

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



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.

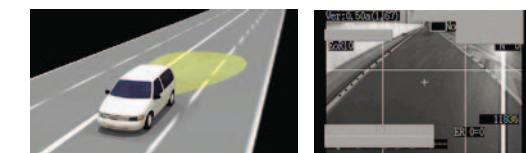
- Detection of vehicles/pedestrians using image recognition function of rear view cameras



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)