

Sales by Product Segment, Business Area and Region

In the year under review, consolidated sales of car audio-visual products, car navigation devices, and IVCS devices decreased 0.9 percent from the previous year to ¥167,348 million (\$1,255.9 million). This represented 89.0 percent of total sales. Consolidated sales of commercial karaoke systems, audio-video products for buses, and other products in the special equipment category rose 3.9 percent year on year to ¥20,606 million (\$154.6 million). This represented 11.0 percent of total sales.

In the sector of car audio-video products and navigation devices, consolidated sales both in the OEM and aftermarket declined due to harsh price competition. Despite the dip in sales, our operating income swung to ¥3,177 million (\$23.8 million) from the previous year's operating loss of ¥1,998 million as a result of our efforts to streamline operations and improve productivity.

In the special equipment sector, the success of our marketing and sales activities for spread spectrum (SS) synthesizer karaoke systems for professional use, audio-visual products for buses and rear-view monitor systems with CCD cameras resulted in maintaining consolidated sales growth in the special equipment category. Through cost reduction efforts, operation review, and product line-up rationalization, we reported an operating income of ¥1,158 million (\$8.7 million).

A breakdown of business areas showed that sales to OEM customers, automobile manufacturers represented a high and stable share of 63.4 percent. Products sold to this area were car audio-visual products, navigation devices and others. Sales in the aftermarket represented 36.6 percent, or ¥68,724 million. By region, domestic sales amounted to ¥95,459 million (\$716.4 million), or 50.8 percent of total sales. Sales in the American markets were ¥45,674 million (\$342.8 million), or 24.3 percent of total sales, the European market ¥36,878 million (\$276.8 million), or 19.6 percent, and the Asian/Australian market ¥9,942 million (\$74.6 million), or 5.3 percent. This fiscal year, sales in Asia and Europe showed growth while growth momentum was weak in domestic market. In North America, sales decreased.

Car Audio-Visual Products, Navigation, and IVCS Devices

We have been promoting our rich business portfolio of car audio-video products and navigation devices all over the world. In the aftermarket we have been promoting our "Clarion" brand products and "ADDZEST" brand products in Japan. Also, we have been strengthening our promotion activities in OEM market for Japanese and overseas car manufacturers. We are proud of the share of the products in both markets.

The focus of navigation devices are now shifting to Telematics

terminal devices with two-way communication capability, and "communication navigation devices" that can exchange information through the Internet is becoming the main stream. After successively introducing new generation car navigation devices, we announced to the market our AutoPC "CADIAS," which has versatile future expandability. We are, thus, focusing our development efforts on IVCS devices capable of operating with information-oriented services with new contents, Electronic Toll Collection system (ETC) and Intelligent Transportation Systems (ITSs). Following this product strategy, we introduced in 1988 our AutoPC as a strategic core of IVCS devices in the U.S. aftermarket and took a leading role in the IVCS field of the industry. To expand our presence in the market, we released Joyride, an updated and enhanced version of AutoPC, in February this year.

In Europe, where ITSs have been steadily spreading, we took a strategic initiative and started delivery of AutoPC products to PSA Peugeot Citroen. We will continue our efforts in this direction in development, proposal and sales, both in OEM and aftermarkets.

In addition, we have developed, with a technical collaboration with U.S. companies, terrestrial and satellite digital radio units for the U.S., and satellite radio units are now introduced in the aftermarket. These units will also be supplied to Nissan in the U.S. on an OEM basis this fall. Digital radios offer much richer contents and applications, like traffic and weather information, title information of music played and so on. These new added features will be suitable for the IVCSs.

To conclude introduction of our activities in this category of products, we have started deliveries of terminals for ETC, and contracted this spring to supply Nissan Motor with next generation car navigation system devices. Also, we are jointly developing IMTS (Intelligent Multi-mode Transit System) devices with Toyota Motor. These examples demonstrate Clarion's leading role in IVCS development.



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AutoPC CADIAS

Production, and Sales Systems

Intent on further sharpening our competitive edge worldwide, we have been reviewing the system structure for production and sales activities. We consolidated our three domestic production companies which had had seven production sites as of March 2000 into one company and three sites as of the end of the fiscal year. At the same time, we integrated our 16 overseas production facilities in eight countries into 10 facilities in seven countries. In the future, we intend to concentrate our production in China and Hungary.

The Clarion Group manufacturers in Japan, United States, Mexico, Hungary, and China for the U.S. and European OEM market have acquired QS-9000 and ISO9001 certification, which are world-wide quality standards acknowledged by most and required by some of the automobile manufacturers.

Responding to the reorganization of automobile manufacturers worldwide, we modified the assignments and functions of our sales arms by placing responsibility for individual OEM groups and companies and established the Global OEM sales headquarters in Japan to coordinate the activities. With this new organizational structure, we intend to enable each sales unit to access information about its respective manufacture group in real time to accelerate product development accordingly.

For conventional car audio-visual products, for which price competitiveness is more critical, we will promote product integration and deployment of common platforms to facilitate development process, reducing the total development expenditures and individual component costs.

Also in the aftermarket, for conventional car audio-visual products, we continue to pursue our efforts to reduce development expenditures and costs. In addition, we endeavor to revitalize sales to car radio specialists, making the relative share of mass merchandisers smaller, to ensure higher profitability.

Expecting the harsh business environment to continue, we will continue to seek more appropriate organizational structures for production and sales activities to obtain more advantageous results.

Business Performance by Region

In Japan this year, we assiduously created attractive products and integrated product models for the Japanese OEM and aftermarket while cutting costs and modifying supply channels. As our corporate efforts expanded, we received OEM orders for car navigation systems from Nissan Motor and Honda Motor. We secured an OEM order from Mitsubishi Motors, a major company well known for its demanding standards, to supply car navigation systems. This contributed to a surge in sales.

In North America, we are supplying mechanical modules and finished products for Detroit's Big Three automobile manufacturers on an OEM basis. In the aftermarket, where we are facing ruthless price competition, we are concurrently reviewing our supply channels and reducing the relative importance of mass merchandisers. Meanwhile, following the AutoPC that we brought into the U.S. aftermarket, we launched sales of Joyride equipped with DVD-video players, MP3 players, and other entertainment functions. Joyride has been receiving customers' enthusiastic support since it debuted on the market this spring.

In Europe, we have been expanding our local market presence for OEM sales by focusing on PSA Peugeot Citroen and Saab. In the aftermarket, where we have been competing rigorously, we expanded sales in car audio-visual devices with CD players and car navigation systems operational in six languages. We have found Germany to be particularly important because it is a leading country in ITS localization. We will intensify our product development and sales activities as ITS spreads throughout Europe.

In Asia, where rapid economic development has recently been progressing, we have been diversifying our product portfolio in both the OEM and aftermarket to create sales potential, as the market demand for car audio-visual products has been skyrocketing.

Other Businesses

This fiscal year, our sales activities were hampered by the economic sluggishness, and downward pressure was exerted on sales of spread spectrum (SS) synthesizer karaoke systems. Also, barred by lower capital spending due to the weak economy, demand for new bus production was slack, and sales of audio-visual products for buses were low-spirited. Despite these negative factors, we are striving to increase sales of the rear-view monitor systems equipped with CCD cameras for applications in non-industrial, or personal use, vehicles.