

Under Vision-70, we are carrying out various measures.

Clarion's Competitive Advantage

Precision devices in vehicles are subject to vibration, temperature and humidity fluctuations, and face an environment far harsher than that of ordinary consumer electronic devices.

In addition, because of structural and functional restrictions in vehicles, sophisticated technology is necessary to incorporate computer or vibration-sensitive CD/DVD devices into navigation systems. In recent years the links between these in-vehicle computing systems (IVCSs) and the driving functions of the automobile have become closer, demanding greater and higher reliability.

Clarion possesses not only the cumulative audio technology acquired since its founding, but also application- and installation-specific technologies. We have also established relationships of trust with automobile manufacturers that give us a unique competitive advantage over manufacturers of household consumer electronics. Building on this advantage, and in accordance with our "Vision-70" corporate vision, we present the business strategies and measures that will increase our corporate value.

Brand Strategies and Organizational Restructuring

We cannot achieve the goals of Vision-70 without strengthening our corporate brand, and as such we have been building a brand strategy promotion structure since January 2005. The first aspect of this promotion is a "We are Clarion" series of activities within the corporate group. We then plan to expand investments to draw attention to the brand, beginning with exhibitions at shows of leading technologies, and increasing spending on such sales promotion and advertising as campaigns and displays.

Organization restructuring will focus on Company-wide cross-functional efforts that link the front office, which has direct contact with customers and markets, the middle office

that creates product value through conduct of operations, and the back office providing business support.

Sales Strategies throughout the World

Nearly four million car navigation systems are shipped in Japan each year. Because R&D expenses and fixed costs are high, it is important to maintain an absolute production quantity. The rule of thumb in the industry is that each company must produce 700,000 to one million units annually to keep from falling behind the competition.

To maintain this level going forward it is important for us to strengthen our sales power throughout the world. In the OEM markets we maintain and expand business with Japanese car manufacturers, while developing new customer bases in Asia, and expanding and developing business with customers in Europe and the Americas.

In the aftermarket we are making efforts to enhance our brand image, restructure and strengthen our product planning and marketing functions region-by-region, with special focus on strengthening IVCS products and expansion of markets.

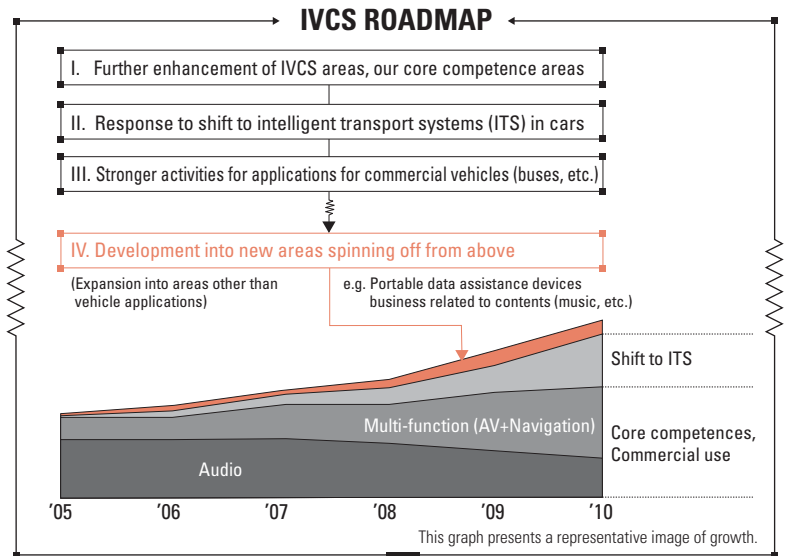
The time is also finally right for expansion of sales of navigation systems overseas. In 2006 Clarion will introduce an HDD navigation system in Europe, and a DVD navigation system in China. With the popularity of portable navigation systems in the U.S., Clarion has introduced an HDD transportable audio-visual navigation system.

Digital Technology Strategies

Car information systems (CISs) have become more sophisticated in recent years as they link together the basic functions of an automobile, as seen in the intelligent transport system (ITS) and other increasingly sophisticated safety control technologies, and cruise control systems with integrated navigation features.

Clarion has prioritized in-vehicle information terminals as its core competence, and is pursuing development of technologies in response to the increasing sophistication of automobile safety control systems and detection cameras. We already have experience with bus driving control systems in the form of commercial in-vehicle information communication devices incorporating Linux and JAVA™ software. Looking ahead, Clarion is focusing on products and designs to meet the needs beyond those of vehicles in the age of the ubiquitous society.

As product development expands in scale, with more focus on software, Clarion formed H.C.X. Corporation in 2000, a joint venture company with Hitachi, Ltd., to develop in-vehicle information systems. In April 2005 an agreement was reached on comprehensive cooperation for development of basic software and future technologies, along with



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material procurement, manufacturing, sales and follow-up service. We plan to draw on this collaboration to raise development efficiency by modularizing and developing platforms for both hardware and software, and pursue business development by function, customer and business area.

We plan to increase research and development spending from ¥10.7 billion in fiscal 2004 to ¥11.8 billion in fiscal 2005 in order to develop products to meet customer needs. From our ten research facilities in eight countries around the world, we will strengthen development worldwide, placing emphasis on Japan and China. In Japan we will increase the number of software developers at the Company and H.C.X. to facilitate development of new products with higher added value.

