors and Shareholders of Clarion Co., Ltd.

We have audited the accompanying consolidated balance sheets of Clarion Co., Ltd. and its subsidiaries as of March 31, 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clarion Co., Ltd. and its subsidiaries as of March 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

*Misuzu Audit Corporation*

Misuzu Audit Corporation  
 Tokyo, Japan  
 June 28, 2007

*Grant Thornton Taiyo ASG*

Grant Thornton Taiyo ASG  
 Tokyo, Japan  
 June 28, 2007



## Corporate Data

### Company Profile (as of March 31, 2007)

Company Name:	Clarion Co., Ltd.
Headquarters & Technology Center <small>(from August 2007)</small>	7-2 Shintoshin, Chuo-ku, Saitama-shi, Saitama 330-0081, Japan TEL: (81) 48-601-3700 URL: www.clarion.com
Registered Head Office:	5-35-2 Hakusan, Bunkyo-ku, Tokyo, 112-8608, Japan
Established:	December 1940
Paid-in Capital:	¥26,100 million
Number of Shares Outstanding:	282,744,185 shares
Stock Exchange Listing	Tokyo Stock Exchange, First Section (Ticker Code: 6796)
Number of Shareholders:	17,227
Number of Employees:	10,774 (consolidated) 1,086 (non-consolidated)

### Board of Directors and Corporate Auditors

(as of June 27, 2007)

President	Tatsuhiko Izumi
Directors	Yutaka Wakamori Tetsuro Yoshimine Yasuhiko Wada Osamu Numata Toyoji Aida Hiroyuki Fukuyama Yasuhiko Honda Masatsugu Shinozaki
Corporate Auditors	Masayuki Kawahara Katsutoshi Takizawa Yasuhiro Sasai Shunjiro Karasawa Yuji Yuasa

### Corporate Officers

(as of June 27, 2007)

Executive Corporate Officers	Yutaka Wakamori Tetsuro Yoshimine Yasuhiko Wada Shoichi Minagawa Seishi Kasai Tsuneo Hayashi Hidetoshi Kawamoto Ichiro Hondo
Corporate Officers	Osamu Numata Toyoji Aida Toshiharu Osaka Shiro Ohashi Hiroyuki Nomura Shoji Nakajima Nobuyuki Oyachi

### Principal Subsidiaries (as of June 27, 2007)

#### <Domestic>

Xanavi Informatics Corporation  
Clarion Sales Co., Ltd.  
Clarion Manufacturing "Protech" Co., Ltd.  
Clarion Associe Co., Ltd.

#### <Overseas>

Clarion Corporation of America  
Clarion Europa GmbH  
Clarion Europe S.A.S.  
Clarion (H.K.) Industries Co., Ltd.  
Electronica Clarion, S.A. de C.V.  
Clarion Manufacturing Corporation of the Philippines  
Clarion Hungary Electronics Kft.