Review of Operations

The Japanese economy in fiscal 2006 (ended March 31, 2007) maintained a moderately stable growth track owing to an improved employment environment, recovery in consumer spending and upward momentum in capital investment supported by higher corporate earnings. Overseas, the Asian economies were robust on the whole, led by China, while in the United States the economy remained strong despite future uncertainties particularly due to deterioration in the housing market. In Europe, the economies registered steady growth on the back of expansion of the EU economic bloc.

Consolidated net sales for fiscal 2006 amounted to ¥181,041 million, down 1.7% year-on-year. Although sales of the EMS business in Central and South America and sales in the OEM market in North America were brisk, net sales were adversely affected by factors such as decreased car sales as well as changes in the composition of car grades in the domestic market, affecting the model-mix of our products and prices to come down. Additionally, as other key factors, we suffered from a dramatic decline in prices in the domestic aftermarket due to intensified sales competition.

With regard to income, consolidated operating income totaled ¥3,072 million, down 41.2%. Despite a reduction in distribution/logistics costs, this was due to an increase in strategic investments, such as 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. Income before income taxes amounted to ¥167 million, down 96.3%. Other income amounted to ¥1,095 million, of which ¥336 million was for interest and dividend income. Other expenses amounted to ¥4,000 million, of which ¥1,436 million was for purification cost for land from environmental survey and countermeasures*1. Also, net loss on foreign currency transactions amounted to ¥9 million, down ¥317 million, or 97.1% year-on-year, due to a decrease in exchange loss caused by the strong euro. After income taxes (both current and deferred) and a deduction of minority interests, consolidated net loss amounted to ¥784 million as opposed to net income of ¥5,862 million in the previous fiscal year. Net loss per share was ¥2.78 compared with net income per share of ¥20.76.

*1: We made a voluntary survey of the land owned by us in accordance with our "Environment Policy" based on ISO 14001, which revealed that part of the land was contaminated with fluorine.

An overview by business segment is as follows.

Car Audio-Visual Equipment

This segment is our core segment that involves the manufacture and sales of car navigation systems, car audio-visual devices and car multimedia devices. Despite sales increases in OEM markets in North America and China, sales were down in the domestic OEM market due primarily to sluggish car sales and changes in car model/grade-mix. Combined with this, sales competition intensified and sales prices declined in the aftermarket worldwide. Overall segment sales decreased 4.1% year-on-year to ¥161,786 million. Operating income was down 53.9% to ¥1,648 million due to an increase in strategic investments such as development costs and advertising expenses associated with the launch of the new "Clarion" global brand, though we saw some decrease in distribution/logistics costs.

Specialty Equipment

In this segment, which includes AV equipment for commercial vehicles, we made efforts to increase sales of auto-guide systems and our IT-based Bus Location System for tourist and community buses. We also strove to boost sales of rear-view monitor equipment with CCD cameras for drivers, which were developed to accommodate growing interest in vehicle operation safety. Because switch-over purchases came to certain saturation, however, causing a decrease in new sales, the sales resulted in a year-on-year decrease of 5.7% in segment sales to ¥7,833 million. Operating income was down 17.0% to ¥1,204 million.

Others Business

In the Others Business Segment, Clarion is actively developing EMS business mainly in the Americas and Europe. Thanks to new orders taken in the Americas, along with the launch of the business in Japan, sales in this segment is expanding steadily. As a result, segment sales surged 59.0% to ¥11,422 million and operating income was up 10.5% to ¥220 million.

Results by geographic segments are as follows.

Japan

In the automobile industry, despite brisk sales of subcompact ("kei" category) cars, overall sales of new cars in Japan went down compared to the previous year. In terms of results, since there was a significant decline in unit sales in the OEM market and a sales price drop in the aftermarket, net sales decreased 6.2% year-on-year to ¥93,365 million. Operating income was down 66.4% to ¥1,275 million due primarily to an increase in strategic investments, including R&D and the launch of the new "Clarion" global brand, which offset a reduction in selling, general and administrative expenses.

Americas

An increase in sales in the OEM market and considerable sales growth in the EMS business led to net sales of ¥49,537 million, up 13.3% from the previous fiscal year. Operating income was up 7.3% to ¥1,135 million due mainly to the positive effects of higher sales and a reduction in selling, general and administrative expenses, which outweighed sales price erosion in the aftermarket.

Asia and Australia

In Asia, we saw a substantial increase in new car sales reflecting brisk growth in China, and consumer spending remained buoyant. On the other hand, car sales in Taiwan declined on account of a cutback in credit allowances to individual credit card holders. As a result, net sales dipped 3.9% to ¥14,475 million. Operating income was down 35.4% to ¥470 million due mainly to sales price erosion in the aftermarket in Southeast Asia and increased development costs in China.

Europe

Sales price declines due to intense price competition in the aftermarket together with the changeover period for OEM orders resulted in an 8.6% decline in net sales to ¥23,663 million. Operating income stood at ¥1 million compared with an operating loss of ¥354 million in the previous fiscal year, a remarkable turnaround as a result of a positive effect of a reduction in fixed costs through structural reforms.

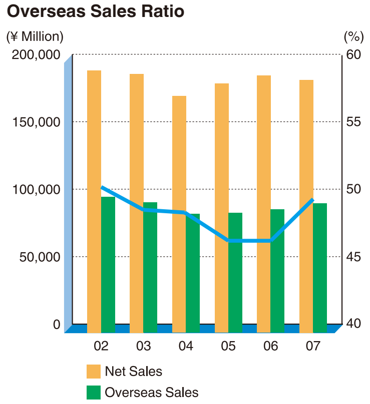
Financial Position

Total assets at year-end increased by ¥27,371 million, or 22.4% compared with the previous fiscal year-end, to ¥149,490 million. The primary factor for this was an increase in assets through the purchase of shares of Xanavi Informatics Corporation (Xanavi) and making the company into a wholly owned subsidiary. As a result, current assets were up ¥14,419 million, or 18.9%, to ¥90,908 million. The main reasons were an increase of ¥9,143 million in notes and accounts receivable to ¥44,598 million and an increase of ¥5,092 million in inventories to ¥29,606 million. Property, plant and equipment rose ¥3,814 million, or 16.6 % versus the previous fiscal year-end, to ¥26,747 million. The main factor was investment costs associated with the new Head Office and Technical Center completed in June 2007 and an increase in assets due mainly to the acquisition of shares of Xanavi. Intangible assets increased ¥9,494 million, or 109.8%, to ¥18,141 million due mainly to an increase in goodwill resulting from the acquisition of shares of Xanavi. Investments in securities and other assets were down ¥356 million, or 2.5%, to ¥13,693 million.

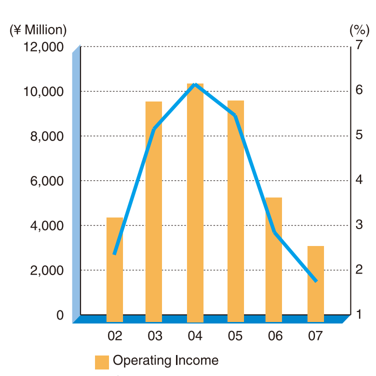
Total liabilities increased ¥27,800 million, or 31.8%, from the previous fiscal year-end, to ¥115,259 million. Current liabilities were up ¥17,965 million, or 29.5%, to ¥78,919 million. Total long-term liabilities increased ¥9,835 million, or 37.1%, to ¥36,339 million, attributable mainly to the acquisition of shares of Xanavi and the accompanying increase in demand for funds.

Total shareholders' equity totaled ¥34,027 million. The shareholders' equity ratio was down 5.4 percentage points to 22.8%.

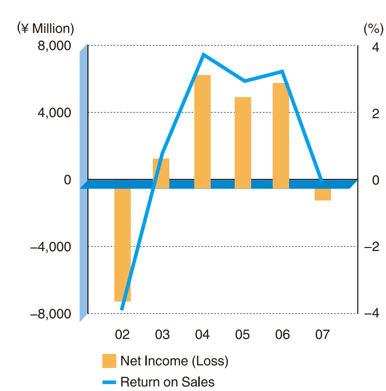
Net Sales, Overseas Sales and Overseas Sales Ratio



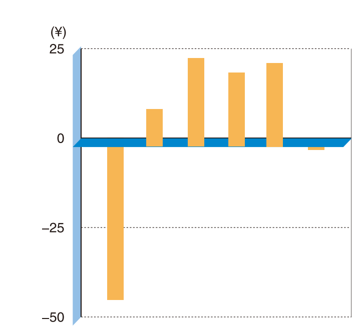
Operating Income and Operating Income Ratio



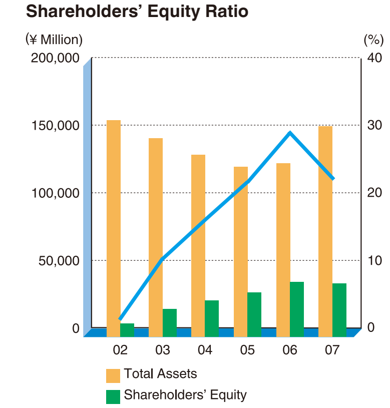
Net Income (Loss) and Return on Sales



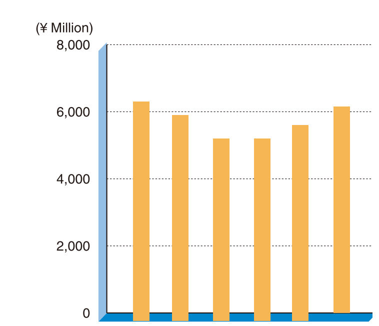
Net Income (Loss) per Share



Total Assets, Shareholders' Equity and Shareholders' Equity Ratio



Depreciation and Amortization



** Years ended March 31*

Cash Flows

Net cash provided by operating activities was ¥8,820 million. This was due mainly to income before income taxes of ¥167 million, depreciation and amortization of ¥5,447 million, reserve of ¥1,436 million for environmental research and measures, and an increase in notes and accounts payable. Net cash provided at the end of the previous fiscal year was ¥9,236 million.

Net cash used in investing activities was ¥20,501 million compared with ¥1,055 million at the previous fiscal year-end. This was due primarily to payment for purchases of shares in an amount of ¥13,716 million in line with the consolidation of Xanavi. Other factors included ¥6,074 million in payment for purchases of property, plant and equipment primarily for die-cast and production equipment as well as investment in construction of the new Head Office and Technical Center, in addition to ¥2,768 million in payment for purchases of intangible assets, including software, and sale of the Gunma office land.

Net cash provided by financing activities was ¥10,054 million due mainly to an increase in borrowings associated with the purchase of shares in Xanavi and dividends paid. Net cash used at the end of the previous fiscal year was ¥7,938 million.

As a result of the above, cash and cash equivalents at the end of the year were ¥10,691 million, a decrease of ¥1,262 million versus ¥11,954 million at the previous fiscal year-end.

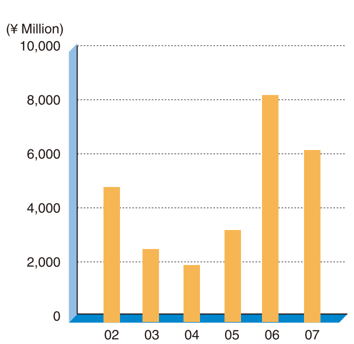
Outlook for Fiscal 2007, Ending March 31, 2008

Stable growth is projected to continue in the Japanese economy in fiscal 2007, driven by improved export earnings on account of the weak yen, an increase in capital investment and revitalization of consumer spending due to an improvement in the employment environment. The Asian economy is expected to remain robust, particularly in China, where growth is especially pronounced. U.S. and European economies are expected to keep growing steadily, spurred by improvements in consumer spending and the employment environment. It is still unclear, however, what impact the projected increase in raw material prices due to rising steel costs and the risk of exchange rate fluctuations will have on business results.

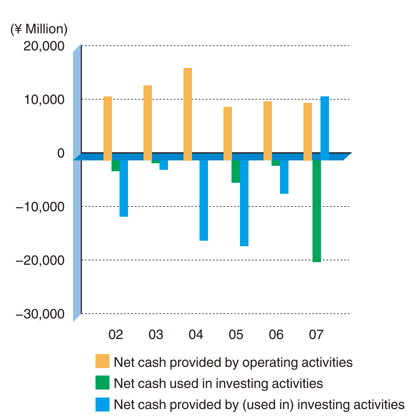
In the automobile industry, technological innovations continue at breakneck speed in the car information systems field, necessitating R&D and capital investment to develop attractive content tailored to customer needs and to promote modularization. In particular, in the car audio-visual equipment field, in addition to single-function audio-visual and navigation devices, integrated AV-Navigation devices are expected to become more widespread.

Amid such a business environment, Clarion has become a consolidated subsidiary of Hitachi, Ltd., upon which Xanavi has been made into a wholly owned subsidiary of Clarion. This move will enable the integration of Clarion's accumulated expertise in car navigation and audio-visual systems as well as technical development prowess with the technological know-how of the Hitachi Group. Incorporating Xanavi into the Clarion Group is expected to bolster sales, enhance development efficiency and reduce material procurement and production costs. For fiscal 2007, we forecast consolidated net sales of ¥230,000 million, an increase of 27.0% year-on-year, operating income of ¥5,500 million, an increase of 79.0%, and net income of ¥800 million. The exchange rate is projected to be ¥110 to the U.S. dollar.

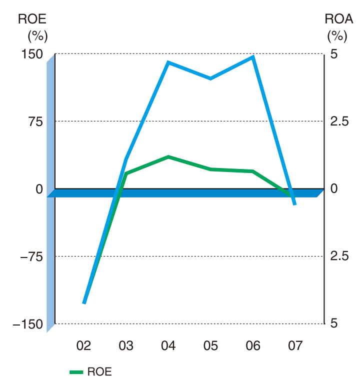
Capital Investment



Cash Flows



ROE and ROA



* Years ended March 31

Risk Information

Risks that may have material impacts on the results of operation, financial condition and cash flow of Clarion Co., Ltd., its subsidiaries and affiliates (collectively, "the Company") include, but are not limited to, the factors listed below. In addition, forward-looking statements presented herein are based on judgments made by the Company at the time of publishing this annual report.

(1) Economic Conditions

The Company conducts business worldwide primarily in the areas of car audio-visual, information and communication equipment. The economic conditions in respective markets, including shrinking demand caused by economic recession or rapid changes in the economic environment (currency or price fluctuations, changes in accounting standards, etc.) in key markets such as Japan, the United States, Europe, Asia or Australia, may have an adverse effect on the performance and financial position of the Company.

(2) Fluctuations in Foreign Currency Exchange Rates

The Company conducts production and sales activities in many parts of the world, and financial items denominated in local currencies such as sales, expenses and assets are translated into yen in our financial statements. Exchange rates at the time of translation may impact results even if there have been no changes to amounts in local currencies. Any sharp fluctuation in the exchange rates among currencies may have an adverse effect on the business of the Company.

Also, appreciation of the local currency in any of the regions where the Company conducts production activities will push up manufacturing costs, which may reduce price competitiveness in the market. There is a possibility that such events may lead to deterioration in the performance and financial position of the Company.

(3) Price Competition

The segment of markets where the Company conducts business, namely, the car audio-visual, information and communication equipment sectors, is very price competitive because of numerous domestic and foreign competitors. Car manufacturers, who are primary customers for the Company's OEM business, conduct global purchasing and there is fierce global competition regarding the supply price, which is one of the most important criterion for the selection of the supplier. Additionally, customers' procurement policies demand, from time to time, more stringent cost reduction efforts after business has been awarded. If the supply price drops beyond expectations or the market price in domestic and overseas aftermarkets declines significantly, the performance and financial position of the Company may be adversely impacted.

(4) Reliance on Performance of Core Customers

The Company's core customers include car manufacturers and mass merchandisers in Japan and overseas. Changes in customers' purchasing policies, leading to requests for unexpected price reductions and lower trade volume, or a downturn in customer business itself may lead to a decline in Company sales and profit (margins), among others. In the event that car sales at one of our car manufacturer customers decreases due to a lack of consumer support, sales of products provided by the Company for such customers will be influenced accordingly. This would have an adverse effect on the performance and financial position of the Company.

(5) Effects of Alliance

Since technological advancements in products handled by the Company are very rapid, the Company seeks technological alliances and promotes joint development projects in order to ensure efficient new product development capabilities and expansion of business opportunities with limited management resources. In particular, Clarion has been building a closer and more comprehensive alliance with Hitachi, Ltd., our parent company, in order to expand and enhance business. The alliance covers wide areas of business activities, including from joint development of designing tools to material procurement, after-sales services, product planning and business processes. However, external and internal circumstances or changes in market demand could prevent the Company from deriving the intended benefits from its alliances. This could reduce future growth potential and profitability, and therefore have an adverse effect on the performance and financial position of the Company.

(6) New Product Development Capabilities and Development Resources

The Company strives to increase sales by delivering to market attractive new products that meet customer needs in the car audio-visual, information and communication equipment sectors. However, new products are more and more dependent on advanced technologies, which are subject to rapid change. There could therefore be various risk factors involved in the Company's new product development, including difficulty in securing and nurturing competent R&D personnel due to increased labor mobility; an inability to keep pace with technical requests demanded by customers in a timely manner; and difficulty in securing core technologies needed for the future. Such factors may adversely impact future growth potential and have a negative effect on the performance and financial position of the Company.

(7) Product Defects

The Company pays utmost attention to the quality of its products through quality management and the after-sales service structure that strictly follows the requirements of ISO/TS16949 frameworks. However, there could be a claim that might lead to a large-scale product recall or product liability compensation in the future. The Company covers risks against product liability claims by insurance, but there is no guarantee that this insurance is sufficient to cover such payments. In the unlikely event of such unexpected quality-related problems that may lead to major expenses to deal with such issues or deterioration of the Company's reputation, loss of sales and diminishing profits may have a negative effect on the performance and financial position of the Company.

(8) Intellectual Properties of the Company and Third Parties

To differentiate its products from the competition, the Company accumulates technologies and know-how (intellectual properties). In some countries or regions, some of these intellectual properties cannot be fully protected, or only marginally protected, because of the limitations of legal systems there. As a result, there may be cases where the Company cannot effectively prevent third parties from misusing its intellectual properties and manufacturing and selling similar products.

On the other hand, the Company implements measures to ensure that it does not infringe upon the intellectual property rights of others. However, there is a potential risk that the Company's products might be judged as infringing upon a third party's intellectual property rights, and this may have an adverse effect on the performance and financial position of the Company.

In addition, the Company modified its reward system for employee inventions on April 1, 2005 based on Japan's Revised Patent Law, but there is still a risk that the inventor may file a lawsuit regarding compensation.

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(9) Component Procurement from Outside the Company

Clarion Co., Ltd. and Subsidiaries
Years ended March 31

Six-Year Financial Summary

	Millions of yen, except per-share amounts						Thousands of U.S. dollars, except per-share amounts
	2002	2003	2004	2005	2006	**2007**	**2007**
For the Year							
Net sales	¥187,954	¥185,530	¥168,947	¥178,325	¥184,176	**¥181,041**	**$1,533,602**
Car audio-visual equipment	167,348	168,716	159,544	166,365	168,686	**161,786**	**1,370,489**
Audio entertainment equipment	8,091	5,162	—	—	—	**—**	**—**
Specialty equipment	5,298	5,235	6,126	6,949	8,306	**7,833**	**66,355**
Others	7,215	6,416	3,275	5,010	7,183	**11,422**	**96,757**
Japan	95,459	97,333	88,843	96,658	99,511	**93,365**	**790,894**
Americas	45,674	39,291	33,657	38,577	43,725	**49,537**	**419,633**
Asia and Australia	9,942	10,141	9,893	10,737	15,063	**14,475**	**122,618**
Europe	36,878	38,763	36,552	32,351	25,877	**23,663**	**200,457**
Cost of sales	153,424	146,946	132,103	140,786	147,123	**148,200**	**1,255,403**
Selling, general and administrative expenses	30,194	29,049	26,491	27,956	31,824	**29,768**	**252,168**
Operating income	4,335	9,534	10,352	9,582	5,228	**3,072**	**26,030**
Other expenses, net	12,162	7,132	4,451	6,631	694	**2,905**	**24,609**
Income (loss) before income taxes	(7,826)	2,402	5,900	2,950	4,534	**167**	**1,421**
Provision (benefit) for income taxes	(729)	727	(514)	(2,328)	(1,337)	**938**	**7,950**
Minority interests in subsidiaries	177	119	109	167	8	**13**	**116**
Net income (loss)	(7,274)	1,555	6,305	5,111	5,862	**(784)**	**(6,644)**
Research and development expenses	8,986	9,569	9,943	10,659	11,340	**12,560**	**106,395**
Capital investment	4,676	2,410	1,816	3,066	8,106	**6,074**	**51,458**
Net cash provided by operating activities	10,434	12,153	16,058	8,038	9,236	**8,820**	**74,716**
Net cash used in investing activities	(2,373)	(530)	(158)	(6,030)	(1,055)	**(20,501)**	**(173,666)**
Net cash provided by (used in) financing activities	(11,912)	(2,158)	(16,467)	(17,537)	(7,938)	**10,054**	**85,175**
Per share							
(Yen and U.S. dollars):							
Net income	¥(45.25)	¥7.82	¥22.32	¥18.09	¥20.76	**¥(2.78)**	**$(0.024)**
Cash dividends	—	—	—	—	¥2.00	**¥2.00**	**$0.017**
At year-end							
Total assets	¥154,138	¥140,621	¥128,536	¥119,527	¥122,119	**¥149,490**	**$1,266,335**
Total shareholders’ equity	3,930	14,617	20,987	26,729	34,484	**34,027**	**288,250**
Interest-bearing debt	93,066	74,416	58,585	41,619	34,227	**41,483**	**351,406**
Ratio (%)							
Equity ratio	2.6	10.4	16.3	22.4	28.2	**22.8**	**22.8**
ROE	(128.2)	16.8	35.4	21.4	19.2	**(2.3)**	**(2.3)**
ROA	(4.3)	1.1	4.7	4.1	4.9	**(0.6)**	**(0.6)**
Current ratio	85.7	90.9	100.0	108.7	125.5	**115.2**	**115.2**

Note: 1. Research and development expenses include labor and other expenses reported as cost of sales.
2. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2007, which was ¥118.05 to US$1.