Clarion Co., Ltd.
and
Subsidiaries

Consolidated Financial Statements

March 31, 2009

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
	2004	2005	2006	2007	2008	**2009**	**2009**
For the Year							
Net sales	¥168,947	¥178,325	¥184,176	¥181,041	¥246,806	**¥181,554**	**$1,848,256**
Car audio-visual equipment	159,544	166,365	168,686	161,786	217,522	**157,552**	**1,603,918**
Special equipment	6,126	6,949	8,306	7,833	8,732	**8,982**	**91,446**
Others	3,275	5,010	7,183	11,422	20,551	**15,018**	**152,891**
Japan	88,843	96,658	99,511	93,365	151,015	**105,991**	**1,079,011**
Americas	33,657	38,577	43,725	49,537	55,497	**46,440**	**472,769**
Asia and Australia	9,893	10,737	15,063	14,475	12,952	**12,461**	**126,855**
Europe	36,552	32,351	25,877	23,663	27,340	**16,661**	**169,619**
Cost of sales	132,103	140,786	147,123	148,200	205,058	**161,649**	**1,645,621**
Selling, general and administrative expenses	26,491	27,956	31,824	29,768	36,281	**32,354**	**329,371**
Operating income (loss)	10,352	9,582	5,228	3,072	5,465	**(12,449)**	**(126,736)**
Other expenses, net	4,451	6,631	694	2,905	1,167	**2,758**	**28,085**
Income (loss) before income taxes and minority interests	5,900	2,950	4,534	167	4,298	**(15,208)**	**(154,821)**
Provision (benefit) for income taxes	(514)	(2,328)	(1,337)	938	2,903	**4,776**	**48,625**
Minority interests in subsidiaries	109	167	8	13	17	**2**	**29**
Net income (loss)	6,305	5,111	5,862	(784)	1,378	**(19,987)**	**(203,476)**
Research and development expenses	9,943	10,659	11,340	12,560	27,772	**30,329**	**308,754**
Capital investment	1,816	3,066	8,106	6,074	6,855	**5,796**	**59,014**
Net cash provided by (used in) operating activities	16,058	8,038	9,236	8,820	10,771	**(2,851)**	**(29,026)**
Net cash used in investing activities	(158)	(6,030)	(1,055)	(20,501)	(9,247)	**(10,121)**	**(103,037)**
Net cash provided by (used in) financing activities	(16,467)	(17,537)	(7,938)	10,054	1,061	**10,014**	**101,953**
Per share							
(Yen and U.S. dollars):							
Net income (loss)	¥22.32	¥18.09	¥20.76	¥(2.78)	¥4.88	**¥(70.85)**	**$(0.72)**
Cash dividends	—	—	¥2.00	¥2.00	¥2.00	**—**	**—**
At year end							
Total assets	¥128,536	¥119,527	¥122,119	¥149,490	¥150,841	**¥117,641**	**$1,197,611**
Total net assets	21,879	26,878	34,661	34,231	32,125	**9,135**	**92,997**
Interest-bearing debt	58,585	41,619	34,227	41,483	42,838	**54,160**	**551,361**
Ratio (%)							
Net assets ratio	17.0	22.5	28.3	22.9	21.3	**7.8**	**7.8**
ROE	35.4	21.4	19.2	(2.3)	4.2	**(97.8)**	**(97.8)**
ROA	4.7	4.1	4.9	(0.6)	0.9	**(14.9)**	**(14.9)**
Current ratio	100.0	108.7	125.5	115.2	113.5	**106.1**	**106.1**

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, 2009, which was ¥98.23 to U.S. $1.

Consolidated Balance Sheets

	March 31		
	2009	2008	**2009**
	(Millions of yen)		*(Thousands of U.S. dollars)*
ASSETS			
Current assets:			
Cash on hand and in banks	**¥ 9,386**	¥ 12,608	**$ 95,560**
Notes and accounts receivable (Notes 17 and 20)	**25,382**	48,227	**258,403**
Allowance for doubtful accounts	**(403)**	(488)	**(4,106)**
Inventories (Note 6)	**25,113**	27,133	**255,663**
Deferred tax assets (Note 13)	**2,003**	3,699	**20,394**
Other current assets (Note 20)	**5,078**	5,034	**51,696**
Total current assets	**66,561**	96,215	**677,612**
Investments in securities (Note 7)	**2,259**	2,344	**22,998**
Property, plant and equipment (Note 5)			
Buildings and structures (Note 9)	**18,821**	20,812	**191,602**
Machinery and equipment (Note 9)	**44,303**	48,619	**451,016**
Land (Note 9)	**9,177**	9,370	**93,433**
Lease assets	**845**	—	**8,609**
Construction in progress	**897**	1,155	**9,134**
Accumulated depreciation	**(46,829)**	(52,389)	**(476,735)**
Property, plant and equipment, net	**27,215**	27,568	**277,060**
Other assets:			
Intangible assets (Note 5)	**18,189**	18,332	**185,175**
Deferred tax assets (Note 13)	**560**	3,352	**5,708**
Other	**2,854**	3,028	**29,055**
Total other assets	**21,604**	24,713	**219,940**
Total assets	**¥117,641**	¥150,841	**$1,197,611**

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

	March 31		
	2009	2008	**2009**
	(Millions of yen)		*(Thousands of U.S. dollars)*
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans (Notes 9 and 20)	**¥ 21,085**	¥ 23,376	**$ 214,650**
Notes and accounts payable (Note 20)	**22,786**	38,729	**231,968**
Accrued bonuses	**1,322**	1,590	**13,460**
Lease obligations (Note 9)	**388**	—	**3,951**
Accrued expenses (Note 20)	**7,224**	10,701	**73,542**
Accrued income taxes	**698**	1,310	**7,107**
Accrued warranty costs	**1,175**	2,288	**11,965**
Other current liabilities	**8,082**	6,768	**82,280**
Total current liabilities	**62,761**	84,763	**638,928**
Long-term liabilities:			
Long-term loans (Notes 9 and 20)	**32,410**	19,462	**329,941**
Lease obligations (Note 9)	**276**	—	**2,818**
Accrued pension and severance costs (Note 10)	**9,226**	10,562	**93,929**
Deferred tax liabilities on revaluation of land(Note 12)	**644**	644	**6,559**
Deferred tax liabilities (Note 13)	**17**	60	**117**
Accrued retirement benefit for directors and corporate auditors	**288**	430	**2,941**
Accrued warranty costs	**747**	1,010	**7,607**
Other long-term liabilities	**2,132**	1,781	**21,710**
Total long-term liabilities	**45,744**	33,952	**465,685**
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, 2009 and 2008	**26,100**	26,100	**265,706**
Additional paid-in capital	**2,669**	2,669	**27,177**
(Accumulated deficit)/Retained earnings (Note 21)	**(12,141)**	8,379	**(123,601)**
Treasury stock	**(117)**	(94)	**(1,201)**
Total shareholders' equity	**161,510**	37,054	**168,080**
Valuation, translation adjustments and other:			
Net unrealized gains on revaluation of land(Note 12)	**812**	813	**8,275**
Net deferred losses on hedge	**(5)**	(6)	**(58)**
Foreign currency translation adjustments	**(8,224)**	(6,071)	**(83,724)**
Net unrealized (losses)/gains on other securities	**(134)**	132	**(1,374)**
Total valuation, translation adjustments and other	**(7,552)**	(5,132)	**(76,882)**
Minority interests in subsidiaries	**176**	202	**1,799**
Total net assets	**9,135**	31,125	**92,997**
Total liabilities and net assets	**¥117,641**	¥150,841	**$1,197,611**

Consolidated Statements of Operations

	Year ended March 31			
	2009	2008	2007	**2009**
		(Millions of yen)		*(Thousands of U.S. dollars)*
Net sales	**¥ 181,554**	¥ 246,806	¥ 181,041	**$1,848,256**
Cost of sales	**161,649**	205,058	148,200	**1,645,621**
Gross profit	**19,904**	41,747	32,841	**202,635**
Selling, general and administrative expenses (Notes 14 and 19)	**32,354**	36,281	29,768	**329,371**
Operating (loss)/income	**(12,449)**	5,465	3,072	**(126,736)**
Other income:				
Interest and dividend income	**194**	323	336	**1,981**
Gain on sales of dies to customers	**212**	62	—	**2,167**
Exchange gains, net	**—**	394	—	**—**
Gain on reversal of allowance for doubtful accounts	**—**	431	—	**—**
Gain on sales of property, plant and equipment	**39**	358	259	**398**
Gain on reversal of patent fee for prior years	**814**	305	—	**8,288**
Gain on reversal of customers claim cost	**418**	—	—	**4,261**
Income by collection of service cost	**280**	—	—	**2,856**
Gain on reversal of unpaid custom duty	**256**	148	—	**2,615**
Gain on reversal of purification cost	**247**	52	—	**2,516**
Equity in earnings of affiliates	**189**	102	22	**1,929**
Other	**775**	711	476	**7,893**
	3,429	2,891	1,095	**34,908**
Other expenses:				
Interest expense	**589**	795	867	**5,999**
Expense related to patent	**429**	176	—	**4,374**
Exchange losses, net	**1,434**	—	9	**14,604**
Loss on sales and disposal of property, plant and equipment	**93**	614	341	**950**
Business structure improvement expenses	**2,257**	—	—	**22,986**
Purtification cost for land	**—**	—	1,436	**—**
Impairment loss on fixed assets (Note 5)	**12**	364	113	**131**
Accrued retirement benefit for directors and corporate auditors	**—**	307	—	**—**
Provision for warranty costs	**—**	303	—	**—**
Loss on devaluation of investments in securities	**193**	296	16	**1,967**
Additional severance costs	**343**	70	138	**3,496**
Other	**833**	1,129	1,077	**8,482**
	6,187	4,058	4,000	**62,994**
(Loss)/income before income taxes and minority interests	**(15,208)**	4,298	167	**(154,821)**
Income taxes (Note13):				
Current	**325**	1,777	651	**3,313**
Deferred	**4,450**	1,126	287	**45,312**
	4,776	2,903	938	**48,625**
(Loss)/income before minority interests	**(19,984)**	1,395	(770)	**(203,447)**
Minority interests in subsidiaries	**2**	17	13	**29**
Net (loss)/income	**¥ (19,987)**	¥ 1,378	¥ (784)	**$ (203,476)**

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

Consolidated Statements of Changes in Net Assets

	Shareholders' equity						Valuation, translation adjustments and other						
	Number of common shares outstanding	Common stock	Additional paid-in capital	Retained earnings/ (Accumulated deficit)	Treasury stock	Total shareholders' equity	Net unrealized gains on revaluation of land	Net deferred gains/(losses) on hedge	Net unrealized gains /(losses) on other securities	Foreign currency translation adjustments	Total valuation, translation adjustments and other	Minority interests in subsidiaries	Total net assets
	(Thousands)						(Millions of yen)						
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
Effect of changes in accounting policies applied to overseas subsidiaries	–	–	–	31	–	31	–	–	–	–	–	–	31
Changes in:													
Net loss	–	–	–	(19,987)	–	(19,987)	–	–	–	–	–	–	(19,987)
Dividends	–	–	–	(564)	–	(564)	–	–	–	–	–	–	(564)
Treasury stock	–	–	–	–	(23)	(23)	–	–	–	–	–	–	(23)
Items other than shareholders' equity	–	–	–	0	–	0	(0)	0	(267)	(2,153)	(2,419)	(26)	(2,445)
Balance at March 31, 2009	282,744	¥ 26,100	¥2,669	¥(12,141)	¥ (117)	¥16,510	¥ 812	¥ (5)	¥ (134)	¥ (8,224)	¥ (7,552)	¥ 176	¥ 9,135

	Shareholders' equity						Valuation, translation adjustments and other						
	Number of common shares outstanding	Common stock	Additional paid-in capital	Retained earnings/ (Accumulated deficit)	Treasury stock	Total shareholders' equity	Net unrealized gains on revaluation of land	Net deferred losses on hedge	Net unrealized gain/(losses) on other securities	Foreign currency translation adjustments	Total valuation, translation adjustments and other	Minority interests in subsidiaries	Total net assets
	(Thousands)						(Thousands of U.S. dollars)						
Balance at March 31, 2008	282,744	$265,706	$27,177	$ 85,302	$ (960)	$377,224	$ 8,277	$ (68)	$ 1,350	$(61,806)	$(52,246)	$ 2,065	$327,042
Effect of changes in accounting policies applied to overseas subsidiaries	–	–	–	316	–	316	–	–	–	–	–	–	316
Changes in:													
Net loss	–	–	–	(203,476)	–	(203,476)	–	–	–	–	–	–	(203,476)
Dividends	–	–	–	(5,745)	–	(5,745)	–	–	–	–	–	–	(5,745)
Treasury stock	–	–	–	–	(240)	(240)	–	–	–	–	–	–	(240)
Items other than shareholders' equity	–	–	–	2	–	2	(2)	(10)	(2,742)	(21,918)	(24,635)	(265)	(24,899)
Balance at March 31, 2009	282,744	$265,706	$27,177	$(123,601)	$(1,201)	$168,808	$ 8,275	$ (58)	$(1,374)	$(83,724)	$(76,882)	$(1,799)	$ 92,997

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

Consolidated Statements of Cash Flows

	Year ended March 31			
	2009	2008	2007	**2009**
		(Millions of yen)		*(Thousands of U.S. dollars)*
Cash flows from operating activities:				
(Loss)/income before income taxes and minority interests	**¥ (15,208)**	¥ 4,298	¥ 167	**$ (154,821)**
Adjustments to reconcile income before income taxes and minority interests to cash flows from operating activities:				
Depreciation and amortization	**7,812**	6,364	5,447	**79,530**
Amortization of goodwill	**1,001**	940	85	**10,199**
Equity in earnings of affiliates	**(189)**	(102)	(22)	**(1,929)**
Decrease in allowance for doubtful accounts	**(108)**	(808)	(243)	**(1,109)**
(Decrease)/increase in accrued pension and severance costs, less payment	**(1,325)**	(756)	161	**(13,490)**
(Decrease)/increase in accrued retirement benefit for directors and corporate auditors	**(141)**	362	—	**(1,440)**
(Decrease)/increase in accrued warranty costs	**(1,205)**	318	—	**(12,276)**
Interest and dividend income	**(194)**	(323)	(336)	**(1,981)**
Interest expense	**589**	795	867	**5,999**
Loss on devaluation of investments in securities	**193**	296	16	**1,967**
Gain on sales of investments in securities	**—**	(0)	(50)	**—**
Gain on sales of property, plant and equipment	**(39)**	(358)	(259)	**(398)**
Loss on sales and disposal of property, plant and equipment	**93**	614	341	**950**
Impairment loss on fixed assets	**12**	364	113	**131**
Business structure improvement expenses	**2,257**	—	—	**22,986**
Purification cost for land	**—**	—	1,436	**—**
Changes in assets and liabilities:				
Notes and accounts receivable	**20,483**	(5,100)	1,618	**208522**
Inventories	**505**	1,090	(1,128)	**5,149**
Notes and accounts payable	**(13,254)**	2,101	2,898	**(134,929)**
Other, net	**(2,956)**	2,152	(1,193)	**(30,098)**
Sub-total	**(1,673)**	12,248	9,920	**(17,038)**
Interest and dividend received	**244**	384	385	**2,489**
Interest paid	**(591)**	(811)	(849)	**(6,023)**
Income taxes paid	**(830)**	(1,049)	(636)	**(8,453)**
Net cash (used in)/provided by operating activities	**(2,851)**	10,771	8,820	**(29,026)**
Cash flows from investing activities:				
Increase in time deposits	**(391)**	—	—	**(3,989)**
Decrease in time deposits	**41**	7	145	**423**
Payment for purchases of property, plant and equipment	**(5,796)**	(6,855)	(6,074)	**(59,014)**
Proceeds from sales of property, plant and equipment	**117**	1,482	1,108	**1,201**
Payment for purchases of intangible assets	**(4,030)**	(3,938)	(2,768)	**(41,028)**
Payment for acquisition of investments in securities	**(594)**	(22)	(17)	**(6,048)**
Proceeds from sales of investments in securities	**212**	27	673	**2,161**
Increase in loans receivable	**(1,532)**	(9)	(7)	**(15,604)**
Decrease in loans receivable	**1,815**	43	155	**18,486**
Payment for acquisition of shares of a subsidiary, net of cash acquired	**—**	—	(13,716)	**—**
Other, net	**36**	17	—	**375**
Net cash used in investing activities	**(10,121)**	(9,247)	(20,501)	**(103,037)**
Cash flows from financing activities:				
(Decrease)/increase in short-term loans, net	**(3,952)**	(2,117)	5,709	**(40,233)**
Repayment of finance lease obligations	**(202)**	—	—	**(2,058)**
Proceeds from long-term loans	**32,000**	7,000	12,000	**325,766**
Repayment of long-term loans	**(17,242)**	(3,246)	(7,045)	**(175,534)**
Cash dividends	**(564)**	(564)	(564)	**(5,745)**
Other, net	**(23)**	(10)	(43)	**(240)**
Net cash provided by financing activities	**10,014**	1,061	10,054	**101,953**
Effect of exchange rate changes on cash and cash equivalents	**(566)**	— (713)	363	**(5,771)**
Net (decrease)/increase in cash and cash equivalents	**(3,524)**	1,871	(1,262)	**(35,882)**
Cash and cash equivalents at beginning of year	**12,563**	10,691	11,954	**127,902**
Cash and cash equivalents at end of year (Note 15)	**¥ 9,039**	¥12,563	¥10,691	**$ 92,020**

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

Notes to the Consolidated Financial Statements

March 31, 2009

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 overseas subsidiaries maintain their records in conformity with accounting principles generally accepted in their respective countries of domicile. Effective April 1, 2008, Clarion adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (PITF No. 18)." In accordance with PITF No. 18, the accompanying consolidated financial statements for the year ended March 31, 2009 have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items. Until March 31, 2008, the accompanying consolidated financial statements had been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with accounting principles generally accepted in their countries domicile. See Note 3-(4). 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. Cost of securities sold is determined by the moving average method.

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

(b) Derivative financial instruments

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

(c) Hedge accounting

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

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

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

(5) Allowance for doubtful accounts

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

(6) Inventories

For Clarion and its domestic subsidiaries, inventories are stated principally at cost determined by the weighted-average method and supplies are stated at cost, which is determined by last purchase price method. The amount shall be carried at cost on the balance sheets. Effective the year ended March 31, 2009, in the case that the net selling value falls below cost at the end of the period, inventories shall be carried at the net selling value on the balance sheets, regarded as decreased profitability of assets. As for overseas subsidiaries, inventories are stated at the lower of cost, which is mainly determined by the first-in, first-out method, or market.

(7) Property, plant and equipment (Except for lease assets)

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

For Clarion and its domestic subsidiaries, depreciation, 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, and its domestic subsidiary. For overseas subsidiaries, depreciation is computed under the straight-line method.

In line with the fiscal year 2008 Japanese tax reforms, estimated useful lives of machinery and equipment has been changed from 11 years to 7 years. Effective the year ended March 31, 2009, the stated assets for Clarion and its domestic subsidiaries are depreciated over new estimated useful lives. As the result of this change, operating loss and loss before taxes and minority interests for the year ended March 31, 2009 increased by ¥99 million ($1,009 thousand), respectively, compared with those would have been recorded under previous method.

(8) Intangible assets (Except for lease assets)

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

Goodwill represents the excess of purchase price and related 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) Lease assets

Depreciation of the finance leases which do not transfer ownership is calculated based on the straight-line method over the lease term of the assets with no residual value.

(10) Impairment of fixed assets

The accumulated impairment loss is deducted from the net book value of each asset.

(11) 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.

(12) Accrued pension and severance costs

For Clarion and some of its subsidiaries, accrued pension and severance costs are stated at an amount calculated based on the projected benefit obligation and the fair value of pension plan assets as adjusted for unrecognized net obligation at transition, unrecognized actuarial differences and unrecognized prior service costs. Unrecognized net obligation at transition is amortized over a period of 10 years. Unrecognized actuarial differences of Clarion and its domestic subsidiaries 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.

(13) Accrued warranty costs

For Clarion and some of its subsidiaries, accrued warranty costs are provided based on the past actual results of such expense.

(14) 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, however, in line with the approval at the General Shareholders' Meeting held on June 25, 2008, the Company has ceased the accrual.

(15) Research and development costs

Research and development costs are expensed as incurred.

(16) 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.

(17) Revenue recognition

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

(18) Amount per share

Basic net income/(loss) per share is computed based on the net income/(loss) 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 measurement of inventories

Effective the year ended March 31, 2009, Clarion and its domestic subsidiaries have applied “Accounting Standards for Measurement of Inventories” (the Accounting Standards Board of Japan (ASBJ) Statement No. 9 issued on July 5, 2006). As the result of this change, operating loss and loss before taxes and minority interests for the year ended March 31, 2009 increased by ¥175 million ($1,789 thousand) and ¥254 million ($2,591 thousand), respectively, compared with those would have been recorded under previous method.

(2) Change in depreciation method

Effective the year ended March 31, 2009, a domestic subsidiary has changed its depreciation method of machinery and equipment (dies) from the declining-balance method at rates based on the estimated useful lives of the assets to the straight-line method. As the result of this change, operating loss and loss before taxes and minority interests for the year ended March 31, 2009 decreased by ¥127 million ($1,293 thousand), respectively, compared with those would have been recorded under previous method.

(3) Change in retirement benefits

Effective the year ended March 31, 2009, Clarion and its domestic subsidiaries have applied “Partial Amendments to Accounting Standards for Retirement Benefits (Part3)” (ASBJ Statement No. 19 issued on July 31, 2008). As the result of this change, there was no material impact on operating loss and loss before taxes and minority interests for the year ended March 31, 2009 due to the fact that unrecognized actuarial differences are amortized commencing the year following the year in which they arise. Further on, the projected benefits obligation increased by ¥365 million ($3,721 thousand) with this change.

(4) Change in accounting policies to overseas subsidiaries for consolidated financial statements

Effective the year ended March 31, 2009, the Company has applied “Practical Solution on Unification of Accounting Policies to Foreign Subsidiaries for Financial Statements” (ASBJ Practical Issues Task Force No. 18 issued on May 17, 2006). As the result of this change, operating loss, loss before taxes and minority interests and net loss for the year ended March 31, 2009 increased by ¥4 million ($48 thousand), ¥47 million ($486 thousand) and ¥126 million ($1,286 thousand), respectively, compared with those would have been recorded under previous method.

(5) Change in accounting for finance lease transaction

Effective the year ended March 31, 2009, Clarion and its domestic subsidiaries have applied “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13 issued and revised on June 17, 1993, March 30, 2007, respectively) and “Guidance on Accounting Standard for Lease Transaction” (ASBJ Guidance No. 16). With this change, a lessee shall recognize the leased asset and the related lease liability as lease assets and lease obligations. Until March 31, 2008, noncancelable leases of Clarion and its domestic consolidated subsidiaries are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases. As the result of this change, there was no impact on operating loss and loss before taxes and minority interests for the year ended March 31, 2009.

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 ¥98.23 = US$1, the approximate rate of exchange as of March 31, 2009, 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 ¥12 million ($131 thousand), ¥364 million, and ¥113 million for the following group of assets as of March 31, 2009, 2008 and 2007 respectively.

Location	Use	Category	Impairment loss			
			2009	2008	2007	**2009**
			(Millions of yen)			*(Thousands of U.S. dollars)*
Yonago-shi, Tottori Prefecture	Other	Land	**¥ 12**	—	—	**$ 131**
Ninohe county, Iwate prefecture and others	Others	Land and buildings	**—**	¥ 59	—	**—**
Moerfelden, Germany	Office	Land	**—**	¥ 305	—	**—**
Others	Others	Land and intangible assets	**—**	—	¥ 113	**—**

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

Due to the mainly decline in real estate value, operating profitability has worsened substantially. Therefore, the Company has decided to mark the assets down to the recoverable value, and recognized impairment loss of ¥12 million ($131 thousand), ¥364 million and ¥113 million for the years ended March 31, 2009, 2008 and 2007, respectively which comprises of land totaling ¥12 million ($131 thousand), ¥333 million and ¥68 million, respectively, and other totaling ¥31 million and ¥45 million for the years ended March 31, 2008 and 2007.

The recoverable value is mainly determined as publicly-assessed land value or the appraisal value.

6. Inventories

Inventories as of March 31, 2009 and 2008 consisted of the following:

	March 31		
	2009	2008	**2009**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Finished goods	**¥14,396**	¥15,496	**$146,562**
Work in process	**1,731**	2,043	**17,625**
Raw materials and supplies	**8,985**	9,593	**91,475**
Total	**¥25,113**	¥27,133	**$255,663**

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, 2009 and 2008, are as follows:

	March 31, 2009			
		Gross unrealized		
	Cost	Gain	Loss	Market value (carrying value)
		(Millions of yen)		
Other securities	**¥1,046**	**¥ 65**	**¥(200)**	**¥ 911**
Debt securities	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**
Total	**¥1,046**	**¥ 65**	**¥(200)**	**¥ 911**

	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, 2009			
		Gross unrealized		
	Cost	Gain	Loss	Market value (carrying value)
		(Thousands of U.S. dollars)		
Other securities	**$10,654**	**$667**	**$(2,041)**	**$9,280**
Debt securities	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**
Total	**$10,654**	**$667**	**$(2,041)**	**$9,280**

Other securities sold for the years ended March 31, 2009, 2008 and 2007 are as follows:

	Year ended March 31			
	2009	2008	2007	**2009**
		(Millions of yen)		(Thousands of U.S. dollars)
Sales amount	**¥212**	¥27	¥128	**$2,161**
Total gain on sales	**0**	0	50	**0**
Total loss on sales	**(27)**	(5)	–	**(275)**

At March 31, 2009 and 2008, the carrying value of the securities classified as other securities for which market quotation were unavailable were as follows:

	March 31		
	2009	2008	**2009**
	(Millions of yen)		(Thousands of U.S. dollars)
Other securities			
Unlisted equity securities	**¥ 53**	¥64	**$ 544**
Others	**453**	–	**4,620**

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, 2009 and 2008 were as follows:

	March 31, 2009		
	Contract amount	Fair value	Unrealized loss
Forward foreign exchange contracts:		*(Millions of yen)*	
Selling			
U.S. dollar	**¥2,588**	**¥2,600**	**¥(12)**
Euro	**1,388**	**1,447**	**(58)**
Buying			
U.S. dollar	**1,596**	**1,592**	**(4)**
Euro	**33**	**32**	**(0)**
British pound	**142**	**140**	**(2)**
Total unrealized loss from forward foreign currency exchange contracts			**¥(78)**

	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, 2009		
	Contract amount	Fair value	Unrealized loss
Forward foreign exchange contracts:		*(Thousands of U.S. dollars)*	
Selling			
U.S. dollar	**$26,351**	**$26,475**	**$ (124)**
Euro	**14,139**	**14,739**	**(599)**
Buying			
U.S. dollar	**16,255**	**16,212**	**(43)**
Euro	**339**	**330**	**(9)**
British pound	**1,452**	**1,429**	**(23)**
Total unrealized loss from forward foreign currency exchange contracts			**$ (800)**

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

9. Short-term and long-term debt

Short-term and long-term debt as of March 31, 2009 and 2008 consisted of the following:

	March 31		
	2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars)
Short-term loans	**¥ 9,041**	¥13,133	**$ 92,043**
Current portion of long-term loans	**12,043**	10,242	**122,607**
Current portion of long-term lease obligations	**388**	-	**3,951**
Total short-term loans	**21,473**	23,376	**218,602**
Long-term loans	**32,410**	19,462	**329,941**
Long-term lease obligations	**276**	-	**2,818**
Total long-term debt	**32,686**	19,462	**332,759**
Total	**¥54,160**	**¥42,838**	**$551,361**

The weighted-average rates for short-term loans, current portion of long-term loans and long-term loans as of March 31, 2009 were 0.92%, 1.08% and 1.10%, respectively.
The weighted-average rates for lease obligations were not presented because the amounts before deducting interest expenses were booked on consolidated balance sheet.

The maturity of long-term debt from banks, insurance companies and lease companies is as follows.

Year ending March 31	(Millions of yen)	(Thousands of U.S. dollars)
2010	¥12,431	$126,559
2011	20,257	206,227
2012	12,075	122,930
2013	76	782
2014	63	643

As of March 31, 2009 and 2008, assets pledged as collateral for short-term and long-term loans are as follows:

	March 31		
	2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures, net	**¥456**	¥498	**$4,647**
Machinery and equipment, net	**14**	29	**149**
Land	**107**	109	**1,090**
Total	**¥578**	¥637	**$5,887**

Secured loans as of March 31, 2009 and 2008 are as follows:

	March 31		
	2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars)
Short-term loans	**¥ 43**	¥ 42	**$ 445**
Long-term loans	**410**	462	**4,175**
Total	**¥453**	¥505	**$4,620**

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, 2009 and 2008 were as follows:

	March 31		
	2009	2008	**2009**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Projected benefit obligations	**¥(14,400)**	¥(15,405)	**$(146,596)**
Plan assets at fair value	**2,244**	2,801	**22,847**
Securities contributed to employee retirement benefit trust	**211**	265	**2,156**
Unfunded status	**(11,943)**	(12,338)	**(121,591)**
Unrecognized net obligation at transition	**17**	31	**173**
Unrecognized actuarial differences	**2,262**	1,263	**23,030**
Unrecognized prior service costs due to plan amendment	**437**	482	**4,458**
Accrued pension and severance costs	**¥ (9,226)**	¥(10,562)	**$ (93,929)**

Net periodic pension expense relating to the retirement benefits for the years ended March 31, 2009, 2008 and 2007 were as follows:

	Year ended March 31			
	2009	2008	2007	**2009**
		(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	**¥ 942**	¥ 941	¥ 741	**$ 9,589**
Interest cost	**350**	359	331	**3,568**
Expected return on plan assets	**(69)**	(75)	(61)	**(705)**
Amortization of unrecognized net obligation at transition	**14**	14	—	**142**
Amortization of unrecognized prior service costs due to plan amendment	**44**	44	44	**449**
Amortization of unrecognized actuarial difference	**171**	115	112	**1,741**
Net periodic pension expense	**¥1,452**	¥1,399	¥1,167	**$14,786**

In addition to the above, extra employees' severance indemnities of ¥343 million ($3,496 thousand), ¥70 million and ¥138 million were included in additional severance costs for the periods ended March 31, 2009, 2008 and 2007, respectively. Extra employees' severance indemnities of ¥2,166 million ($22,058 thousand) was included in business structure improvement expenses for the year ended March 31, 2009.

Assumptions used in calculating the above information were as follows:

	Year ended March 31		
	2009	2008	2007
Discount rates	**2.0~2.3%**	2.0~2.5%	2.0~2.5%
Expected rates of return on plan assets	**2.0~4.0%**	2.0~3.0%	2.0~3.0%
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	7~15 years
Amortization period for unrecognized net obligation at transition	**10 years**	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, 2009 and 2008, the differences between fair value and carrying amount after revaluation dated March 31, 2001 were as follows:

	March 31		
	2009	2008	**2009**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Difference between fair value and carrying amount after revaluation	**¥(1,057)**	¥(1,062)	**$(10,756)**

13. Income taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2009 and 2008 were as follows:

	March 31		
	2009	2008	**2009**
Deferred tax assets:	*(Millions of yen)*		*(Thousands of U.S. dollars)*
Net operating tax loss carryforwards	**¥ 9,719**	¥ 2,219	**$ 98,946**
Accrued pension and severance costs	**3,784**	4,328	**38,526**
Accrued warranty cost	**564**	1,019	**5,748**
Loss on devaluation of inventories	**673**	748	**6,852**
Loss on devaluation of marketable securities	**521**	1,095	**5,310**
Accrued expenses	**819**	1,670	**8,343**
Allowance for doubtful accounts	**86**	99	**878**
Foreign tax credit carryforward	**479**	323	**4,885**
Accrued bonuses	**545**	621	**5,552**
Other	**1,744**	2,001	**17,760**
Sub-total	**18,939**	14,127	**192,804**
Deferred tax liabilities:			
Depreciation	**12**	56	**130**
Other	**4**	127	**50**
Sub-total	**17**	184	**180**
Less: Valuation allowance	**(16,374)**	(6,951)	**(166,697)**
Net deferred tax assets	**¥ 2,546**	¥ 6,991	**$ 25,926**

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
Statutory income tax rate	40.7%
Permanent differences	13.0
Fixed levy of local inhabitant taxes	1.0
Valuation allowance	8.6
Variance of effective tax rate between Clarion and the subsidiaries	(1.3)
Amortization of goodwill	8.9
Foreign income tax credit	(2.9)
Reversal of net unrealized gain on revaluation of land	1.9
Other	(2.4)
Effective income tax rates	67.5%

For the year ended March 31, 2009, a reconciliation of the difference between the Company's statutory income tax rate and effective income tax rate has not been presented as a result of the loss before income taxes and minority interests.

14. Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2009, 2008 and 2007 totaled ¥1,596 million ($16,254 thousand), ¥2,255 million and ¥975 million, respectively.

15. Cash flow information

Reconciliations between cash and cash equivalents and cash on hand and in bank as of March 31, 2009 and 2008 were as follows:

	March 31		
	2009	2008	**2009**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash on hand and in banks	**¥9,386**	¥12,608	**$95,560**
Deposits with original maturities of more than three months	**(347)**	(44)	**(3,540)**
Cash and cash equivalents	**¥9,039**	¥12,563	**$92,020**

16. Leases

The Company, as a lessee, charges periodic lease payments for finance leases which do not transfer ownership of the leased property to the lessee and had been entered into before April 1, 2008, to expense on payment. Such payments for the years ended March 31, 2009, 2008 and 2007 were ¥1,282 million ($13,053 thousand), ¥1,542 million and ¥1,587 million, respectively.

The amount of outstanding future lease payments for finance leases as of March 31, 2009 and 2008, excluding the interest thereon, are summarized as follows:

	March 31		
	2009	2008	**2009**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Future lease payments:			
Due within one year	**¥ 862**	¥1,257	**$ 8,784**
Due after one year	**1,367**	2,256	**13,918**
Total	**¥2,230**	¥3,514	**$22,702**

Pro forma information as of and for the years ended March 31, 2009 and 2008 relating to acquisition cost, accumulated depreciation, depreciation expense and interest expense for property held under finance leases which do not transfer ownership of the leased property to the lessee and had been entered into before April 1, 2008, if finance lease accounting had been applied to finance leases currently accounted for as operating leases are as follows:

	March 31		
	2009	2008	**2009**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Acquisition cost	**¥5,347**	¥6,500	**$54,440**
Accumulated depreciation	**(3,678)**	(3,648)	**(37,445)**
Net book value	**¥1,669**	¥2,851	**$16,994**
Depreciation expense	**¥1,074**	¥1,381	**$10,938**
Interest expense	**¥ 181**	¥ 145	**$ 1,842**

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, 2009 and 2008 follow:

	March 31		
	2009	2008	**2009**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Due within one year	**¥ 338**	¥ 347	**$ 3,443**
Due after one year	**725**	776	**7,383**
Total	**¥1,063**	¥1,123	**$10,826**

17. Commitments and contingencies

The Company was contingently liable for notes receivable discounted, amounting to¥227 million ($2,312 thousand) as of March 31, 2009.

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, 2009				
	Car audio-visual equipment	Special equipment	Other	Elimination and corporate	Consolidated total
			(Millions of yen)		
Net sales	**¥157,552**	**¥8,982**	**¥ 15,018**	**¥ —**	**¥181,554**
Operating expenses	**172,044**	**7,210**	**14,748**	**—**	**194,003**
Operating (loss)/income	**¥ (14,491)**	**¥1,772**	**¥ 270**	**¥ —**	**¥ (12,449)**
Total assets	**¥105,429**	**¥5,418**	**¥ 6,546**	**¥ 246**	**¥117,641**
Depreciation	**¥ 7,962**	**¥ 372**	**¥ 172**	**¥ —**	**¥ 8,506**
Impairment loss	**¥ 8**	**¥ 3**	**¥ 1**	**¥ —**	**¥ 12**
Capital expenditures	**¥ 10,495**	**¥ 459**	**¥ 195**	**¥ —**	**¥ 11,150**

	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, 2009				
	Car audio-visual equipment	Special equipment	Other	Elimination and corporate	Consolidated total
			(Thousands of U.S. dollars)		
Net sales	**$1,603,918**	**$91,446**	**$152,891**	**$ —**	**$1,848,256**
Operating expenses	**1,751,447**	**73,404**	**150,141**	**—**	**1,974,993**
Operating (loss)/income	**$ (147,528)**	**$18,042**	**$ 2,749**	**$ —**	**$ (126,736)**
Total assets	**$1,073,293**	**$55,162**	**$ 66,648**	**$ 2,507**	**$1,197,611**
Depreciation	**$ 81,057**	**$ 3,792**	**$ 1,752**	**$ —**	**$ 86,602**
Impairment loss	**$ 88**	**$ 31**	**$ 11**	**$ —**	**$ 131**
Capital expenditures	**$ 106,848**	**$ 4,681**	**$ 1,987**	**$ —**	**$ 113,517**

Corporate assets included in "Elimination and corporate" mainly consist of investments in securities. Such investments in securities for the years ended March 31, 2009, 2008 and 2007 were ¥246million ($2,507 thousand), ¥289 million and ¥492 million, respectively.

As described in 2-(7), Clarion and its domestic subsidiaries have changed estimated useful lives of machinery and equipment has been changed from 11 years to 7 years. 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 ¥89 million ($911 thousand), and operating loss increased by the same amount. For special equipment business, operating expenses increased by ¥8 million ($89 thousand), and operating income decreased by the same amount. As well, ¥0 million ($7 thousand) of effect was given for other business.

As described in 3-(1), Clarion and its domestic subsidiaries have applied “Accounting Standards for Measurement of Inventories”. 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 ¥176 million ($1,793 thousand), and operating loss increased by the same amount. For special equipment business, operating expenses decreased by ¥0 million ($4 thousand), and operating income increased by the same amount.

As described in 3-(2), a domestic subsidiary has changed its depreciation method of machinery and equipment (dies). 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 decreased by ¥127 million ($1,293 thousand), and operating loss decreased by the same amount.

As described in 3-(4), the Company has applied “Practical Solution on Unification of Accounting Policies to Foreign Subsidiaries for Financial Statements”. 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 ¥4 million ($48 thousand), and operating loss increased by the same amount. For other business, operating expenses decreased by ¥0 million ($0 thousand), and operating income increased by the same amount.

(2) Information by geographic segment

Sales of the Company classified by geographic area for the years ended March 31, 2009, 2008 and 2007, respectively, are summarized as follows:

	Year ended March 31, 2009					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
	(Millions of yen)					
Sales to outside customers	**¥105,991**	**¥46,440**	**¥12,461**	**¥16,661**	**¥ —**	**¥181,554**
Inter-segment sales	**31,689**	**1,192**	**37,200**	**365**	**(70,448)**	**—**
Total sales	**137,681**	**47,632**	**49,661**	**17,027**	**(70,448)**	**181,554**
Operating expenses	**149,668**	**47,620**	**49,735**	**17,235**	**(70,255)**	**194,003**
Operating (loss)/income	**¥ (11,987)**	**¥ 12**	**¥ (74)**	**¥ (208)**	**¥ (192)**	**¥ (12,449)**
Total assets	**¥113,453**	**¥23,463**	**¥14,958**	**¥ 8,719**	**¥(42,954)**	**¥117,641**

	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, 2009					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
			(Thousands of U.S. dollars)			
Sales to outside customers	**$1,079,011**	**$472,769**	**$126,855**	**$169,619**	**$ —**	**$1,848,256**
Inter-segment sales	**322,608**	**12,142**	**378,703**	**3,723**	**(717,177)**	**—**
Total sales	**1,401,619**	**484,912**	**505,559**	**173,342**	**(717,177)**	**1,848,256**
Operating expenses	**1,523,651**	**484,783**	**506,316**	**175,461**	**(715,219)**	**1,974,993**
Operating (loss)/income	**$ (122,031)**	**$ 129**	**$ (756)**	**$ (2,118)**	**$ (1,958)**	**$ (126,736)**
Total assets	**$1,154,982**	**$238,864**	**$152,281**	**$ 88,769**	**$(437,286)**	**$1,197,611**

Notes:
(*1) Americas: U.S.A, Canada, Mexico and Brazil
(*2) Asia and Australia: People's Republic of China, Taiwan R.O.C., 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, 2009, 2008 and 2007 were ¥246 million ($2,507 thousand), ¥289 million and ¥492 million, respectively.

As described in 2-(7), Clarion and its domestic subsidiaries have changed estimated useful lives of machinery and equipment has been changed from 11 years to 7 years. 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 the Japan segment, operating expenses increased by ¥99 million ($1,009 thousand), and operating loss increased by the same amount.

As described in 3-(1), Clarion and its domestic subsidiaries have applied "Accounting Standards for Measurement of Inventories". 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 the Japan segment, operating expenses increased by ¥175 million ($1,789 thousand), and operating loss increased by the same amount.

As described in 3-(2), a domestic subsidiary has changed its depreciation method of machinery and equipment (dies). 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 the Japan segment, operating expenses decreased by ¥127 million ($1,293 thousand), and operating loss decreased by the same amount.

As described in 3-(4), the Company has applied "Practical Solution on Unification of Accounting Policies to Foreign Subsidiaries for Financial Statements". 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 the Asia and Australia segment, operating expenses increased by ¥9 million ($100 thousand), and operating loss increased by the same amount. For the Europe segment, operating expenses decreased by ¥5 million ($52 thousand), and operating loss 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 overseas consolidated subsidiaries, for the years ended March 31, 2009, 2008 and 2007 are as follows:

	Year ended March 31			
	2009	2008	2007	**2009**
		(Millions of yen)		*(Thousands of U.S. dollars)*
Overseas sales:				
Americas (*1)	**¥ 46,511**	¥ 55,871	¥ 49,357	**$ 473,498**
Europe (*2)	**21,520**	37,141	23,668	**219,085**
Other (*3)	**13,627**	14,414	16,268	**138,726**
	81,659	107,428	89,295	**831,310**
Consolidated net sales	**¥181,554**	¥246,806	¥181,041	**$1,848,256**
Ratio	**45.0%**	43.5%	49.3%	**45.0%**

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. and Malaysia

19. Analysis of selling, general and administrative expenses

An analysis of selling, general and administrative expenses for the years ended March 31, 2009, 2008 and 2007 are as follows:

	Year ended March 31			
	2009	2008	2007	**2009**
		(Millions of yen)		*(Thousands of U.S. dollars)*
Payroll costs	**¥ 9,631**	¥ 9,971	¥ 9,394	**$ 98,051**
Provision for bonuses	**598**	578	261	**6,094**
Pension expenses	**564**	562	516	**5,743**
Freight out	**3,479**	4,157	3,859	**35,422**
Provision for retirement benefit for directors and corporate auditors	**33**	107	—	**346**
Provision for doubtful accounts	**55**	—	45	**563**
Other	**17,990**	20,903	15,690	**183,150**
Total	**¥32,354**	¥36,281	¥29,768	**$329,371**

20. Transactions with related parties

As the result of TOB on Clarion's common stocks, as of December 7, 2006, Hitachi, Ltd. became a parent company.
Effective the year ended March 31, 2009, Clarion has applied "Related Party Disclosures" (ASBJ Statements No. 11 issued on October 17, 2006) and "Guidance on Accounting Standards for Related Party Disclosures" (ASBJ Guidance No. 13 issued on October 17, 2006). As the result of this change, the Company added the scope of disclosuresfor Hitachi Capital Corporation and Hitachi Automotive System Europe GmbH. as fellow subsidiaries in addition to the scope of disclosures as before.

Year ended March 31, 2009:

Category	Name	Ownership of Voting Rights/%	Relationship
Parent Company	Hitachi, Ltd.	Hitachi: 64.01%	Loans receivable and loans through 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)*
Lending fund	¥ 1,525	$ 15,530	Short-term loans receivable	¥ 1,525	$ 15,530
Borrowing of fund	¥ (6,707)	$ (68,248)	Short-term loans	—	—
Borrowing of fund	¥13,000	$132,342	Long-term loans	¥20,000	$203,603

Short-term loans receivable and short-term loans were made under the Hitachi's pooling system and the transaction amount shown above represents the amount of increase and decrease in the short-term loans receivable and short-term loans balance as of March 31, 2009 compared with that as of March 31, 2008.

Category	Name	Ownership of Voting Rights/%	Relationship
Fellow subsidiary	Hitachi Capital Corp	-	Factoring service

Description of Transaction	Amount of Transaction		Subject	Balance at the end of period	
	(Millions of yen)	*(Thousands of U.S. dollars)*		*(Millions of yen)*	*(Thousands of U.S. dollars)*
Factoring	¥11,933	$121,483	Notes and accounts payable	¥ 2,368	$ 24,113
Borrowing of fund	¥ 1,829	$ 19,262	Short-termloans	¥ 1,892	$ 19,262

Category	Name	Ownership of Voting Rights/%	Relationship
Fellow subsidiary	Hitachi Automotive Systems Europe GmbH.	-	Sales of the Company's products

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)*
Payment of development cost....	¥ 75	$ 766	Accrued expenses.......................	¥ 65	$ 662
Sales..	¥ 5,035	$ 51,261	Notes and accounts receivable...	¥ 1,267	$ 12,901

Consumption tax was not included in the amount of transaction but included in the balance at the end of period stated in above information.
The Company's notes and accounts payable were settled by using a factoring method based on the basic agreement entered into by the Company, its customers and Hitachi Capital Corporation.
As for the borrowing of fund, the interest rate applied was determined by market interest rates.
As for the sales to Hitachi Automotive System Europe GmbH., the terms of condition was as same as other general transaction.

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)		*(Millions of yen)*
Borrowing of fund........................	¥ (5,349)	Short-term loans	¥6,707
Borrowing of fund........................	¥ 7,000	Long-term loans..........................	¥7,000

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

21. Amounts per share

Net income/(loss) per share for the years ended March 31, 2009, 2008 and 2007 and net assets per share as of March 31, 2009 and 2008 are as follows:

	Year ended March 31			
	2009	2008	2007	**2009**
		(Yen)		*(U.S. dollars)*
Net (loss)/income per share:				
Basic..	**¥ (70.85)**	¥ 4.88	¥ (2.78)	**$(0.72)**
Diluted..	**—**	—	—	**—**

	March 31		
	2009	2008	**2009**
	(Yen)		*(U.S. dollars)*
Net assets per share	**¥31.77**	¥ 113.12	**$ 0.32**

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

ERNST & YOUNG

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Report of Independent Auditors

The Board of Directors
Clarion Co., Ltd.

We have audited the accompanying consolidated balance sheets of Clarion Co., Ltd. and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audits provide 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, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 3 (1) to the financial statements, effective the year ended March 31, 2009, the Company changed its method of accounting for measurement of inventories.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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 LLC

June 24, 2009

Clarion Co., Ltd.