

Risk Information

Risks that may have material impacts on the results of operation, financial condition and cash flow of the Clarion Group (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 in-vehicle audio, 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 to 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. The exchange rate at the time of translation may impact results even if there has been no change to amounts in the local currency. 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 a deterioration in the performance and financial position of the Company.

(3) Price Competition

The segment of markets where the Company conducts business, that is the market for in-vehicle audio, information and communication equipment, is very competitive in prices 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 the most important criterion for the selection of the supplier. Additionally, the customers' purchasing policies demand, from time to time, more severe 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 reduction of prices 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) Alliances with Other Companies

Since technological advancements in products handled by the Company are very fast, the Company seeks technological alliances with other companies 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 largest shareholder, in order to expand and enhance business. The alliance covers wide areas of materials procurement, after-sales services, product planning, business processes and joint development of design tools. 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 in-vehicle audio, 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 (International Standards Organization) and QS (Quality System) 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 on 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. Therefore, there may be cases where the Company cannot effectively prevent third parties from misusing its intellectual properties and manufacture and sell 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 Group modified its reward system for employee inventions on April 1, 2005 based on Japan's Revised Patent Law, but there is still the risk that the inventor may file a lawsuit regarding compensation.

(9) Component Procurement from Outside the Company

Although mechanisms for core products are produced internally, the Company procures certain key components, such as semiconductors, from outside suppliers. Although a system has been set up to guarantee stable supply, there are times that a supplier may be unable to deliver the required amount at the required time due to a sudden increase in

demand or unforeseen natural disaster or accident. This may disrupt production, cause higher logistics costs and impact supply to customers, which could lead to loss of sales opportunities. Also, the unexpected increase of procurement costs due to rising raw material prices or a sudden change in exchange rates could have an adverse effect on the performance and financial position of the Company.

(10) Expansion of Business Operations into International Markets

The expansion of the Company's business activities in overseas markets inevitably involves certain risks. Such risks may be market contraction due to economic recession, political and economic turmoil, unexpected changes in laws and regulations, war and terrorism, currency collapse, natural disasters and the outbreak of contagious disease in respective countries or regions.

The Company has established production sites around the world based on its global production strategy, with the proportion of production in China (Dongguan and Xiamen) currently on the rise. As such, the Company has implemented production system controls upon careful consideration of country risk and other factors. Apart from the aforementioned factors, unforeseen circumstances such as strikes or worsening security may cause suspension of business, which could have an adverse impact on the performance and financial position of the Company.

(11) Retirement and Severance Liabilities and Related Expenses

Clarion and certain consolidated subsidiaries in Japan and overseas employ defined benefit pension plans, and liabilities and expenses for employee retirement and severance are calculated based on length of service, labor turnover rate, a discount rate and an expected rate of return on pension plan assets. However, the recent declines in the discount rate and asset management yield may lead to unrecognized actuarial differences, which could increase severance costs in the future. This could have an adverse effect on the performance and financial position of the Company.

(12) Application of Impairment Accounting of Fixed Assets

In the year ended March 31, 2006, in line with the introduction of accounting standards for impairment of fixed assets, the Company recorded ¥1,335 million in impairment losses following investigation into the individual recoverability of tangible and intangible fixed assets owned by Clarion and its domestic subsidiaries and of leased properties in lease transactions. With regard to property, plant and equipment, intangible assets and leased properties, in the event that a facility becomes unnecessary because the equipment has become obsolete due to technological innovation or because the business is withdrawn, appreciable impairment of value may arise. With regard to intangible fixed assets, software for internal use is amortized on a straight-line basis based on an estimated period of useful life, generally five years. In the case that this estimated period of useful life is lower than the Company's estimation, appreciable impairment losses may arise, which could have an adverse impact on the performance and financial position of the Company.

(13) Investment Risks, Concerns Over Recoverability of Trade Receivables and Contingency Loss

With the aim of driving future business expansion, the Company makes business investments and R&D investments in Japan and overseas based on demand forecasts. However, if projected demand and actual demand differ, this investment may not always generate successful results. The Company provides an allowance for doubtful accounts based on the past actual ratio of losses on bad debt in addition to estimations of individual recoverability of designated claimable assets, including doubtful accounts. With respect to long-term receivables, the

Company safeguards itself by requesting borrowers to provide collateral. However, a change in the economic situation of the borrower, unexpected revisions to laws and regulations or suspension of operation owing to economic factors or calamity could make loan recoverability difficult.

All the Company's business operations around the world are subject to the laws and regulations of the countries where they are located. Examples of such regulations include laws that cover restrictions on exports and taxation including customs duties. The Company takes special care to ensure that its activities are in compliance with legal regulations, but in the event that it unexpectedly fails to comply with certain laws, there is a possibility that costs may increase in the form of contingency losses, which could adversely impact the performance and financial position of the Company.

(14) Effects of Disasters, Power Blackouts and Other Incidents

The Company carries out regular checks and inspections of all production and R&D facilities to prevent accidents and ensure compliance with legal requirements. In addition, a crisis management manual has been formulated, and efforts have been made to familiarize employees with procedures for earthquakes, natural disasters, fires and security management overseas. However, there is the possibility that an unforeseen accident, an earthquake, a natural disaster or a power shortage at a production site could interfere with production activities. A prolonged delay or stoppage in operations could have an adverse impact on the performance and financial position of the Company.

(15) Environmental Issues

The Company promotes an ISO 14001-based environmental management system as part of wider efforts for environmental protection. Examples of activities include the development of eco-friendly products, the reduction of pollutants, the use of lead-free solders, soil contamination studies, investigation into asbestos use, zero-waste-output initiatives through recycling, energy-saving activities and supplier education, notably on green purchasing. However, restricted substances and start of enforcement differ depending on the laws of each country and customer requests. There is also a possibility that components used in the Company's products may be found to contain environmentally hazardous substances according to newly instituted laws or business climate in the future. This would have an adverse impact on the performance and financial position of the Company.

(16) Protection of Personal Information

The Company strives to enhance information management through the formulation of personal information protection regulations and information security policies. In the unlikely event of leak of customers' personal data due to system infiltration by a computer hacker, for example, reparation may have to be paid to the affected customers. In addition, the ensuing erosion of customer confidence and damage to brand image could have an adverse effect on the performance and financial position of the Company.

(17) Securing Personnel and Passing On Technology

There is a risk that the mandatory retirement of personnel with specialized knowledge and skills supporting corporate activities may lead to a loss of accumulated internal technology. Based on the amended Law Concerning Stabilization of Employment of Older Persons, Clarion and its domestic subsidiaries have introduced a system in which employees can continue working past the statutory retirement age. However, there is a possibility that corporate activities may suffer from difficulty in securing skilled workers or technologies being not passed on smoothly to successive generations.