

Business Environment and Results

In the fiscal year ending March 31 1999, with the recession and employment instability continuing, and despite government policies intended to boost the economy, consumer spending and corporate investment in equipment remained sluggish, and employment conditions did not improve.

Automobile manufacturers, our main clients, also suffered a serious slump in domestic production and sales prompted by consumers' insecurity about future prospects. In household appliances, sales of audio-visual equipment also declined.

Facing this tough business environment, Clarion actively launched new products and strove to expand sales of retail products in domestic and overseas markets. Nevertheless, heavy price competition and a slump in original equipment manufacturing (OEM) sales thwarted these efforts. Accordingly, non-consolidated net sales declined by 0.2% to ¥153,251 million (\$1,277.0 million) from the previous term.

Although we worked to reduce costs and boost productivity in order to improve profits, accelerated price competition and increasing development costs reduced operating income by 60.3% to ¥2,014 million (\$16.7 million). Net income also fell by 57.9% to ¥1,294 million (\$10.7 million), despite the return of reserves against loss for our overseas subsidiary which enjoyed improved earnings.

Consolidated net sales, including those of our 64 consolidated subsidiaries, improved, particularly in North America, recording an increase of 1.8% to ¥199,576 million (\$1,663.1 million). However, due to lower profitability resulting from price competition and increased loss from disposal of inventories, net income decreased by 71.9% to ¥1,052 million (\$8.7 million).

Sales by Category

Car Audio-Visual Equipment

Under the influence of the drop in the number of cars produced in Japan below 10 million for the first time in 20 years, total OEM sales to Japanese car manufacturers decreased, despite growth in sales of CD players prompted by the shift from cassette tapes to CDs. However, we launched on the domestic retail market a new car navigation system, S-Navi, which boasts great cost performance. The new product won popular acclaim and enabled us to expand our sales and market share in this segment. Overall, our sales of car audio equipment grew by 2.3% to ¥142,368 million (\$1,186.4 million).

Sales of car visual equipment fell by 32.3% to ¥5,463 million (\$45.5 million) as sales of separate car TVs dropped due to the widespread adoption of integrated TV & navigation systems.

Special Equipment

With a slump in demand for new buses, sales of automated voice-synthesis PA systems for intracity buses and audio-visual equipment for tour buses dropped. Sales of SS (Spread Spectrum) wireless modems, installed in factories or store automation systems for wireless operation, foundered under the influence of depressed business equipment investment, falling by 9.8% to ¥4,956 million (\$41.3 million).

Exports

Export sales of OEM and retail products performed well in North America and Europe. Boosted by the depreciation of the yen, sales increased by 5.1% to ¥73,996 million (\$616.6 million). As OEM exports for automobile manufacturers in Europe expanded, the ratio of exports in total sales rose 2.4 points from 45.9% to 48.3%.

Dividend Policy

Clarion's basic policy is to give top priority to rewarding shareholders by providing steady dividends. Although we still face a difficult business environment in light of the prolonged recession, we issued a dividend of ¥3.00 per share, the same amount as paid in the previous term.

In the future, we will continue to strive to improve business results further in order to return profits to shareholders through steady dividends.

Management Policy

In this term, products with high added value and differentiation performed well. For example, the Clarion AutoPC, a next-generation product announced in the spring of last year with great expectations, was launched in the U.S. Our navigation systems won a greater share of the domestic market for retail car audio products. We will continue to pursue these value-added and differentiation strategies in cooperating with our partners to develop products for Intelligent Transport Systems (ITS), a segment in which high growth is forecast.

In other areas, we are taking seriously the corporate challenge of contributing to global environmental preservation. In July 1998, Clarion committed itself to introducing systems compliant with ISO14000, an international standard for environmental preservation. We are building new in-house systems to improve performance in six target areas, including product life cycles, energy use, and waste reduction, in preparation for inspection in March 2000.

Outlook

Due to uncertainty about prospects for the U.S. and European economies, and depressed consumption and



continuing deflation in Japan, we do not foresee any easing of competition. In the automobile industry, we expect the trend toward further international mergers cooperation to continue, and production to be further curtailed.

In response, Clarion will strive to improve productivity, reduce costs through rationalization of management, and efficiently develop and market new products in order to expand sales and secure steady income. Meanwhile, to strengthen our financial structure through early repayment of loans, we will advance sales of fixed assets and held stock and reduction of inventory.

We look forward to the continued support of our shareholders and customers in these efforts.

June 29, 1999

A handwritten signature in black ink, appearing to read 'Ichizo Ishitsubo'.

Ichizo Ishitsubo
President