



Aiming for New Growth through Forward-looking Business Strategies

Review of Operations for Fiscal 2006, Ended March 31, 2007

First of all, I would like to inform readers about efforts to strengthen ties with the Hitachi Group and business reorganization. As a result of the TOB (tender offer bid) launched by Hitachi in November 2006, Clarion became a consolidated subsidiary of Hitachi, Ltd. At the same time, Xanavi Informatics Corporation (Xanavi), a wholly owned subsidiary of Hitachi, became a wholly owned subsidiary of Clarion through a share transfer.

Amid these changes, we posted strong sales in our EMS (Electronic Manufacturing Services) business in Central and South America and in the OEM (Original Equipment Manufacturers) market in North America. In Japan, however, sales were adversely affected due to a decrease in car sales and reduced product prices owing to changes in the composition of car grades in the OEM market, while sales prices dropped dramatically in the aftermarket owing to intensified sales competition. As a result, consolidated net sales for fiscal 2006 amounted to ¥181,041 million, down 1.7% year-on-year.

With regard to income, consolidated operating income totaled ¥3,072 million, down 41.2%. Despite a reduction in distribution/logistics costs and expenses, this was due to an increase in strategic investments in R&D and advertising expenses associated with the launch of the new "Clarion" global brand, coupled with lower profits due to a decline in unit sales.

We posted a consolidated net loss of ¥784 million (compared with net income of ¥5,862 million in the previous year). This was because we posted other expenses of ¥4,000 million, of which ¥1,436 million was for purification cost for land* as well as a loss on sales and disposal of property, plant and equipment despite other income in the amount of ¥1,095 million, which arose mainly from interest and dividend income of ¥336 million. Of all the aforementioned factors attributing to the net loss, expenses for environmental countermeasures were unforeseen and temporary. All expenses were posted as of March 2007, and implementation of countermeasures is duly underway.

*After a voluntary survey, fluorine content was found in a part of land owned by the Company, which had to be removed and purified.

Tatsuhiko Izumi
President

Changes in Market Environment

Competition continues to intensify in the aftermarket for car audio-visual devices as well as navigation systems, and consequently, has driven prices down. We foresee a further shift in sales to the OEM market within the market segments. As for the products themselves, we anticipate a shift from conventional car audio-visual devices to navigation systems, and by 2010 in the OEM market, the percentage of navigation systems is expected to exceed that of car audio-visual devices.

Priority Management Issues

Clarion has set mid-term management targets of net sales of ¥270,000 million and an operating income ratio of 5% by March 2010. To achieve these goals, we are promoting activities dubbed "BN1 (Be Number One)" that aim to quickly reap the benefits of the business alliance among Clarion, Hitachi and Xanavi. We hope these activities will propel us to Be Number One in the fields of sales/marketing, product planning, R&D, purchase/procurement, production, quality and services through concerted efforts throughout the world.

Specifically, we will devote our energy to the following areas:

1) Design and implementation of measures to boost quality

We are working to increase quality awareness as a means to increase customers' confidence, trust and satisfaction.

2) Sales expansion to propel profitability

We are in the process of shifting sales activities from the Japanese market to overseas markets, mainly to North America, Europe and Asia. We will undertake a global marketing approach to identify precise market needs, strengthen product competitiveness and secure new markets.

3) Brand strategy

Seeking to increase brand value, we will increase the added value of all activities within the Clarion Group and advance "Clarion H.M.I. (Human Mobile Music Media Interface)" as our brand slogan.

4) Cost strategy

We will aim to reduce costs by optimizing the Group-wide concerted cost management process.

5) Product development capabilities

By integrating the development structure and environment across the Group, we will achieve a more competitive level of development efficiency.

6) Enhancement of organizational competence

With the objective of quickly capturing synergies with Xanavi, we will create an organizational structure that promotes integration in the respective areas of sales/marketing, product planning, engineering, production, purchase/procurement, quality and services.

7) CSR promotion

Based on basic regulations concerning corporate ethics and compliance, we will advance corporate ethics and establish an internal control system.

Significance of Alliance with Hitachi and Business Reorganization

Clarion has identified three key realms surrounding automobiles: information services, including the provision of telematics services and content; social infrastructure, such as ETC (Electronic Toll Collection) and vehicle information and communication systems; and hardware, including computerized vehicle control. The Hitachi Group is one of the few that comprehensively covers each of these business areas.

Clarion's car navigation systems lie at the center of where these three areas converge. Apart from car audio-visual devices and navigation systems, Clarion possesses camera technology, and in combination with Hitachi's control technologies, we can increase driving safety through synergies in the driver visibility support field. Fusing technologies of the Hitachi Group and Clarion will facilitate speedier market response.

In the near future, we believe we can develop technologies for ITS (Intelligent Transport System) vehicle coordinated safety systems that support safe driving and Adaptive Cruise Control, an automatic driving system following a preceding vehicle. We can also expect to leverage Xanavi's technological prowess and resources in navigation systems in Clarion's markets and products.

The Hitachi Group is working to strengthen this field as a CIS (Car Information System) business. As a key company in next-generation advanced car navigation systems, we intend to maximize synergies within the Hitachi Group and strive for market expansion.



Specific Synergetic Effects

Through the business reorganization, we will strive to bring forth the following core synergetic effects.

First, we seek to enhance R&D efficiency. Clarion aims to boost development efficiency by 30% by 2010 compared with fiscal 2006 levels through the integration and standardization of development platforms among Hitachi, Clarion and Xanavi while at the same time working to enable us to handle CTO (Configure to Order) frameworks and promoting the optimal allocation of development resources.

Second, we will strengthen the marketing structure that combines the advantages of all three companies. The framework for product strategy will be concentrated on Clarion with efforts made to uncover and secure new customers and strategically important new markets.

Third, we aim to reinforce sales with OEMs worldwide through an integrated sales structure.

Our fourth objective is to bolster the purchasing/procurement function. We aim to reduce annual material costs by 8 to 10% through joint purchasing/procurement efforts for the entire Group.

There will also be a negative, albeit temporary, impact from the reorganization. For example, we expect increased expenses of approximately ¥1,600 million during fiscal 2007 and ¥1,200 million the following fiscal year. These include upfront investment in the form of site reorganization

and IT infrastructure integration expenses, as well as management costs/ expenses associated with accounting systems and internal controls. Moreover, the cost of goodwill on Xanavi shares is estimated at ¥8,566 million, which will be amortized at ¥860 million annually.

Business Outlook

Consolidated net sales in the fiscal year ending March 2008 are forecast to increase by 27.0% year-on-year to ¥230,000 million, while consolidated operating income is projected to surge 79.0% to ¥5,500 million due primarily to the contribution of business results by Xanavi, which is strong in high-end models of navigation systems and car audio-visual devices in the OEM market. Net income is forecast to be ¥800 million.

Basic Approach to CSR

Clarion formulated compliance guidelines ("Guiding Principles of Conducts and Behaviors") as the basic foundation for all CSR (Corporate Social Responsibility) activities from quality management to environmental protection and compliance. The compliance guidelines stipulated by the Head Office are deployed at all Group sites worldwide. We will foster a corporate culture with a strong awareness of CSR and fulfill our responsibility to society as a global enterprise.



Corporate Governance

We have developed a corporate governance structure in recognition of its importance to the Company. 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 keeping good communication with our stakeholder as a very important responsibility. With this in mind, we will transform ourselves to become a more valuable enterprise while executing aggressive strategic investment for the future. We aim to become a company which all stakeholders trust and have confidence in as we pursue further growth and development.

I ask for your continued support and guidance as we forge ahead.

August 2007

T. Izumi
Tatsuhiko Izumi
President

Clarion is jointly developing with Hitachi in the fields of ITS vehicle coordinated safety systems, vehicle information terminal systems and next-generation navigation systems.

