

## MESSAGE FROM THE MANAGEMENT

### Environment and Results

In fiscal 1996, ended March 31, 1997, Clarion's operating environment was characterized by an upturn in exports owing to a weakened yen, leading to increased production and revenues for automobile, audiovisual equipment and other manufacturers. Markets in the United States and Asia showed steady improvement, although the situation in Europe remained uncertain.

Responding to these conditions, Clarion worked to expand domestic and overseas retail markets for its car audio equipment and raised sales of original equipment manufacturer (OEM) products, which benefited from increased production by domestic automakers in the second half of the term. Despite falling prices stemming from intensified competition, non-consolidated net sales in fiscal 1996 amounted to ¥134,548 million (\$1,085.1 million), up 10.0% from the previous year.

The gain in net sales, together with the weak yen and our successful efforts to reduce all-round costs, led to a rise in net income which reached ¥1,274 million (\$10.3 million), around 2.3 times the previous year's figure.

Despite increased net income, the Company was only able to cover a portion of its accumulated losses. Since restoration of a sound financial position is our priority, we regret that dividends will not be paid again this year.

Consolidated net sales -- including results of 62 consolidated subsidiaries--grew 10.7%, to ¥182,278 million (\$1,469.9 million). In fiscal 1996, however, we posted consolidated net income of ¥1,513 million (\$12.2 million). This compared with a ¥2,305 million net loss in fiscal 1995.

### Performance by Product Category

The Car Audio-Visual Equipment category, our main business, benefited from the excellent reception of car audio equipment and navigation systems, which posted significant sales increases. In the OEM market, expanded production and shipments by domestic automakers in the second half of the year led to increased sales, mainly of car stereo cassette players and compact disc (CD) players. This compensated for declines in the first half of the term. Export sales grew considerably, benefiting from

favorable conditions in our principal markets and the effects of a weak yen. As a result of these factors, sales of the Car Audio/Visual Equipment category climbed 9.9%, to ¥120,442 million (\$970.5 million).

In the Visual Equipment category, which includes car televisions, sales jumped 28.7%, to ¥7,145 million (\$57.6 million), thanks to increased sales of car navigation systems for the retail market and higher sales of products for the OEM market.

In the Special Equipment category, encompassing such products as audiovisual systems for buses, our rear-view color camera systems and Spread Spectrum wireless modems continued to perform favorably, leading to a 7.9% sales gain, to ¥4,718 million (\$38.0 million).

In the Karaoke Equipment and Other Products category, sales declined 19.7%, to ¥2,241 million (\$18.1 million), due to depressed markets overall.

Exports in fiscal 1996 were boosted by strong car audio retail markets, coupled with increased sales of OEM products to automakers in the United States and Latin America, as well as such factors as the weak yen. Export sales for the year advanced 20.1%, to ¥56,864 million (\$458.2 million), or 42.3% of net sales, up 3.6 percentage points from the previous term.

### Product Development

Reflecting trends in the home audio market, the Japanese retail market for car audio systems is witnessing rapid infiltration of high-sound-quality CD players, which are replacing cassette players. Furthermore, mini disc (MD) players, which are more compact and allow simple digital recording, continue to attract widespread popularity, especially for home use. In fiscal 1996, Clarion augmented its ADDZEST series of car stereo equipment with the introduction of a six-disc MD changer and an MD player, thus strengthening its lineup.

In December 1996, we commenced sample shipments of SS wireless modems, following extensive applied research and development into wireless image transmission technologies, which are in growing demand for use in unmanned factories, accident scenes, and other areas. Since these modems boast the

highest transmission speeds in the industry, we have targeted sales of 1,000 units annually for the future.

### **Global Strategy**

Clarion's fundamental policy is to manufacture and sell products in locations where demand is strong, and to reduce costs by procuring components locally as far as possible.

In response to growing demand globally for car CD players, we have commenced manufacture of these products at our overseas production facilities. In addition to making CD players for the retail market at Dongguan Clarion Orient Electronics Co., Ltd., a Chinese joint venture, we have constructed new production facilities at our Mexico plant, operated by Electronica Clarion, S.A. de C.V., and we are currently planning to set up production at our plant in the Philippines, run by Clarion Manufacturing Corporation of the Philippines. Products made at the Mexican plant are targeted mainly at automakers in the United States and Mexico.

To strengthen our marketing capabilities in the Middle East and Africa, in September 1996 we opened a representative office in Athens, Greece, thus integrating our activities in that region.

Clarion's production facilities in Japan and overseas continue working to establish quality assurance systems that meet international ISO9000 series standards. As of the end of fiscal 1996, five domestic production subsidiaries had received ISO9001 certification, while seven overseas production subsidiaries had acquired ISO9002 approval.

### **Outlook**

In the year ahead, it is uncertain whether or not current favorable trends in the automobile industry will continue, and competition in the retail and OEM markets is expected to intensify, leading to further price declines. In this situation, Clarion will strive to reduce production costs through improved productivity and lower other expenses through companywide rationalization measures. At the same time, we will strengthen our marketing and product development capabilities.

Although we still have accumulated losses brought forward



from the previous term, we have managed to secure profitability and strengthen our financial position on a consolidated basis, owing to active marketing and streamlining of operations. Therefore, we plan to dismantle our profit and capital reserves and write off our accumulated losses, and reintroduce cash dividend payments in fiscal 1997.

We request the continued support of our shareholders and customers in these endeavors.

June 27, 1997

A handwritten signature in black ink, which appears to read "Ichizo Ishitsubo". The signature is written in a cursive, flowing style.

Ichizo Ishitsubo  
*President*