

clarion

Annual Report 2011

For the fiscal year ended March 2011



Clarion Co., Ltd.

Profile

Since its establishment in 1940, Clarion Co., Ltd. has been an innovator in creating advanced products that connect automobiles with music and information.

Since entering the car audio equipment field by introducing Japan's first dedicated passenger car radio in 1951, we have broadened our product range to include safety supporting camera systems and such in-vehicle information communication devices as car navigation systems, among others.

Clarion celebrated its 70th anniversary in 2010. Over the years, the environment in which Clarion operates has undergone dramatic change, including the advent of new social communication networks and electric vehicles.

Applying our unique ideas and advanced technologies, we will develop new domains to forge even stronger links of sound and information communication in the mobile environment. In the process, we will continue to raise the levels of safety, security, comfort and excitement in all that we provide to our customers throughout the world. All the while, Clarion will keep striving to enrich society by delivering valuable products that meet the growing need of people to enjoy more seamless interaction with the sound and information that they want.



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

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

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
For the Year:			
Net sales	¥178,318	¥174,762	\$2,144,541
Operating income	4,936	624	59,364
Net income	1,383	549	16,632
At Year-end:			
Total assets	103,769	112,714	1,247,981
Total net assets	8,728	9,312	104,973
Interest-bearing debt	42,096	46,862	506,277

	Yen		U.S. Dollars
	2011	2010	2011
Per Share:			
Net income	¥4.9	¥1.95	\$0.06
Cash dividends	—	—	—

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of US\$1 = ¥83.15, the approximate exchange rate on March 31, 2011.

CONTENTS

Profile	
Financial Highlights.....	01
Message from the President.....	02
Impact of the Great East Japan Earthquake.....	05
Financial Review.....	06
Corporate Data.....	09



Tatsuhiko Izumi
President

Review of Operations for Fiscal 2010, Ended March 31, 2011

In 2010, Clarion celebrated its 70th year of doing business—a milestone that could only have been achieved with the support of everyone involved with the Company, for which we are very grateful. Since our earliest days, we have advanced in step with automobile culture and sought to develop the relationship among sound, information and human interaction. Making maximum use of the tangible and intangible assets that we have amassed throughout our history, we have been boldly facing challenges in new domains. In the process, we will continue to bring satisfaction and pleasure to customers as a company valued globally.

During fiscal 2010, the automotive industry, with which we are most closely associated, bounced back steadily from the Lehman

Shock. Markets in emerging nations expanded, particularly in Asia, while North America proceeded along a path of real recovery. In Japan, automobile sales were buoyant due in part to special demand stemming from an incentive for consumers to buy eco-cars. These factors resulted in strong automobile sales. On the other hand, the Great East Japan Earthquake of March 11 had severely negative impacts on several fronts.

In this market environment, the Clarion Group moved ahead to improve corporate structure, which has been a key challenge since the Lehman Shock. Our efforts to streamline operations in various areas are beginning to bear fruit in our business results.

We are carrying out structural reforms such as eliminating and consolidating production facilities, shifting functions to China and integrating offices. At the same time, we are accelerating our efforts to expand sales, reduce design and development costs and cut variable costs by expanding local material procurement. These measures put us on the road toward making our corporate structure profitable.

Medium- to Long-term Management Strategy

The Clarion Group aims to realize consolidated net sales of ¥215,000 million and an operating income ratio of over 5% in the fiscal year ending March 31, 2014. To this end, we are striving to establish a structure that facilitates timely response to changes in the management environment such as changing 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.

Additionally, Clarion seeks to expand its range of new products such as vision systems (camera), audio systems with display and navigation systems linked with smartphones, as well as obtain new orders for audio and navigation systems for emerging countries, mainly with OEMs. We also seek to launch and expand new product offerings for the aftermarket.

Global Strategy

The world is changing at a dramatic pace. Diverse needs and subsequent business opportunities arise in every corner of the globe. The entire world is evolving into a marketplace of vast potential.

More than ever, activities must be rooted in respective regions. In other words, we must consider how Japanese companies can contribute to the global market and gear our efforts toward regional initiatives in individual markets, rather than exporting products and ideas from Japan.

Clarion has striven to be a “company that is truly needed by society” as its corporate creed. Accordingly, Clarion aims to accomplish its mission to respond swiftly to the world’s needs.

In that sense, the time has come for Clarion to live up to its full potential. Focusing firmly on the future, we will continue to deliver products that anticipate changes to come as we develop entirely new markets.



In Thailand, a new car audio/navigation/camera device plant scheduled for completion in April 2012 will produce approximately 560,000 units in its initial year. Production capacity for the year 2016 is targeted at two million units.

Strengthening Product Planning Capabilities

The importance of the environment is now widely acknowledged as globalization progresses. We have entered a stage in which we must determine how to implement eco-conscious activities. All companies in the automotive industry that we are a part of are making dynamic efforts to commercialize exciting new products and expand the scope of development to the infrastructure for the products.

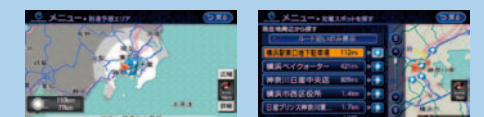
Electric vehicles require new types of information such as energy flow data, navigational capabilities for getting to charge stations and network data supporting smart grids. Clarion has been quicker than competitors in developing and marketing an in-vehicle information terminal designed for the future in which eco-cars such as hybrid vehicles and electric vehicles will be in the mainstream.

We are solidifying our position with a substantial lead in accommodating electric vehicles, which are spreading worldwide. Moreover, to accommodate the ever-evolving telecommunications environment and the growing presence of smartphones, we are maximizing in-vehicle user benefits by developing a system that integrates these phones more seamlessly with car entertainment equipment. Also, we are enhancing driving safety supporting systems with innovations in image processing technology as well as devices integrating navigation and automobile control. By developing our strength in these domains even more, we aim to make society safer and friendlier to people and the environment.



Dedicated navigation system for electric vehicles

Dedicated functions for electric vehicles



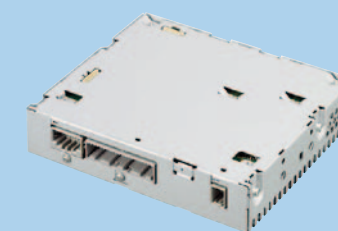
Display of reachable destination zones

Search for charging stations



Electricity consumption status display

Timer setting for charging



Telematics unit

Environmental Initiatives

The effects of global warming, the most critical environmental issue, are being felt throughout the world with alarming frequency. Countermeasures to rapid environmental change have become increasingly important priorities of corporate social responsibility and the realization of a sustainable society.

At Clarion, we have positioned these issues as business challenges and consider the environment and relevant activities to be critical to our enterprise. We are implementing environmental management in all aspects of our business activities, including product development. Also, we are globally executing Clarion's original action plan, which was formulated according to the Hitachi Group Environmental Action Plan, and promoting environmental management overseas.

Business Outlook

Although the Great East Japan Earthquake significantly impacted the domestic economy, Japan has been recovering a step at a time thanks to the support of many countries and all Japanese citizens.

Overseas, financial insecurity in Europe and North America are big obstacles and the recent appreciation of the yen is a major concern.

Against this backdrop, for fiscal 2011, ending March 31, 2012, we forecast consolidated net sales of ¥176,500 million, a decrease of 1.0% year-on-year; consolidated operating income of ¥3,500 million; and net income of ¥1,200 million.

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 "Clarion Group Code of Conduct" 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.

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 company that is truly needed by society.

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

July 2011

Tatsuhiko Izumi
President

Impact of the Great East Japan Earthquake

The Great East Japan Earthquake that struck on March 11 severely damaged eastern Japan, particularly the Tohoku region. The catastrophic accident at Tokyo Electric's Fukushima No. 1 nuclear power plant, as an immediate consequence, led to the spread of radioactive material and power shortages, causing a serious situation that continues. The extent and scale of the damage have reached shocking levels and affected other countries as well.

We at Clarion extend our heartfelt sympathy to all those affected by the disaster. We sincerely wish for their swift recovery.

We would also like to express our gratitude to everyone in Japan and throughout the world for providing support at this difficult time.

Effect on Business Performance for Fiscal 2010

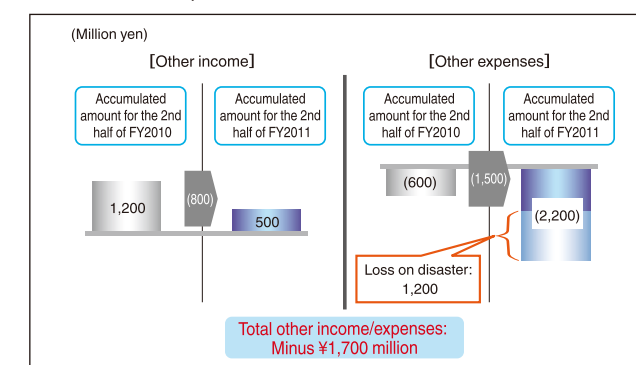
In terms of the disaster's impact on the Clarion Group, Clarion Manufacturing and Service Co., Ltd., one of Clarion's most important production facilities globally and the only one of its kind in Japan, located in Koriyama City, Fukushima Prefecture, did not suffer maximum damage. Luckily, our worst fears were not realized, as we avoided human casualties. Minor damage to some buildings and facilities was reported as production equipment was jolted slightly out of alignment. The diligent recovery efforts of Clarion employees allowed us to resume normal operations on March 22, only 11 days after the earthquake.

However, certain items of inventory, including raw materials and products, were destroyed.

Despite suffering relatively minor damage, Clarion nevertheless posted an extraordinary loss of approximately ¥1.2 billion, which included around ¥500 million in loss including fixed assets, and about ¥600 million in non-recoverable fixed expenses during the period in which operations were halted.

Net sales were down approximately ¥3.6 billion for fiscal 2010 as both the OEM market and the aftermarket were affected.

Other Income/Expenses



Conditions in the First Half of Fiscal 2011

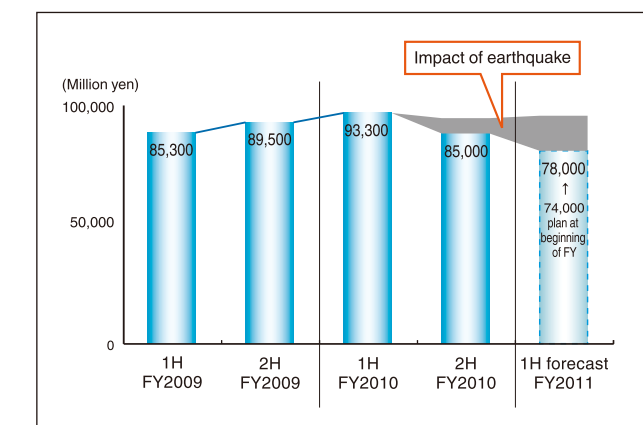
Although Clarion Manufacturing and Service sits 55 kilometers from the Fukushima No. 1 nuclear power plant, there have been no direct effects of radiation on employees or products. Also, we have not been informed of any procurement problems by any of our customers and shipments have continued as normal.

To conserve electricity in the face of power shortages that started in July, operations will be shut down on Thursdays and Fridays in line with the policies of the automotive industry and the Hitachi Group. Furthermore, we aim to substantially reduce power consumption by introducing generators for use at our Saitama Head Office and the factory in Koriyama City, in addition to saving electricity by carefully controlling lighting, air conditioning and other power-consuming devices, which we hope will result in electricity saving exceeding the plan.

We expect issues with component procurement and shortfalls due to the disaster to be resolved by the end of August, thanks to around-the-clock recovery efforts by each company involved.

Meanwhile, car manufacturers' recoveries in production are exceeding expectations in terms of volume and timing.

Net Sales



Regarding hedging risk in future production, we have been shifting manufacturing operations to China and establishing facilities in Thailand. We plan to accelerate efforts aimed at optimizing production sites and decentralizing production operations.

Finally, again we would like to express our sincerest appreciation to all those in Japan and around the world for providing tremendous support after the disaster. Clarion will also continue to cooperate as much as possible with the disaster recovery and rehabilitation efforts.

Review of Operations

Consolidated net sales for fiscal 2010 amounted to ¥178,318 million, up 2.0% year-on-year. In Japan, automobile sales were buoyant due to special demand stemming from incentive measures for eco-cars. In the second half of the fiscal year, however, following the termination of such measures coupled with the impact of the Great East Japan Earthquake, new car sales in March 2011 declined significantly, resulting in the biggest-ever decrease year-on-year. New car sales increased year-on-year in the Americas as well as in Asia led by China, and Clarion posted strong sales mainly in the OEM market.

With regard to income, we faced opportunity losses attributable to parts supply shortages, an increase in certain expenses such as transportation costs, as well as lower sales due to the Great East Japan Earthquake. However, we worked to improve the cost of sales ratio by curbing fixed costs and strengthening activities to reduce variable costs, which resulted in consolidated operating income of ¥4,936 million, a notable increase of 690.5% from the previous fiscal year. We recorded other income in the amount of ¥1,013 million, consisting mainly of a gain on sales of property, plant and equipment of ¥165 million and a gain on reversal of patent fees for prior years of ¥137 million. Conversely, we posted other expenses of ¥3,495 million due primarily to loss on disaster of ¥1,182 million, interest expense of ¥626 million, business structure improvement expenses of ¥600 million and loss on sales and disposal of property, plant and equipment of ¥171 million.

As a result, income before income taxes and minority interests was ¥2,454 million, up 258.8% from the previous fiscal year. Consolidated net income stood at ¥1,383 million, an increase of 151.8%.

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

Japan

Thanks to subsidy programs including incentive measures for eco-cars, new car sales in the first half of fiscal 2010 increased 17% year-on-year. With the discontinuation of the programs, however, new car sales drastically decreased after October 2010. The Great East Japan Earthquake further accelerated the decline. As a result, new car sales decreased approximately 7% year-on-year in fiscal 2010, negatively impacting the Clarion Group's operating environment.

Net sales in Japan amounted to ¥93,089 million, down 0.9%. This decrease in net sales was attributable mainly to a decline in sales in the aftermarket, despite an increase in sales in the OEM market. An improvement in the cost of sales ratio through a reduction in the proportion of variable costs as well as a reduction in selling, general and administrative (SG&A) expenses resulted in consolidated segment income of ¥2,967 million compared with a segment loss of ¥340 million in the previous fiscal year.

Americas

Net sales increased 7.4% compared with the previous fiscal year to ¥59,611 million. New car sales increased 13% versus the previous fiscal year. Despite a decrease in net sales due in part to the depreciation of the U.S. dollar, total net sales increased owing to strong sales in the OEM market overall.

Segment income increased 25% to ¥1,898 million. This result was due primarily to the positive effects of sales growth coupled with a reduction in SG&A expenses, despite drops in prices.

Europe

Net sales decreased 13.6% compared with the previous fiscal year to ¥11,653 million due in part to a decline in sales to OEM customers and a decrease in sales arising from the depreciation of the euro.

The decrease in net sales resulted in a segment loss of ¥106 million compared with a segment loss of ¥643 million in the previous fiscal year.

Asia and Australia

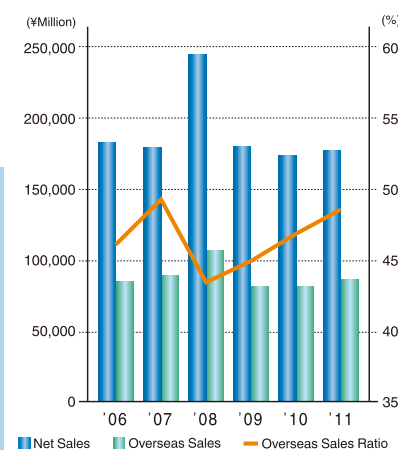
The scale of the automobile market is significantly expanding in Asia and Australia, as new car sales in China posted the highest volume of any country in the world for two consecutive years.

Net sales increased 17.5% compared with the previous fiscal year to ¥13,963 million due mainly to strong sales in the Chinese OEM market.

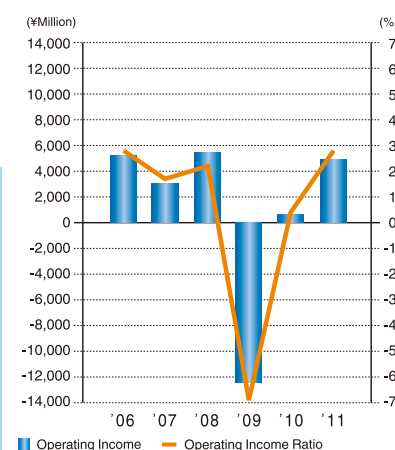
Segment income amounted to ¥116 million, up 107.2%, attributable primarily to a rise in sales despite increased transportation costs due to parts supply shortages.

Segment income/loss refers to operating income/loss.

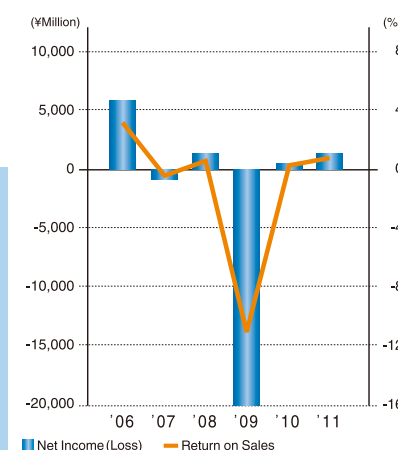
■ Net Sales, Overseas Sales and Overseas Sales Ratio



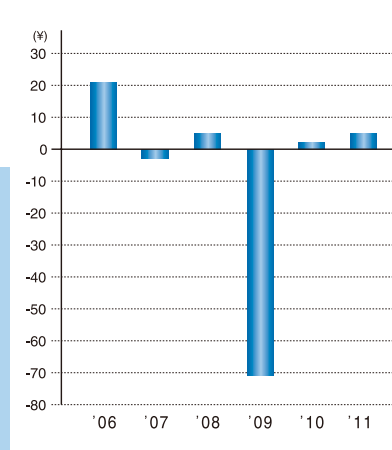
■ Operating Income (Loss) and Operating Income (Loss) Ratio



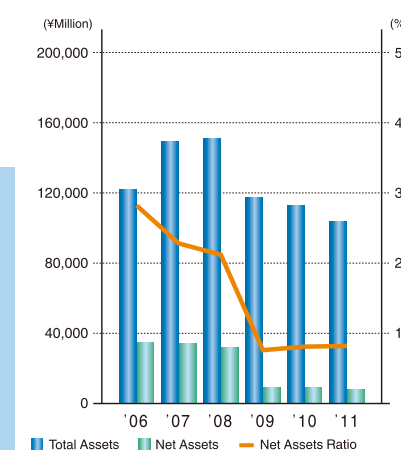
■ Net Income (Loss) and Return on Sales



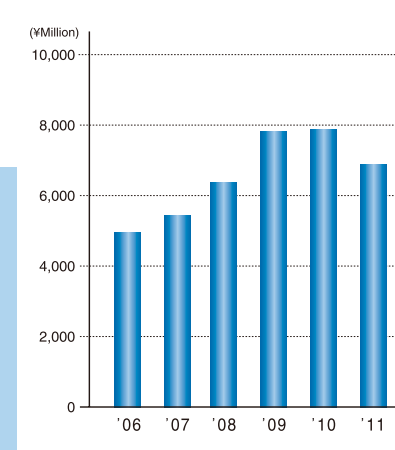
■ Net Income (Loss) per Share



■ Total Assets, Net Assets and Net Assets Ratio



■ Depreciation and Amortization



Financial Position

Current assets at fiscal year-end decreased ¥5,702 million, or 8.6%, compared with the previous fiscal year-end to ¥60,679 million. Trade notes and accounts receivable decreased as a result of a significant decline in sales in the fourth quarter.

Property, plant and equipment, net decreased ¥2,123 million, or 8.8%, from the previous fiscal year-end to ¥21,987 million. This was attributable mainly to curbing investment and depreciation. Intangible assets decreased ¥786 million, or 4.7%, to ¥15,901 million. As a result, total assets at year-end decreased ¥8,944 million, or 7.9%, compared with the previous fiscal year-end to ¥103,769 million.

Total liabilities decreased ¥8,360 million, or 8.1%, from the previous fiscal year-end to ¥95,041 million. This decrease was a result of a decline in trade notes and accounts payable and a drop in interest-bearing debt resulting from an improvement in cash flows. Although Clarion posted net income, total net assets decreased ¥583 million, or 6.3%, to ¥8,728 million compared with the previous fiscal year-end due to a decrease in foreign currency translation adjustments arising from significant appreciation of the yen. However, a decrease in total assets resulted in an improvement of 0.1 percentage point in the owned capital ratio to 8.2%.

Cash Flows

Net cash provided by operating activities was ¥8,559 million. This was due mainly to the recording of income before income taxes and a decrease in notes and accounts receivable, despite a decrease in notes and accounts payable. Net cash provided by operating activities at the end of the previous fiscal year was ¥12,381 million.

Net cash used in investing activities was ¥5,768 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 ¥3,350 million.

As a result, Clarion posted free cash flow of ¥2,791 million compared with free cash flow of ¥9,030 million at the previous fiscal year-end.

Net cash used in financing activities was ¥5,242 million due mainly to repayment of long-term loans. Net cash provided by financing activities at the end of the previous fiscal year was ¥7,731 million.

As a result of these factors, cash and cash equivalents at the end of the year amounted to ¥7,421 million compared with ¥10,192 million at the previous fiscal year-end.

Corporate Data

Company Profile (as of March 31, 2011)

Company Name:	Clarion Co., Ltd.
Registered Head Office · Technology Center :	7-2 Shintoshin, Chuo-ku, Saitama-shi, Saitama 330-0081, Japan TEL: (81) 48-601-3700
Headquarters:	11-2 Shintoshin, Chuo-ku, Saitama-shi, Saitama 330-6030, Japan TEL: (81) 48-601-3700
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 and Osaka Securities Exchange, First Section (Ticker Code: 6796)
Number of Shareholders:	19,451
Number of Employees:	8,842 (consolidated) 1,486 (non-consolidated)
Main Products:	Car navigation systems, car audio systems, in-vehicle cameras, visual equipment, bus equipment, communications equipment

Board of Directors and Corporate Auditors

(as of June 24, 2011)

Representative Director, President	Tatsuhiko Izumi
Executive Director	Tetsuro Yoshimine
Executive Director	Toru Kaneko
Director	Seishi Kasai
Director	Hidetoshi Kawamoto
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**

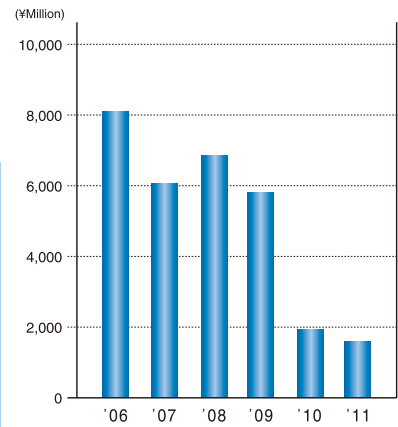
* Outside directors
** Outside auditors

Corporate Officers

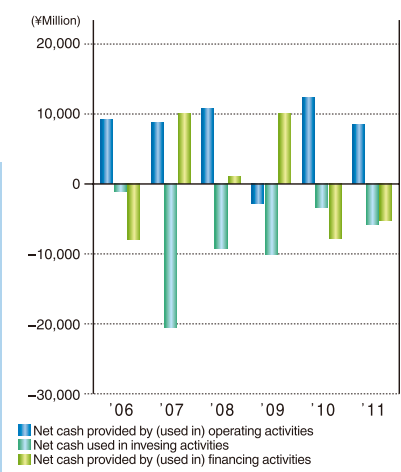
(as of June 24, 2011)

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

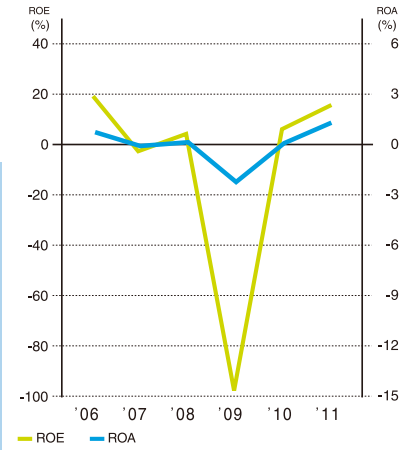
Capital Investment



Cash Flows



ROE and ROA



Principal Subsidiaries (as of June 24, 2011)

< 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 G.m.b.H.
Clarion Hungary Electronics Kft.

< Asia Region >

Clarion (H.K.) Industries Co., Ltd.
Clarion (Malaysia) Sdn., Bhd.
Clarion Asia (Thailand) Co., Ltd.

Clarion

Clarion Co., Ltd.

Registered Head Office · Technology Center

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