

clarion

Annual Report 2008

For the fiscal year ended March 2008



clarion

Clarion Co., Ltd.
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This annual report is printed on recycled paper

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



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
	2008	2007	2008
For the Year:			
Net sales	¥246,806	¥181,041	\$2,463,380
Operating income	5,465	3,072	54,553
Net income (loss)	1,378	(784)	13,754

At Year-end:			
Total assets	150,841	149,490	1,505,554
Net assets	32,125	34,231	320,645
Interest-bearing borrowings	42,838	41,483	427,577

		Yen	U.S. Dollars
	2008	2007	2008
Per Share:			
Net income (loss)	¥4.88	¥(2.78)	\$0.05
Cash dividends	2.00	2.00	0.02

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of US\$1 = ¥100.19, the approximate exchange rate on March 31, 2008.

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Aiming for Further Growth through Forward-looking Business Strategies



Tatsuhiko Izumi
President

Review of Operations for Fiscal 2007, Ended March 31, 2008

Clarion is working toward becoming a “more valuable enterprise” based on our corporate vision, “Vision-70.” In 2006, Clarion became a consolidated subsidiary of Hitachi, Ltd. (Hitachi), in turn making Xanavi Informatics Corporation (Xanavi) a wholly owned subsidiary. We are currently pursuing synergies designed to encourage growth and greater efficiency.

Amid this environment, Clarion saw growth in its business for the OEM (Original Equipment Manufacturer) market worldwide as well as the option business for car dealers in the Japanese market. At the same time, sales of the EMS (Electronic Manufacturing Services) business increased in the Americas and Europe, whereas making Xanavi a subsidiary led to growth in sales of car navigation systems. As a result, consolidated net sales for fiscal 2007 amounted to ¥246,806 million, up 36.3% year-on-year.

Consolidated operating income totaled ¥5,465 million, up 77.9%. Despite rising raw material prices and an increase in strategic R&D investment, this was achieved through the benefits of our alliance with Hitachi and Xanavi as well as successful improvement in the reduction of selling, general and administrative expenses.

Consolidated net income amounted to ¥1,378 million, a remarkable turnaround from a net loss of ¥784 million in the previous fiscal year. Income of ¥2,891 million was derived mainly from gain on foreign currency transactions; reversal of allowance for doubtful accounts; proceeds from sales of property, plant and equipment arising from the sale of the Gunma office buildings and structures; and gain on reversal of patent fees in prior years. Nonetheless, the Company also posted expenses of ¥4,058 million due primarily to loss on sales and disposal of property, plant and equipment from the sale of land; impairment loss on fixed assets; provision for retirement benefits for directors and corporate auditors; provision for warranty costs; and loss on devaluation of investments in securities.

Medium- to Long-term Management Strategy

The Clarion Group is striving to establish a structure that will enable timely response to changes in the business environment such as changing market conditions and technological innovation. We are also working to restructure our business portfolio and to increase management efficiency.

Accordingly, we are engaged in activities based on “Vision-70,” which states “in an environment of ‘Mobile-Infoentertainment*’ where people can enjoy sound and information in their cars, we will create products that emphasize a ‘Fresh feeling of Safety’ and ‘Fresh Pleasure’ and provide excitement and satisfaction to our customers.”

Clarion is targeting the medium-term management goal of ¥280,000 million in net sales and a consolidated operating ratio of 5% for the fiscal year ending March 31, 2011. We will focus efforts on the following points to achieve these goals:

1. Completion of B.N.1 Activities

Clarion is pursuing “B.N.1 (Be Number One)” activities to maximize the synergetic benefits of the alliance with Hitachi and consolidation of Xanavi. We are aiming to be global No. 1 in the respective areas of sales/marketing, product planning, R&D, purchasing/procurement, production, quality and services. We will accelerate B.N.1 activities as we implement structural reforms from a customer viewpoint.

2. Improvement of Product Quality

We will strive to improve quality control from upstream processes through consolidation of the Group quality management system in order to earn the trust of our customers and bring them satisfaction.

3. Sales & Marketing Strategy

We will strive to improve profitability in our businesses by reforming the sales structure and system. We will aim for the global sales expansion to boost profitability and introduce our unique products that anticipate the changing needs of the market to ensure our success.

4. Brand Strategy

With “Clarion H.M.I. (Human Mobile Music Media Interface)” as our brand slogan, we are promoting greater added value in the various activities undertaken within the Group with the goal of enhancing brand value.

5. R&D Strategy

We are working to strengthen Group competitiveness through improved R&D efficiency by implementing reforms in the Group’s structure and environment while simultaneously working to align our intellectual property and R&D strategies.

6. Improvement of Cost Management

We aim to achieve competitive, efficient development while improving our cost management for the upstream processes of product planning and development, including the introduction of a PM (Product Manager) system. We will expand the scope of joint procurement with Hitachi as well as realize global procurement of materials from optimal locations at the lowest cost.

7. Enhancement of Group Organization

We are working to enhance organizational capabilities through a comprehensive review of the existing organizational structure and operational processes.

8. Commitment to CSR (Corporate Social Responsibility)

Based on “Basic Regulations for Compliance Management,” we will strive to let corporate ethics take deeper root and to establish a more solid and efficient internal control system.

Priority Management Issues

In the CIS (Car Information System) industry, we project market expansion in the car electronics field centered around car navigation systems. However, we also expect the severe business environment to persist in markets worldwide as a result of such factors as increased R&D investment accompanying fast-paced technological innovation, declining prices worldwide due to the increasing commoditization of products and rising prices for raw materials.

Through an alliance with Hitachi, we are promoting organizational selection and concentration in the areas of technological development, purchasing/procurement, production, sales/marketing and quality, enabling us to respond to customers and the market even more quickly.

In our B.N.1 activities, we believe improving the Group’s global cost management as quickly as possible is one of the most important and pressing issues. We aim to achieve this by integrating platforms for car navigation systems, boosting development efficiency by shortening development lead times, reducing costs through greater concentration of purchasing and re-establishing optimal production through reconfiguration of production infrastructure.

As we promote mutual use of Group management resources, we intend to capitalize on each other’s strengths while shoring up weaknesses. By realizing the synergetic benefits of the alliance and consolidation quickly, we are working to transform Clarion into a more valuable enterprise with the goal of building an efficient and highly profitable corporate platform.



*Mobile-Infoentertainment is a mixture of Mobile, Information and Entertainment.

Business Outlook

In the automobile industry, technological innovations continue at breakneck speed in the car information systems field. In particular, in the car audio-visual equipment sector, in addition to dedicated audio-visual and navigation devices, integrated AV-navigation devices are becoming more widespread, while demand for PNDs (Personal Navigation Devices) has been expanding. Besides providing products that meet customer needs in a timely manner, it is imperative to develop appealing content and offer an array of solutions. In addition, there has been a flurry of new entrants into this field from different industries, and the competition is expected to get fiercer.

In fiscal 2008, we will introduce into the PND market a new strategic product dubbed "MiND (Mobile Internet Navigation Device)," which enables connection to the Internet. We launched a portal site in Japan at the end of 2007 called "Chizuru-to-Susumu (Map-Route-Advance)" that provides maps and navigation, and we intend to create similar sites for the United States and Europe. Our aim is to expand our solutions business through unique products and services that enhance safety, reassurance and comfort around the world.

We will proceed with BN1 activities, which include maximizing synergies through the integration with Xanavi in the areas of increased sales, enhanced development efficiency and a reduction in material procurement and production costs. Synergetic benefits are also gradually starting to emerge in the areas of intellectual property and other areas.

For fiscal 2008, we forecast consolidated net sales of ¥240,000 million, a decrease of 2.8% year-on-year; operating income of ¥6,000 million, an increase of 9.8%; and net income of ¥1,500 million, an increase of 8.9%. The exchange rates are projected to be ¥110 to the U.S. dollar and ¥150 to the euro.

Basic Approach to CSR

As stated in our corporate commitment, "Clarion strives to improve society by seeking to develop the relationship between sound, information and human interaction, and by creating products to meet those needs." Based on this commitment, we are working to enhance our CSR activities. Our compliance guidelines "Guiding Principles of Conducts and Behaviors" was laid out and comprehensively applied throughout our Group companies worldwide in an effort to fulfill our social responsibilities as a global corporation in the areas of quality control, environmental protection and social contributions.

Environmental issues are expected to become increasingly important in the automobile industry in particular. Clarion will strive to expand the range of eco-friendly products to develop car information systems that help make cars more environmentally friendly.

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 maintaining good communication with our stakeholders as a very important responsibility. With this in mind, we aim to attain continued growth as we tackle challenges and work hard to achieve our goals.

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

August 2008



Tatsuhiko Izumi
President

Achieving Mid-term Management Goals

Clarion's mid-term management plan aims to achieve ¥280,000 million in consolidated net sales and a consolidated operating income ratio of 5% for the fiscal year ending March 31, 2011 (fiscal 2010). We would like to explain specific measures and plans on how we intend to achieve these goals. Clarion is implementing eight measures to achieve our mid-term goals. These are separated into "opportunities and threats" and "strengths and weaknesses."

The following three measures take advantage of our strengths to maximize opportunities.

① Expansion of Overseas Sales

Currently, our major OEM customers are Nissan Motor Co., Ltd., Honda Motor Co., Ltd. and Suzuki Motor Corporation. We have recently secured large-scale new business for navigation and audio systems from Ford Motor Company. This will make them our No. 2 customer after Nissan by fiscal 2010. The business for Renault operated by Xanavi will also contribute to the expansion of OEM sales overseas. We are already engaged in substantial business throughout China, and we will focus on Shanghai General Motors Co., Ltd. as one of the main pillars for our business in the country.

② Enhancement of the Navigation System Lineup

We forecast sales expansion of navigation systems to Ford and other OEM customers. To meet increasingly diverse demands, we will work to enhance our navigation system lineup in response to product grade and variations as well as global sales channels. Through this measure, we expect to greatly increase the percentage of navigation systems in our complete product range from the current 39% to 53%.

③ Expansion of the Solution Business

We will also work to expand the content business, which provides services in the software area for hardware products such as navigation systems, and solution business for the commercial-use vehicle market.

The following two measures will be taken to convert our weaknesses into strengths to take full advantage of emerging opportunities.

④ Entry into the Markets of Emerging Nations

In addition to China, we will pursue expansion of the OEM business in India, Thailand and other Asian countries as well as in South America, Russia and Eastern Europe and the Middle East.

⑤ Focusing More Efforts on the Aftermarket and Selection and Concentration of Markets and Products (Markets and Products with Higher Profitability)

We will select and concentrate on products and channels with higher aftermarket potential. In the Japanese market, we will work to strengthen the highly profitable option business, sales to retail stores and B2B (business-to-business) channels. We will also launch advanced products such as PNDs and MiND products ahead of competitors. Our overseas strategy in this area includes reorganization of our sales structure to meet requirements for expanding sales to mass merchandisers. MiND products will be launched in North America in October 2008 and in Europe and Japan in 2009.

Eight Management Measures



Finally, the following three measures will address external threats by leveraging our strengths.

6 Creation of Group Synergies

Since the fiscal year under review (fiscal 2007), we have been concentrating on creating Group synergies from the alliance with Hitachi and the consolidation of Xanavi. We have thus far completed implementation of measures in the following four areas: integration of product roadmap, integration of technology roadmap, bringing intellectual property under one umbrella and enhancement of joint purchasing/procurement. Synergetic benefits should materialize from fiscal 2008. Other consolidation tasks currently underway include integration of organizations and systems; integration and standardization of platforms; reorganization of the production structure for production in the most optimal locations; standardization of quality management systems and the various standards; standardization and integration of operation processes; and integration of the IT infrastructure. We believe we will begin to realize the benefits of these activities from fiscal 2010.

7 Introduction of More Advanced and Distinctive Products

We will actively introduce more advanced and distinctive products as part of our efforts to enhance the navigation system lineup. Examples of such products include advanced PND models that serve as a mobile telecommunications terminal and a new affordable navigation system, which uses a silicon disk drive in place of an HDD (Hard Disk Drive).

8 Reinforcement of Global Purchasing/Procurement Structure

Clarion has already achieved immense results through concentrated joint purchasing/procurement within the Group, and we will expand our efforts to strengthen the purchasing/procurement structure on a global scale.

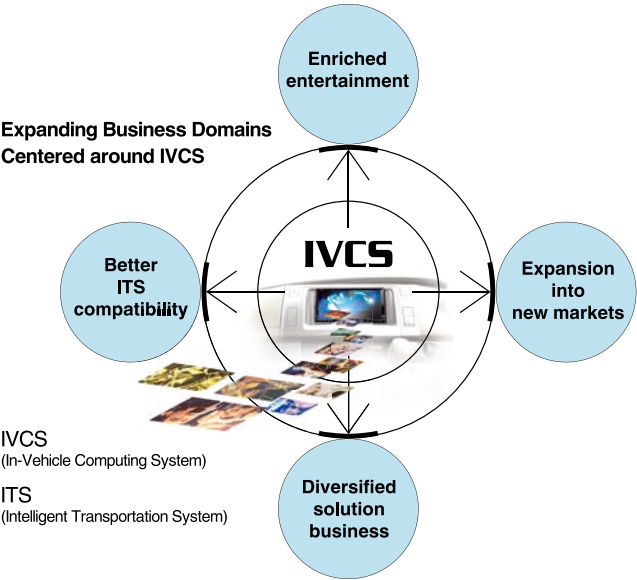
Mid-term Product Strategy

Based on the IVCS (In-Vehicle Computing Systems) concept, Clarion aims for comprehensive expansion under the themes of “enriched entertainment,” “better ITS (Intelligent Transport Systems) compatibility,” “diversified solution business” and “expansion into new markets.”

To achieve the goals, our management strategy focuses on enhancing the navigation system lineup, expanding the solution business and introducing more advanced and distinctive products.

These specific product strategies are divided into the following five categories:

- 1 IT systems integrated into vehicles
- 2 Enhancing the navigation system lineup to satisfy a broad array of needs
- 3 Distinctive products for mobile applications
- 4 Highly advanced systems for commercial vehicles
- 5 Entry into new markets through the content business



1 IT Systems Integrated into Vehicles

Clarion will engage in product development in line with three key phrases: “Security and Safety” in which we will pursue product development centered on camera application technologies; “Environment and efficiency” in which we will contribute to reducing the burden on the environment by supporting driving with better fuel economy and making products lighter; “Comfort and Convenience” in which we will strive to address the progressive advancement of digital technology by taking advantage of our technologies in digital broadcasting receiver high-speed wireless communication. We will meet increasingly complex and sophisticated demands for in-car information systems making full use of our in-car application technologies.

2 Enhancing the Navigation System Lineup to Satisfy a Broad Array of Needs

In April 2008, Clarion introduced two new series of navigation systems to enhance the product lineup designed to satisfy a broad array of needs.

CRASVIA, an HDD navigation system, is a high-end system equipped with a rich assortment of navigation functions, multimedia compatibility and top-of-the-line audio functions for users seeking a better driving experience. This marks the first time* in the industry that a commercially available product is equipped with DAEP (Dolby Automotive Entertainment Program), a car audio program produced by Dolby Laboratories, Inc. Surround sound from all car seats with superb sound from the front enables full theater sound to be experienced even without a center speaker. (*As of April 2008)

SMOO navi is an affordable navigation system with an SDD (Silicon Disk Drive) targeting the mass market. This series emphasizes the practicality of merging a high level of “sophisticated functionality and performance” of HDD systems such as audio-visual, GPS (Global Positioning System) and other navigation functions with “ease of use” and “simplicity.”

3 Distinctive Products for Mobile Applications

Clarion is working to enhance the PND lineup as a mobile communication device to suit users’ diverse lifestyles. We will launch two models in the DrivTrax series in June 2008.

Both of these models feature convenient portability, universal compatibility with various modes of transportation and enhanced navigation functions packed with the expertise of Clarion’s car navigation technologies. Lighter and more compact, they further enhance navigation functions with access to the “Chizu-Route-Susumu” portal site, Clarion’s original map-community site.

In addition to DrivTrax, starting with the launch in North America in 2008, we will introduce MiND globally. MiND products are a next-generation mobile navigation system in a different product category from PNDs. It incorporates Internet connectivity comparable to a PC, for use anywhere—at home or office, on the street or on the road. The system offers multiple functions, information and services through various features, including navigation, digital audio and video, and a built-in camera.

4 Highly Advanced Systems for Commercial Vehicles

The general-purpose in-vehicle terminal for commercial vehicles is a device coupling a hardware terminal developed by Clarion with Hitachi’s traffic control system software. Developed for a major convenience store chain, from whom an order of 300 devices in total has been secured, we plan to promote this product to a wide variety of customers.

The Solid Navi car navigation system for commercial vehicles utilizes flash memory and has been made more durable by eliminating moving components such as DVD (Digital Versatile Disc) drives. We intend to couple this product with the digital radio transmission device from Hitachi Kokusai Electric Inc. for use by taxi companies. We will also offer solution-based services in addition to hardware products such as cameras and drive recorders.

5 Entry into New Markets through the Content Business

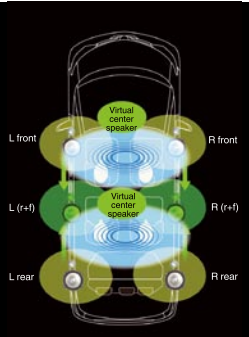
Clarion’s “Chizuru-to-Susumu” portal site, which links Internet mapping to car navigation systems, commenced service in Japan in December 2007. Utilizing Hitachi’s traffic prediction technology, the site offers distinctive services such as route simulation that takes into account such variables as holidays and various events that may contribute to heavy traffic conditions. This allows us to provide unprecedented service to navigation system users. We are currently preparing to introduce this service to North America and Europe.

*Chizuru-to-Susumu: The unique name of the portal site was taken from Chizuru and Susumu, both popular names for girls and boys in Japan, which sound like the Japanese words for “map (chizu),” “route (ru-to)” and “advance (susumu)” connected by a Japanese word for “and (to).”

CRASVIA



DAEP (Dolby Automotive Entertainment Program)



Z07MA No.028



Solid Navi



DrivTrax



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 can 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, we established compliance guidelines (“Guiding Principles of Conducts and Behaviors” in July 2003 and “Basic Regulations for Compliance Management” in March 2007) to which employees must adhere in conducting business activities. Deployed on a global scale, our compliance program has now been introduced at six Group companies in Japan and 15 overseas. Each of these companies formulated their own “Guiding Principles of Conducts and Behaviors” in compliance with the Headquarters’ guidelines. Overseas, these guiding principles have been created in a total of eight languages, including English, Chinese and Malay. Compliance audits and compliance awareness surveys have been conducted since 2004 to regularly check and ensure these guiding principles 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 Group of the Personnel and Administration 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 six 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, 11 sites, mainly production sites, have successfully been certified.

Mid-term Environmental Plan

In order to reduce environmental impact to the greatest 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 reviewed the mid-term environmental plan created in fiscal 2006 and formulated a new three-year environmental plan covering the period through March 2010 based on the Hitachi Group’s environmental action plan. The new plan sets ambitious objectives covering the diverse fields of our activities, from promoting resource conservation and recycling-oriented design, management and reduction of harmful substances in developed products, and the application of lead-free solders to a 10% reduction in energy usage by the end of March 2011 compared with 1990 levels, reduction of waste, expansion of recycling activities and the promotion and continuance of zero waste output.

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.

Clarion Report 2008



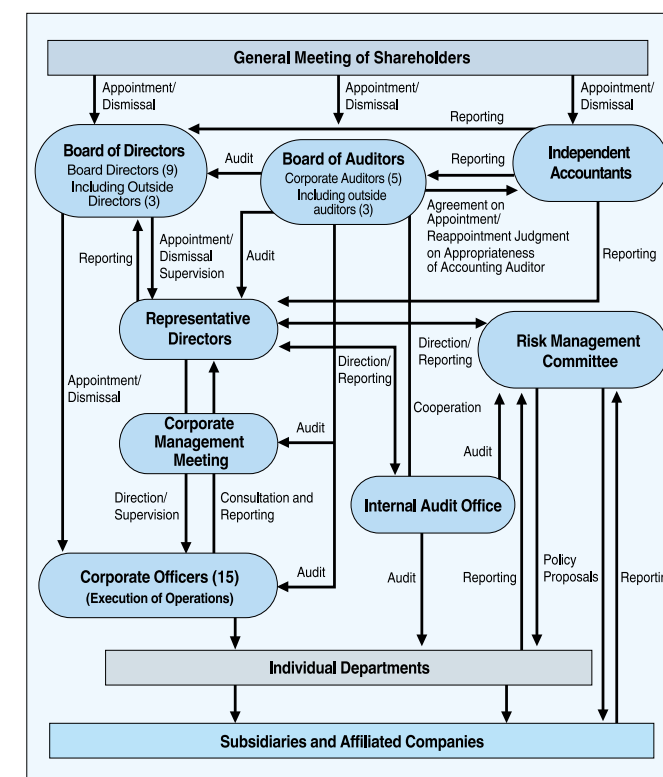
Pursuing Sound and Highly Transparent Management

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 consists of nine directors (including three outside directors) and the Board of Corporate Auditors has five corporate auditors (including three outside auditors). 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.

Corporate Governance System



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 May 2006 enactment of the Corporate Law of Japan. As a member of the Hitachi Group, we redeveloped the internal control system in fiscal 2007 at 23 subsidiaries in Japan and overseas in compliance with the U.S. Sarbanes-Oxley (SOX) Act. In fiscal 2008 (ending March 31, 2009), we will promote compliance with the Financial Instruments and Exchange Law (Japanese version of the SOX Act) throughout the Clarion Group as a means to improve the quality of internal controls.

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 body, 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 regularly 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.

Review of Operations

During the fiscal year under review, we saw some expansion in the first half amid an increase in capital investment and solid export sector. In the second half, however, corporate earnings plummeted owing to hikes in oil and other material prices, appreciation of the yen against the dollar, a stagnant stock market and weak personal spending. Overseas, the Asian economies, especially China, as well as that of Russia, made steady progress. Conversely, the subprime loan issue in the United States considerably impacted the real economy. In Europe as well, slackening of economies became more evident.

In the automotive industry, with which we are most closely related, sales of new cars in the Japanese, U.S. and European markets floundered, influenced by soaring gas prices and economic contraction. Alternatively, sales in markets like China, Russia and other BRICs countries expanded, supported by economic growth.

Consolidated net sales for fiscal 2007 amounted to ¥246,806 million, up 36.3% year-on-year. Business for the OEM market worldwide as well as the option business for car dealers in the Japanese market was brisk, while sales of the EMS business increased in the Americas and Europe. Furthermore, sales of car navigation systems increased, which was attributable to Xanavi Informatics Corporation (Xanavi) becoming a wholly owned subsidiary of Clarion.

With regard to income, consolidated operating income totaled ¥5,465 million, up 77.9% over the previous fiscal year. Despite rising raw material prices and an increase in strategic R&D investment, we reduced selling, general and administrative expenses.

Income before income taxes amounted to ¥4,298 million, representing a significant increase from ¥167 million recorded in the previous fiscal year. Income of ¥2,891 million was derived mainly from gain on foreign currency transactions; reversal of allowance for doubtful accounts; proceeds from sales of property, plant and equipment arising from the sale of the Gunma Office buildings and structures; and gain on reversal of patent fees in prior years. Nonetheless, the Company also posted expenses of ¥4,058 million due primarily to loss on sales and disposal of property, plant and equipment from the sale of land;

impairment loss on fixed assets; provision for retirement benefits for directors and corporate auditors; provision for warranty costs; and loss on devaluation of investments in securities.

After income taxes (both current and deferred), consolidated net income amounted to ¥1,378 million as opposed to a net loss of ¥784 million in the previous fiscal year. Net income per share was ¥4.88 compared with a net loss per share of ¥2.78.

An overview by business segment is as follows.

■ Car Audio-Visual Equipment Segment

This segment is our core segment that involves car navigation and car multimedia devices. Favorable sales in Japanese and overseas OEM markets, despite negative factors such as deterioration of sales prices in the Japanese retail market due to increasingly severe competition and a decrease in new car sales, contributed to an increase in sales in this segment to ¥217,522 million, up 34.5% compared with the previous fiscal year. Operating income increased 162.8% to ¥4,330 million thanks to increased income due to increased sales and a reduction in selling, general and administration expenses, which were more than enough to offset increased material costs and strategic R&D investment.

■ Special Equipment Segment

In this segment, which comprises AV (Audio-Visual) equipment and other products for commercial vehicles, we made efforts to increase sales of IT-based Automatic Guidance Systems as well as a Bus Location System both for tourist and community buses, around-the-vehicle-view monitor equipment with CCD cameras and drive-recorder devices, taking advantage of increased safety awareness in driving. Net sales rose 11.5% to ¥8,732 million. Operating income fell 38.6% to ¥739 million due to increased material costs, price deterioration reflecting severe market conditions and increased R&D investment.

■ Others Business Segment

Within this segment, we have developed EMS business mainly in the Americas and Europe. Thanks to the flourishing mobile phone business in the Americas in line with receiving special orders combined with increased orders for in-vehicle meter PC boards, net sales increased 79.9% to ¥20,551 million. Operating income rose 79.7% to ¥395 million.

Results by geographic segments are as follows.

■ Japan

In the automobile industry, sales of new cars slumped in Japan as the tough business environment continued. In terms of results, an increase in sales in the OEM market partially due to the consolidation of Xanavi combined with strong sales in the option business for car dealers led to net sales of ¥151,015 million, up 61.7% year-on-year. Despite an increase in strategic R&D investment, operating income jumped 226.5% to ¥4,165 million due mainly to a reduction in selling, general and administrative expenses and the positive effect of sales gains.

■ Americas

An increase in sales in the EMS business culminated in net sales of ¥55,497 million, up 12.0%. Operating income dipped 3.4% to ¥1,096 million owing to a harsh environment in the aftermarket, characterized by a decline in sales prices.

■ Asia and Australia

In Asia, we saw an increase in new car sales and steady consumer spending reflecting strong growth in China. Conversely, car sales in Taiwan declined substantially year-on-year in an extremely difficult market environment. Additionally, the fiscal year was changed to the calendar year for subsidiaries in Hong Kong and China. As a result, net sales decreased 10.5% to ¥12,952 million. Despite a reduction in fixed costs, operating income decreased 0.9% to ¥466 million due primarily to an increase in development costs in China.

■ Europe

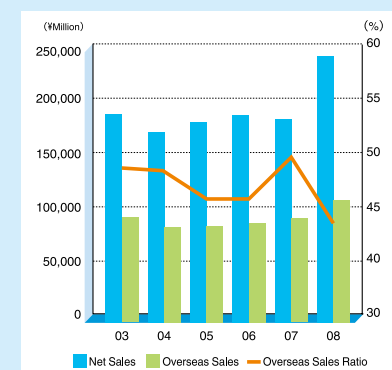
Despite an adverse environment in this region, including sales price declines due to intense price competition in the aftermarket together with the changeover period for OEM orders, net sales increased 15.5% to ¥27,340 million. Operating income stood at ¥147 million compared with operating income of ¥1 million in the previous fiscal year as a result of the positive effect of a reduction in fixed costs through structural reforms.

Financial Position

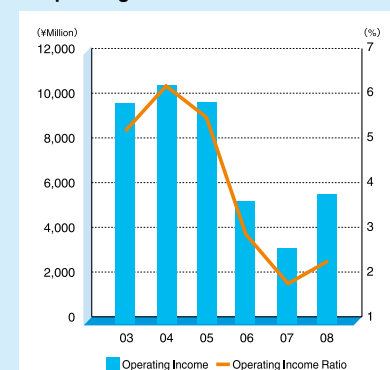
Current assets were up ¥5,306 million, or 5.8%, to ¥96,215 million. The main reasons were an increase of ¥1,862 million in cash on hand and in banks to ¥12,608 million and an increase of ¥3,629 million in notes and accounts receivable to ¥48,227 million. The total of investment in securities, property, plant and equipment and other assets fell ¥3,956 million, or 6.8% versus the previous fiscal year-end, to ¥54,625 million. Property, plant and equipment rose ¥821 million from the previous fiscal year-end to ¥27,568 million, due mainly to the completion of construction of the Headquarters and Technical Center. Investments in securities decreased ¥956 million to ¥2,344 million, due to loss on devaluation, while other assets declined ¥3,820 million to ¥24,713 million due partially to withdrawal of deferred tax assets. As a result, total assets at year-end increased ¥1,350 million, or 0.9%, compared with the previous fiscal year-end, to ¥150,841 million.

Total liabilities increased ¥3,457 million, or 3.0%, from the previous fiscal year-end, to ¥118,716 million. Current liabilities were up ¥5,844 million, or 7.4%, to ¥84,763 million. Total long-term liabilities decreased ¥2,387 million, or 6.6%, to ¥33,952 million, attributable mainly to a decrease in long-term loans. Total net assets totaled ¥32,125 million. The net assets ratio was down 1.6 percentage points to 21.3%.

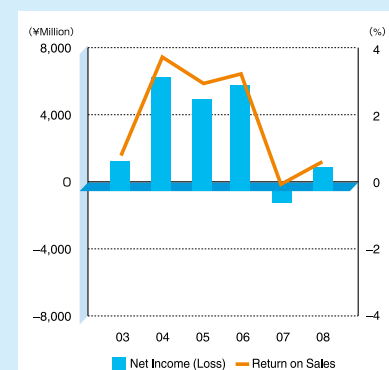
■ Net Sales, Overseas Sales and Overseas Sales Ratio



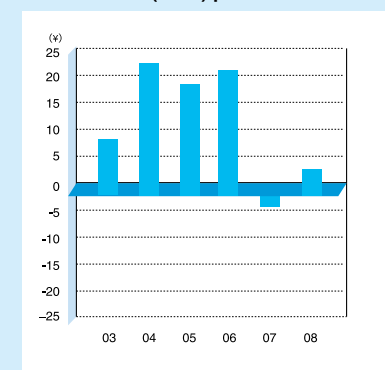
■ Operating Income and Operating Income Ratio



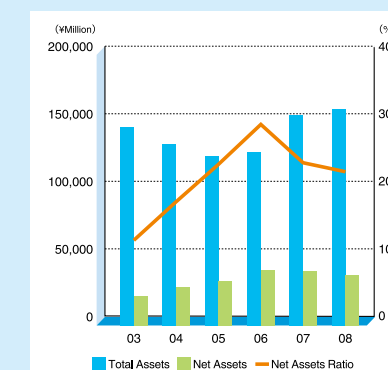
■ Net Income (Loss) and Return on Sales



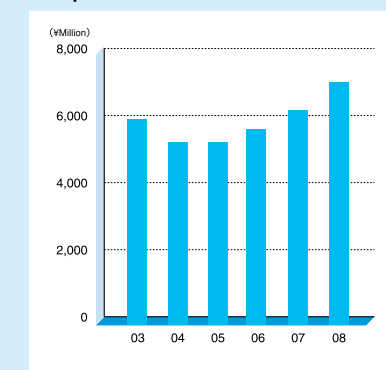
■ Net Income (Loss) per Share



■ Total Assets, Net Assets and Net Assets Ratio



■ Depreciation and Amortization



* Years ended March 31

Cash Flows

Net cash provided by operating activities was ¥10,771 million. This was due mainly to income before income taxes of ¥4,298 million, depreciation and amortization of ¥6,364 million as well as a decrease in inventories and an increase in notes and accounts payable. Net cash provided at the end of the previous fiscal year was ¥8,820 million.

Net cash used in investing activities was ¥9,247 million. This was due mainly to payment for purchases of property, plant and equipment primarily for die-cast and production equipment as well as investment in construction of the new Headquarters and Technical Center in addition to payment for purchases of intangible assets such as software, offsetting proceeds from sales of property, plant and equipment associated with the sale of the Gunma Office buildings and structures. Net cash used at the end of the previous fiscal year was ¥20,501 million.

As a result, free cash flow totaled ¥1,524 million (compared with a negative cash flow of ¥11,680 million at the previous fiscal year-end).

Net cash provided by financing activities was ¥1,061 million due mainly to proceeds from long-term loans despite dividends paid in the amount of ¥564 million. Net cash provided at the end of the previous fiscal year was ¥10,054 million.

As a result of the above, cash and cash equivalents at the end of the year were ¥12,563 million, an increase of ¥1,871 million versus ¥10,691 million at the previous fiscal year-end.

Outlook for Fiscal 2008, Ending March 31, 2009

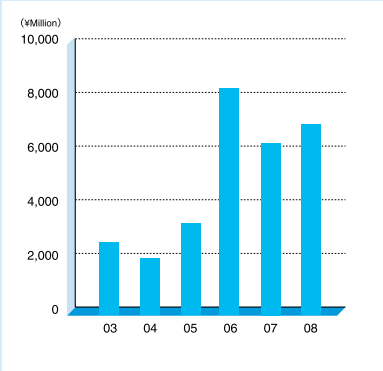
In the automobile industry, technological innovations continue at breakneck speed in the car information systems field. In particular, in the car AV equipment sector, in addition to dedicated AV and navigation devices, integrated AV-navigation devices are becoming more widespread, while demand for PNDs (Personal Navigation Devices) has been expanding. Besides providing products that meet customer needs in a timely manner, it is imperative to develop appealing content and offer an array of solutions. In addition, there has been a flurry of new entrants into this field from different industries, and the competition is expected to get fiercer.

Amid such a business environment, Clarion became a consolidated subsidiary of Hitachi, Ltd. in 2006 upon which Xanavi was made a wholly owned subsidiary of Clarion. This move will enable the integration of Clarion's accumulated expertise in car navigation and AV systems with the technological know-how of the Hitachi Group. We will proceed with BN1 activities, which include maximizing synergies through the integration with Xanavi in the areas of increased sales, enhanced development efficiency and a reduction in material procurement and production costs. Synergetic benefits are also gradually starting to emerge in the areas of intellectual property and other areas.

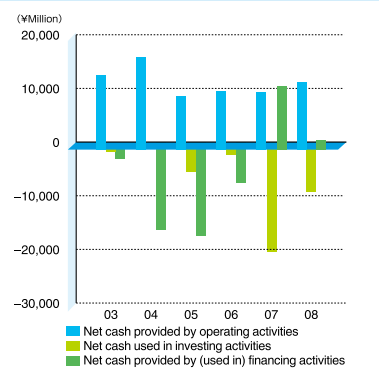
In fiscal 2008, we will introduce into the PND market a new strategic product dubbed "MiND (Mobile Internet Navigation Device)," which enables connection to the Internet. We launched a portal site in Japan in December 2007 called "Chizuru-to-Susumu (Map-Route-Advance)" that provides maps and navigation, and we intend to create similar sites for the United States and Europe. Our aim is to expand our solutions business through unique products and services that enhance safety, reassurance and comfort around the world.

For fiscal 2008, we forecast consolidated net sales of ¥240,000 million, a decrease of 2.8% year-on-year; operating income of ¥6,000 million, an increase of 9.8%; and net income of ¥1,500 million, an increase of 8.9%. The exchange rates are projected to be ¥110 to the U.S. dollar and ¥150 to the euro.

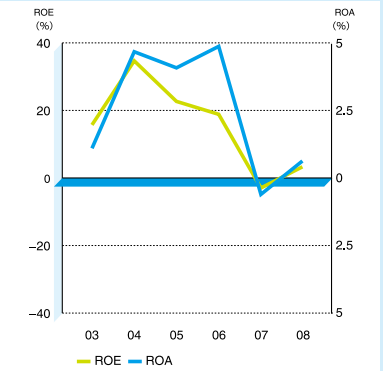
Capital Investment



Cash Flows



ROE and ROA



* Years ended March 31

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
	2003	2004	2005	2006	2007	2008	2008
For the Year							
Net sales	¥185,530	¥168,947	¥178,325	¥184,176	¥181,041	¥246,806	\$2,463,380
Car audio-visual equipment	168,716	159,544	166,365	168,686	161,786	217,522	2,171,098
Audio entertainment equipment	5,162	—	—	—	—	—	—
Special equipment	5,235	6,126	6,949	8,306	7,833	8,732	87,155
Others	6,416	3,275	5,010	7,183	11,422	20,551	205,125
Japan	97,333	88,843	96,658	99,511	93,365	151,015	1,507,289
Americas	39,291	33,657	38,577	43,725	49,537	55,497	553,925
Asia and Australia	10,141	9,893	10,737	15,063	14,475	12,952	129,280
Europe	38,763	36,552	32,351	25,877	23,663	27,340	272,884
Cost of sales	146,946	132,103	140,786	147,123	148,200	205,058	2,046,695
Selling, general and administrative expenses	29,049	26,491	27,956	31,824	29,768	36,281	362,131
Operating income	9,534	10,352	9,582	5,228	3,072	5,465	54,553
Other expenses, net	7,132	4,451	6,631	694	2,905	1,167	11,649
Income before income taxes and minority interests	2,402	5,900	2,950	4,534	167	4,298	42,903
Provision (benefit) for income taxes	727	(514)	(2,328)	(1,337)	938	2,903	28,978
Minority interests in subsidiaries	119	109	167	8	13	17	171
Net income (loss)	1,555	6,305	5,111	5,862	(784)	1,378	13,754
Research and development expenses	9,569	9,943	10,659	11,340	12,560	27,772	277,201
Capital investment	2,410	1,816	3,066	8,106	6,074	6,855	68,426
Net cash provided by operating activities	12,153	16,058	8,038	9,236	8,820	10,771	107,511
Net cash used in investing activities	(530)	(158)	(6,030)	(1,055)	(20,501)	(9,247)	(92,298)
Net cash provided by (used in) financing activities	(2,158)	(16,467)	(17,537)	(7,938)	10,054	1,061	10,590
Per share							
(Yen and U.S. dollars):							
Net income	¥7.82	¥22.32	¥18.09	¥20.76	¥(2.78)	¥4.88	\$0.05
Cash dividends	—	—	—	¥2.00	¥2.00	¥2.00	\$0.02

At year-end

Total assets	¥140,621	¥128,536	¥119,527	¥122,119	¥149,490	¥150,841	\$1,505,554
Total net assets	15,588	21,879	26,878	34,661	34,231	32,125	320,645
Interest-bearing debt	74,416	58,585	41,619	34,227	41,483	42,838	427,577

Ratio (%)

Net assets ratio	11.1	17.0	22.5	28.3	22.9	21.3	21.3
ROE	16.8	35.4	21.4	19.2	(2.3)	4.2	4.2
ROA	1.1	4.7	4.1	4.9	(0.6)	0.9	0.9
Current ratio	90.9	100.0	108.7	125.5	115.2	113.5	113.5

Notes:1. Research and development expenses include labor and other expenses reported as cost of sales.
2. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2008, which was ¥100.19 to US\$1.

Consolidated Balance Sheets

	March 31		
	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
ASSETS			
Current assets:			
Cash on hand and in banks	¥ 12,608	¥ 10,746	\$ 125,847
Notes and accounts receivable.....	48,227	44,598	481,362
Allowance for doubtful accounts	(488)	(1,255)	(4,875)
Inventories (Note 6)	27,133	29,606	270,820
Deferred tax assets (Note 13)	3,699	3,288	36,927
Other current assets.....	5,034	3,924	50,250
Total current assets	96,215	90,908	960,332
Investments in securities (Note 7).....			
	2,344	3,300	23,396
Property, plant and equipment (Note 5)			
Buildings and structures (Note 9)	20,812	17,129	207,734
Machinery and equipment (Note 9)	48,619	47,393	485,269
Land (Note 9)	9,370	10,496	93,528
Construction in progress.....	1,155	2,811	11,530
Accumulated depreciation	(52,389)	(51,084)	(522,902)
Property, plant and equipment, net	27,568	26,747	275,160
Other assets:			
Intangible assets (Note 5).....	18,332	18,141	182,979
Deferred tax assets (Note 13)	3,352	5,108	33,459
Other	3,028	5,284	30,224
Total other assets.....	24,713	28,533	246,663
Total assets			
	¥150,841	¥149,490	\$1,505,554

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

	March 31		
	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans (Note 9).....	¥ 23,376	¥ 18,687	\$ 233,317
Notes and accounts payable.....	38,729	37,859	386,556
Accrued bonuses.....	1,590	593	15,870
Accrued expenses	10,701	12,054	106,808
Accrued income taxes.....	1,310	302	13,078
Accrued warranty costs	2,288	2,919	22,839
Other current liabilities	6,768	6,501	67,558
Total current liabilities	84,763	78,919	846,028
Long-term liabilities:			
Long-term loans (Note 9)	19,462	22,795	194,259
Accrued pension and severance costs (Note 10)	10,562	11,334	105,420
Deferred tax liabilities on revaluation of land (Note 12)	644	651	6,433
Deferred tax liabilities (Note 13).....	60	238	601
Accrued retirement benefit for directors and corporate auditors	430	—	4,296
Accrued warranty costs	1,010	249	10,090
Other long-term liabilities	1,781	1,070	17,778
Total long-term liabilities.....	33,952	36,339	338,880
Commitments and contingencies (Note 17)			
Net assets:			
Shareholders' equity (Note 11):			
Common stock, no par value			
Authorized: 450,000,000 shares			
Issued: 282,744,185 shares at March 31, 2008 and 2007	26,100	26,100	260,508
Additional paid-in capital	2,669	2,669	26,645
Retained earnings (Note 21).....	8,379	7,349	83,633
Treasury stock	(94)	(83)	(941)
Total shareholders' equity	37,054	36,035	369,845
Valuation, translation adjustments and other:			
Net unrealized gains on revaluation of land (Note 12)	813	1,029	8,115
Net deferred (losses)/gains on hedge	(6)	7	(67)
Foreign currency translation adjustments	(6,071)	(3,666)	(60,597)
Net unrealized gains on other securities	132	622	1,324
Total valuation, translation adjustments and other	(5,132)	(2,007)	(51,224)
Minority interests in subsidiaries	202	203	2,024
Total net assets.....	32,125	34,231	320,645
Total liabilities and net assets.....			
	¥150,841	¥149,490	\$1,505,554

Consolidated Statements of Operations

	Year ended March 31			
	2008	2007	2006	2008
	(Millions of yen)			(Thousands of U.S. dollars)
Net sales.....	¥246,806	¥181,041	¥184,176	\$2,463,380
Cost of sales	205,058	148,200	147,123	2,046,695
Gross profit.....	41,747	32,841	37,053	416,684
Selling, general and administrative expenses (Notes 14 and 19).....	36,281	29,768	31,824	362,131
Operating income	5,465	3,072	5,228	54,553
Other income:				
Interest and dividend income.....	323	336	270	3,232
Exchange gains, net	394	—	—	3,933
Gain on reversal of allowance for doubtful accounts	431	—	—	4,308
Gain on sales of property, plant and equipment.....	358	259	2,000	3,578
Gain on reversal of patent fee for prior years	305	—	—	3,045
Equity in earnings of affiliates	102	22	222	1,025
Other.....	975	476	2,698	9,733
	2,891	1,095	5,192	28,856
Other expenses:				
Interest expenses	795	867	835	7,936
Exchange losses, net	—	9	327	—
Loss on sales and disposal of property, plant and equipment.....	614	341	812	6,133
Purification cost for land	—	1,436	—	—
Impairment loss on fixed assets (Note 5)	364	113	1,335	3,641
Accrued retirement benefit for directors and corporate auditors	307	—	—	3,072
Provision for warranty costs.....	303	—	—	3,024
Loss on devaluation of investments in securities	296	16	54	2,962
Additional severance costs	31	112	417	317
Other.....	1,344	1,103	2,102	13,417
	4,058	4,000	5,886	40,506
Income before income taxes and minority interests.....	4,298	167	4,534	42,903
Income taxes (Note 13):				
Current.....	1,777	651	588	17,738
Deferred.....	1,126	287	(1,925)	11,239
	2,903	938	(1,337)	28,978
Income/(loss) before minority interests	1,395	(770)	5,871	13,925
Minority interests in subsidiaries	17	13	8	171
Net income/(loss).....	¥ 1,378	¥ (784)	¥ 5,862	\$ 13,754

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

Consolidated Statements of Net Assets

	Shareholders' equity						Valuation, translation adjustments and other						
	Number of common shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on revaluation of land	Net deferred gains/(losses) on hedge	Net unrealized gains on other securities	Foreign currency translation adjustments	Total valuation, translation adjustments and other	Minority interests in subsidiaries	Total net assets
	<i>(Thousands)</i>						<i>(Millions of yen)</i>						
Balance at March 31, 2005	282,744	¥26,100	¥2,669	¥2,934	¥(29)	¥31,674	¥2,272	—	¥813	¥(8,031)	¥(4,944)	¥148	¥26,878
Changes in:													
Net income	—	—	—	5,862	—	5,862	—	—	—	—	—	—	5,862
Accounting standard for overseas subsidiary	—	—	—	(1,331)	—	(1,331)	—	—	—	1,367	1,367	—	35
Treasury stock	—	—	—	—	(10)	(10)	—	—	—	—	—	—	(10)
Items other than shareholders' equity.....	—	—	—	1,017	—	1,017	(1,028)	—	104	1,771	847	28	1,893
Balance at March 31, 2006	282,744	26,100	2,669	8,483	(39)	37,213	1,244	—	918	(4,891)	(2,728)	176	34,661
Changes in:													
Net loss	—	—	—	(784)	—	(784)	—	—	—	—	—	—	(784)
Dividends.....	—	—	—	(564)	—	(564)	—	—	—	—	—	—	(564)
Treasury stock	—	—	—	—	(43)	(43)	—	—	—	—	—	—	(43)
Items other than shareholders' equity.....	—	—	—	215	—	215	(215)	7	(295)	1,225	721	27	963
Balance at March 31, 2007	282,744	26,100	2,669	7,349	(83)	36,035	1,029	7	622	(3,666)	(2,007)	203	34,231
Changes in:													
Net income	—	—	—	1,378	—	1,378	—	—	—	—	—	—	1,378
Dividends.....	—	—	—	(564)	—	(564)	—	—	—	—	—	—	(564)
Treasury stock	—	—	—	—	(10)	(10)	—	—	—	—	—	—	(10)
Items other than shareholders' equity.....	—	—	—	216	—	216	(216)	(13)	(489)	(2,404)	(3,124)	(0)	(2,909)
Balance at March 31, 2008	282,744	¥26,100	¥2,669	¥8,379	¥(94)	¥37,054	¥ 813	¥ (6)	¥132	¥(6,071)	¥(5,132)	¥202	¥32,125

	Shareholders' equity						Valuation, translation adjustments and other						
	Number of common shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on revaluation of land	Net deferred gains/(losses) on hedge	Net unrealized gain on other securities	Foreign currency translation adjustments	Total valuation, translation adjustments and other	Minority interests in subsidiaries	Total net assets
	<i>(Thousands)</i>						<i>(Thousands of U.S. dollars)</i>						
Balance at March 31, 2007	282,744	\$260,508	\$26,645	\$73,355	\$(835)	\$359,673	\$10,272	\$ 71	\$6,212	\$(36,596)	\$(20,039)	\$2,034	\$339,643
Changes in:													
Net income	—	—	—	13,754	—	13,754	—	—	—	—	—	—	13,754
Dividends.....	—	—	—	(5,634)	—	(5,634)	—	—	—	—	—	—	(5,634)
Treasury stock	—	—	—	—	(106)	(106)	—	—	—	—	—	—	(106)
Items other than shareholders' equity.....	—	—	—	2,157	—	2,157	(2,157)	(139)	(4,887)	(24,001)	(31,185)	(9)	(29,037)
Balance at March 31, 2008	282,744	\$260,508	\$26,645	\$83,633	\$(941)	\$369,845	\$ 8,115	\$ (67)	\$1,324	\$(60,597)	\$(51,224)	\$2,024	\$320,645

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

Consolidated Statements of Cash Flows

	Year ended March 31			2008
	2008	2007	2006	
	(Millions of yen)			(Thousands of U.S. dollars)
Cash flows from operating activities:				
Income before income taxes and minority interests.....	¥ 4,298	¥ 167	¥ 4,534	\$ 42,903
Adjustments to reconcile income before income taxes and minority interests to cash flows from operating activities:				
Depreciation and amortization	6,364	5,447	4,955	63,527
Amortization of goodwill.....	940	85	82	9,385
Equity in earnings of affiliates	(102)	(22)	(222)	(1,025)
Decrease in allowance for doubtful accounts.....	(808)	(243)	(67)	(8,069)
(Decrease)/increase in accrued pension and severance costs, less payment	(756)	161	382	(7,552)
Increase in accrued retirement benefit for directors and corporate auditors.....	362	—	—	3,613
Increase in accrued warranty costs	318	—	—	3,177
Interest and dividend income	(323)	(336)	(270)	(3,232)
Interest expense	795	867	835	7,936
Devaluation of investments in securities.....	296	16	54	2,962
Gain on sales of investments in securities.....	(0)	(50)	(1,373)	(8)
Gain on sales of property, plant and equipment.....	(358)	(259)	(2,000)	(3,578)
Loss on sales and disposal of property, plant and equipment.....	614	341	812	6,133
Impairment loss on fixed assets	364	113	1,335	3,641
Purification cost for land	—	1,436	—	—
Changes in assets and liabilities:				
Notes and accounts receivable.....	(5,100)	1,618	1,446	(50,903)
Inventories	1,090	(1,128)	(732)	10,880
Notes and accounts payable.....	2,101	2,898	553	20,975
Other, net.....	2,152	(1,193)	(31)	21,481
Sub-total	12,248	9,920	10,295	122,249
Interest and dividend received	384	385	270	3,839
Interest paid.....	(811)	(849)	(849)	(8,098)
Income taxes paid.....	(1,049)	(636)	(479)	(10,479)
Net cash provided by operating activities.....	10,771	8,820	9,236	107,511
Cash flows from investing activities:				
Increase in time deposits	—	—	(134)	—
Decrease in time deposits	7	145	—	70
Payment for purchases of property, plant and equipment	(6,855)	(6,074)	(8,106)	(68,426)
Proceeds from sales of property, plant and equipment.....	1,482	1,108	7,802	14,798
Payment for purchases of intangible assets.....	(3,938)	(2,768)	(3,092)	(39,306)
Proceeds from sales of investments in securities.....	27	673	2,430	271
Increase in loans receivable.....	(9)	(7)	(6)	(93)
Decrease in loans receivable.....	43	155	65	430
Payment for acquisition of shares of a subsidiary, net of cash acquired (Note15)	—	(13,716)	—	—
Other, net.....	(4)	(17)	(13)	(42)
Net cash used in investing activities.....	(9,247)	(20,501)	(1,055)	(92,298)
Cash flows from financing activities:				
(Decrease)/increase in short-term loans, net	(2,117)	5,709	(10,880)	(21,134)
Proceeds from long-term loans.....	7,000	12,000	10,000	69,867
Repayment of long-term loans.....	(3,246)	(7,045)	(7,047)	(32,401)
Cash dividends.....	(564)	(564)	—	(5,634)
Other, net.....	(10)	(43)	(10)	(106)
Net cash provided by/(used in) financing activities.....	1,061	10,054	(7,938)	10,590
Effect of exchange rate changes on cash and cash equivalents	(713)	363	694	(7,119)
Net increase/(decrease) in cash and cash equivalents.....	1,871	(1,262)	937	18,684
Cash and cash equivalents at beginning of year.....	10,691	11,954	11,016	106,716
Cash and cash equivalents at end of year (Note 13).....	¥12,563	¥10,691	¥11,954	\$125,400

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

Notes to the Consolidated Financial Statements

March 31, 2008

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 of domicile. 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 Financial Instruments 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 add up exactly because of such truncation.

2. Summary of significant accounting policies

(1) Consolidation and investments in affiliates

The accompanying consolidated financial statements include the accounts of Clarion and its subsidiaries that are controlled by Clarion. Under the effective control approach, all majority-owned companies are to be consolidated. Additionally, companies in which share ownership equals 50% or less may be required to be consolidated in cases where such companies are effectively controlled by other companies through the interests held by a party who has a close relationship with the parent company in accordance with accounting standards generally accepted in Japan. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated in consolidation. Investments in affiliates in which Clarion has significant influence are accounted for using the equity method. Net income in the accompanying consolidated statements of operations includes Clarion’s equity in earnings or losses of affiliates after elimination of unrealized intercompany profits.

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’ financial statements for their fiscal periods. For significant transactions during the period between those subsidiaries’ fiscal year-end and the balance sheet date of Clarion, necessary adjustments are made 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 Mexican subsidiaries is being amortized over a period of 20

years. Goodwill relating to Xanavi Informatics Corp. is being amortized over a period of 10 years.

(2) Translation of foreign currency transactions and balances

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

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

(3) Cash and cash equivalents

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

(4) Financial instruments

(a) Securities

Investments in debt and equity securities are classified into three categories: 1) trading securities, 2) held-to-maturity debt securities, and 3) other securities. These categories are treated differently for the purpose of measuring and accounting for changes in fair value.

Trading securities are held for the purpose of generating profits from changes in market value and are recognized at their fair value in the consolidated balance sheets. Unrealized gains and losses are included in current income. Held-to-maturity debt securities are expected to be held to maturity and are recognized at historical or amortized cost in the consolidated balance sheets. Other securities, for which market quotations are available, are recognized at fair value in the consolidated balance sheets. Unrealized gains and losses on these other securities were classified as a separate component of net assets at a net-of-tax amount.

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

(b) Derivative financial instruments

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

(c) Hedge accounting

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

Gains or losses arising from changes in fair value of the derivatives designated as “hedging instruments” are deferred as a separate component of net assets at a net-of-tax amount and charged to income in the same period the gains and losses on the hedged items or transactions are recognized.

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

(5) Allowance for doubtful accounts

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

(6) Inventories

For Clarion and its domestic subsidiaries, inventories are stated principally at cost determined by the weighted-average method. As for overseas subsidiaries, inventories are stated at the lower of cost, which is mainly determined by the first-in, first-out method, or market. Supplies are stated at cost, which is determined by last purchase price method.

(7) 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 Corporation Tax Law of Japan. For buildings acquired by Clarion and some of the domestic subsidiaries on or after April 1, 1998, depreciation is computed under the straight-line method. Dies, included in machinery and equipment, are depreciated under the straight-line method over the estimated useful lives of the assets for Clarion, while a domestic subsidiary applies the declining-balance method at rates based on the estimated useful lives of the assets. For overseas subsidiaries, depreciation is computed under the straight-line method in accordance with the generally accepted accounting principles generally accepted in the respective countries of domicile.

In line with the fiscal year 2007 Japanese tax reforms, effective April 1, 2007, property, plant and equipment that were acquired before April 1, 2007, and that have been depreciated to the final depreciable limit (5% of acquisition costs), are to be depreciated to ¥1 over a period of five years commencing the year following the year in which they have been fully depreciated to their respective depreciable limits using the straight-line method. As the result of this change, operating income and income before taxes and minority interests for the year ended March 31, 2008 decreased by ¥90 million (\$903 thousand), respectively, compared with those would have been recorded under previous method.

(8) 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 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. Amortization of software for internal use and for sales purpose is computed using the straight-line method over periods of five years and three years, respectively.

(9) Impairment of fixed assets

The accumulated impairment loss is deducted from the net book value of each asset. Impairment loss are measured and recognized as required by accounting principles generally accepted in the respective countries of domicile of the companies.

(10) Accrued bonuses

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

(11) Accrued pension and severance costs

For Clarion and its domestic subsidiaries, accrued pension and severance costs are stated at an amount calculated based on the projected benefit obligation and the fair value of pension plan assets as adjusted for unrecognized net obligation at transition, unrecognized actuarial differences and unrecognized prior service costs. Unrecognized net obligation at transition is amortized

over a period of 10 years. Unrecognized actuarial differences are amortized on a straight-line basis over a period of 7 to 15 years commencing the year following the year in which they arise. Unrecognized prior service costs of Clarion are amortized on a straight-line basis over a period of 13 years which is within the average remaining years of services of employees. Some of the overseas subsidiaries are posting necessary amounts as required by accounting principles generally accepted in the respective countries of domicile.

(12) Accrued warranty costs

For Clarion and a domestic subsidiary, accrued warranty costs are provided based on the past actual results of such expense. Some of the overseas subsidiaries are posting necessary amounts as required by accounting principles generally accepted in their respective countries of domicile.

(13) Accrued retirement benefit for directors and corporate auditors

Accrued retirement benefit for directors and corporate auditors have been made for the vested benefits to which they were entitled if they were to retire or sever immediately at the balance sheet date.

(14) Research and development costs

Research and development costs are expensed as incurred.

(15) Income taxes

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

financial statements.

Clarion obtained approval from the National Tax Agency in Japan to file under a consolidated tax return system effective the year beginning April 1, 2002. Clarion has adopted the consolidated tax return system for the calculation of income taxes since the year ended March 31, 2003. Under the consolidated tax return system, Clarion consolidates all wholly-owned domestic subsidiaries based on the Japanese tax regulations.

(16) Revenue recognition

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

(17) Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to the lessee are accounted for by a method similar to that applicable to ordinary operating leases.

(18) Amount per share

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds or the exercise of warrants.

Net assets per share is computed based on the net assets available for distribution to shareholders of common stock and the number of shares of common stock outstanding at the balance sheet date.

3. Accounting changes

(1) Change in depreciation method

In line with the fiscal year 2007 Japanese tax reforms, effective April 1, 2007, Clarion and its domestic subsidiaries have changed their depreciation method of the property, plant and equipment acquired on or after April 1, 2007, as prescribed by the Corporation Tax Law of Japan. The method requires that property, plant and equipment be depreciated to ¥1 (memorandum value) at the end of their useful lives. As a result of this change, operating income and income before taxes and minority interests for the year ended March 31, 2008 decreased by ¥134 million (\$1,345 thousand), respectively, compared with those would have been recorded under previous method.

(2) Change in accounting for warranty costs

Effective the year ended March 31, 2008, Clarion has changed its method of accounting for warranty costs and provided an accrual

for warranty costs instead of recognizing such costs when warranty services are actually rendered in order to unify its accounting policy with that of Hitachi, Ltd., parent company. As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2008 decreased by ¥58 million (\$578 thousand) and ¥361 million (\$3,603 thousand), respectively, compared with those would have been recorded under the previous method.

(3) Change in accounting for retirement benefit for directors and corporate auditors

Effective the year ended March 31, 2008, Clarion has changed its method of accounting for retirement benefit for directors and corporate auditors and provided an accrual for retirement benefit for directors and corporate auditors instead of recognizing such costs when paid.

This change was made because it has been genellary required to make an accrual for compensation for directors based on “Accounting Standard for Directors’ Bonus” issued by the Accounting Standards Board of Japan and is in line with the release dated April 13, 2007 of the Japanese Institute of Certified Public Accountants Audit and Assurance Practice Committee

Report No.42, “Reserve for Executive Retirement Benefit”.
As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2008 decreased by ¥89 million (\$896 thousand) and ¥367 million (\$3,669 thousand), respectively, computed with those would have been recorded under the previous method.

4 . U.S. dollar amounts

U.S. dollar amounts stated in the consolidated financial statements are included solely for convenience of readers outside Japan. The rate of ¥100.19 = US\$1, the approximate rate of exchange as of March 31, 2008, has been used in translation. These translations should not be construed as representations that the Japanese yen

amounts actually represent, or have been or could be converted into U.S. dollars. The amounts presented in thousands of U.S. dollars are truncated for amounts less than 1 thousand. Totals may not be added up exactly because of such truncation.

5. Impairment loss on fixed assets

The Company has recognized impairment loss of ¥364 million (\$3,641 thousand), ¥113 million, and ¥1,335 million for the following group of assets as of March 31, 2008, 2007 and 2006 respectively:

Location	Use	Category	Impairment loss			
			2008	2007	2006	2008
			(Millions of yen)			(Thousands of U.S. dollars)
Ninohe county, Iwate prefecture and others	Others	Land and buildings	¥ 59	—	—	\$ 592
Moerfelden, Germany	Office	Land	¥305	—	—	\$3,048
Others	Others	Land and intangible assets	—	¥ 113	¥ 153	—
Gunma office in Japan	Logistic warehouse	Land and buildings and structures	—	—	¥ 1,181	—

The Company assessed impairment of each group of assets, which are grouped on the basis of managerial accounting and for invest-ment decision-making purposes.

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 recover-able value, and recognized impairment loss of ¥364 million (\$3,641

thousand), ¥113 million and ¥1,335 million for the years ended March 31, 2008, 2007 and 2006, respectively which comprises of land totaling ¥333 million (\$3,327 thousand), ¥68 million and ¥717 million, respectively, and other totaling ¥31 million (\$314 thousand), ¥45 million and ¥617 million, respectively.

The recoverable value is determined as the higher of the net sell-ing value or the value in use.

6. Inventories

Inventories as of March 31, 2008 and 2007 consisted of the following:

	March 31		
	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Finished goods.....	¥15,496	¥16,234	\$154,672
Work in process	2,043	2,813	20,398
Raw materials and supplies	9,593	10,558	95,749
Total.....	¥27,133	¥29,606	\$270,820

7. 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, 2008 and 2007, are as follows:

	March 31, 2008			
		Gross unrealized		
	Cost	Gain	Loss	Market value (carrying value)
		(Millions of yen)		
Other securities	¥1,451	¥272	¥(133)	¥1,590
Debt securities	—	—	—	—
Other.....	—	—	—	—
Total	¥1,451	¥272	¥(133)	¥1,590

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

	March 31, 2008			
		Gross unrealized		
	Cost	Gain	Loss	Market value (carrying value)
		(Thousands of U.S. dollars)		
Other securities	\$14,492	\$2,715	\$(1,330)	\$15,877
Debt securities	—	—	—	—
Other.....	—	—	—	—
Total	\$14,492	\$2,715	\$(1,330)	\$15,877

Other securities sold for the years ended March 31, 2008, 2007 and 2006 are as follows:

	Year ended March 31			
	2008	2007	2006	2008
	(Millions of yen)			(Thousands of U.S. dollars)
Sales amount.....	¥27	¥128	¥2,430	\$271
Total gain on sales.....	0	50	1,373	8
Total loss on sales	(5)	—	(0)	(57)

At March 31, 2008 and 2007, the carrying value of the securities classified as other securities for which market quotation were unavailable were as follows:

	March 31		
	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Other securities			
Unlisted equity securities	¥64	¥69	\$641

8. Fair values of derivative financial instruments

The Company enters into forward foreign currency exchange contracts to manage market risks relating to fluctuations in the foreign currency exchange rates. The Company does not hold or issue

financial instruments for trading purposes. The listed contract amount and fair values as of March 31, 2008 and 2007 were as follows:

	March 31, 2008		
	Contract amount	Fair value	Unrealized gain
Forward foreign exchange contracts:	(Millions of yen)		
Selling			
U.S. dollar	¥2,333	¥2,221	¥111
Euro.....	5,675	5,674	0
Buying			
U.S. dollar	738	745	7
Euro.....	86	86	0
British pound	197	199	1
Total unrealized gain from forward foreign currency exchange contracts.....			¥121

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

	March 31, 2008		
	Contract amount	Fair value	Unrealized gain
Forward foreign exchange contracts:	(Thousands of U.S. dollars)		
Selling			
U.S. dollar	\$23,293	\$22,175	\$1,117
Euro.....	56,642	56,639	3
Buying			
U.S. dollar	7,370	7,444	73
Euro.....	861	867	6
British pound	1,974	1,987	13
Total unrealized gain from forward foreign currency exchange contracts.....			\$1,214

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

tracts to which hedge accounting is applied are excluded from the above table.

9. Short-term and long-term loans

Short-term and long-term loans as of March 31, 2008 and 2007 consisted of the following:

	March 31	
	2008	2007
	(Millions of yen)	(Thousands of U.S. dollars)
Short-term loans	¥13,133	¥15,440
Current portion of long-term loans	10,242	3,247
Total short-term loans	23,376	18,687
Long-term loans	19,462	22,795
Total	¥42,838	¥41,483

The weighted-average rates for short-term loans, current portion of long-term loans and long-term loans as of March 31, 2008 were 1.60%, 1.49% and 1.26%, respectively.

The maturity of long-term loans from banks and insurance companies is as follows:

Year ending March 31	(Millions of yen)	(Thousands of U.S. dollars)
2009	¥10,242	\$102,231
2010	12,044	120,217
2011	7,046	70,332
2012	49	490
2013	51	510

As of March 31, 2008 and 2007, assets pledged as collateral for short-term and long-term loans are as follows:

	March 31	
	2008	2007
	(Millions of yen)	(Thousands of U.S. dollars)
Buildings and structures, net	¥498	¥627
Machinery and equipment, net	29	46
Land	109	128
Total	¥637	¥802

There was no such pledged as a guarantee as of March 31, 2008 in spite the Company was pledged time deposits of ¥7 million as a guarantee as of March 31, 2007.

Secured loans as of March 31, 2008 and 2007 are as follows:

	March 31	
	2008	2007
	(Millions of yen)	(Thousands of U.S. dollars)
Short-term loans	¥ 42	¥ 47
Long-term loans	462	595
Total	¥505	¥643

10. Accrued retirement benefits to employees

Clarion has a 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 have employees’ severance indemnities plans as defined benefit pension plans. In addition, some overseas subsidiaries have defined contribution pension plans.

The funded status of retirement benefit plans as of March 31, 2008 and 2007 were as follows:

	March 31		2008 <i>(Thousands of U.S. dollars)</i>
	2008	2007	
	<i>(Millions of yen)</i>		
Projected benefit obligations	¥(15,405)	¥(16,132)	\$ (153,763)
Plan assets at fair value	2,801	3,158	27,958
Securities contributed to employee retirement benefit trust	265	344	2,650
Unfunded status.....	(12,338)	(12,628)	(123,153)
Unrecognized net obligation at transition.....	31	45	309
Unrecognized actuarial differences.....	1,263	723	12,611
Unrecognized prior service costs due to plan amendment.....	482	526	4,812
Accrued pension and severance costs.....	¥(10,562)	¥(11,334)	\$ (105,420)

Net periodic pension expense relating to the retirement benefits for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Year ended March 31			2008 <i>(Thousands of U.S. dollars)</i>
	2008	2007	2006	
	<i>(Millions of yen)</i>			
Service cost.....	¥ 941	¥ 741	¥ 732	\$ 9,398
Interest cost.....	359	331	327	3,589
Expected return on plan assets	(75)	(61)	(56)	(750)
Amortization of unrecognized net obligation at transition	14	—	—	139
Amortization of unrecognized prior service costs due to plan amendment..	44	44	3	440
Amortization of unrecognized actuarial difference.....	115	112	122	1,150
Net periodic pension expense	¥1,399	¥1,167	¥1,130	\$13,968

In addition to the above, extra employees’ severance indemnities of ¥70 million (\$698 thousand), ¥138 million and ¥452 million were included in other expenses for the periods ended March 31, 2008, 2007 and 2006, respectively.

Assumptions used in calculating the above information were as follows:

	Year ended March 31		
	2008	2007	2006
Discount rates	2.0~2.5%	2.0~2.5%	2.0~2.5%
Expected rates of return on plan assets.....	2.0~3.0%	2.0~3.0%	2.0~2.5%
Amortization period for unrecognized prior service costs due to plan amendment	13 years	13 years	13 years
Amortization period for unrecognized actuarial difference.....	7~15 years	7~15 years	7~13 years
Amortization period for unrecognized net obligation at transition.....	10 years	10 years	—

11. Shareholders’ equity

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

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

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

As of March 31, 2008 and 2007, the differences between fair value and carrying amount after revaluation dated March 31, 2001 were as follows:

	March 31		2008 <i>(Thousands of U.S. dollars)</i>
	2008	2007	
	<i>(Millions of yen)</i>		
Difference between fair value and carrying amount after revaluation	¥(1,062)	¥(1,160)	\$ (10,606)

13. Income taxes

Significant components of the Company’s deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	March 31		2008 <i>(Thousands of U.S. dollars)</i>
	2008	2007	
	<i>(Millions of yen)</i>		
Deferred tax assets:			
Net operating tax loss carryforwards.....	¥2,219	¥4,363	\$22,153
Accrued pension and severance costs	4,328	4,635	43,199
Accrued warranty costs	1,019	—	10,171
Loss on devaluation of inventories	748	809	7,470
Loss on devaluation of marketable securities.....	1,095	969	10,937
Accrued expenses.....	1,670	2,003	16,674
Allowance for doubtful accounts	99	174	997
Foreign tax credit carryforwards	323	170	3,225
Accrued bonuses	621	473	6,198
Other.....	2,001	1,562	19,981
Sub-total	14,127	15,162	141,010
Deferred tax liabilities:			
Depreciation	56	231	562
Other.....	127	8	1,276
Sub-total	184	239	1,839
Less: Valuation allowance	(6,951)	(6,764)	(69,386)
Net deferred tax assets.....	¥6,991	¥8,158	\$69,784

The differences between the Company’s statutory income tax rate and effective income tax rates reflected in the consolidated statements of operations were reconciled as follows:

	March 31	
	2008	2007
Statutory income tax rate.....	40.7%	40.7%
Permanent differences	13.0	31.7
Fixed levy of local inhabitant taxes.....	1.0	24.3
Valuation allowance.....	8.6	539.6
Variance of effective tax rate between Clarion and the subsidiaries.....	(1.3)	(61.7)
Amortization of goodwill.....	8.9	—
Foreign income tax credit	(2.9)	(11.8)
Reversal of net unrealized gain on revaluation of land.....	1.9	—
Other.....	(2.4)	(3.4)
Effective income tax rates.....	67.5%	559.4%

14. Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2008, 2007 and 2006 totaled ¥2,255 million (\$22,517 thousand), ¥975 million and ¥710 million, respectively.

15. Cash flow information

Reconciliations between cash and cash equivalents and cash on hand and in bank as of March 31, 2008 and 2007 were as follows:

	March 31	
	2008	2007
	(Millions of yen)	(Thousands of U.S. dollars)
Cash on hand and in banks	¥12,608	¥10,746
Deposits with original maturities of more than three months.....	(44)	(54)
Cash and cash equivalents.....	¥12,563	¥10,691

The following is a summary of the assets acquired, the liabilities assumed, goodwill and net cash payment in connection with the acquisition of common stock of *Xanavi Informatics Corp.* (“*Xanavi*”):

	Year ended March 31, 2007
	(Millions of yen)
Current assets	¥ 21,007
Fixed assets	2,865
Goodwill.....	8,566
Current liabilities	(17,526)
Non current liabilities.....	(822)
Acquisition costs of Xanavi	14,090
Cash and cash equivalents acquired.....	(373)
Net cash payment for the acquisition	¥ 13,716

16. Leases

The Company, as a lessee, charges periodic lease payments for finance leases which do not transfer ownership of the leased property to the lessee to expense on payment. Such payments for the years ended March 31, 2008, 2007 and 2006 were ¥1,542 million (\$15,391 thousand), ¥1,587 million and ¥1,757 million, respectively. The amount of outstanding future lease payments for finance leases as of March 31, 2008 and 2007, excluding the interest thereon, are summarized as follows:

	March 31	
	2008	2007
	(Millions of yen)	(Thousands of U.S. dollars)
Future lease payments:		
Due within one year.....	¥1,257	¥1,291
Due after one year.....	2,256	2,098
Total	¥3,514	¥3,389

Pro forma information as of and for the years ended March 31, 2008 and 2007 relating to acquisition cost, accumulated depreciation, depreciation expense and interest expense for property held under finance leases which do not transfer ownership of the leased property to the lessee if finance lease accounting had been applied to finance leases currently accounted for as operating leases are as follows:

	March 31	
	2008	2007
	(Millions of yen)	(Thousands of U.S. dollars)
Acquisition cost.....	¥6,500	¥6,674
Accumulated depreciation	(3,648)	(3,891)
Net book value	¥2,851	¥2,782
Depreciation expense.....	¥1,381	¥1,474
Interest expense.....	¥ 145	¥ 104

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

Future lease obligations for non-cancelable operating leases at March 31, 2008 and 2007 follow:

	March 31	
	2008	2007
	(Millions of yen)	(Thousands of U.S. dollars)
Due within one year.....	¥ 347	¥ 397
Due after one year.....	776	1,063
Total	¥1,123	¥1,460

17. Commitments and contingencies

There was no such contingencies as of March 31, 2008 in spite that the Company was contingently liable for transfer of notes receivables due to factoring, amounting to ¥333 million as of March 31, 2007.

18. Segment information

(1) Information by business segment

The Company operates principally in three business segments.

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

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

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

(c) Other: SS (Spread Spectrum) wireless communication equipment, Mobile-phone, EMS (Electronics Manufacturing Service) business, and other

Year ended March 31, 2008					
	Car audio- visual equipment	Special equipment	Other	Elimination and corporate	Consolidated total
(Millions of yen)					
Net sales.....	¥217,522	¥8,732	¥20,551	¥ —	¥246,806
Operating expenses	213,191	7,992	20,156	—	241,340
Operating income	¥ 4,330	¥739	¥ 395	¥ —	¥ 5,465
Total assets	¥143,065	¥5,447	¥14,392	¥(12,063)	¥150,841
Depreciation	¥ 6,665	¥ 230	¥ 196	¥ —	¥ 7,092
Impairment loss.....	¥ 351	¥ 10	¥ 3	¥ —	¥ 364
Capital expenditures	¥ 10,516	¥ 444	¥ 294	¥ —	¥ 11,255

Year ended March 31, 2007					
	Car audio- visual equipment	Special equipment	Other	Elimination and corporate	Consolidated total
(Millions of yen)					
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

Year ended March 31, 2006					
	Car audio- visual equipment	Special equipment	Other	Elimination and corporate	Consolidated total
(Millions of yen)					
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

Year ended March 31, 2008					
	Car audio- visual equipment	Special equipment	Other	Elimination and corporate	Consolidated total
(Thousands of U.S. dollars)					
Net sales.....	\$2,171,098	\$87,155	\$205,125	\$ —	\$2,463,380
Operating expenses	2,127,871	79,776	201,178	—	2,408,826
Operating income	\$ 43,227	\$ 7,379	\$ 3,947	\$ —	\$ 54,553
Total assets	\$1,427,944	\$54,367	\$143,651	\$ (120,408)	\$1,505,554
Depreciation	\$ 66,530	\$ 2,301	\$ 1,985	\$ —	\$ 70,789
Impairment loss.....	\$ 3,503	\$ 106	\$ 31	\$ —	\$ 3,641
Capital expenditures	\$ 104,970	\$ 4,435	\$ 2,939	\$ —	\$ 112,345

Corporate assets included in “Elimination and corporate” mainly consist of investments in securities. Such investments in securities for the years ended March 31, 2008, 2007 and 2006 were ¥289 million (\$2,885 thousand), ¥492 million and ¥1,392 million, respectively.

As described in 3-(1), Clarion and its domestic subsidiaries have changed their depreciation method of property, plant and equipment. The total effect of this change and another change described in 2-(7) on the operating results of each segment compared with those would have been recorded under the previous method was as follows: For car audio-visual equipment business, operating expenses increased by ¥213 million (\$2,128 thousand), and operating income decreased by the same amount. As well, ¥9 million (\$92 thousand) of effect was given for special equipment business and ¥2 million (\$27 thousand) of effect for other business.

As described in 3-(2), Clarion has changed its method of

accounting for warranty costs. The effect of this change on the operating results of each segment compared with those would have been recorded under the previous method was as follows: For car audio-visual equipment business, operating expenses increased by ¥54 million (\$543 thousand), and operating income decreased by the same amount. As well, ¥3 million (\$35 thousand) of effect was given for special equipment business.

As described in 3-(3), Clarion has changed its method of accounting for retirement benefit for directors and corporate auditors. The effect of this change on the operating results of each segment compared with those would have been recorded under the previous method was as follows: For car audio-visual equipment business, operating expenses increased by ¥84 million (\$841 thousand), and operating income decreased by the same amount. As well, ¥5 million (\$55 thousand) of effect was given for special equipment business.

(2) Information by geographic segment

Sales of the Company classified by geographic area for the years ended March 31, 2008, 2007 and 2006, respectively, are summarized as follows:

Year ended March 31, 2008						
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
(Millions of yen)						
Sales to outside customers	¥151,015	¥55,497	¥12,952	¥27,340	¥ —	¥246,806
Inter-segment sales	37,864	1,257	39,791	357	(79,271)	—
Total sales.....	188,880	56,755	52,744	27,697	(79,271)	246,806
Operating expenses	184,714	55,659	52,277	27,550	(78,861)	241,340
Operating income.....	¥ 4,165	¥ 1,096	¥ 466	¥ 147	¥ (410)	¥ 5,465
Total assets	¥135,674	¥21,570	¥22,809	¥15,582	¥(44,795)	¥150,841

Year ended March 31, 2007						
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
(Millions of yen)						
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

Year ended March 31, 2006						
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
(Millions of yen)						
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

	Year ended March 31, 2008					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
	(Thousands of U.S. dollars)					
Sales to outside customers	\$1,507,289	\$553,925	\$129,280	\$272,884	\$ —	\$2,463,380
Inter-segment sales.....	377,929	12,554	397,160	3,567	(791,211)	—
Total sales.....	1,885,218	566,480	526,440	276,452	(791,211)	2,463,380
Operating expenses	1,843,642	555,535	521,786	274,981	(787,119)	2,408,826
Operating income.....	\$ 41,575	\$ 10,944	\$ 4,654	\$ 1,471	\$ (4,092)	\$ 54,553
Total assets	\$1,354,167	\$215,300	\$227,662	\$155,526	\$(447,102)	\$1,505,554

Notes:
(*1) Americas: U.S.A., Canada, Mexico and Brazil
(*2) Asia and Australia: People's Republic of China, Taiwan R.O.C., Singapore, Malaysia, Philippines and Australia
(*3) Europe: Germany, U.K., Spain, France and Hungary

Corporate assets included in “Elimination and corporate” mainly consist of investments in securities. Such investments in securities for the years ended March 31, 2008, 2007 and 2006 were ¥289 million (\$2,885 thousand), ¥492 million and ¥1,392 million, respectively.

As described in 3-(1), Clarion and its domestic subsidiaries have changed their depreciation method of property, plant and equipment. The total effect of this change and another change described in 2-(7) on the operating results of the segments compared with those would have been recorded under the previous method was as follows: For the Japan segment, operating expenses increased by ¥225 million (\$2,248 thousand), and operating income decreased by the same amount.

(3) Overseas sales

Overseas sales, which include export sales of Clarion and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiaries, for the years ended March 31, 2008, 2007 and 2006 are as follows:

	Year ended March 31			
	2008	2007	2006	2008
	(Millions of yen)			(Thousands of U.S. dollars)
Overseas sales:				
Americas (*1).....	¥ 55,871	¥ 49,357	¥ 43,701	\$ 557,656
Europe (*2)	37,141	23,668	25,874	370,711
Other (*3)	14,414	16,268	15,431	143,875
	107,428	89,295	85,007	1,072,243
Consolidated net sales.....	¥246,806	¥181,041	¥184,176	\$2,463,380
Ratio	43.5%	49.3%	46.2%	43.5%

Notes:
(*1) Americas: U.S.A., Canada, Mexico, Brazil and Venezuela
(*2) Europe: Germany, U.K., Spain and France
(*3) Other: Australia, People's Republic of China, the Republic of Korea, Taiwan R.O.C., Singapore and Malaysia

As described in 3-(2), Clarion has changed its method of accounting for warranty costs. As a result of this change, operating expenses of the Japan segment increased by ¥58 million (\$578 thousand), and operating income decreased by the same amount compared with those would have been recorded under the previous method.

As described in 3-(3), Clarion has changed its method of accounting for retirement benefit for directors and corporate auditors. As a result of this change, operating expenses of the Japan segment increased by ¥89 million (\$896 thousand) and operating income decreased by the same amount compared with those would have been recorded under the previous method.

19. Analysis of selling, general and administrative expenses

An analysis of selling, general and administrative expenses for the years ended March 31, 2008, 2007 and 2006 are as follows:

	Year ended March 31			
	2008	2007	2006	2008
	(Millions of yen)			(Thousands of U.S. dollars)
Payroll costs.....	¥ 9,971	¥ 9,394	¥ 9,108	\$ 99,527
Provision for bonuses.....	578	261	293	5,772
Pension expenses	562	516	496	5,611
Freight out	4,157	3,859	4,340	41,500
Provision for retirement benefit for directors and corporate auditors	107	—	—	1,077
Other.....	20,903	15,736	17,585	208,641
Total	¥36,281	¥29,768	¥31,824	\$362,131

20. Transactions with related parties

As the result of TOB on Company's common stocks, as of December 7, 2006, Hitachi, Ltd. became a parent company.

Year ended March 31, 2008:

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.....	¥ (5,349)	\$ (53,389)	Short-term loans	¥6,707	\$66,948
Borrowing of fund.....	¥ 7,000	\$ 69,867	Long-term loans	¥7,000	\$69,867

Short-term loans were made under the Hitachi's pooling system and the transaction amount shown above represents the decrease in the short-term loan balance as of March 31, 2008 compared with that as of March 31, 2007.

Year ended March 31, 2007:

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)		(Millions of yen)
Borrowing of fund.....	¥14,000	Short-term loans	¥12,056
Acquisition of shares of subsidiary.....	¥14,000		

The Company has participated in the Hitachi's pooling system since December 2006.

Report of Independent Auditors

The Board of Directors
Clarion Co., Ltd.

We have audited the accompanying consolidated balance sheet of Clarion Co., Ltd. and consolidated subsidiaries as of March 31, 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, all expressed in yen. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clarion Co., Ltd. and consolidated subsidiaries at March 31, 2008, 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.

Supplemental Information

- 1. As described in Note 3 (2) to the financial statements, effective the year ended March 31, 2008, the Company changed its method of accounting for warranty costs.
- 2. As described in Note 3 (3) to the financial statements, effective the year ended March 31, 2008, the Company changed its method of accounting for retirement benefit for directors and corporate auditors.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4.

Ernst & Young ShinNihon

June 25, 2008

A MEMBER OF ERNST & YOUNG GLOBAL

21. Amounts per share

Net income per share for the years ended March 31, 2008, 2007 and 2006 and net assets per share as of March 31, 2008 and 2007 are as follows:

	Year ended March 31			2008 (U.S. dollars)
	2008	2007 (Yen)	2006	
Net income/(loss) per share:				
Basic	¥ 4.88	¥ (2.78)	¥20.76	\$0.05
Diluted.....	—	—	—	—

	March 31		2008 (U.S. dollars)
	2008	2007 (Yen)	
Net assets per share	¥113.12	¥120.56	\$1.12

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

22. Subsequent event

The following appropriation of retained earnings of Clarion, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2008, was approved at an ordinary general meeting of shareholders held on June 25, 2008:

	(Millions of yen)	(Thousands of U.S. dollars)
Year-end cash dividends (¥2.00=U.S.\$0.02 per share)	¥ 564	\$5,634

Corporate Data

■ Company Profile (as of March 31, 2008)

Company Name:	Clarion Co., Ltd.
Headquarters & Technology Center	7-2 Shintoshin, Chuo-ku, Saitama-shi, Saitama 330-0081, Japan TEL: (81) 48-601-3700
Registered Head Office:	5-35-2 Hakusan, Bunkyo-ku, Tokyo, 112-8608, Japan TEL: (81) 3-3815-1121
Established:	December 1940
Paid-in Capital:	¥26,100 million
Number of Shares Outstanding:	282,744,000 shares
Stock Exchange Listing	Tokyo Stock Exchange, First Section (Ticker Code: 6796)
Number of Shareholders:	15,668
Number of Employees:	11,186 (consolidated) 1,081 (non-consolidated)
Main Products	Car navigation systems, car audio systems, in-vehicle cameras, visual equipment, bus equipment, communications equipment

■ Board of Directors and Corporate Auditors (as of June 25, 2008)

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

* Outside director
** Outside auditor

■ Corporate Officers (as of June 25, 2008)

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

■ Principal Subsidiaries (as of June 25, 2008)

<Domestic>

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

<Overseas>

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