

clarion

Annual Report 2012

For the fiscal year ended March 2012



Clarion

Clarion Co., Ltd.

Registered Head Office · Technology Center

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Headquarters

11-2 Shintoshin, Chuo-ku, Saitama-shi, Saitama, 330-6030, Japan TEL: (81) 48-601-3700

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

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.

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.

Smart Access

Clarion has developed the "Smart Access" cloud service for vehicles aimed at offering drivers a comfortable, safe and convenient drive. By connecting vehicles with smartphones and other devices via "Smart Access" and utilizing a variety of technologies that include cloud technology, Clarion aims to provide users aboard a vehicle with entertainment, drive-related information, Internet access and a diverse range of convenience.



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
	2012	2011	2012
For the Year:			
Net sales	¥186,711	¥178,318	\$2,271,702
Operating income	7,873	4,936	95,796
Net income	7,532	1,383	91,643
At Year-end:			
Total assets	122,821	103,769	1,494,358
Total net assets	16,579	8,728	201,717
Interest-bearing debt	41,927	42,096	510,132

	Yen		U.S. Dollars
	2012	2011	2012
Per Share:			
Net income	¥26.71	¥4.90	\$0.32
Cash dividends	—	—	—

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of US\$1 = ¥82.19, the approximate exchange rate on March 31, 2012.

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Message from the President



Tatsuhiko Izumi
President

Review of Operations for Fiscal 2011, Ended March 31, 2012

In the automobile market during fiscal 2011, certain manufacturers were forced to suspend operations and curtail production owing to flood damage in Thailand, which occurred after parts supply shortages caused by the Great East Japan Earthquake had been resolved. Nevertheless, a subsequent increase in production and reintroduction of an incentive to buy eco-cars resulted in the first year-on-year increase in automobile sales in Japan in two years. Favorable conditions in the Americas also led to significant growth in automobile sales there.

Amid this market environment, Clarion succeeded in minimizing the impact of the earthquake on earnings while working to restore the supply chain to mitigate problems in parts supply caused by the flooding in Thailand. In addition, the entire Clarion Group implemented measures to enhance profitability that included ongoing programs to cut variable expenses and efforts to curb fixed costs.

As a result, consolidated net sales for fiscal 2011 amounted to ¥186,711 million, up 4.7% compared with the previous fiscal year.

Consolidated operating income stood at ¥7,873 million, surging

59.5% year-on-year. Consolidated net income totaled ¥7,532 million, a significant increase of 444.6% from the previous fiscal year as well as a record high, due to an improvement in the balance of non-operating income and expenses.

Medium-term Management Goals and Basic Policies

Clarion aims to realize consolidated net sales of ¥220,000 million and an operating income ratio of more than 5% in the fiscal year ending March 31, 2015.

As our basic policies to achieve these goals, we will create a business model that is more than a mere extension of the past by accurately factoring in changes in the global environment. Further, we will strengthen our foundations as a valued company through full-fledged entry into markets that specialize in “connecting” diverse information by leveraging our strong determination and expertise.

As an expression of this concept, we have formulated a new slogan, “Expansion from an in-vehicle equipment manufacturer to an in-vehicle information solution provider.”

Expansion from an In-Vehicle Equipment Manufacturer to an In-Vehicle Information Solution Provider

The market environment surrounding Clarion is in upheaval. Clarion will face this rapidly changing market while promptly adapting and evolving its business model. As such, our domain will be shifting from the previous car navigation and audio as an in-vehicle equipment manufacturer, to new business domains of “Automotive Cloud Information Network Service” including software and service, as well as “Vision System” business in the realm of safety and security.

Realizing products and services that “connect” by letting people access the various information and service they need any time they want, in an optimized format, so they can feel more fully a sense of safety, security and comfort. Managing the information required for vehicles, people and the environment, in a cohesive manner, to provide each of our customers with maximum value through safety and comfort. These are the things that Clarion will provide by simultaneously developing a comprehensive information management system and optimized user interface, and linking them together to provide uniquely attractive customer value. Moreover, Clarion will pursue the limitless potential of future innovation such as contributing to social infrastructure through energy management aimed at lessening the burden on the environment.

Activities of a Truly Global Corporation

Clarion divides its global operations into five regions, namely Japan, the Americas, Europe, China and ASEAN/India. Each region maintains its own control function regarding the region, including the functions of marketing, development, production and sales. We hope to provide each and every region with the ideal products and services by organically combining various functions based on geographical region, customers and products. Instead of controlling everything from the headquarters in Japan, all regions will have the rights and responsibilities that come with autonomy, and by swiftly coordinating with other regions, a highly global management organization can be set up.

Clarion, with expectation of growth in emerging markets, has transferred R&D and purchasing functions step by step to China aiming to expand business in that nation, where we see the most remarkable growth in the emerging countries, as well as to ensure cost competitiveness to meet demands from the global market. Currently, Chinese production operation is the core of Clarion’s production functions with sharing about 50% of its global production. We made substantial reinforcement of R&D unit in Xiamen, Fujian, China, and built a new global R&D Center to realize drastic reduction in R&D costs and to ensure R&D activities that meet needs of various regions.

Additionally, as part of efforts to restructure its systems and organizations in the ASEAN region in order to establish an improved supply structure to deal with orders from worldwide customers, Clarion has established a new factory in Thailand. This factory started its full operation in April 2012 with production of audio/navigation/camera devices for cars. The planned quantity in the first year of 600,000 units will expand to 2 million units per year in 2016. As a result, Clarion aims to enhance its supply functions of products to customers throughout the world in a smooth and timely manner through managing operation stages from component procurement to production.

moves you • connects you

As part of the corporate change into an “Automotive Information System Provider,” Clarion has adopted the new brand statement, “moves you • connects you,” and is implementing it globally. This represents the strong desire that “By keeping you connected to sound, information, convenience and safety, Clarion moves you.”



The new Thai Factory started its full operation in April 2012 with production of audio/navigation/camera devices for cars. The planned quantity in the first year of 600,000 units will expand to 2 million units per year in 2016.

Message from the President

Environmental Initiatives

The effects of global warming, the most critical environmental issue, are being felt throughout the world with alarming speed. Countermeasures to address rapid environmental change have become increasingly important priorities in activities related to corporate social responsibility (CSR) 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. In addition, we are globally executing Clarion's original action plan, which was formulated in accordance with the Hitachi Group Environmental Action Plan, and promoting environmental management overseas.

Business Outlook

The U.S. economy is characterized by slower growth in employment despite previously being on a moderate recovery track, while concerns persist over the debt crisis in Europe and rising crude oil prices. As a result, the future outlook for the global economy remains uncertain. Conversely, in Japan, the economy is on a moderate recovery track owing primarily to strong momentum in earthquake recovery demand and an improvement in corporate performance in step with a correction phase for the strong yen. In the automobile industry, however, with the termination of incentive measures for new car purchases, a significant increase in new car sales cannot be expected in Japan. On the other hand, sales of new cars are expected to continue to rise overseas, particularly in emerging countries.

Against this backdrop, Clarion aims to expand earnings by streamlining variable expenses, executing structural reforms to cut fixed costs and promoting business expansion mainly in emerging nations.

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 our 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.

September 2012

Tatsuhiko Izumi
President

Topics

"Smart Access" Offers the Great Potential of Cloud Service for Vehicle in the Future

Smart Access



Clarion has worked with the Hitachi Group to develop the "Smart Access" cloud service for vehicles, aimed at offering drivers a comfortable, safe and convenient drive. This constitutes our first step toward becoming an "In-Vehicle Information Solution Provider."

"Smart Access" has been designed to support a wide variety of future needs and possibilities, including Smartphone Connectivity to take advantage of vast applications in the car, VRM (Vehicle Relational Management System) Service to safeguard the vehicle, CRM (Customer Relational Management System) Service to safeguard users and E Call for prompt reporting of emergencies. Its ability to function smoothly, not only with Clarion systems but also with the information network services of car manufacturers, is a major advantage.

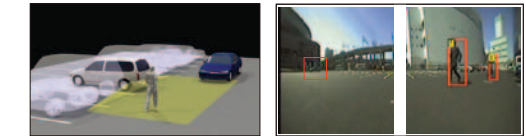
The revolutionary new in-car intelligent controller "Next GATE," specializing in iPhone® integration, as well as the AV navigation system "NX712" were also released. It provides iPhone users with a comfortably connected drive, thanks to the wide selection of applications via "Smart Access" and the unit's easy installation.



Safe Driving Support System (Vision System)

Recent years have seen a rise in demand for car cameras that provide drivers with a sense of safety and security. The market for car cameras is expected to grow exponentially, especially in the United States, where legislation to establish rear visibility standards has been approved. Clarion already has a strong foothold in the car camera field and is boosting camera development to reflect the rise in demand. We are concentrating on further increasing performance and functionality as the next-generation Vision System.

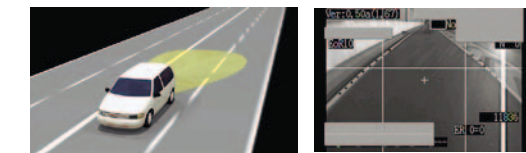
- Detection of vehicles/pedestrians using image recognition function of rear view cameras



Detection of approaching pedestrians with ultra-wide-angle lenses

Our Overhead View Monitor (OVM) system uses a wide-angle lens, enabling display of a broader perspective than conventional rear cameras. Incorporated image recognition technology enables detection of obstacles approaching from right or left to effectively support driving when backing up.

- Lane detection using image recognition function of rear view cameras



The rear camera isn't limited to driving in reverse. Its image recognition technology detects traffic lanes and warns the driver when the vehicle veers out of its lane.

- OVM: Overhead View Monitor



Our latest OVM system goes beyond augmenting the driver's field of view around the vehicle. Combined with image recognition technology, it is able to detect obstacles approaching from any direction and send a warning to the driver.



Display Example of Semi-transparent Side View (Left side door (Sidewalk/Pavement side door) is shown as semi-transparent image)



Display Example of OVM (images of OVM and rear view camera)

Financial Review

Review of Operations

Consolidated net sales for fiscal 2011 amounted to ¥186,711 million, up 4.7% year-on-year. We faced parts supply shortages in Japan caused by the Great East Japan Earthquake in the first half of the fiscal year and had to deal in the second half with problems in the supply of imported parts due to flood damage in Thailand. Meanwhile, the yen continued to appreciate throughout the fiscal year. As a result, the situation remained uncertain. Nonetheless, the rapid recovery in the parts supply chain, upward momentum in production and sales volume of new cars by Japanese car manufacturers and strong growth in the automobile market in the Americas were positive factors during the fiscal year.

With regard to income, we pursued ongoing activities to reduce variable expenses throughout the Clarion Group and worked to improve earnings, in particular, by curbing non-essential, non-urgent fixed costs. As a result, consolidated operating income amounted to ¥7,873 million, an increase of 59.5% year-on-year. Consolidated net income stood at ¥7,532 million, a significant increase of 444.6% from the previous fiscal year as well as a record high, due to an improvement in the balance of non-operating income and expenses.

With the aim of standardizing accounting periods, the results of certain consolidated subsidiaries in the Americas and China using the calendar year for account settlement are stated for the 15-month period of January 2011 to March 2012.

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

Japan

In the automobile industry, production and sales in the first half of the fiscal year were down significantly year-on-year due to the impact of earthquake damage on parts manufacturers. Nevertheless, the recovery in the supply chain and reintroduction of an incentive to buy eco-cars had a positive effect and domestic new car sales rose approximately 3% for the full year compared with the previous fiscal year.

Consolidated segment sales amounted to ¥96,917 million, up 4.1% year-on-year. One favorable factor that led to this result was the increase in new car sales volume in the second half of the fiscal year (up 37% year-on-year). Segment income stood at ¥6,327 million, a rise of 113.2% due to a reduction in the cost of sales ratio, reflecting an improvement in the proportion of variable expenses as well as lower fixed costs.

Americas

New car sales in the United States increased 9%, with year-on-year gains posted for 10 consecutive months, due in part to a respite in gasoline price hikes. Although net sales declined owing to a change in product composition that included a shift to lower-priced products as a result of parts supply issues, sales increased on the whole. This was due primarily to a rise in orders in electronics manufacturing service (EMS) business at subsidiaries in Latin America and to the standardization of accounting periods.

Segment sales amounted to ¥62,024 million, up 4.0% year-on-year.

Segment income decreased 29.9% to ¥1,331 million due mainly to a decrease in gross profit resulting from a change in product composition.

Europe

Segment sales decreased 7.0% year-on-year to ¥10,840 million due mainly to a reduction in sales for the original equipment manufacturer (OEM) market.

Segment income amounted to ¥2 million (compared with a segment loss of ¥106 million in the previous fiscal year) as a result of efforts to reduce fixed costs.

Asia and Australia

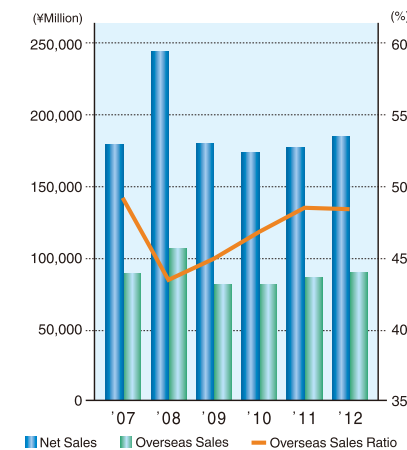
China maintained its annual economic growth rate at a high level of 9.2% during the previous fiscal year, but the speed of expansion has decelerated for the past five consecutive quarters, clearly denoting a slowdown in the Chinese economy. In other emerging nations in Asia, growth is weakening overall.

Segment sales increased 21.2% year-on-year to ¥16,928 million primarily as a result of making an affiliate in Thailand into a consolidated subsidiary and standardizing accounting periods for subsidiaries in China.

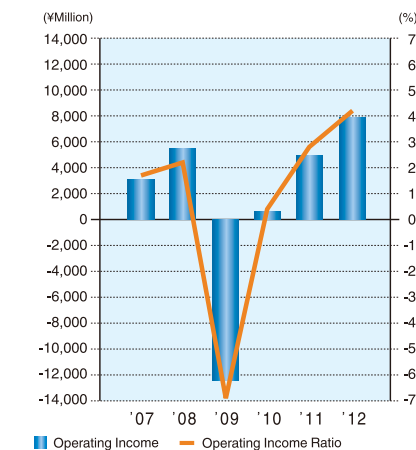
Segment income increased 242.3% to ¥400 million due to the gain in sales despite rising airfreight and other costs caused by tighter parts supply and a sharp increase in customer demands.

Segment income/loss refers to operating income/loss.

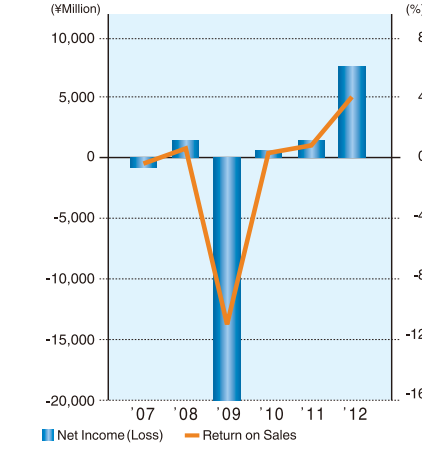
■ Net Sales, Overseas Sales and Overseas Sales Ratio



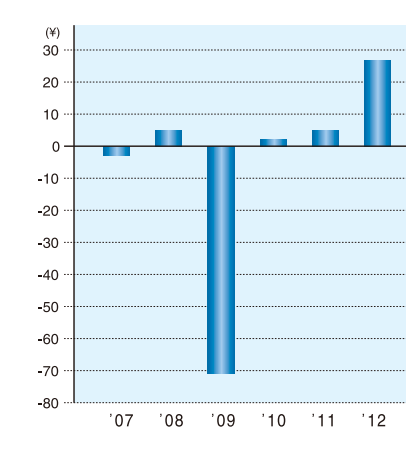
■ Operating Income (Loss) and Operating Income (Loss) Ratio



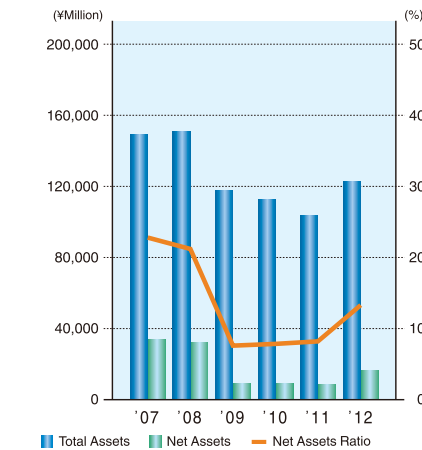
■ Net Income (Loss) and Return on Sales



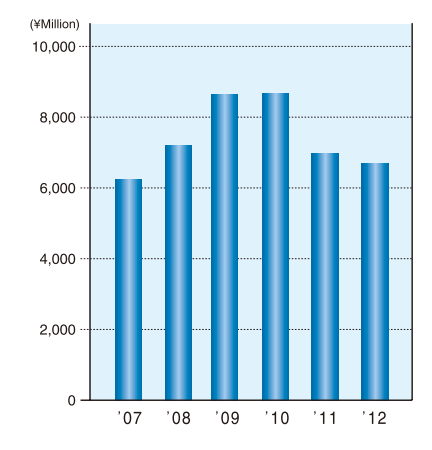
■ Net Income (Loss) per Share



■ Total Assets, Net Assets and Net Assets Ratio



■ Depreciation and Amortization



Financial Review

Corporate Data

Financial Position

Current assets at fiscal year-end increased ¥16,152 million, or 26.6%, compared with the previous fiscal year-end to ¥76,832 million. This result was due to an increase in cash on hand and in banks because the end of the fiscal year fell on a holiday; an increase in trade notes and accounts receivable owing to the sales gain; and an increase in short-term loans.

Property, plant and equipment, net, increased ¥1,123 million, or 5.1%, from the previous fiscal year-end to ¥23,110 million. This was attributable mainly to the construction of a new factory in Thailand. Intangible assets increased ¥1,444 million, or 9.1%, from the previous fiscal year-end to ¥17,345 million. Investments and other assets increased ¥331 million, or 6.4%, from the previous fiscal year-end to ¥5,532 million. As a result, total assets at year-end increased ¥19,051 million, or 18.4%, compared with the previous fiscal year-end to ¥122,821 million.

Total liabilities increased ¥11,201 million, or 11.8%, from the previous fiscal year-end to ¥106,242 million. This was primarily the result of an increase in trade notes and accounts payable since the fiscal year-end fell on a holiday. Total net assets increased ¥7,850 million, or 89.9%, from the previous fiscal year-end to ¥16,579 million due to the recording of net income. As a result, the net assets ratio was 13.3%, an improvement of 5.1 percentage points from the previous fiscal year-end.

Cash Flows

Net cash provided by operating activities was ¥16,304 million. This was due mainly to the recording of income before income taxes and minority interests and an increase in notes and accounts payable, despite an increase in notes and accounts receivable. Net cash provided by operating activities at the end of the previous fiscal year was ¥8,559 million.

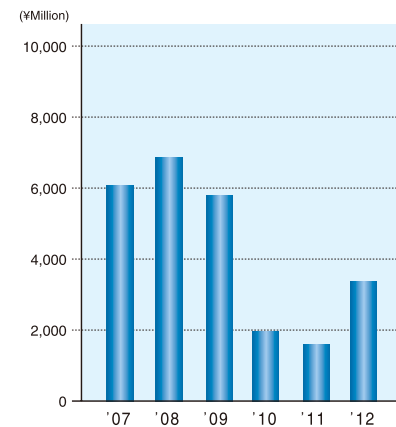
Net cash used in investing activities was ¥11,587 million. This was due mainly to payment for purchases of property, plant and equipment as well as payment for purchases of intangible assets. Net cash used in investing activities at the end of the previous fiscal year was ¥5,768 million.

As a result, Clarion posted free cash flow of ¥4,717 million compared with free cash flow of ¥2,791 million at the previous fiscal year-end.

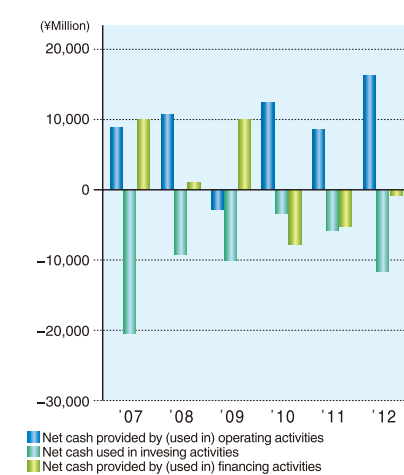
Net cash used in financing activities was ¥751 million due mainly to repayment of finance lease obligations. Net cash provided by financing activities at the end of the previous fiscal year was ¥5,242 million.

As a result of these factors, cash and cash equivalents at the end of the year amounted to ¥11,610 million compared with ¥7,421 million at the previous fiscal year-end.

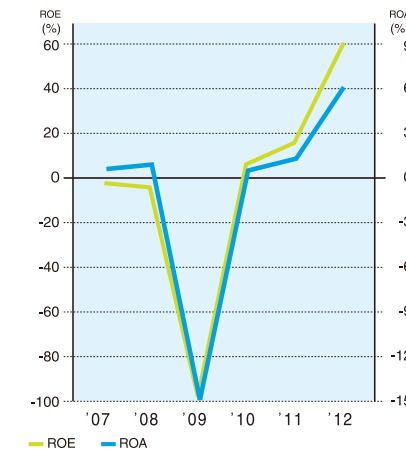
■ Capital Investment



■ Cash Flows



■ ROE and ROA



Company Profile (As of March 31, 2012)

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:	16,635
Number of Employees:	9,975 (consolidated) 1,547 (non-consolidated) (excl. employees on temporary assignments)
Main Products:	Automotive cloud information network service, car navigation systems, car audio systems, in-vehicle cameras, visual equipment, bus equipment, communication equipment

Board of Directors and Corporate Auditors (As of June 22, 2012)

Representative Director, President	Tatsuhiko Izumi
Senior Executive Director	Tetsuro Yoshimine
Executive Directors	Toru Kaneko Hidetoshi Kawamoto
Directors	Satoshi Kawamoto Tadashi Wada Yasuhiko Honda * Masatsugu Shinozaki *
Full-time Corporate Auditor	Seishi Kasai
Corporate Auditors	Kazumichi Fujimura Yasuhiro Sasai ** Kazuo Kurihara **

* Outside directors
** Outside auditors

Corporate Officers (As of June 22, 2012)

Senior Executive Corporate Officer	Tetsuro Yoshimine
Executive Corporate Officers	Toru Kaneko Hidetoshi Kawamoto Satoshi Kawamoto Toyoji Aida Hiroyasu Kan Nobuyuki Oyachi
Corporate Officers	Tadashi Wada Yoshihisa Matsuoka Koichi Murakami Hideyuki Tamura

Principal Subsidiaries (As of June 22, 2012)

Japan	Europe Region
<ul style="list-style-type: none"> ● Clarion Sales and Marketing Co., Ltd. (CSM) ● Clarion Manufacturing and Service Co., Ltd. (CMS) 	<ul style="list-style-type: none"> ● Clarion Europe S.A.S. ● Clarion Europa G.m.b.H. ● Clarion Hungary Electronics Kft. ● Clarion (G.B.) Ltd.
America Region	Asia Region
<ul style="list-style-type: none"> ● Clarion Corporation of America ● Electronica Clarion, S.A. de C.V. 	<ul style="list-style-type: none"> ● Clarion (H.K.) Industries Co., Ltd. ● Dongguan Clarion Orient Electronics Co., Ltd. ● Clarion Asia (Thailand) Co., Ltd. ● Clarion (Malaysia) Sdn., Bhd. ● Clarion (Taiwan) Manufacturing Co., Ltd.