

MESSAGE FROM THE PRESIDENT

Business Climate and Performance

In fiscal 2001 ended March 31, 2002, the Clarion Group reported consolidated net sales of ¥187,954 million (\$1,410.5 million), down 0.4 percent from the previous year. In the automobile industry, with which we are most closely related, overall new car sales dropped except Europe, where new car sales slightly increased. This obstacle suppressed sales in the OEM sector. At the same time, sales in the aftermarket sector were affected by the industry-wide moves to slash prices.

Despite the negative impact of these factors, operating income substantially increased to ¥4,335 million (\$32.5 million) this year, a drastic improvement from an operating loss of ¥2,058 million in fiscal 2000. This improvement stemmed from our continuous efforts in cutting fixed costs and, among others, increasing productivity and streamlining operations.

The after-tax income, however, resulted in a loss of ¥7,274 million reflecting extraordinary expenses from write-down of investment securities and supports for factory consolidations in Mexico and reorganizations and consolidations of domestic subsidiaries.

It is our regret that we will not be able to make a dividend payment this year. In order to resume dividend payments in the nearest future, we will exert every effort to strengthen our management basis while improving shareholders' equity and internal reserves to cope with needs for the improved financial structure, R&D expenditures and investments for new business projects.

New Creation 21 Medium-Term Management Plan

Growth has hit a snag in our mainstay car audio-visual products and navigation devices sector, and price competition continued to intensify in both the OEM and the aftermarket. At the same time, worldwide regrouping and reorganization of car manufacturers have been affecting the procurements systems of parts and components.

Along with functional innovations of hardware systems, the navigation market saw a drastic advancement in relevant software applications and infrastructures such as navigation function, car AV, entertainment, Telematics and information-based services. As a leading company in the industry, we are now changing our management focus, accordingly, shifting our management resources from car audio-visual products to in-vehicle computing systems (IVCSs).

To respond to these significant changes in the industry, we at Clarion reviewed our corporate structure and formulated the New Creation 21 medium-term management plan in April 2001, implementing various measures in order to ensure the continuous growth of the organization. Under this plan, we will pursue thorough cost reduction, putting more added value into more multiplex functions as far as conventional car audio-visual products are concerned. At the same time, we will concentrate on developing and promoting IVCSs, thus enabling a qualitative transformation of our business structure to enhance our IVCS

business. In more specific terms, from product strategy viewpoints, we will accelerate our activities in developing multi-categorical products like AutoPC's combining communication, navigation, video and digital audio functions.

In order to achieve our financial objectives, we have striven to reshape our earnings structure and improve our financial position, cutting group company inventories and interest-bearing liabilities and reducing the size of the workforce. As a result, our inventories fell to ¥35,972 million (\$269.9 million), a year-on-year decline of 27.6 percent, interest-bearing liabilities decreased 12.0 percent to ¥93.0 billion (\$607.9 million), and our workforce was reduced by 3,170, or 22.6 percent, to 10,837 employees.

Future Perspectives

We expect that automobile manufacturers' requests to cut sales prices will continue to affect OEM sales. For our future development, we spare no effort to create a stronger financial base through adding higher value to our products and launching additional corporate efforts to streamline the company's business operations, as well as remodeling its earnings structure. As we embark into the second year of the New Creation Plan 21 medium-term management plan, we pledge our efforts to tune up the plan to make it more powerful and effective to raise the company's profitability.

Under this tuned-up plan, we will target our product strategy efforts in navigation and Telematics field, where most growth can be expected, and accelerate the development of hardware and software portfolio in an attempt to boost OEM sales. We will make necessary and effective measures for reducing costs in various areas, and restructuring and making our operations appropriate to achieve higher profitability and healthier financial structure.

We look forward to the continued understanding and cooperation of our shareholders and customers.

June 27, 2002



A handwritten signature in black ink, appearing to read 'Tatsuhiko Izumi'. The signature is fluid and cursive, written on a white background.

Tatsuhiko Izumi
President