

## Pursuing a Growth Strategy through Strengthened Ties with Hitachi

Clarion became a consolidated subsidiary of Hitachi, Ltd. in November 2006 through a TOB (tender offer bid). The two companies seek to further strengthen ties in the CIS (Car Information System) field, with car navigation systems at the core, and capture synergies as a means to expand business.

### Market Environment

Against the backdrop of an aging society and technological breakthroughs in the data communication field, society's demands on the automotive market have begun a major shift toward "Security & Safety," "Ecology & Efficiency" and "Comfort & Usability."

To meet these needs, three closely related, even overlapping, realms exist surrounding automobiles: (1) information services, including the provision of content such as telematics services and music; (2) social infrastructure, namely, transportation systems such as ETC (Electronic Toll Collection) and vehicle information and communication systems; and (3) hardware with advancements in electronics and computerized control.

The CIS field, with car navigation systems at its core, lies at the center of where these three fields converge, and as such, its potential for growth and expansion is expected to be significant. Specifically, the car navigation systems market is projected to grow at an average rate of 7.2% annually between 2006 and 2010. By 2010, we expect a predominance of CIS products, namely, next-generation navigation systems incorporating a safe driving support system, information and communications system as well as audio-visual function compatible with a variety of media.



### Aims of Alliance and Business Reorganization

Clarion became a consolidated subsidiary of Hitachi, Ltd. in November 2006 subsequent to a TOB for the Company's shares. At the same time, Xanavi Informatics Corporation (Xanavi), a wholly owned subsidiary of Hitachi, became a wholly owned subsidiary of Clarion through a share transfer.

Hitachi, Clarion and Xanavi have been cooperating in technological development and material procurement for navigation systems and other products and systems. The alliance will enable the three companies to maximize synergies by integrating R&D, production, planning and sales/marketing under a common operational platform and business strategy.

The Hitachi Group has an extensive range of management resources, including cutting-edge technological development capabilities, global operations, intellectual property, procurement of materials and IT. Xanavi, meanwhile, has accumulated R&D competencies as well as selling power in the domestic OEM market.

By integrating these strengths with Clarion's expertise in product planning, marketing and sales power in the aftermarket for car audio-visual devices, we aim to establish a solid position in the global market for navigation systems. Further, the reorganization aims to bolster not merely individual dedicated devices but also the overall functionality of CIS-related products.

### Mid-term Management Targets

Clarion has set mid-term management targets of net sales of ¥270,000 million and an operating income ratio of 5% by March 2010.

### Key Initiatives

To achieve the aforementioned targets, the following key initiatives will be implemented, notably in the car navigation systems sector: (1) expansion of sales, (2) enhancement of R&D efficiency, (3) enforcement of sales structure, and (4) reduction of costs in material procurement and production.

#### 1. Expansion of sales

Through the alliance, we will strive to realize an industry-leading sales volume in the respective fields of car navigation systems, cameras and AV equipment in Japan, Europe and North America. We will also make concerted efforts to expand sales in the ITS (Intelligent Transport Systems) market that includes ITS vehicle coordinated safety systems that support safe driving and Adaptive Cruise Control, an automatic driving system following a preceding vehicle.

#### 2. Enhancement of R&D efficiency

Clarion aims to boost development efficiency by 30% by 2010 through the implementation of the following measures.

First, we are aggressively promoting the integration of car navigation hardware, software and map databases with a plan to release new products before the end of 2008. In addition, we have been pushing ahead with the development of standardized platforms while at the same time working to enable us to handle CTO (Configure to Order) frameworks.

The concept of the framework is that we focus on the advanced development of technological seeds based on anticipated market requirements to ensure an extensive range of components. This strategy will enable us to provide a diverse array of distinctive and unique products within a relatively short development lead time at low cost and high quality that are closely tailored to customer needs.

As a means to raise development efficiency, we have created development tools that help reduce the time required to develop operation displays, or HMI (Human Machine Interface), of car navigation systems, and these will be fully introduced in our actual development process from fiscal 2007. By sharing these tools with OEM customers from the concept stage, we can minimize differences in understanding between customers' concepts and actual development.

Further, we will aim for a 2008 worldwide launch of an AV navigation system that falls into a strategic price range. The new product will be positioned between conventional AV navigation systems and PNDs (Portable Navigation Devices), the market for which is expanding particularly in Europe and the United States. This global strategic model seeks to offer vehicle specifications at a price requested by the majority of users. By making the most effective use of Clarion's and Xanavi's long-accumulated experience and know-how in in-vehicle navigation technology, we aim to meet the requirements of car manufacturers and consumers alike with sophisticated technology and advanced HMI.

In addition, we will clarify the roles of each development unit, lay the groundwork for a comprehensive structure and gradually ensure optimal distribution of resources.

#### 3. Enforcement of sales structure

We will integrate the sales organization for each OEM, customer by customer. Each headquarters in Japan, North America and Europe shall identify and enforce sales activities for core and strategic OEM customers.

#### 4. Reduction of costs in material procurement and production

Clarion and Xanavi will establish a joint procurement system in tandem with Hitachi, expanding its centralized procurement. This will enable us to reduce annual material costs by 8% to 10%, contributing to the reduction of production costs.