

TO OUR STAKEHOLDERS



Tatsuhiko Izumi
President

Fiscal 2004 — the First Year for “Vision-70”

The fiscal year under review (fiscal 2004, ended March 31, 2005) marked the year when we took an important first step forward, after successful completion of the “New Creation 21” plan, under which we undertook diligent efforts to solidify our business foundations.

Consolidated net sales for fiscal 2004 rose 5.6% year on year to ¥178,325 million, while operating income decreased 7.4% to ¥9,582 million. Net income was down 18.9% to ¥5,111 million, with net income per share at ¥18.09.

The rise in sales was the result of a strong OEM market in Japan and vigorous domestic demand for integrated audio-visual/navigation systems, overriding the impact of falling prices brought on by increasingly fierce price competition. The Electronics Manufacturing Service (EMS) business in Mexico also contributed to the increase in sales. Operating income, despite lower variable costs and the net rise in sales, declined due to aggressive investments in R&D and strategic investments for sales promotions and activities to strengthen brand awareness.

Net income was down due to transfers to allowance for doubtful accounts and changes in accounting standards for

retirement benefits. The fact that we were able to solidify foundations for future growth, however, demonstrates the underlying strength of the Company. The reversal of capital reserves approved at the general meeting of shareholders held in June 2004 eliminated the accumulated loss that we had been carrying on our consolidated financial statements. We shall continue our efforts to improve shareholders’ equity, and to increase retained earnings to allow us to invest more for R&D and other business areas, which will strengthen our market competitiveness. We plan to resume payment of dividends in the fiscal year to March 2006 in accordance with business performance.

Throughout the entire Group we promote cash flow management emphasizing consolidated ROA (the ratio of net income to total assets). In accordance with that goal, we are working to reduce total assets, including inventories and interest-bearing borrowings, and have set targets for fiscal 2007 to raise the consolidated shareholders’ equity ratio to 30% or higher. We also plan to bring down consolidated net interest-bearing borrowings to under ¥17.0 billion, and increase sales to over ¥210.0 billion.

Vision-70

The Clarion Group is pursuing reforms to its business portfolio, and emphasizing management stressing increased asset efficiency in order to build a corporate group able to quickly respond to market shifts, technological innovation, or other changes in the business environment. The new corporate vision, "Vision-70," was formulated this year in view of our 70th anniversary in 2010. It sets targets for that year of net sales of ¥260.0 billion, operating income of ¥18.0 billion, and an operating income ratio of 7.0%, as we strive to "reshape Clarion into something that people want and look forward to with great expectations."

Clarion's business domain is "a space that allows seamless enjoyment and sharing of music and information, anytime, anywhere and with anybody, based on the car environment." Since its founding Clarion has focused on developing technology and devices that can withstand the harsh environments inside vehicles. In recent years, more precision devices incorporating semiconductors, CDs and DVDs are being fitted in cars, and the importance for such technology and expertise as we have accumulated to this point has greatly increased.

CONSOLIDATED FINANCIAL HIGHLIGHTS

Clarion Co., Ltd. and subsidiaries
Years ended March 31

	Millions of yen, except per share amounts		Thousands of U.S. dollars, except per share amounts
	2004	2005	2005
For the Year:			
Net sales	¥ 168,947	¥ 178,325	\$ 1,660,537
Operating income	10,352	9,582	89,228
Net income	6,305	5,111	47,597
Per Share (Yen and U.S. dollars):			
Net income	¥ 22.32	¥ 18.09	\$ 0.168
Cash dividends	—	—	—
At Year-end:			
Total assets	¥ 128,536	¥ 119,527	\$ 1,113,024
Total shareholders' equity	20,987	26,729	248,905
Interest-bearing borrowings	58,585	41,619	387,556

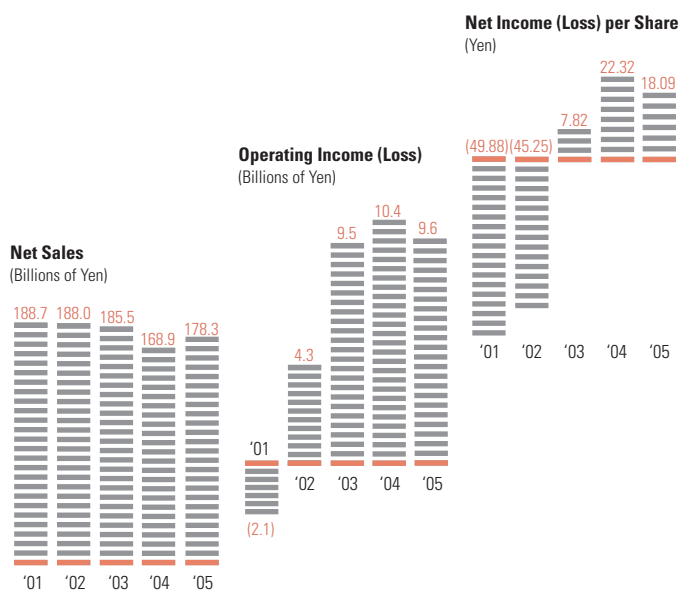
Note: The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2005, which was ¥107.39 to U.S. \$1.

Looking ahead, we will strengthen our sales capacity throughout the world by increasing awareness of our brand value and reorganizing the sales structure, enhance our product lineup and increase the speed of product planning for the global market. We have upgraded and expanded our global composition, and restructured our organizational makeup to be more customer-oriented, in order to respond more quickly and flexibly to the latent needs of the market.

In the Car Information Systems (CIS) business, focusing on such products as car navigation systems, we have strengthened our cooperative relationship with Hitachi, Ltd. We will bring development personnel together, and increase product competitiveness by combining the superior technologies of each company. We will also aim to develop integrated product platforms and increase efficiency, in order to effectively utilize product development resources. Through this alliance we will be able to reduce costs, as well as resolve the issue of retaining software engineers.

Corporate Governance

Clarion's corporate governance framework has been structured to ensure the sound management that will improve long-term corporate value. We also consider it important to seriously



consider compliance issues. For this reason we established a Compliance Committee, which I chair, in order to improve awareness of compliance issues among employees and ensure due implementation of various compliance measures. We have also given independent status to the Corporate Social Responsibility (CSR) Promotion Office and Internal Audit Office as a means of strengthening our internal control structure. The results of Group-wide internal audits are communicated with these offices as base stations, and implementation of any corrective actions and measures, if necessary, is overseen by these offices.

Clarion also maintains a management stance emphasizing shareholders' returns that properly reflect performance. We make efforts to establish good and smooth relationships with all stakeholders by respecting basic interests and equality, and by enhancing management transparency through proper information disclosure.

Clarion has adopted the auditing system, under which the Board of Directors sets management policies for the corporate group, makes decisions on important matters regarding management, and directs and supervises the conduct of business.

Clarion will continue to make efforts to enhance the effectiveness of its corporate governance by strengthening its compliance structure and ensuring proper management of the Board of Directors.

CSR

Preservation of the environment is one of the most vital issues common to everyone throughout the world, and management emphasizing CSR has become the standard for any corporate endeavor. To create a sustainable society, Clarion's corporate management is based on the principle of the triple bottom line of environment, business and society. By implementation of measures defined in Vision-70, we will not only make efforts to establish a firm management foundation, but also to make investment in environmental improvement and social contributions to reshape the Company to be a "More Valuable Enterprise."

Clarion continues to build an environmental management system based on ISO 14001 standards. Specifically, we take measures to curtail environmentally harmful substances, to develop more environment-friendly products that are smaller and lighter, and to implement product life cycle assessment initiatives based on design evaluations that include factors such as recyclability. Regarding our risk management strategy, we have implemented total risk management (TRM) to provide companywide control of information security, environmental and other risks faced by the Company.

Based on Clarion's corporate philosophy of "respecting the individuality and ability of each employee, and establishing a corporate culture of generosity," we have implemented a merit system that has fostered independent-minded employees able to rise to challenges. Our aim is to be in step with the ideals of our employees, and to build a company of which they are proud to be a part. We also maintain several avenues of communication with our suppliers. In this way we remain in harmony with our stakeholders while respecting local communities, conduct activities to contribute to society that reflect our awareness of our responsibilities as a corporate citizen, and strive to be a "company truly needed by society."

To Our Shareholders

Clarion eliminated its cumulative loss during the subject fiscal year, and succeeded in strengthening its management foundations. However, this has not yet provided the Company with the strength to offer dividends. We will devote all our efforts toward achieving the goals of our medium-term business plan by the end of fiscal 2007 and the Vision-70 program, and put the Company on a secure path to growth.

Thank you for your continued support of Clarion.

June 28, 2005



Tatsuhiko Izumi
President