

## MESSAGE FROM THE PRESIDENT

In fiscal 2001, ended March 31, 2001, the business environment for the Clarion Group remained difficult. In Japan, the automobile sector languished, with new car sales failing to expand both at home and abroad. Cut-throat competition caused prices to fall, and tightening supply of electronic components jeopardized production.

In the United States, economic growth started to slow, but European economies were generally healthy. In Asia, most economies showed a recovery trend, but the outlook for that region appears uncertain due to the slowdown in the U.S. economy.

The Clarion Group responded by rigorously streamlining operations, with emphasis on reducing cost of sales and fixed costs. Consolidated net sales in fiscal 2001 amounted to ¥188,686 million (\$1,522.9 million), down 1.7% from fiscal 2000. The decline stemmed from a number of factors. For a start, original equipment manufacturer (OEM) sales were affected by requests from automobile manufacturers to reduce prices. In addition, sales of aftermarket products were negatively impacted by cutbacks in purchases by customers. The situation was further exacerbated by the strong yen, which hurt export sales.

Despite aggressive efforts to reduce cost of sales and selling, general, and administrative expenses, the operating loss was ¥2,058 million (\$16.6 million).

The Company reported significant other expenses, associated with such factors as the reorganization of production subsidiaries, devaluation of investment securities, and amortization of the discrepancy arising from the adoption of retirement benefits account standards. With regret, the Company posted a consolidated net loss of ¥7,762 million (\$62.6 million) for the year.

### Sales by Category

#### **Car Audio-Visual Equipment**

Overseas sales of car audio-visual equipment were up thanks to steady OEM production and sales to European automobile manufacturers. However, OEM sales in Japan declined due to requests from manufacturers to reduce prices. As a result, overall OEM sales were down.

In the aftermarket, domestic sales declined due to falling demand and sales prices. Sales in Europe fell sharply, largely because of the yen's appreciation against the euro.

With respect to car navigation systems, domestic OEM sales increased significantly, but sales were down in the aftermarket due to severe price competition.

As a result, sales in the car audio-visual equipment category slipped 2.9%, to ¥168,847 million (\$1,362.8 million).

#### **Special Equipment**

Sales of commercial karaoke systems fell 7.7%, to ¥8,683 million (\$70.1 million). Our efforts to expand sales of spread spectrum (SS) synthesizer karaoke systems were thwarted by a drop in business at karaoke rooms and hotels.

In the segment of audio-visual equipment for buses, demand for new buses declined due to capital investment constraints caused by the prolonged domestic recession. However, rear-view monitor systems were warmly received both in the recreational vehicle market and the traditional market.

As a result, sales in the special equipment category jumped 36.5%, to ¥5,651 million (\$45.6 million).

### New Creation 21 Plan

At the Board of Directors meeting held on May 1, 2001, I assumed the post of president, replacing Ichizo Ishitsubo, who served the Clarion Group with distinction for eight years amid very challenging conditions. I would like to thank Mr. Ishitsubo for his long years of service.

In our mainstay car audio-visual equipment sector, we will continue facing difficult conditions due to intense price competition in both the OEM and aftermarket. By contrast, we expect car navigation systems to prosper in combination with telematics and intelligent transport system (ITS) services. We at Clarion must transform ourselves in order to take advantage of these major trends. For this reason, we formulated the New Creation 21 medium-term management plan, which commits the Clarion Group and all of its employees to a full-scale corporate transformation.

Guided by the plan, we will concentrate our managerial resources on development and sale of in-vehicle computing system (IVCS) devices and mechanical modules for PCs. In other words, we will undergo a qualitative transformation, from a conventional car audio-visual equipment manufacturer to an information and communications systems enterprise. Specifically, we will step up development of multi-purpose in-vehicle computers compatible with communications, car navigation, video, digital audio, and other functions. We will also develop mechanical modules related to such computer systems.

Under the plan, we intend to reduce overall costs by 20% over a three-year period. This will entail rationalization of our supplier network and a ¥8 billion reduction in procurement costs over the same period. We will also streamline production systems, both in Japan and overseas, and reduce our total workforce by around 1,500 people, down 10% from the current level, over the next two years.

Fiscal 2004, ending March 2004, will be the final year of the New Creation 21 plan. In that year, we are targeting consolidated net sales of ¥215 billion (\$1,735.3 million) and operating income of ¥7.5 billion (\$60.5 million).

### Future Perspectives

Business conditions are changing at unprecedented speed, sparked by price competition and shifting distribution and demand structures. In this era of upheaval, we will transform the business structure of the Clarion Group so we can face the future with confidence.

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



A stylized, handwritten signature in black ink, which appears to read 'T. Izumi'.

Tatsuhiko Izumi  
President