

MESSAGE FROM THE MANAGEMENT

Environment and Results

In fiscal 1997, ended March 31, 1998, the Japanese economy continued to face difficulties, such as depressed personal consumption, growing deflationary trends, financial instability, and reductions in public works due to fiscal restructuring. The operating environment for Clarion was characterized by a year-on-year upturn in domestic automobile production, which contrasted with a decline in automobile sales for the first time in four years. In the electrical appliance industry, sales of audio-visual equipment declined as consumers restrained purchases due to growing concern about the state of the economy.

Amid these conditions, Clarion endeavored to expand sales of car audio equipment to original equipment manufacturer (OEM) markets, both domestic and overseas, as well as to the retail market. As a result, fiscal 1997 non-consolidated net sales amounted to ¥153,578 million (\$1,163.5 million), up 14.1% from the previous year.

During the period, Clarion benefited from a weakened yen and higher productivity thanks to companywide rationalization efforts, which compensated for a decline in demand for automobiles, stemming from the consumption tax hike in April 1997, and a consequent drop in prices. Accordingly, operating income grew 36.2%, to ¥5,114 million (\$38.7 million). Net income saw a sharp rise, growing 141.3%, to ¥3,074 million (\$23.3 million) despite a loss from write-down of securities.

Consolidated net sales - including results of 65 consolidated subsidiaries - grew 7.5%, to ¥196,006 million (\$1,484.9 million). Consolidated net income recorded a substantial 2.5-fold gain, to ¥3,740 million (\$28.3 million).

Performance by Product Category

In our Car Audio-Visual Equipment category, we recorded an 8.8% gain in OEM sales to automakers, to ¥56,351 million (\$426.9 million), owing to higher production of automobiles in the first half of the period and increased sales of visual equipment for car navigation systems.

In the retail market, we expanded market share thanks to strong acceptance of car navigation equipment and our Z-Series of car audio products. The Z-Series symbolizes our “In-Car Net” concept, which integrated car audio-visual equipment with computers. As a result, retail sales grew 7.7%, to ¥20,811 million (\$157.7 million).

In the Special Equipment category, Clarion reported increased sales of audio-visual systems for long-distance buses, and generated large orders for voice-synthesis broadcasting systems for intracity buses, karaoke VCR systems for tourist buses, broadcast satellite (BS) transmission systems, and other products. Demand from various industrial sectors for wireless systems flourished, prompting our SS wireless modems to be incorporated into factory and store automation systems. As a result, sales in this category rose 16.4%, to ¥5,494 million (\$41.6 million).

Exports in fiscal 1997 jumped 23.9%, to ¥70,430 million (\$533.6 million), supported by a strong automobile industry in the United States and Europe, as well as increased OEM sales and the weak yen.

Dividend Policy

Clarion's fundamental policy is to place top importance on rewarding shareholders for profitability by providing stable dividends. Since fiscal 1993, unfortunately, we have been unable to pay dividends, due to our depressed business results.

During that period, we have worked hard to raise revenues and profitability, and in fiscal 1997 we achieved sufficient results to permit reintroduction of cash dividend payments. At the 58th Shareholders' Meeting, we proposed a cash dividend of ¥3.00 (\$0.023) per share, which was approved by shareholders.

In the future, we will continue striving to improve our results and return our profits to shareholders in the form of ongoing stable dividend payments.



Outlook

In the year ahead, we forecast that stock markets will stagnate and foreign exchange markets will remain unstable, leading to growing uncertainty about where the economy is headed. Accordingly, we expect domestic automobile production and OEM sales to decline and prices, including to the retail market, to fall.

In response, Clarion will endeavor to cut costs by improving productivity and reduce other expenses by streamlining overall operations. We will also aim to raise sales by stimulating demand through the development and introduction of new products.

We look forward to the continued support of our shareholders and customers in these endeavors.

June 26, 1998

A handwritten signature in black ink, which appears to read 'Ichizo Ishitsubo'.

Ichizo Ishitsubo
President