



Tatsuhiko Izumi
President

A stylized handwritten signature in black ink, appearing to read 'T. Izumi'.

▶ 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.

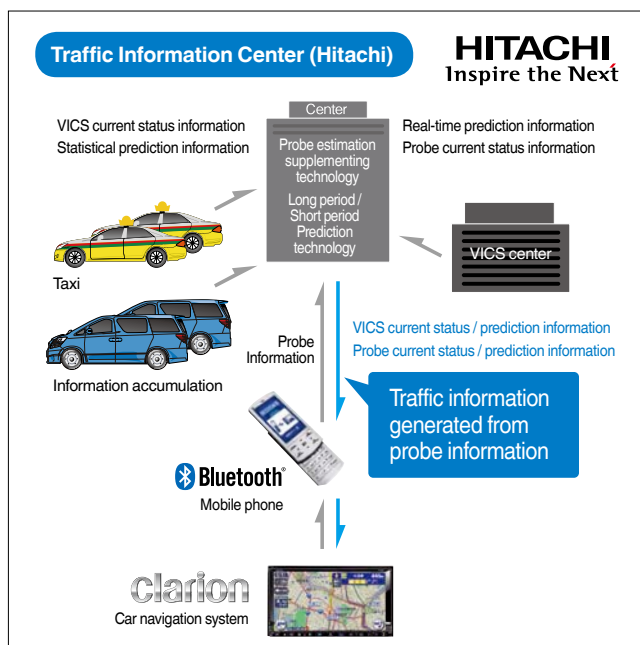
Against this backdrop, Clarion will press ahead with business structure reforms, and accelerate and strengthen initiatives to boost sales and profit. For fiscal 2010, ending March 31, 2011, we forecast consolidated net sales of ¥175,000 million, an increase of 0.1% year-on-year; consolidated operating 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