

clarion

Annual Report 2010

For the fiscal year ended March 2010



Clarion Co., Ltd.

Profile

Clarion Co., Ltd. will celebrate the 70th anniversary of its founding in 1940 in December 2010. From the beginning, the environment surrounding Clarion has witnessed many dramatic changes, including the advent of AM radios, digital broadcasting, car navigation systems, electric vehicles and communication networks. Evolving with the times, Clarion has striven to improve society by seeking to develop the relationship between sound, information, and human interaction, and by creating products to meet those needs.

While further accelerating such efforts, Clarion is gearing up for proactively tackling challenges in such areas as energy conservation, recycling and the realization of a low-carbon society, which have become universal environmental themes in recent years.

The link between sound and information communication in the mobile environment of the car will evolve into new domains based on our unique ideas and advanced technologies. Through this, we will provide safety, security, comfort and excitement to our customers all over the world.

We at Clarion shall remain at the forefront of the industry, to precisely understand market needs and achieve long-term growth.



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 Highlights

Financial Highlights

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

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
For the Year:			
Net sales	¥174,762	¥181,554	\$1,878,355
Operating income (loss)	624	(12,449)	6,711
Net income (loss)	549	(19,987)	5,903
At Year-end:			
Total assets	112,714	117,641	1,211,459
Total net assets	9,312	9,135	100,089
Interest-bearing borrowings	46,862	54,160	503,678
	Yen		U.S. Dollars
	2010	2009	2010
Per Share:			
Net income (loss)	¥1.95	¥(70.85)	\$0.02
Cash dividends	—	—	—

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of US\$1 = ¥93.04, the approximate exchange rate on March 31, 2010.

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Tatsuhiko Izumi
President

A handwritten signature in black ink, appearing to read 'T. Izumi' with a stylized flourish at the end.

▶ Review of Operations for Fiscal 2009, Ended March 31, 2010

In fiscal 2009, the drastic deterioration in the global economy caused by the Lehman Shock of 2008 tapered off, and in the automotive industry, with which we are most closely related, the decline in automobile demand bottomed out. Coupled with this, car trade-in incentive measures in various countries resulted in an uptrend in the business environment.

In light of these market circumstances, the Clarion Group established the Execution Committee of “Emergency Revitalization of Competitiveness” in 2009 and carried out bold business structure reforms. Our efforts bore fruit in fiscal 2009, ended March 31, 2010, driving a marked turnaround in financial results.

▶ Sales in Fiscal 2009

Consolidated net sales for fiscal 2009 decreased 3.7% compared with the previous fiscal year to ¥174,762 million. In the first half of the fiscal year, a promotional campaign for car navigation systems in the option market in Japan proved effective, while sales in the OEM (Original Equipment Manufacturer) market in North America exceeded expectations on a full-year basis.

Sales declined in OEM markets in Japan and Europe, however, due to the lackluster recovery in these markets. Meanwhile, sales continued to decrease on a monetary basis due to continuing drops in prices and also owing to a decline in volume in domestic and overseas aftermarkets. Selling off our non-core businesses was another factor attributable to lower sales.

▶ Income in Fiscal 2009

With regard to income, Clarion posted consolidated operating income of ¥624 million, marking a significant improvement from an operating loss of ¥12,449 million in the previous fiscal year. This is attributable mainly to a significant reduction in fixed costs and lower variable costs as a result of business structure reforms.

We recorded other income in the amount of ¥2,021 million, consisting mainly of exchange gains, net, a gain on sales of property, plant and equipment and a gain on costs reimbursement of development. Conversely, we posted other expenses of ¥1,960 million due primarily to interest expense and loss from transfer between retirement benefit plans. As a result, income before income taxes and minority interests was ¥684 million. Consolidated net income amounted to ¥549 million (compared with a net loss of ¥19,987 million in the previous fiscal year) due mainly to a reduction in tax expenses resulting from a review of the collectability of deferred tax assets. We thus achieved profitability at each level of income.

Medium- to Long-term Management Strategy

The Clarion Group aims to realize consolidated net sales of ¥200,000 million and an operating income ratio of over 5% in the fiscal year ending March 31, 2013. To this end, we are striving to establish a structure that facilitates timely response to changes in the management environment such as changing global market conditions and technological innovation. We are also working to restructure our business portfolio corresponding to the scale of sales and achieve corporate management with higher capital efficiency. At the same time, we will focus on consolidated management, boost Group-wide profit-making capabilities and promote consolidated cash flow management to increase corporate value.

To achieve these goals, we have identified the following priority challenges under our medium-term Group management policy.

1. Improvement of Quality

We will implement measures to raise quality from the product planning stage and create a Group quality management system to earn the trust of our customers and bring them satisfaction.

2. Sales & Marketing Strategy

We aim to secure profitable sales, and maintain and expand orders from customers. In particular, we are targeting emerging countries, mainly China, India, South America and ASEAN nations. We will strengthen local marketing in each of these regions and work to expand sales by providing products and services suited to local needs.

Centered around products equipped with Clarion sound and Clarion H.M.I. (Human Mobile Music Media Interface), we will introduce unique products that embody solutions in such ways as through service content and hardware linking information centers and in-vehicle devices/systems, as well as unique products that anticipate the changing needs of the market, such as on-board cameras.

3. Brand Strategy

We will promote activities to increase brand value in order to be a company that is indispensable around the world, with "Clarion H.M.I." as our brand slogan.

4. R&D Strategy

We will work to implement reform of the Group's R&D structure in business areas that need to be strengthened and to further increase R&D efficiency by advancing design standardization. We will also concentrate investment into distinctive technologies that will form the core of our businesses.

5. Improvement of Cost Management

We will strengthen cost management as well as profit and loss monitoring functions to raise cost competitiveness at a global level. We will also work to lower costs of raw materials, purchased goods and indirect materials through the global use of Hitachi's centralized purchasing system and collaboration with the Hitachi Group's cost reduction project. Additionally, we will strive to reduce production costs by expanding overseas production of car navigation systems.

6. Enhancement of Group Organization

We will conduct a fundamental review of all sites, organizations, processes and personnel in accordance with changes to the business structure while shifting resources to priority regions and reducing fixed and variable costs.

7. Commitment to CSR (Corporate Social Responsibility)

We will strive to raise awareness of our corporate philosophy and compliance with laws and regulations to instill a strong sense of corporate ethics, as well as pursue higher quality in internal control systems.



Message from the President

Management Challenges and Initiatives

Signs of recovery have started to emerge in the CIS (Car Information System) industry, which is key to Clarion Group businesses, due to car trade-in incentive measures in various countries. Growth has been particularly pronounced in China, which now has surpassed the United States to boast the highest volume of automobile sales in the world, driving the global economy. In addition, a priority challenge is to determine how to effectively invest resources in emerging countries in South America as well as India, and create and implement strategies for respective regions.

With rising global awareness of the need for low fuel consumption and environmental conservation, demand for luxury vehicles continues to decline while sales of compact vehicles continue to increase. There is a marked trend toward more economically priced car information systems such as car navigation and car audio systems as well.

As a result, increasing R&D expenses to secure product competitiveness squeezes corporate earnings. In response, an important challenge is to swiftly create an efficient R&D structure to constrain R&D costs and ensure corporate competitiveness.

In light of this environment, the Clarion Group is proceeding with initiatives to achieve the goals of the medium-term plan based on the key ideas of “concentration of resources in growth markets” and “strengthening of global product planning capabilities.”

Underpinning these efforts is our conviction to realize “manufacturing through localized perspectives.” In place of global operations originating in Japan, we intend to shift to local marketing and product planning matched to respective markets. Ultimately, we aim to create an integrated production and sales structure in each region, from local procurement of components and local production to sales promotion and marketing activities handled by local staff.

Concentration of Resources in Growth Markets

Of all the growth markets, we will focus in particular on China. We will bolster marketing functions, and strengthen and expand production functions as strategies in the growing Chinese market. Clarion commenced production operations in China ahead of the competition in 1995; currently over 50% of all Clarion production is handled there. We will also establish production facilities for plastic parts in China and shift production of navigation systems there as well.

We completed the integration of Japanese production facilities into one center at the end of June 2010. This facilitates cost reductions in production through more efficient operations.

Additionally, by transferring design and development functions to China, we aim to reduce development expenses. We will also establish a structure mainly in China for car navigation systems that encompasses all processes from development to production.

Furthermore, we will strengthen local marketing capabilities in emerging country markets such as Brazil, Latin America and India. In relation, we will shift the manufacture of products for Brazil and Latin America to Mexico. Enhancing the appeal of our products, we will expand OEM supplies and aftermarket sales in these and neighboring countries.

For India, we will undertake concerted efforts to secure new OEMs while boosting supply to existing OEMs.

APA2180
180W x 2 Channel Power Amplifier



APA4360
180W x 4 Channel Power Amplifier



SRT1755S
17cm Separate 2-Way Speaker System



CRASVIA
NX810
AV-Navi System with Wide 7-inch VGA
Double-DIN Terrestrial Digital TV/DVD/HDD



CC2011E
Ultra Compact Color CCD Camera
(Mirror Image)



Smoonavi
NX710
AV-Navi System with Wide 7-inch VGA
Double-DIN Terrestrial Digital TV/DVD/SD



CZ500
Bluetooth® CD/USB/MP3/WMA Receiver

Strengthening of Product Planning Capabilities

In strengthening product planning capabilities, we must consider two keywords which summarize the changes in the environment surrounding automobiles: a “low-carbon society” and a “network/ubiquitous society.” In response to these environmental changes, we believe Clarion can provide value in the areas of “safety/security,” “comfort/convenience” and “environment/efficiency.”

Advancements in the communications environment, for example, mean that people can access information anytime, anywhere. These functions are indispensable for electric cars in quickly and efficiently locating charging sites. Accordingly, Clarion will further promote the in-vehicle environment having closer links with networks, centered on car navigation systems through the development of next-generation car information systems connected to Hitachi’s information network infrastructure.

In terms of safety/security, Clarion is ahead of the competition in developing overhead view monitors (total peripheral vehicle recognition system). We will continue strengthening the camera and image business as well as to further advance and materialize this concept.

Business Outlook

Despite signs of resurgence in the global economy, the speed of recovery differs from region to region. Instability in the European economy is a major cause for concern, precluding optimism. There is also uncertainty regarding automobile sales in the second half of the fiscal year as car trade-in incentive measures successively come to an end in different countries, including planned conclusion in Japan in September 2010.

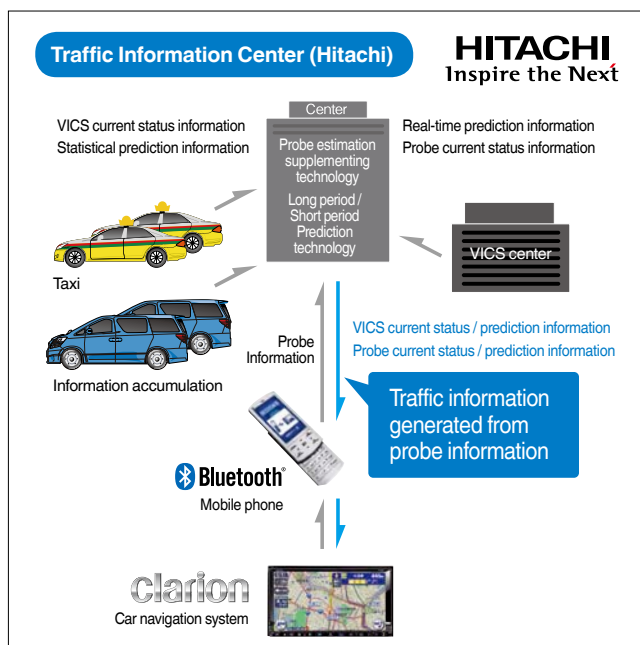
Against this backdrop, Clarion will press ahead with business structure reforms, and accelerate and strengthen initiatives to boost sales and profit. For fiscal 2010, ending March 31, 2011, we forecast consolidated net sales of ¥175,000 million, an increase of 0.1% year-on-year; consolidated operating income of ¥4,000 million; and net income of ¥1,000 million. (The exchange rates are projected to be ¥85 to the U.S. dollar and ¥125 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 “Guiding Principles of Conduct and Behavior” was laid out and comprehensively applied to fulfill social responsibilities as a global corporation in the areas of quality control, environmental protection and social contribution.

Clarion will also work to develop car information systems that help make cars more environment-friendly.

“Online Traffic Information Search” Uses Real Time Information for a High Degree of Traffic Congestion Avoidance



Corporate Governance

We have developed a corporate governance structure in recognition of its importance in our business operations. 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 swiftly toward becoming a more valuable enterprise.

I ask for your continued support and guidance as we move forward.

July 2010

Tatsuhiko Izumi
President

Review of Operations

Consolidated net sales for fiscal 2009 amounted to ¥174,762 million, down 3.7% year-on-year. Sales decreased slightly in the Car Audio-Visual Equipment Segment, our core segment, while we also posted sales declines in the Special Equipment Segment and the Other Business Segment. Selling off a non-core business was another factor attributable to lower sales.

With regard to income, we worked to reduce fixed and variable costs by implementing business structure reforms, which resulted in consolidated operating income of ¥624 million. This was a significant improvement from an operating loss of ¥12,449 million in the previous fiscal year.

We recorded other income in the amount of ¥2,021 million, consisting mainly of exchange gains, net of ¥284 million, a gain on sales of property, plant and equipment of ¥274 million and a gain on costs reimbursement of development of ¥528 million. Conversely, we posted other expenses of ¥1,960 million due primarily to interest expense of ¥721 million, expense related to patent of ¥108 million, loss on sales and disposal of property, plant and equipment of ¥111 million and loss from transfer between retirement benefit plans of ¥200 million. As a result, income before income taxes and minority interests was ¥684 million compared with loss before income taxes and minority interests of ¥15,208 million in the previous fiscal year.

Consolidated net income stood at ¥549 million compared with a net loss of ¥19,987 million in the previous fiscal year. We thus achieved profitability at each level of income.

An overview by business segment is as follows.

■ Car Audio-Visual Equipment Segment

This segment is our core segment that involves car navigation, car audio and car multimedia devices. Sales increased in the first half of fiscal 2009 due to a promotional campaign for car navigation systems in the option market in Japan, while sales in the OEM market in North

America exceeded expectations on a full-year basis. Sales declined in OEM markets in Japan and Europe, however, due to the lackluster recovery in these markets. Meanwhile, sales decreased as a result of declines in sales volume and drops in prices in the aftermarket due to harsher competition. Consequently, overall sales in this segment decreased a slight 0.7% compared with the previous fiscal year to ¥156,372 million.

Operating loss amounted to ¥370 million, marking a considerable improvement from an operating loss of ¥14,491 million in the previous fiscal year as a result of efforts to reduce fixed and variable costs through business structure reforms.

■ Special Equipment Segment

In this segment, which comprises AV equipment for commercial vehicles, Automatic Guidance Systems and Bus Location Systems for both tourist and community buses, around-the-vehicle view monitor equipment with CCD cameras and drive-recorder devices, we worked to expand sales of CCD cameras in light of greater driving safety awareness. However, supply to OEM markets was down and sales volume in aftermarkets decreased. As a result, net sales decreased 14.4% compared with the previous fiscal year to ¥7,685 million.

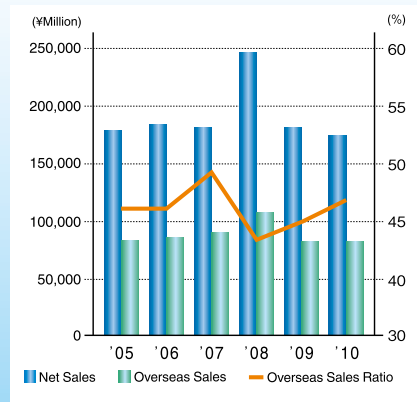
Operating income decreased 53.6% to ¥821 million due primarily to a decline in net sales.

■ Other Business Segment

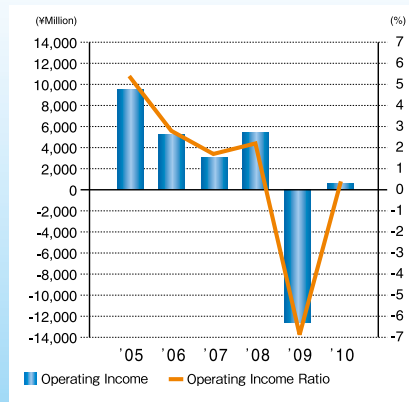
Within this segment, we have developed EMS (Electronics Manufacturing Service) business mainly in the Americas and Europe. Net sales decreased 28.7% compared with the previous fiscal year to ¥10,704 million due primarily to a decline in orders for in-vehicle meter boards in line with lower automobile production as well as the selling-off of a subsidiary engaged in the mobile phone business in the second half of the fiscal year.

Operating income decreased 35.9% to ¥173 million due mainly to a decline in net sales.

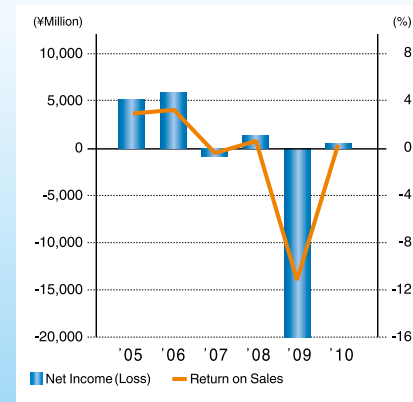
■ Net Sales, Overseas Sales and Overseas Sales Ratio



■ Operating Income (Loss) and Operating Income (Loss) Ratio



■ Net Income (Loss) and Return on Sales



Results by geographic segment (excluding intra-Group transactions) are as follows.

■ Japan

The domestic economy recovered moderately as exports and production grew on the back of progress in inventory adjustments in Japan and overseas and a resurgence in overseas economies. Amid difficult employment and income conditions, consumer spending was relatively robust due to economic stimulus policies such as new car trade-in incentive measures as well as promotion of the purchase of energy-saving home electric appliances. In the automobile industry, new car sales increased for the first time in 13 months in August 2009 on a year-on-year basis. Since then, there have been further signs of recovery, notably double-digit growth in the second half of the fiscal year compared with the same period of the previous fiscal year, mainly for hybrid car sales.

Net sales in Japan amounted to ¥93,892 million, down 11.4%. This decrease in net sales was attributable mainly to a decline in sales in the aftermarket, despite an increase in sales resulting from measures in the option business for certain car dealers.

Despite a reduction in fixed costs, including selling, general and administrative (SG&A) expenses, consolidated operating loss stood at ¥340 million compared with an operating loss of ¥11,987 million in the previous fiscal year due to declines in sales volume and drops in prices in the aftermarket.

■ Americas

The U.S. economy was on a recovery track due to support in the form of government policies. Nonetheless, the employment situation remained harsh and uncertainty over sustainable economic recovery prevailed. In the automobile industry, despite the definite effect of support for new car trade-in incentive measures, the overall number of new car sales decreased year-on-year.

Net sales increased 19.5% compared with the previous fiscal year to ¥55,499 million. This was due mainly to considerable growth in sales to an OEM customer, whom we started supplying in the previous fiscal year.

Operating income increased significantly to ¥1,519 million compared with ¥12 million in the previous fiscal year. This result was due primarily to the positive effects of sales growth coupled with a reduction in SG&A expenses, despite drops in prices brought on by strong demands from customers for price reductions.

■ Asia and Australia

Although the economies of major Asian nations registered tones of recovery, this was still short of full-scale resurgence owing to uncertainty over future economic conditions in the United States, a key export market. Conversely, high growth continued in the Chinese economy, with new car sales in China surging 46% year-on-year to 13.64 million units to boast the highest volume in the world surpassing the United States.

Despite a recovery from the low levels of results recorded in the first quarter of fiscal 2009, business performance fell short of levels posted in the previous fiscal year. Net sales decreased 4.6% compared with the previous fiscal year to ¥11,886 million.

Operating income amounted to ¥56 million, a turnaround from an operating loss of ¥74 million in the previous fiscal year due primarily to reductions in variable costs and SG&A expenses.

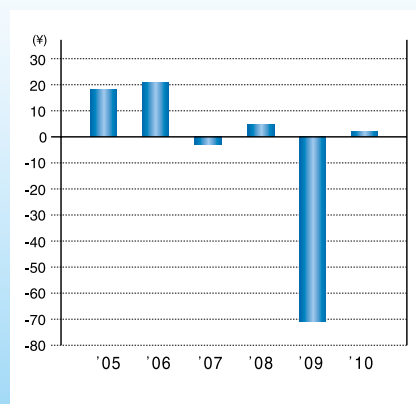
■ Europe

Steps toward recovery were extremely slow in the euro zone economy as the financial crisis spread. Consumer spending was weak in step with deterioration in the employment situation, while worsening of the real economy continued unabated coupled with financial collapse in Greece.

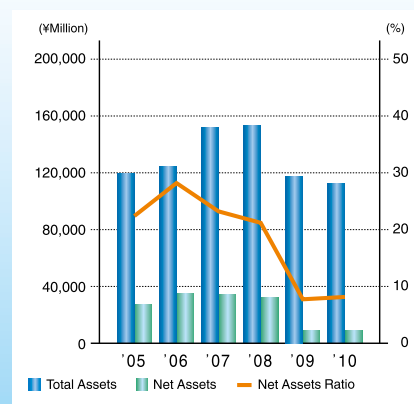
Net sales decreased 19.1% compared with the previous fiscal year to ¥13,482 million. Despite the positive effects of support measures for new car trade-in incentive measures, various factors led to this overall decrease, including a decline in sales to OEM customers due to contraction in the overall automobile market and stagnant sales in the aftermarket.

In spite of effects in reducing SG&A expenses, operating loss stood at ¥643 million compared with an operating loss of ¥208 million in the previous fiscal year due mainly to deterioration in the cost ratio caused by the significant decline in sales and drops in prices.

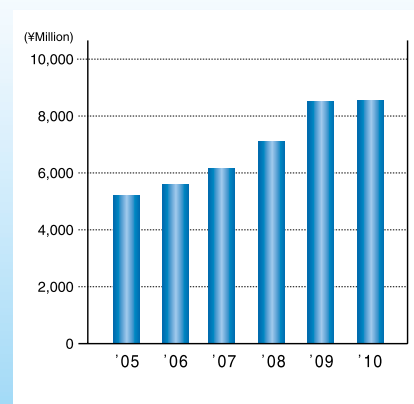
■ Net Income (Loss) per Share



■ Total Assets, Net Assets, Net Assets Ratio



■ Depreciation and Amortization



Financial Position

Current assets at fiscal year-end decreased ¥178 million compared with the previous fiscal year-end to ¥66,382 million. An increase in trade notes and accounts receivable owing to marked growth in sales in the fourth quarter was offset by a decrease in inventories.

Property, plant and equipment decreased ¥3,105 million, or 11.4%, from the previous fiscal year-end to ¥24,110 million. Despite the acquisition of production facilities by the Head Office and in China, depreciation rose to ¥4,500 million. Intangible assets decreased ¥1,502 million, or 8.3%, to ¥166,687 million. Investments and other assets decreased ¥140 million, or 2.5%, compared with the previous fiscal year-end to ¥5,533 million. As a result, total assets at year-end decreased ¥4,927 million, or 4.2%, compared with the previous fiscal year-end to ¥112,714 million.

Total liabilities decreased ¥5,104 million, or 4.7%, from the previous fiscal year-end to ¥103,401 million. Although trade notes and accounts payable increased, the decrease was due mainly to a decline in interest-bearing borrowings owing to an improvement in cash flows as the Company posted net income for the fiscal year under review. Total net assets amounted to ¥9,312 million, up ¥177 million, or 1.9%, compared with the previous fiscal year-end. As a result, the net assets ratio improved 0.5 percentage point to 8.1%.

Cash Flows

Net cash provided by operating activities was ¥12,381 million. This was due mainly to the recording of income before income taxes, a decrease in inventories and an increase in notes and accounts payable, despite an increase in notes and accounts receivable. Net cash used in operating activities at the end of the previous fiscal year was ¥2,851 million.

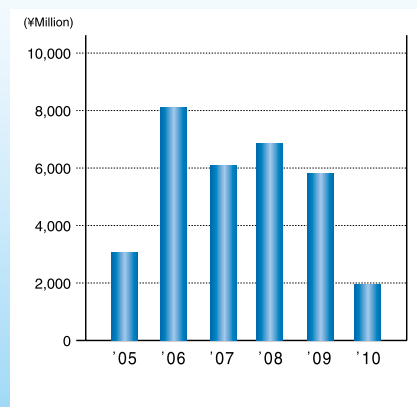
Net cash used in investing activities was ¥3,350 million. This was due mainly to payment for purchases of property, plant and equipment primarily for production equipment as well as payment for purchases of intangible assets such as software. Net cash used in investing activities at the end of the previous fiscal year was ¥10,121 million.

As a result, Clarion posted free cash flow of ¥9,030 million compared with negative cash flow of ¥12,972 million at the previous fiscal year-end.

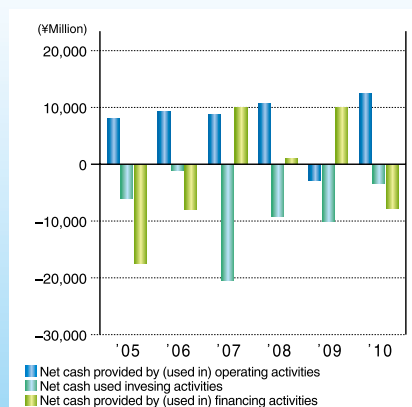
Net cash used in financing activities was ¥7,731 million due mainly to a decline in interest-bearing borrowings. Net cash provided by financing activities at the end of the previous fiscal year was ¥10,014 million.

As a result of these factors, cash and cash equivalents at the end of the year amounted to ¥10,192 million compared with ¥9,039 million at the previous fiscal year-end.

Capital Investment



Cash Flows



ROE and ROA



Corporate Data

Company Profile (as of March 31, 2010)

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 18, 1940
Paid-in Capital:	¥26,100 million
Number of Shares Outstanding:	282,744 thousand shares
Stock Exchange Listing:	Tokyo Stock Exchange, First Section; Osaka Securities Exchange, First Section (Ticker Code: 6796)
Number of Shareholders:	18,247
Number of Employees:	9,128 (consolidated) 1,502 (non-consolidated)
Main Products:	Car navigation systems, car audio systems, on-board cameras, visual equipment, bus equipment, communications equipment

Board of Directors and Corporate Auditors

(as of June 25, 2010)

Director, Chairman	Junzo Kawakami*
Representative Director, President	Tatsuhiko Izumi
Executive Director	Tetsuro Yoshimine
Director	Seishi Kasai
Director	Hidetoshi Kawamoto
Director	Toru Kaneko
Director	Satoshi Kawamoto
Director	Yasuhiko Honda*
Director	Masatsugu Shinozaki*
Full-time Corporate Auditor	Katsutoshi Takizawa
Corporate Auditor	Kazumichi Fujimura
Corporate Auditor	Yasuhiro Sasai**
Corporate Auditor	Koji Yamanokawa**

* Outside directors
** Outside auditors

Corporate Officers

(as of June 25, 2010)

Executive Corporate Officers	Tetsuro Yoshimine
	Seishi Kasai
	Hidetoshi Kawamoto
	Toru Kaneko
	Toyoji Aida
	Hiroyasu Kan
	Nobuyuki Oyachi
Corporate Officers	Satoshi Kawamoto
	Tatsuo Enokida
	Tadashi Wada

Principal Subsidiaries (as of June 25, 2010)

< Japan >

Clarion Sales and Marketing Co., Ltd. (CSM)
Clarion Manufacturing and Service Co., Ltd. (CMS)
Clarion Associe Co., Ltd.

< American Region >

Clarion Corporation of America
Electronica Clarion, S.A. de C.V.

< European Region >

Clarion Europe S.A.S.
Clarion Europa GmbH
Clarion Hungary Electronics Kft.

< Asia/Oceania Region >

Clarion (H.K.) Industries Co., Ltd.
Clarion Manufacturing Corporation of the Philippines

Clarion

Clarion Co., Ltd.

7-2 Shintoshin, Chuo-ku, Saitama-shi, Saitama 330-0081, Japan

<http://www.clarion.com/>