

Aiming for Further Growth through Forward-looking Business Strategies



Tatsuhiko Izumi
President

Review of Operations for Fiscal 2007, Ended March 31, 2008

Clarion is working toward becoming a “more valuable enterprise” based on our corporate vision, “Vision-70.” In 2006, Clarion became a consolidated subsidiary of Hitachi, Ltd. (Hitachi), in turn making Xanavi Informatics Corporation (Xanavi) a wholly owned subsidiary. We are currently pursuing synergies designed to encourage growth and greater efficiency.

Amid this environment, Clarion saw growth in its business for the OEM (Original Equipment Manufacturer) market worldwide as well as the option business for car dealers in the Japanese market. At the same time, sales of the EMS (Electronic Manufacturing Services) business increased in the Americas and Europe, whereas making Xanavi a subsidiary led to growth in sales of car navigation systems. As a result, consolidated net sales for fiscal 2007 amounted to ¥246,806 million, up 36.3% year-on-year.

Consolidated operating income totaled ¥5,465 million, up 77.9%. Despite rising raw material prices and an increase in strategic R&D investment, this was achieved through the benefits of our alliance with Hitachi and Xanavi as well as successful improvement in the reduction of selling, general and administrative expenses.

Consolidated net income amounted to ¥1,378 million, a remarkable turnaround from a net loss of ¥784 million in the previous fiscal year. Income of ¥2,891 million was derived mainly from gain on foreign currency transactions; reversal of allowance for doubtful accounts; proceeds from sales of property, plant and equipment arising from the sale of the Gunma office buildings and structures; and gain on reversal of patent fees in prior years. Nonetheless, the Company also posted expenses of ¥4,058 million due primarily to loss on sales and disposal of property, plant and equipment from the sale of land; impairment loss on fixed assets; provision for retirement benefits for directors and corporate auditors; provision for warranty costs; and loss on devaluation of investments in securities.

Medium- to Long-term Management Strategy

The Clarion Group is striving to establish a structure that will enable timely response to changes in the business environment such as changing market conditions and technological innovation. We are also working to restructure our business portfolio and to increase management efficiency.

Accordingly, we are engaged in activities based on “Vision-70,” which states “in an environment of ‘Mobile-Infoentertainment*’ where people can enjoy sound and information in their cars, we will create products that emphasize a ‘Fresh feeling of Safety’ and ‘Fresh Pleasure’ and provide excitement and satisfaction to our customers.”

Clarion is targeting the medium-term management goal of ¥280,000 million in net sales and a consolidated operating ratio of 5% for the fiscal year ending March 31, 2011. We will focus efforts on the following points to achieve these goals:

1. Completion of B.N.1 Activities

Clarion is pursuing “B.N.1 (Be Number One)” activities to maximize the synergetic benefits of the alliance with Hitachi and consolidation of Xanavi. We are aiming to be global No. 1 in the respective areas of sales/marketing, product planning, R&D, purchasing/procurement, production, quality and services. We will accelerate B.N.1 activities as we implement structural reforms from a customer viewpoint.

2. Improvement of Product Quality

We will strive to improve quality control from upstream processes through consolidation of the Group quality management system in order to earn the trust of our customers and bring them satisfaction.

3. Sales & Marketing Strategy

We will strive to improve profitability in our businesses by reforming the sales structure and system. We will aim for the global sales expansion to boost profitability and introduce our unique products that anticipate the changing needs of the market to ensure our success.

4. Brand Strategy

With “Clarion H.M.I. (Human Mobile Music Media Interface)” as our brand slogan, we are promoting greater added value in the various activities undertaken within the Group with the goal of enhancing brand value.

5. R&D Strategy

We are working to strengthen Group competitiveness through improved R&D efficiency by implementing reforms in the Group’s structure and environment while simultaneously working to align our intellectual property and R&D strategies.

6. Improvement of Cost Management

We aim to achieve competitive, efficient development while improving our cost management for the upstream processes of product planning and development, including the introduction of a PM (Product Manager) system. We will expand the scope of joint procurement with Hitachi as well as realize global procurement of materials from optimal locations at the lowest cost.

7. Enhancement of Group Organization

We are working to enhance organizational capabilities through a comprehensive review of the existing organizational structure and operational processes.

8. Commitment to CSR (Corporate Social Responsibility)

Based on “Basic Regulations for Compliance Management,” we will strive to let corporate ethics take deeper root and to establish a more solid and efficient internal control system.

Priority Management Issues

In the CIS (Car Information System) industry, we project market expansion in the car electronics field centered around car navigation systems. However, we also expect the severe business environment to persist in markets worldwide as a result of such factors as increased R&D investment accompanying fast-paced technological innovation, declining prices worldwide due to the increasing commoditization of products and rising prices for raw materials.

Through an alliance with Hitachi, we are promoting organizational selection and concentration in the areas of technological development, purchasing/procurement, production, sales/marketing and quality, enabling us to respond to customers and the market even more quickly.

In our B.N.1 activities, we believe improving the Group’s global cost management as quickly as possible is one of the most important and pressing issues. We aim to achieve this by integrating platforms for car navigation systems, boosting development efficiency by shortening development lead times, reducing costs through greater concentration of purchasing and re-establishing optimal production through reconfiguration of production infrastructure.

As we promote mutual use of Group management resources, we intend to capitalize on each other’s strengths while shoring up weaknesses. By realizing the synergetic benefits of the alliance and consolidation quickly, we are working to transform Clarion into a more valuable enterprise with the goal of building an efficient and highly profitable corporate platform.



*Mobile-Infoentertainment is a mixture of Mobile, Information and Entertainment.

Business Outlook

In the automobile industry, technological innovations continue at breakneck speed in the car information systems field. In particular, in the car audio-visual equipment sector, in addition to dedicated audio-visual and navigation devices, integrated AV-navigation devices are becoming more widespread, while demand for PNDs (Personal Navigation Devices) has been expanding. Besides providing products that meet customer needs in a timely manner, it is imperative to develop appealing content and offer an array of solutions. In addition, there has been a flurry of new entrants into this field from different industries, and the competition is expected to get fiercer.

In fiscal 2008, we will introduce into the PND market a new strategic product dubbed "MiND (Mobile Internet Navigation Device)," which enables connection to the Internet. We launched a portal site in Japan at the end of 2007 called "Chizuru-to-Susumu (Map-Route-Advance)" that provides maps and navigation, and we intend to create similar sites for the United States and Europe. Our aim is to expand our solutions business through unique products and services that enhance safety, reassurance and comfort around the world.

We will proceed with BN1 activities, which include maximizing synergies through the integration with Xanavi in the areas of increased sales, enhanced development efficiency and a reduction in material procurement and production costs. Synergetic benefits are also gradually starting to emerge in the areas of intellectual property and other areas.

For fiscal 2008, we forecast consolidated net sales of ¥240,000 million, a decrease of 2.8% year-on-year; operating income of ¥6,000 million, an increase of 9.8%; and net income of ¥1,500 million, an increase of 8.9%. The exchange rates are projected to be ¥110 to the U.S. dollar and ¥150 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 compliance guidelines "Guiding Principles of Conducts and Behaviors" was laid out and comprehensively applied throughout our Group companies worldwide in an effort to fulfill our social responsibilities as a global corporation in the areas of quality control, environmental protection and social contributions.

Environmental issues are expected to become increasingly important in the automobile industry in particular. Clarion will strive to expand the range of eco-friendly products to develop car information systems that help make cars more environmentally friendly.

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 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 hard to achieve our goals.

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

August 2008



Tatsuhiko Izumi
President

Achieving Mid-term Management Goals

Clarion's mid-term management plan aims to achieve ¥280,000 million in consolidated net sales and a consolidated operating income ratio of 5% for the fiscal year ending March 31, 2011 (fiscal 2010). We would like to explain specific measures and plans on how we intend to achieve these goals. Clarion is implementing eight measures to achieve our mid-term goals. These are separated into "opportunities and threats" and "strengths and weaknesses."

The following three measures take advantage of our strengths to maximize opportunities.

① Expansion of Overseas Sales

Currently, our major OEM customers are Nissan Motor Co., Ltd., Honda Motor Co., Ltd. and Suzuki Motor Corporation. We have recently secured large-scale new business for navigation and audio systems from Ford Motor Company. This will make them our No. 2 customer after Nissan by fiscal 2010. The business for Renault operated by Xanavi will also contribute to the expansion of OEM sales overseas. We are already engaged in substantial business throughout China, and we will focus on Shanghai General Motors Co., Ltd. as one of the main pillars for our business in the country.

② Enhancement of the Navigation System Lineup

We forecast sales expansion of navigation systems to Ford and other OEM customers. To meet increasingly diverse demands, we will work to enhance our navigation system lineup in response to product grade and variations as well as global sales channels. Through this measure, we expect to greatly increase the percentage of navigation systems in our complete product range from the current 39% to 53%.

③ Expansion of the Solution Business

We will also work to expand the content business, which provides services in the software area for hardware products such as navigation systems, and solution business for the commercial-use vehicle market.

The following two measures will be taken to convert our weaknesses into strengths to take full advantage of emerging opportunities.

④ Entry into the Markets of Emerging Nations

In addition to China, we will pursue expansion of the OEM business in India, Thailand and other Asian countries as well as in South America, Russia and Eastern Europe and the Middle East.

⑤ Focusing More Efforts on the Aftermarket and Selection and Concentration of Markets and Products (Markets and Products with Higher Profitability)

We will select and concentrate on products and channels with higher aftermarket potential. In the Japanese market, we will work to strengthen the highly profitable option business, sales to retail stores and B2B (business-to-business) channels. We will also launch advanced products such as PNDs and MiND products ahead of competitors. Our overseas strategy in this area includes reorganization of our sales structure to meet requirements for expanding sales to mass merchandisers. MiND products will be launched in North America in October 2008 and in Europe and Japan in 2009.

Eight Management Measures



Finally, the following three measures will address external threats by leveraging our strengths.

6 Creation of Group Synergies

Since the fiscal year under review (fiscal 2007), we have been concentrating on creating Group synergies from the alliance with Hitachi and the consolidation of Xanavi. We have thus far completed implementation of measures in the following four areas: integration of product roadmap, integration of technology roadmap, bringing intellectual property under one umbrella and enhancement of joint purchasing/procurement. Synergetic benefits should materialize from fiscal 2008. Other consolidation tasks currently underway include integration of organizations and systems; integration and standardization of platforms; reorganization of the production structure for production in the most optimal locations; standardization of quality management systems and the various standards; standardization and integration of operation processes; and integration of the IT infrastructure. We believe we will begin to realize the benefits of these activities from fiscal 2010.

7 Introduction of More Advanced and Distinctive Products

We will actively introduce more advanced and distinctive products as part of our efforts to enhance the navigation system lineup. Examples of such products include advanced PND models that serve as a mobile telecommunications terminal and a new affordable navigation system, which uses a silicon disk drive in place of an HDD (Hard Disk Drive).

8 Reinforcement of Global Purchasing/Procurement Structure

Clarion has already achieved immense results through concentrated joint purchasing/procurement within the Group, and we will expand our efforts to strengthen the purchasing/procurement structure on a global scale.

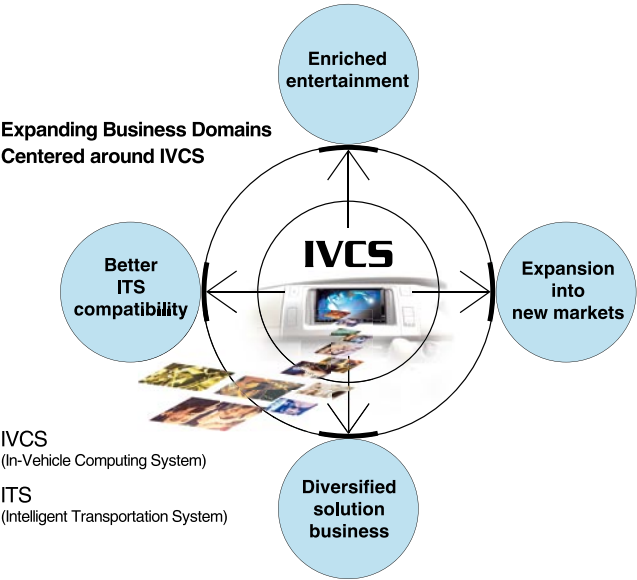
Mid-term Product Strategy

Based on the IVCS (In-Vehicle Computing Systems) concept, Clarion aims for comprehensive expansion under the themes of “enriched entertainment,” “better ITS (Intelligent Transport Systems) compatibility,” “diversified solution business” and “expansion into new markets.”

To achieve the goals, our management strategy focuses on enhancing the navigation system lineup, expanding the solution business and introducing more advanced and distinctive products.

These specific product strategies are divided into the following five categories:

- 1 IT systems integrated into vehicles
- 2 Enhancing the navigation system lineup to satisfy a broad array of needs
- 3 Distinctive products for mobile applications
- 4 Highly advanced systems for commercial vehicles
- 5 Entry into new markets through the content business



1 IT Systems Integrated into Vehicles

Clarion will engage in product development in line with three key phrases: “Security and Safety” in which we will pursue product development centered on camera application technologies; “Environment and efficiency” in which we will contribute to reducing the burden on the environment by supporting driving with better fuel economy and making products lighter; “Comfort and Convenience” in which we will strive to address the progressive advancement of digital technology by taking advantage of our technologies in digital broadcasting receiver high-speed wireless communication. We will meet increasingly complex and sophisticated demands for in-car information systems making full use of our in-car application technologies.

2 Enhancing the Navigation System Lineup to Satisfy a Broad Array of Needs

In April 2008, Clarion introduced two new series of navigation systems to enhance the product lineup designed to satisfy a broad array of needs.

CRASVIA, an HDD navigation system, is a high-end system equipped with a rich assortment of navigation functions, multimedia compatibility and top-of-the-line audio functions for users seeking a better driving experience. This marks the first time* in the industry that a commercially available product is equipped with DAEP (Dolby Automotive Entertainment Program), a car audio program produced by Dolby Laboratories, Inc. Surround sound from all car seats with superb sound from the front enables full theater sound to be experienced even without a center speaker. (*As of April 2008)

SMOO navi is an affordable navigation system with an SDD (Silicon Disk Drive) targeting the mass market. This series emphasizes the practicality of merging a high level of “sophisticated functionality and performance” of HDD systems such as audio-visual, GPS (Global Positioning System) and other navigation functions with “ease of use” and “simplicity.”

3 Distinctive Products for Mobile Applications

Clarion is working to enhance the PND lineup as a mobile communication device to suit users’ diverse lifestyles. We will launch two models in the DrivTrax series in June 2008.

Both of these models feature convenient portability, universal compatibility with various modes of transportation and enhanced navigation functions packed with the expertise of Clarion’s car navigation technologies. Lighter and more compact, they further enhance navigation functions with access to the “Chizu-Route-Susumu” portal site, Clarion’s original map-community site.

In addition to DrivTrax, starting with the launch in North America in 2008, we will introduce MiND globally. MiND products are a next-generation mobile navigation system in a different product category from PNDs. It incorporates Internet connectivity comparable to a PC, for use anywhere—at home or office, on the street or on the road. The system offers multiple functions, information and services through various features, including navigation, digital audio and video, and a built-in camera.

4 Highly Advanced Systems for Commercial Vehicles

The general-purpose in-vehicle terminal for commercial vehicles is a device coupling a hardware terminal developed by Clarion with Hitachi’s traffic control system software. Developed for a major convenience store chain, from whom an order of 300 devices in total has been secured, we plan to promote this product to a wide variety of customers.

The Solid Navi car navigation system for commercial vehicles utilizes flash memory and has been made more durable by eliminating moving components such as DVD (Digital Versatile Disc) drives. We intend to couple this product with the digital radio transmission device from Hitachi Kokusai Electric Inc. for use by taxi companies. We will also offer solution-based services in addition to hardware products such as cameras and drive recorders.

5 Entry into New Markets through the Content Business

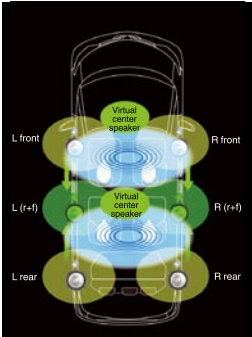
Clarion’s “Chizuru-to-Susumu” portal site, which links Internet mapping to car navigation systems, commenced service in Japan in December 2007. Utilizing Hitachi’s traffic prediction technology, the site offers distinctive services such as route simulation that takes into account such variables as holidays and various events that may contribute to heavy traffic conditions. This allows us to provide unprecedented service to navigation system users. We are currently preparing to introduce this service to North America and Europe.

*Chizuru-to-Susumu: The unique name of the portal site was taken from Chizuru and Susumu, both popular names for girls and boys in Japan, which sound like the Japanese words for “map (chizu),” “route (ru-to)” and “advance (susumu)” connected by a Japanese word for “and (to).”

CRASVIA



DAEP (Dolby Automotive Entertainment Program)



Z07MA No.028



Solid Navi



DrivTrax

