# Review of Operations

During the fiscal year under review, we saw some expansion in the first half amid an increase in capital investment and solid export sector. In the second half, however, corporate earnings plummeted owing to hikes in oil and other material prices, appreciation of the yen against the dollar, a stagnant stock market and weak personal spending. Overseas, the Asian economies, especially China, as well as that of Russia, made steady progress. Conversely, the subprime loan issue in the United States considerably impacted the real economy. In Europe as well, slackening of economies became more evident.

In the automotive industry, with which we are most closely related, sales of new cars in the Japanese, U.S. and European markets floundered, influenced by soaring gas prices and economic contraction. Alternatively, sales in markets like China, Russia and other BRICs countries expanded, supported by economic growth.

Consolidated net sales for fiscal 2007 amounted to ¥246,806 million, up 36.3% year-on-year. Business for the OEM market worldwide as well as the option business for car dealers in the Japanese market was brisk, while sales of the EMS business increased in the Americas and Europe. Furthermore, sales of car navigation systems increased, which was attributable to Xanavi Informatics Corporation (Xanavi) becoming a wholly owned subsidiary of Clarion.

With regard to income, consolidated operating income totaled ¥5,465 million, up 77.9% over the previous fiscal year. Despite rising raw material prices and an increase in strategic R&D investment, we reduced selling, general and administrative expenses.

Income before income taxes amounted to ¥4,298 million, representing a significant increase from ¥167 million recorded 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.

After income taxes (both current and deferred), consolidated net income amounted to ¥1,378 million as opposed to a net loss of ¥784 million in the previous fiscal year. Net income per share was ¥4.88 compared with a net loss per share of ¥2.78.

An overview by business segment is as follows.

### ■ Car Audio-Visual Equipment Segment

This segment is our core segment that involves car navigation and car multimedia devices. Favorable sales in Japanese and overseas OEM markets, despite negative factors such as deterioration of sales prices in the Japanese retail market due to increasingly severe competition and a decrease in new car sales, contributed to an increase in sales in this segment to ¥217,522 million, up 34.5% compared with the previous fiscal year. Operating income increased 162.8% to ¥4,330 million thanks to increased income due to increased sales and a reduction in selling, general and administration expenses, which were more than enough to offset increased material costs and strategic R&D investment.

### ■ Special Equipment Segment

In this segment, which comprises AV (Audio-Visual) equipment and other products for commercial vehicles, we made efforts to increase sales of IT-based Automatic Guidance Systems as well as a Bus Location System both for tourist and community buses, around-the-vehicle-view monitor equipment with CCD cameras and drive-recorder devices, taking advantage of increased safety awareness in driving. Net sales rose 11.5% to ¥8,732 million. Operating income fell 38.6% to ¥739 million due to increased material costs, price deterioration reflecting severe market conditions and increased R&D investment.

### ■ Others Business Segment

Within this segment, we have developed EMS business mainly in the Americas and Europe. Thanks to the flourishing mobile phone business in the Americas in line with receiving special orders combined with increased orders for in-vehicle meter PC boards, net sales increased 79.9% to ¥20,551 million. Operating income rose 79.7% to ¥395 million.

Results by geographic segments are as follows.

### ■ Japan

In the automobile industry, sales of new cars slumped in Japan as the tough business environment continued. In terms of results, an increase in sales in the OEM market partially due to the consolidation of Xanavi combined with strong sales in the option business for car dealers led to net sales of ¥151,015 million, up 61.7% year-on-year. Despite an increase in strategic R&D investment, operating income jumped 226.5% to ¥4,165 million due mainly to a reduction in selling, general and administrative expenses and the positive effect of sales gains.

### ■ Americas

An increase in sales in the EMS business culminated in net sales of ¥55,497 million, up 12.0%. Operating income dipped 3.4% to ¥1,096 million owing to a harsh environment in the aftermarket, characterized by a decline in sales prices.

### ■ Asia and Australia

In Asia, we saw an increase in new car sales and steady consumer spending reflecting strong growth in China. Conversely, car sales in Taiwan declined substantially year-on-year in an extremely difficult market environment. Additionally, the fiscal year was changed to the calendar year for subsidiaries in Hong Kong and China. As a result, net sales decreased 10.5% to ¥12,952 million. Despite a reduction in fixed costs, operating income decreased 0.9% to ¥466 million due primarily to an increase in development costs in China.

### ■ Europe

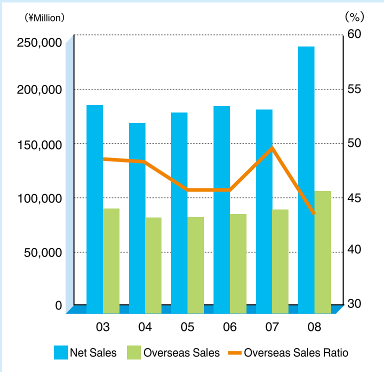
Despite an adverse environment in this region, including sales price declines due to intense price competition in the aftermarket together with the changeover period for OEM orders, net sales increased 15.5% to ¥27,340 million. Operating income stood at ¥147 million compared with operating income of ¥1 million in the previous fiscal year as a result of the positive effect of a reduction in fixed costs through structural reforms.

# Financial Position

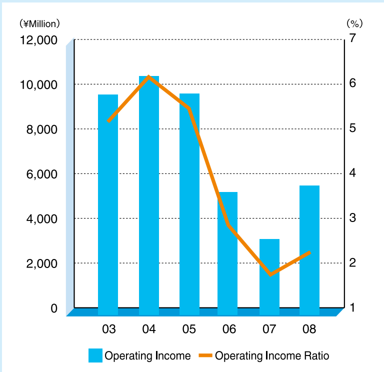
Current assets were up ¥5,306 million, or 5.8%, to ¥96,215 million. The main reasons were an increase of ¥1,862 million in cash on hand and in banks to ¥12,608 million and an increase of ¥3,629 million in notes and accounts receivable to ¥48,227 million. The total of investment in securities, property, plant and equipment and other assets fell ¥3,956 million, or 6.8% versus the previous fiscal year-end, to ¥54,625 million. Property, plant and equipment rose ¥821 million from the previous fiscal year-end to ¥27,568 million, due mainly to the completion of construction of the Headquarters and Technical Center. Investments in securities decreased ¥956 million to ¥2,344 million, due to loss on devaluation, while other assets declined ¥3,820 million to ¥24,713 million due partially to withdrawal of deferred tax assets. As a result, total assets at year-end increased ¥1,350 million, or 0.9%, compared with the previous fiscal year-end, to ¥150,841 million.

Total liabilities increased ¥3,457 million, or 3.0%, from the previous fiscal year-end, to ¥118,716 million. Current liabilities were up ¥5,844 million, or 7.4%, to ¥84,763 million. Total long-term liabilities decreased ¥2,387 million, or 6.6%, to ¥33,952 million, attributable mainly to a decrease in long-term loans. Total net assets totaled ¥32,125 million. The net assets ratio was down 1.6 percentage points to 21.3%.

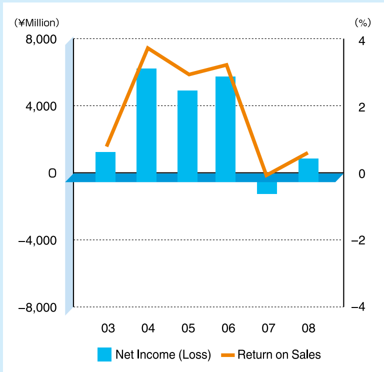
■ Net Sales, Overseas Sales and Overseas Sales Ratio



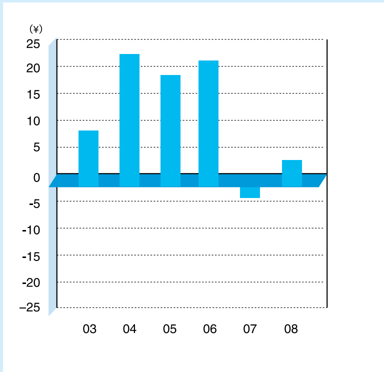

■ Operating Income and Operating Income Ratio



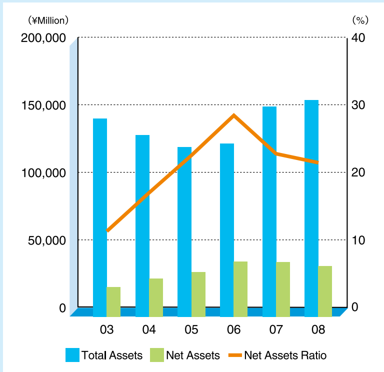

■ Net Income (Loss) and Return on Sales



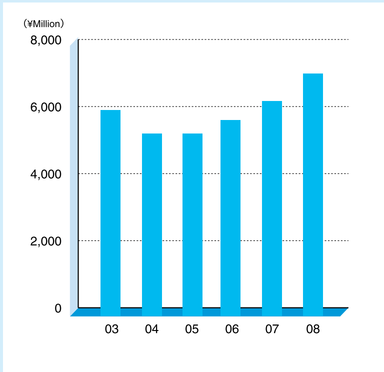

■ Net Income (Loss) per Share




■ Total Assets, Net Assets and Net Assets Ratio




■ Depreciation and Amortization




* Years ended March 31

## Cash Flows

Net cash provided by operating activities was ¥10,771 million. This was due mainly to income before income taxes of ¥4,298 million, depreciation and amortization of ¥6,364 million as well as a decrease in inventories and an increase in notes and accounts payable. Net cash provided at the end of the previous fiscal year was ¥8,820 million.

Net cash used in investing activities was ¥9,247 million. This was due mainly to payment for purchases of property, plant and equipment primarily for die-cast and production equipment as well as investment in construction of the new Headquarters and Technical Center in addition to payment for purchases of intangible assets such as software, offsetting proceeds from sales of property, plant and equipment associated with the sale of the Gunma Office buildings and structures. Net cash used at the end of the previous fiscal year was ¥20,501 million.

As a result, free cash flow totaled ¥1,524 million (compared with a negative cash flow of ¥11,680 million at the previous fiscal year-end).

Net cash provided by financing activities was ¥1,061 million due mainly to proceeds from long-term loans despite dividends paid in the amount of ¥564 million. Net cash provided at the end of the previous fiscal year was ¥10,054 million.

As a result of the above, cash and cash equivalents at the end of the year were ¥12,563 million, an increase of ¥1,871 million versus ¥10,691 million at the previous fiscal year-end.

## Outlook for Fiscal 2008, Ending March 31, 2009

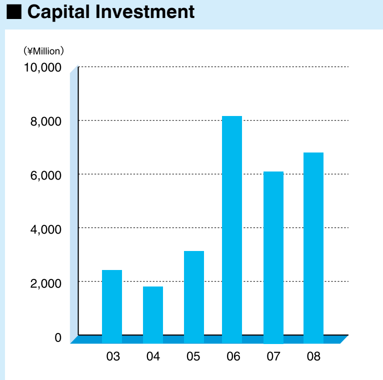
In the automobile industry, technological innovations continue at breakneck speed in the car information systems field. In particular, in the car AV equipment sector, in addition to dedicated AV and navigation devices, integrated AV-navigation devices are becoming more widespread, while demand for PNDs (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.

Amid such a business environment, Clarion became a consolidated subsidiary of Hitachi, Ltd. in 2006 upon which Xanavi was made a wholly owned subsidiary of Clarion. This move will enable the integration of Clarion's accumulated expertise in car navigation and AV systems with the technological know-how of the Hitachi Group. 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.

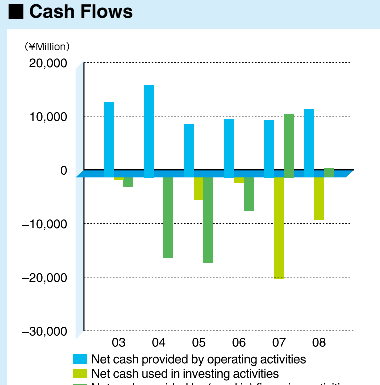
In fiscal 2008, we will introduce into the PND market a new strategic product dubbed “MiND (Mobile Internet Navigation Device),” which enables connection to the Internet. We launched a portal site in Japan in December 2007 called “Chizuru-to-Susumu (Map-Route-Advance)” that provides maps and navigation, 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.

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.

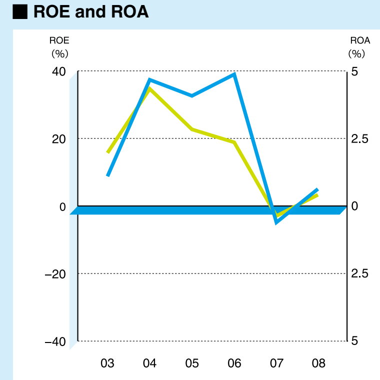
■ Capital Investment




■ Cash Flows




■ ROE and ROA




* Years ended March 31



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 |
|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | **2008** | **2008** |
| **For the Year** | | | | | | | |
| Net sales | ¥185,530 | ¥168,947 | ¥178,325 | ¥184,176 | ¥181,041 | **¥246,806** | **$2,463,380** |
| Car audio-visual equipment | 168,716 | 159,544 | 166,365 | 168,686 | 161,786 | **217,522** | **2,171,098** |
| Audio entertainment equipment | 5,162 | — | — | — | — | **—** | **—** |
| Special equipment | 5,235 | 6,126 | 6,949 | 8,306 | 7,833 | **8,732** | **87,155** |
| Others | 6,416 | 3,275 | 5,010 | 7,183 | 11,422 | **20,551** | **205,125** |
| Japan | 97,333 | 88,843 | 96,658 | 99,511 | 93,365 | **151,015** | **1,507,289** |
| Americas | 39,291 | 33,657 | 38,577 | 43,725 | 49,537 | **55,497** | **553,925** |
| Asia and Australia | 10,141 | 9,893 | 10,737 | 15,063 | 14,475 | **12,952** | **129,280** |
| Europe | 38,763 | 36,552 | 32,351 | 25,877 | 23,663 | **27,340** | **272,884** |
| Cost of sales | 146,946 | 132,103 | 140,786 | 147,123 | 148,200 | **205,058** | **2,046,695** |
| Selling, general and administrative expenses | 29,049 | 26,491 | 27,956 | 31,824 | 29,768 | **36,281** | **362,131** |
| Operating income | 9,534 | 10,352 | 9,582 | 5,228 | 3,072 | **5,465** | **54,553** |
| Other expenses, net | 7,132 | 4,451 | 6,631 | 694 | 2,905 | **1,167** | **11,649** |
| Income before income taxes and minority interests | 2,402 | 5,900 | 2,950 | 4,534 | 167 | **4,298** | **42,903** |
| Provision (benefit) for income taxes | 727 | (514) | (2,328) | (1,337) | 938 | **2,903** | **28,978** |
| Minority interests in subsidiaries | 119 | 109 | 167 | 8 | 13 | **17** | **171** |
| Net income (loss) | 1,555 | 6,305 | 5,111 | 5,862 | (784) | **1,378** | **13,754** |
| Research and development expenses | 9,569 | 9,943 | 10,659 | 11,340 | 12,560 | **27,772** | **277,201** |
| Capital investment | 2,410 | 1,816 | 3,066 | 8,106 | 6,074 | **6,855** | **68,426** |
| Net cash provided by operating activities | 12,153 | 16,058 | 8,038 | 9,236 | 8,820 | **10,771** | **107,511** |
| Net cash used in investing activities | (530) | (158) | (6,030) | (1,055) | (20,501) | **(9,247)** | **(92,298)** |
| Net cash provided by (used in) financing activities | (2,158) | (16,467) | (17,537) | (7,938) | 10,054 | **1,061** | **10,590** |
| **Per share** | | | | | | | |
| (Yen and U.S. dollars): | | | | | | | |
| Net income | ¥7.82 | ¥22.32 | ¥18.09 | ¥20.76 | ¥(2.78) | **¥4.88** | **$0.05** |
| Cash dividends | — | — | — | ¥2.00 | ¥2.00 | **¥2.00** | **$0.02** |
| **At year-end** | | | | | | | |
| Total assets | ¥140,621 | ¥128,536 | ¥119,527 | ¥122,119 | ¥149,490 | **¥150,841** | **$1,505,554** |
| Total net assets | 15,588 | 21,879 | 26,878 | 34,661 | 34,231 | **32,125** | **320,645** |
| Interest-bearing debt | 74,416 | 58,585 | 41,619 | 34,227 | 41,483 | **42,838** | **427,577** |
| **Ratio** (%) | | | | | | | |
| Net assets ratio | 11.1 | 17.0 | 22.5 | 28.3 | 22.9 | **21.3** | **21.3** |
| ROE | 16.8 | 35.4 | 21.4 | 19.2 | (2.3) | **4.2** | **4.2** |
| ROA | 1.1 | 4.7 | 4.1 | 4.9 | (0.6) | **0.9** | **0.9** |
| Current ratio | 90.9 | 100.0 | 108.7 | 125.5 | 115.2 | **113.5** | **113.5** |

Notes: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, 2008, which was ¥100.19 to US$1.