



Tatsuhiko Izumi
President

A handwritten signature in black ink, appearing to read 'T. Izumi', with a stylized flourish at the end.

Review of Operations for Fiscal 2008, Ended March 31, 2009

In the automotive industry, with which we are most closely related, automobile demand declined further in fiscal 2008 due to lackluster consumer sentiment resulting from sharp appreciation of the yen and significant deterioration in the global economy. In addition, sales of new cars in Japan and abroad fell below levels recorded in the previous year, driven by a severe contraction in the global automobile market.

In light of this market environment, Clarion promoted various “B.N.1 (Be Number One)” activities to quickly realize the synergistic benefits of the alliance with Hitachi, Ltd. (Hitachi) and consolidation of Xanavi Informatics Corporation (Xanavi). We also established the Emergency Committee for Revitalization of Competitiveness to enable swift response to an ever-changing management environment as part of business reform initiatives.

Amid a difficult business climate, consolidated net sales for fiscal 2008 decreased 26.4% compared with the previous fiscal year to ¥181,554 million. In the first half, despite slumping sales in the OEM (Original Equipment Manufacturer) market in North America, we posted solid sales of car navigation systems in the option business for car dealers in the Japanese market. Sales decreased in the second half, however, due to multiple factors. The steep economic downturn forced a decline in production at car manufacturers globally in line with buyer restraint in different markets. Sales also were down in the option business for domestic car dealers, while selling prices in domestic and overseas aftermarkets dropped, leading to an overall decrease in sales volume.

With regard to income, we reduced fixed expenses and curbed capital expenditures, thereby reducing selling, general and administrative (SG&A) expenses. These efforts were offset, however, by rising raw material prices and deterioration in the cost of sales ratio caused by inventory adjustments in line with a change in product mix and reduced automobile output. As a result, Clarion posted an operating loss of ¥12,449 million in fiscal 2008 compared with operating income of ¥5,465 million in the previous fiscal year.

In other gains and losses, we recorded earnings in the amount of ¥3,429 million owing mainly to gain on reversal of patent fees in prior years and gain on reversal of claim related costs, although this was offset by a loss of ¥6,187 million due primarily to foreign currency translation loss owing to sharp appreciation of the yen as well as to business structure reform costs. We also recorded ¥4,776 million in corporate taxes, including ¥4,450 million due to reversal of deferred tax assets based on a review of collectability. As a result, net loss for fiscal 2008 amounted to ¥19,987 million compared with net income of ¥1,378 million in the previous fiscal year.

Medium- to Long-term Management Strategy

The Clarion Group is striving to establish a structure that facilitates timely response to changes in the business and management environment such as changing market conditions and technological innovation. We are also working to restructure our business portfolio and achieve corporate management with higher capital efficiency. We will focus on consolidated management, boost Group-wide profit-making capabilities and promote consolidated cash flow management to increase corporate value.

To achieve these goals, we have identified the following priority challenges under our medium-term Group management policy.

1. Improvement of Product Quality

We will implement measures to raise quality from the product planning stage and create a Group quality management system to earn the trust of our customers and bring them satisfaction.

2. Sales & Marketing Strategy

We aim to secure profitable sales, and maintain and expand orders from customers. We will introduce unique products that anticipate the changing needs of the market, realizing solutions in such ways as through service content and hardware linking information centers and in-vehicle devices/systems such as eNAVI (AV navigation through integrated platform development), ClarionMiND (Mobile Internet Navigation Device) and in-vehicle cameras.

3. Brand Strategy

We will promote activities to increase brand value, with “Clarion H.M.I. (Human Mobile Music Media Interface)” as our brand slogan.

4. R&D Strategy

We will work to strengthen technical competitiveness by seeking a 30% increase in R&D efficiency by advancing standardization through reform of the Group’s R&D structure and environment while establishing core technologies in the field of safe driving support systems such as IAS (Information and Actuation Integrate Management System).

5. Improvement of Cost Management

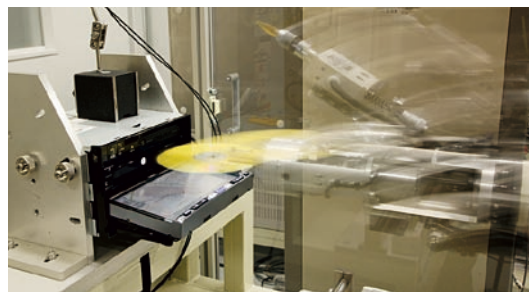
We will work to lower raw material and purchasing costs by accelerating material cost reductions through enhanced global centralized purchasing and procurement, while simultaneously promoting VEC (Value Engineering for Customers) activities. Elsewhere, we will expand overseas production of car navigation systems and work towards greater standardization, as well as overhaul the cost structure through the reform of Group logistics.

6. Enhancement of Group Organization

We will bolster activities focused on increasing speed and quality in Group businesses by pursuing synergies in organizational functions and processes following amalgamation with Xanavi and by implementing other process reforms across-the-board.

7. Commitment to CSR (Corporate Social Responsibility)

We will strive to raise awareness of our corporate philosophy and compliance to instill a strong sense of corporate ethics, as well as pursue higher quality in internal control systems.



Measures to Combat Changes in the Management Environment

In the CIS (Car Information System) industry, which is key to Clarion Group businesses, sales of in-vehicle systems, particularly car navigation systems, have dropped significantly due to a sharp decline in production at car manufacturers and the impact of respective inventory adjustments.

Clarion forecasts global automobile sales volume to fall below 60 million units in 2009, remain unchanged in 2010 and recover moderately from 2011. Conversely, we expect needs for safety/security and comfort in automobiles to grow amid ongoing evolution and expansion in automotive AV (Audio-Visual) equipment.

In response to these environmental changes and to ultimately ensure survival, the Clarion Group has positioned the two-year period from April 2009 to March 2011 as the time to pave the road to a structure that can generate profit even in times of market contraction. To this end, we will implement structural reforms aimed at making a fresh start through demonstrating preparedness. Through these efforts, we are targeting consolidated net sales of ¥188,000 million and a consolidated operating income ratio of over 5% for the fiscal year ending March 2012.

■ Appropriateness of Corporate Scale

Clarion established the Emergency Committee for Revitalization of Competitiveness in November 2008 to strengthen management foundations through structural reforms. Measures taken to date include ensuring the most appropriate number of personnel for a fixed-expense structure befitting the scale of sales, deploying policies such as elimination and consolidation of operation bases, bolstering cost management from the planning stage through VEC activities and concentrating management resources into businesses marked for strategic reinforcement.

The positive effects of measures already executed to reduce human resources and other fixed expenses have started to emerge.

1. Reduce production capacity by 30%

Clarion currently has 11 production bases in seven countries worldwide. The current plan calls for concentration of domestic production operations into Koriyama City, Fukushima Prefecture, by December 2010. Through

earlier implementation of this plan, however, we aim to promptly improve quality, increase production efficiency and reduce production. We will also defer new plant construction in Thailand and downsize, eliminate or consolidate other production bases, particularly in Asia.

2. Ensure appropriate number of Group personnel

We will reduce the Clarion Group's worldwide personnel from 12,000 to 9,000. Concrete measures in Japan include limiting contract extensions after expiration of non-regular employment contracts and expanding the optional earlier retirement program. We will also reduce remuneration paid to directors and officers as well as salaries for management and general employees.

3. Streamline aftermarket sales structure and shift resources to growing markets

In Japan, we will strengthen sales/marketing functions by concentrating the aftermarket, special equipment and option businesses as well as B2B (business-to-business) operations into Clarion Sales and Marketing Co., Ltd. (formerly Clarion Sales Co., Ltd.). At the same time, we will promote elimination and consolidation of sales sites.

Overseas, we will develop a global aftermarket sales system centered on the United States and Europe, integrating or shutting down certain sites in the process. In other efforts, we will strengthen the sales organizations in emerging nations with high growth potential, especially Eastern Europe, Asia and Latin America. Specifically, we are streamlining our aftermarket organizations in North America; and in Europe we are integrating the functions of German sites into France, closing operations in Spain and promoting shared functions and bases with Hitachi.

4. Enhance R&D efficiency

We will accelerate activities to enhance R&D efficiency by 30% by standardizing development platforms currently in use and integrating technology-based infrastructure. Concurrently, we are striving to reduce R&D costs by concentrating R&D resources into shared global strategic base-models that can be expanded across customers and regions, and shifting to and expanding R&D operations overseas.

CRASVIA



NX809
7-inch Wide VGA Screen-equipped
Double-DIN Digital TV/DVD/HDD
AV-Navigation System

S.M.O.O
NAVI



NX609
7-inch Wide Screen-equipped
Double-DIN Digital TV/DVD/SDD
AV-Navigation System



SRT1780S
17cm Separate 2-way Speaker System



APA4360
180W x 4-ch Power Amplifier

APA2180
180W x 2-ch Power Amplifier

ClarionMIND



NR1EB
ClarionMIND



CZ109
CD/MP3/WMA Receiver



CC2011E
Ultra Compact Color CCD Camera
(Mirror Image)

5. Creation of a New Product Strategy

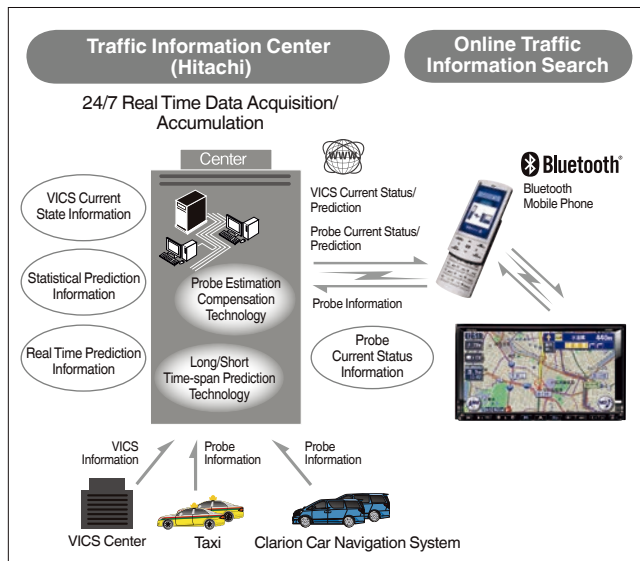
Clarion expects that it will take more time before global automobile sales rebound. However, future demand potential is growing on account of fuel-efficient hybrid cars and environmentally friendly electric cars. We also predict that safety/security, solutions and the environment will become increasingly integral concepts in the car electronics industry, and Clarion's core lineup of eNAVI, ClarionMiND and in-vehicle cameras are precisely aligned with this concept. By introducing new car navigation systems for the aftermarket through collaboration with Hitachi, we will truly be able to strengthen our business capabilities.

In June 2009, we launched two car navigation systems equipped with a next-generation navigation feature, "online traffic information search," that utilizes Hitachi's "traffic information service." Hitachi's service, which offers real-time and highly accurate traffic information every five minutes, is currently deployed in several thousand running taxis as sensors (probe cars), and in the future, will include probe information from Clarion's navigation systems. The service area will gradually be expanded nationwide.

The "online traffic information search" function enables users to search for a more precise route in light of traffic congestion information, selectively making use of real-time information from Hitachi's traffic information center in addition to conventional VICS (Vehicle Information and Communication System) data and built-in statistical traffic information in the navigation system.

Despite the continued harsh operating environment, Clarion will ensure the optimum allocation of management resources, including investments, and work to achieve safety/security and comfort through technological fusion with Hitachi, as a means to drive innovative change toward becoming a more valuable company.

"Online Traffic Information Search" Uses Real Time Information for a High Degree of Traffic Congestion Avoidance



Business Outlook

Automobile sales are expected to remain sluggish due to the ongoing global economic downturn since 2008, with recovery projected to take time. Nonetheless, we forecast potential demand to grow in the future in light of sales of fuel-efficient hybrid cars and environmentally friendly electric cars. Competition is also expected to intensify with new entrants from different industries to the market for the manufacture and sale of in-vehicle equipment.

Against this backdrop, Clarion merged with Xanavi on April 1, 2009 to initiate a new era for the Company.

We will proceed with B.N.1 activities to maximize synergies with Xanavi and strengthen initiatives in structural reforms through the Emergency Committee for Revitalization of Competitiveness. The Group will work together to promote these and other activities to transform into a highly profitable corporate structure.

For fiscal 2009, we forecast consolidated net sales of ¥168,000 million, a decrease of 7.5% year-on-year; consolidated operating income of ¥100 million; and net loss of ¥3,100 million. The exchange rates are projected to be ¥90 to the U.S. dollar and ¥120 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 Conduct and Behavior," were laid out and comprehensively applied to fulfill social responsibilities as a global corporation in the areas of quality control, environmental protection and social contribution.

Environmental issues are expected to become increasingly important in the automobile industry in particular. Clarion will strive to expand its range of eco-friendly products and 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 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 hard to achieve our goals.

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

July 2009

Tatsuhiko Izumi
President