MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Fiscal 2004, Ended March 31, 2005

The automobile industry in Japan showed improved performance from the previous year in terms of both production and sales of new cars, due to the launch of a series of new cars on the market. Performance in North America and Europe also improved slightly from the previous year.

Clarion's consolidated net sales for the subject fiscal year rose 5.6% year on year to ¥178,325 million. Despite falling prices and other effects of increasingly fierce sales price competition, sales increased as a result of growth in car navigation systems in both the domestic OEM market and aftermarket, along with increased sales of our Electronics Manufacturing Service (EMS) business in Mexico.

In terms of profitability, however, consolidated operating income fell 7.4% year on year to ¥9,582 million. This was due to an increase in strategic investments such as R&D expenses, and an infusion of advertisement expenses for publicity through various advertising media, and aggressive sales promotion activities.

Other income totaled ¥1,134 million, of which ¥255 million was from interest and dividend income, and ¥122 million from gain on reversal of patent fees.

Other expenses totaled ¥7,766 million, of which ¥1,501 million was for interest expenses, ¥2,690 million was for an increase in the allowance for doubtful accounts stemming from our evaluation of recoverability, ¥464 million was for the transition obligation expenses for pension and severance costs, and ¥304 million was for business restructuring expenses associated with integration of production in Europe and other areas.

Excluding current income taxes, deferred income taxes and minority interests in subsidiaries, consolidated net income declined 18.9% year on year to ¥5,111 million. Net income per share was ¥18.09.

Overview of performance by business segment is as follows.

■ Car audio-visual equipment

Car audio-visual equipment in the Japan market was characterized by growth in sales of car navigation systems on the aftermarket, while in the OEM market there was an increase in the number of new car navigation units installed. Sales were sluggish in the European market, while in the North American OEM market there was a decline in the number of precision devices sold, and increasingly fierce price competition that resulted in a fall in sales prices and other negative effects. However, overall sales of this business segment increased 4.3% year on year to ¥166,365 million.

In terms of profitability, however, operating income was down 10.8% year on year to ¥8,132 million, due mainly to strategic investments such as R&D expenses, and aggressive spending on advertising and sales promotions.

■ Specialty equipment

In the specialty equipment business, which includes audio-visual equipment for buses, we launched an IT-based bus location system aimed at improving service of bus operators in the

□MAX950HD:
Car AV navigation system for the Japanese market

□VRX935VD:
Car AV system for the Japanese market

□VRX755VD:
Car AV system for the U.S. market

tourist and community bus industries. Demand was also steady for rear view monitor and camera systems using CCD cameras and other devices, due to increased safety awareness of drivers.

As a result, sales in this segment increased 13.4% year on year to ¥6,949 million, and operating income rose 5.3% to ¥1,233 million.

■ Other business

In other business, we started an Electronics Manufacturing Service (EMS) business in Mexico during the subject fiscal year, resulting in a significant improvement in earnings. Sales in this segment rose 53.0% year on year to ¥5,010 million, while operating income totaled ¥216 million, compared to ¥67 million the previous fiscal year.

Results by geographic segment are as follows.

■ Japan

In the automobile industry, domestic production and sales rose from the previous year. In terms of results, rising sales stemming from growth in car navigation systems in the OEM market and aftermarket resulted in an increase in sales of 8.8% year on year to ¥96,658 million in this segment.

In terms of profitability, however, operating income was down 19.6% to ¥6,304 million, due mainly to strategic investments in R&D, and aggressive investment and spending on advertising and sales promotions.

■ Americas

A recovery in sales in the aftermarket and the launch of the EMS business through our production subsidiary in Mexico during the subject fiscal year resulted in an increase in sales of 14.6% year on year to ¥38,577 million in this segment. In terms of profitability, a significant increase in income was realized from efforts to streamline production and reduce expenses, resulting in a rise in operating income of 257.2% to ¥1,675 million.

■ Asia and Australia

The start of OEM deliveries in China and recovery of OEM sales in Taiwan resulted in an increase in sales of 8.5% year on year to ¥10,737 million in this segment. Operating income, however, fell 5.0% to ¥790 million due mainly to increases in sales expenses, and development expenses in China.

■ Europe

Contraction of the aftermarket and price declines due to price competition resulted in a decline in sales of 11.5% year on year to ¥32,351 million in this segment. Operating income, however, rose 53.8% to ¥348 million due to cost reduction benefits realized from streamlining of production in Europe, and cuts in sales expenses.

Financial Position

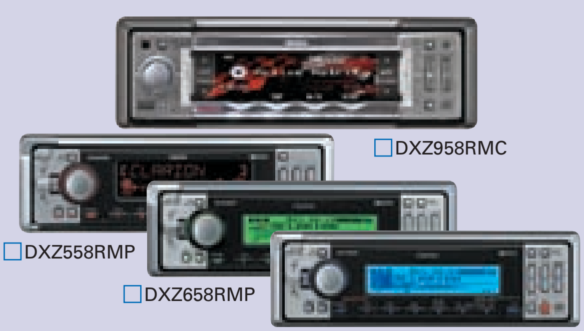
Total assets decreased by ¥9,008 million compared to the end of the previous consolidated fiscal year to ¥119,527 million. Current assets declined by ¥10,889 million to ¥73,687 million, due mainly to decline in cash on hand and in banks of ¥14,946 million to ¥11,059 million. With the increased sales, notes and accounts receivable increased by ¥4,646 million to ¥35,359 million. Despite the efforts in shortening purchasing and production lead times, the rise in sales resulted in an increase in inventories of ¥689 million compared to the end of the previous fiscal year, to ¥22,871 million. The number of days for

□DRZ9255

□DXZ955MC

Car audio systems for the U.S. market

□VRX848RVD:
Car AV system for the European market



□DXZ958RMC

□DXZ558RMP

□DXZ658RMP

□DXZ758RMC

Car audio systems for the European market inventory turnover, however, improved by nine days in the same period to 46 days, the shortest in the industry. Due to active investment, tangible fixed assets totaled ¥24,873 million, and intangible fixed assets ¥7,637 million, both increased from the previous fiscal year. Investments and other assets were ¥13,329 million.

Liabilities declined 13.1% year on year to ¥92,649 million. Current liabilities decreased by ¥16,803 million from the end of the previous fiscal year to ¥67,791 million. This was due mainly to a decrease in short-term loans of ¥18,612 million compared to the end of the previous fiscal year, to a total of ¥30,592 million. Total long-term liabilities increased ¥2,796 million from the end of the previous fiscal year to ¥24,857 million. The Company received funding from the establishment of a commitment line and a term loan in October 2004 on a syndicated loan system, and benefited from controls that brought cash on hand and in banks to an appropriate level. Interest-bearing borrowings were continually reduced, declining ¥16,965 million from the end of the previous fiscal year, and dependence on borrowing fell from 45.6% to 34.8%.

Total shareholders' equity increased ¥5,742 million to ¥26,729 million, while the equity ratio improved 6.1 percentage points compared to the end of the previous fiscal year to 22.4%. A proposal for reversal of additional paid-in capital was approved at the general meeting of shareholders held in June 2004, resulting in retained earnings for the fiscal year to March 2005 of ¥2,934 million.

Cash Flows

Net cash provided by operating activities increased by ¥8,038 million due mainly to income before income taxes of ¥2,950 million and depreciation of ¥4,497 million, along with reductions in interest expense. Net cash provided at the end of the previous consolidated fiscal year was ¥16,058 million.

Net cash used in investing activities was ¥6,030 million, compared to ¥158 million in the previous consolidated fiscal year. This was due mainly to ¥329 million from proceeds from sales of investment securities, acquisition of production equipment and other tangible fixed assets in China, acquisition of software and other intangible fixed assets, and additional acquisition of stock in consolidated subsidiaries.

Net cash used in financing activities was ¥17,537 million, compared to ¥16,467 million in the previous fiscal year. This was due mainly to capital injections from the establishment of a commitment line in October 2004 and a syndicated loan, controls that brought Group-wide cash on hand and in banks to an appropriate level, and continued reductions in interest-bearing borrowings.

As a result of the above, cash and cash equivalents at end of year were ¥11,016 million, a decrease of ¥14,989 million from ¥26,005 million at the end of the previous consolidated fiscal year.

Outlook for Fiscal 2005, Ending March 31, 2006

In the automobile industry we expect an increase in R&D investment related to on-board IT systems, along with development of provided content and modularization of hardware. On the other hand, fierce competition for cost reductions will continue. In order to cope with this adversity, we will strive for lower variable costs through international purchasing, taking advantage of information-based technology to structure systems for reduced costs through better production efficiency, while at the same time offering more attractive products.

We expect the business environment for in-vehicle computing systems (IVCSs), mainly car navigation systems, to steadily develop. We anticipate that automobile manufacturers will begin full-scale information-communication services, and that audio-visual navigation systems—the area in which the Group is able to maximize its strengths—will steadily expand, mainly in the OEM market. In the China market, where growth in the aftermarket is expected, we will strengthen our R&D functions. Although the business environment remains unfavorable with fierce price competition, the Clarion Group will continue to strive to strengthen its consolidated earnings capacity and to improve consolidated cash flow.

Forecast of operating results for fiscal 2005 are as follows.

Net sales	¥180.0 billion	(up 0.9% year on year)
Operating income	¥7.5 billion	(down 21.7% year on year)
Net income	¥3.5 billion	(down 31.5% year on year)