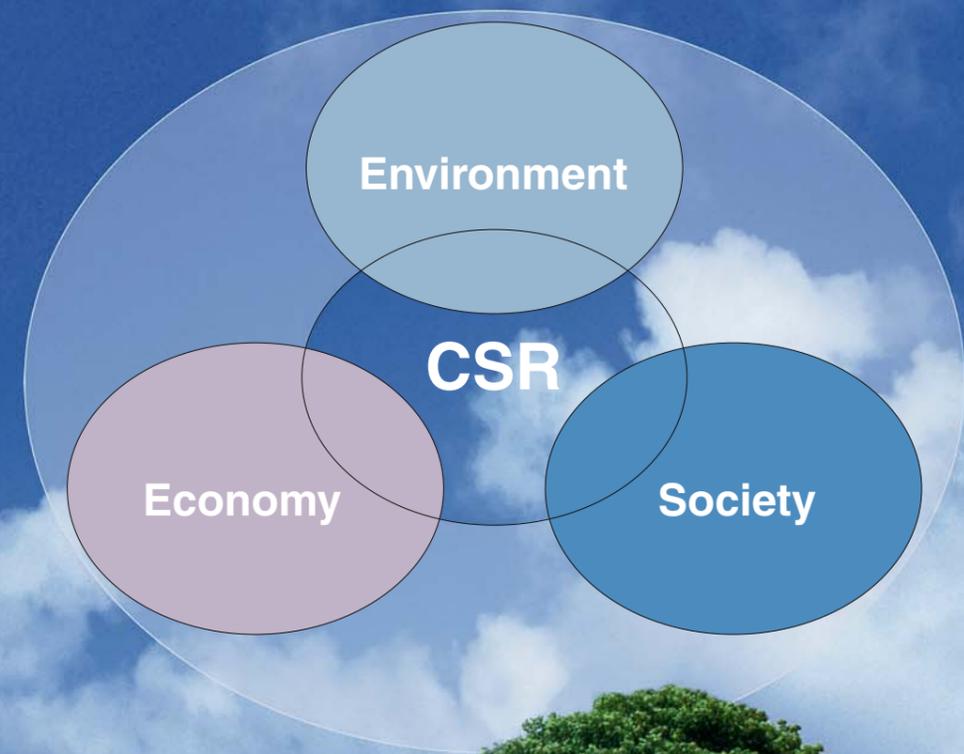


Clarion®

Sustainability Report 2004



Clarion®

For more information, contact:
.....

Clarion Co., Ltd.
Headquarters
50 Kamitoda, Toda-shi, Saitama 335-8511, Japan
CSR Promotion Office
Environmental Management Group
TEL: (81)48-443-1111 FAX: (81)48-445-3810
e-mail: envinfo@clarion.co.jp
<http://www.clarion.co.jp/>

Issued August 2004



Clarion Co., Ltd

Corporate Outline

Company name	Clarion Co., Ltd.
Headquarters	50 Kamitoda, Toda-shi, Saitama 335-8511, Japan TEL: (81)48-443-1111
Head Office	5-35-2 Hakusan, Bunkyo-ku 112-8608, Tokyo
Established	December 18, 1940
Paid-in capital	¥26,100 million
Net sales	Consolidated: ¥168,947 million (term ended March, 2004) Non-consolidated: ¥131,610 million (term ended March, 2004)
Employees	Consolidated: 9,211 persons Non-consolidated: 1,379 persons
Main products	Car audio, Car navigation systems, AutoPCs, Visual equipment, Bus equipment, Communication equipment

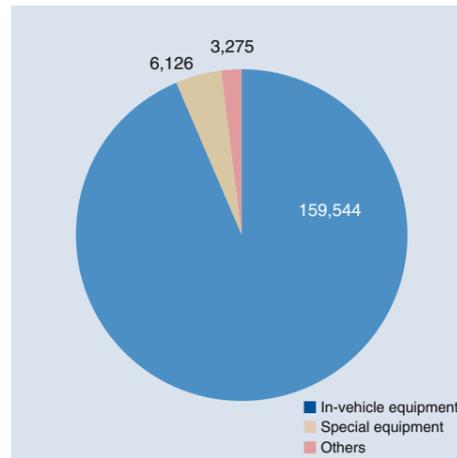


Headquarters



Head Office

Consolidated Sales by Product (millions of yen)



* Figures for each segment were rounded up to the nearest million yen

Examples of Major In-Vehicle Equipment

Car navigation



Car audio



AutoPC CADIAS

Main Subsidiaries

Clarion Sales Co., Ltd.

5-35-2 Hakusan, Bunkyo-ku, Tokyo 112-8608, Japan

Clarion Shoji Co., Ltd.

5-35-2 Hakusan, Bunkyo-ku, Tokyo 112-8608, Japan

Clarion M&L Co., Ltd.

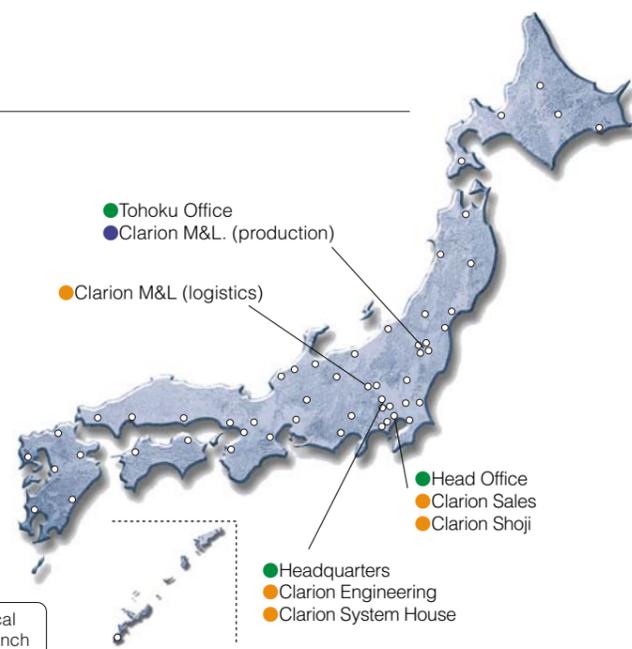
50 Shimotagawara Aza Kanaya Tamura-machi, Koriyama-shi, Fukushima 963-0725, Japan

Clarion Engineering Co., Ltd.

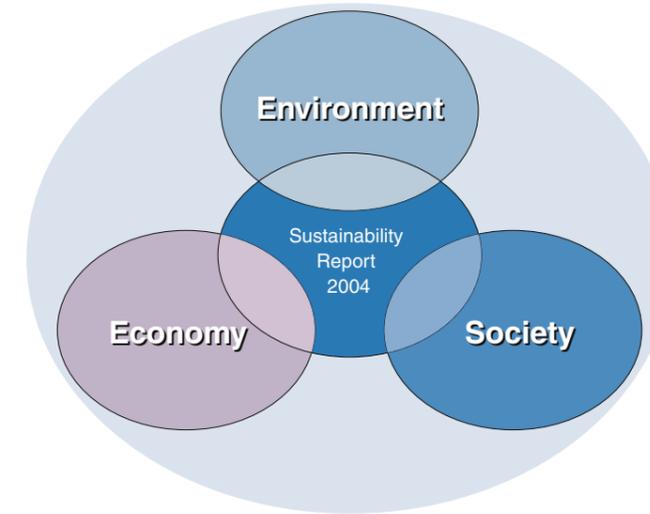
50 Kamitoda, Toda-shi, Saitama 335-8511, Japan

Clarion System House Co., Ltd.

50 Kamitoda, Toda-shi, Saitama 335-8511, Japan



● Head Office/Headquarters ● Main Subsidiary ● Production Company ○ Local Branch



Editorial Policy

Since 2000, Clarion has been stepping up efforts to disclose information concerning the company's environmental activities by issuing "Environmental Reports" and enhancing its Website. We changed the name to "Sustainability Report" in 2004 to present a more comprehensive view of Clarion's efforts to promote sustainable development from the standpoint of CSR (Corporate Social Responsibility). It contains not only information on Clarion's environmental efforts, but also details of economic and social performances as well. We hope this report will facilitate closer communications with our stakeholders so that we may continue to improve our activities and information disclosure practices in our efforts to achieve sustainable development.

[Reference]

- Complies with "Environmental Accounting Guidelines 2002," Ministry of the Environment
- Also refers to "Environmental Reporting 2003," Ministry of the Environment, and "Sustainability Reporting Guidelines 2002," Global Reporting Initiative (GRI)

[Next publication] Scheduled in July 2005

Scope of the Environmental Accounting and Environmental Impact Data

- Data provided in this report covers the period from April 1, 2003 to March 31, 2004 (also contains in part the latest information as of July 2004).
- The environmental accounting and environmental impact data are those of the following four domestic sites.

Headquarters (Saitama)

50 Kamitoda, Toda-shi, Saitama 335-8511, Japan

Head Office (Tokyo)

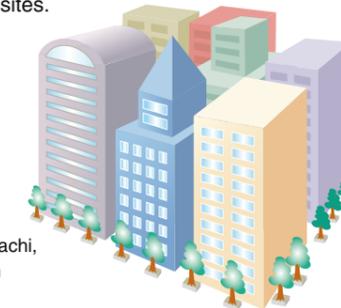
5-35-2 Hakusan, Bunkyo-ku, Tokyo 112-8608, Japan

Tohoku Office (Fukushima)

50 Shimotagawara Aza Kanaya Tamura-machi, Koriyama-shi, Fukushima 963-0725, Japan

CML (Gunma)

1508-1 Akahori Oura-cho, Oura-gun, Gunma 370-0614, Japan



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Message from the President/Interview with the President

Message from the President

Pursuing social responsibility to fulfill our company philosophy of “striving to improve society”

Corporate management requires a good balance between economic, social and environmental aspects of corporate activities. We strive to fulfill our CSR (Corporate Social Responsibility), strengthen our corporate governance framework, and establish a compliance management system as with our own initiative within corporate management. CSR is just as important as cost and quality when customers select products or services, and eco-friendly products are one of the most conspicuous demonstration of CSR. We will continue to communicate in various ways and strive to achieve versatile and wide ranging corporate management and fulfill our corporate social responsibility.



President
Tatsuhiko Izumi

Interview with the President

▶ What is Clarion’s policy on sustainability?

Toward the ultimate goal of achieving sustainable development, Clarion strives to fulfill CSR and maintain a management stance built on the triple bottom line of environmental protection, economic performance and social responsibility. More specifically, we intend to strengthen our management base through the implementation of medium to long term business plans to lay the groundwork for other activities. For instance, with regard to the environment, we will promote environmental protection activities. In terms of economic performance, we will strive to expand sales and perform strategic investments as essential steps in our transformation to a “more valuable enterprise” in line with our new corporate vision. With respect to social responsibility, we are actively addressing such issues as corporate governance, the establishment of a risk management system, compliance management, human resource development and support activities, and social contribution. Clarion is committed to realizing sustainable development through corporate management and to becoming a “more valuable enterprise” that is “truly needed by society.”



▶ What kind of business development does Clarion aim to achieve?

The “New Creation 21 Plan” launched in 2001 placed priority on the concept of “business selection and concentration” and prompted the reorganization of Clarion’s business structure. The achievement of the plan also resulted in a stronger management base. During the scope of the long-term management plan covering the five years from March 2005 (65th term) to March 2010, Clarion reaches a significant milestone in its history, the 70th anniversary of its founding. With our sights set on this commemorative occasion, we named our new corporate vision “Vision-70” with the intent of pursuing “the ideal form” that our business operations should be. We will endeavor to expand sales, strengthen the power of our corporate brand, and make strategic investments in tangible ways to become a “company truly needed by society.” To complete our transformation to a “more valuable enterprise,” we will execute our mid-term management plan under the name “MOVE (More Valuable Enterprise) 20” and work to achieve the goals of 20% increased corporate value and 20 billion consolidated sales.



▶ What are your views on compliance and corporate governance?

Recent years have brought about many changes to the business environment, and companies are now strongly expected to be more aware of proper corporate ethics and social responsibilities. In our effort to raise awareness of compliance and to promote its implementation throughout the company, we created a special department dedicated to compliance issues on July 1, 2003. We are also providing education, dissemination and implementation programs through our Compliance Committee. We see compliance as essential to avoiding any action that could potentially provoke social criticisms from society at large. It serves as a reference guiding us both as individuals and as an organization when we find ourselves swept along by flow of the time and uncertain of the direction we should take. Compliance thus plays an important role in a company’s fulfillment of social responsibility. The essence of corporate governance lies in a company’s ability to generate income continuously and efficiently as a business entity. We must pursue profitable business based on compliance to promote sound and crystal clear management. Ultimately, I believe we are responsible for generating maximum income for our stakeholders and practicing good governance.



▶ What efforts are being made to protect the environment?

Based on the understanding that environmental protection is one of the most important issues for the world and should thus be at the core of business activities, we established our environmental policy as an integral part of our company philosophy. Giving due consideration to maintaining an unsullied environment, we are committed to promoting environmental protection activities in all aspects of our business. We strive to answer to our responsibility as corporate citizens of local communities, as well as work to fulfill our corporate social responsibility to the environment by communicating with our stakeholders and contributing to a wide range of social activities. In response to the European Union End-of-Life-Vehicle Directive (ELV Directive) and demands from automobile manufacturers to control substances that are potentially harmful to the environment, we promote green purchasing, and are working to start implementing lead-free soldering in our products. In addition to these, we are tackling this issue of achieving a recycle based society in various areas, such as in developing eco-friendly products and production technologies with less burden on the environment and making efforts for “Zero Waste Output” and energy-saving in business operations.



▶ What is Clarion’s approach to developing eco-friendly products?

Installing precision equipment in an automobile is easier said than done. Car interiors are subject to vibrations and temperature fluctuations that are unimaginable under normal circumstances. The severe conditions bear no comparison to regular home appliances, not to mention the structural and functional constraints, but we are nevertheless under much pressure to minimize cost. While these conditions pose great difficulties in incorporating computer functions into a car navigation systems or installing CD and DVD players that are originally easily affected by vibration in automobiles. We intend to surmount to these challenges by first preparing a design evaluation guideline that would serve as the basis for keeping stringent control of environmentally harmful substances, creating products that are even more compact and lightweight, designs for recycling, and a system for product life assessment.



Clarion Company Philosophy/Concept of Sustainability

Clarion Company Philosophy

Clarion's "Corporate Commitment" is our long term goal of the company and defines our raison d'etre. An independent standard identifies the "means and methods" of realizing this commitment in six categories – (1) customer satisfaction, (2) creation of new value, (3) individuals and the organization, (4) commitment to nature, (5) social responsibility, (6) continued existence and growth.

Company Philosophy (Formulated Oct. 1997)

<Corporate Commitment>

Clarion strives to improve society by seeking to develop the relationship between sound, information, and human interaction, and by creating products to meet those needs.

<Management Commitment>

- Providing customer satisfaction and happiness with superior products and services.
- Creating new value with original ideas and technology.
- Respecting the individuality and ability of each employee, and establishing a corporate culture of generosity.

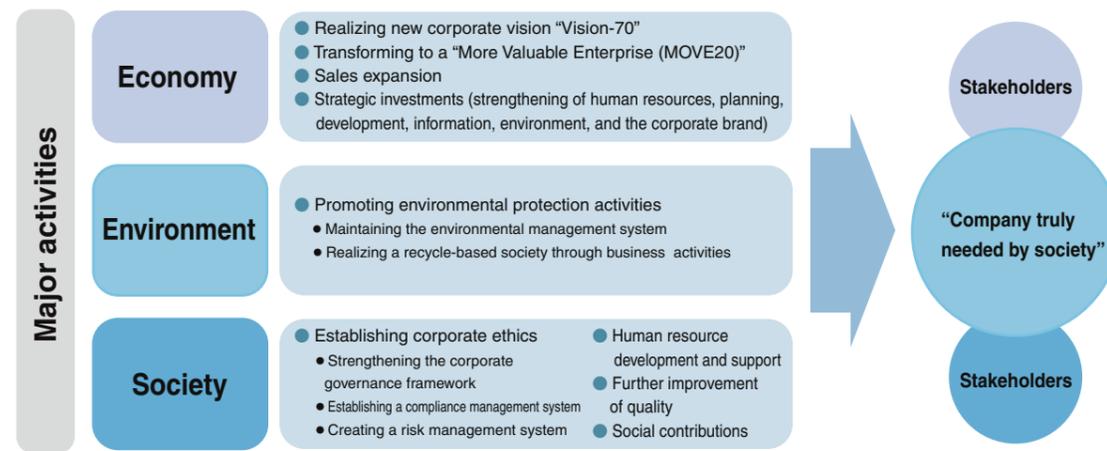
- Maintaining a strong awareness of our place in nature and a commitment to the environment.
- Fulfilling our responsibility, as a corporate citizen, for better society.
- Pursuing corporate profitability and sustained growth, and establishing a corporate culture of generosity.

<Action Commitment>

- "AMBITION" - We seek to continually improve ourselves through self innovation and courage.
- "CREATIVITY" - We foster creativity and work to produce new value and to turn dreams into reality.
- "SINCERITY" - We work diligently in good faith to prove ourselves worthy of people's trust.

Clarion's Concept of Sustainability

We strive to fulfill our corporate social responsibility (CSR) and maintain a management stance based on the good balance of environmental, economic and social aspects (triple bottom line) in order to achieve sustainable development. At the same time, basing on company philosophy, we are committed to realizing sustainability through our business activities as an in-vehicle equipment manufacturer providing excitement and satisfaction to our customers in an environment of "Mobile Infoentertainment" where people can enjoy sound and information in their cars.



Corporate Governance

Clarion is committed to strengthening its corporate governance framework and compliance management system to achieve sound, visible and efficient corporate management.

Clarion's Basic Policy of Corporate Governance

A solid corporate governance framework is fundamental for achieving sound and efficient management capable of maximizing income as well as encouraging proper decision-making and administration by the management. Clarion sees this as an important management issue for the future. We intend to enhance our corporate governance practices by increasing transparency of management through the disclosure of important information and by establishing a system of compliance.

Clarion Company Philosophy and Corporate Vision

(Corporate social responsibility practices)

Strengthening the corporate governance framework

- Establishing a compliance management system
- Solidifying the management system
- Disclosing information and communicating with stakeholders (coordination with stakeholders)

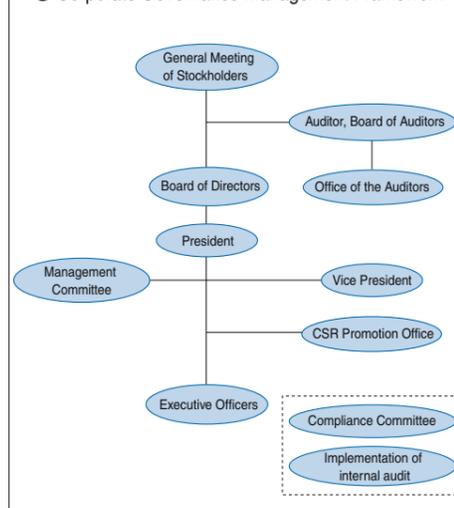
Implementation of Initiations Corporate Governance

Clarion implements an auditing system in order to check closely management decisions and activities of the Board. The Board of Directors makes basic management policies for the entire Clarion Group and supervises important managerial decision-making processes and other business administration matters. It plays a central role in establishing a sound management system.

Clarion also employs an officer system. Officers carry out decisions made by the Board of Directors in accordance with rules and regulations of officers. This system is highly effective for efficient management and for giving more time to The Board of Directors for its essential duties.

The Board of Directors and executive officers serve a single year term to ensure that the Board is always capable of responding flexibly to changes in the management environment. A Compliance Committee with the president acting as chairman promotes legal compliance. With respect to corporate social responsibility, a CSR Promotion Office was established in July 2004.

● Corporate Governance Management Framework

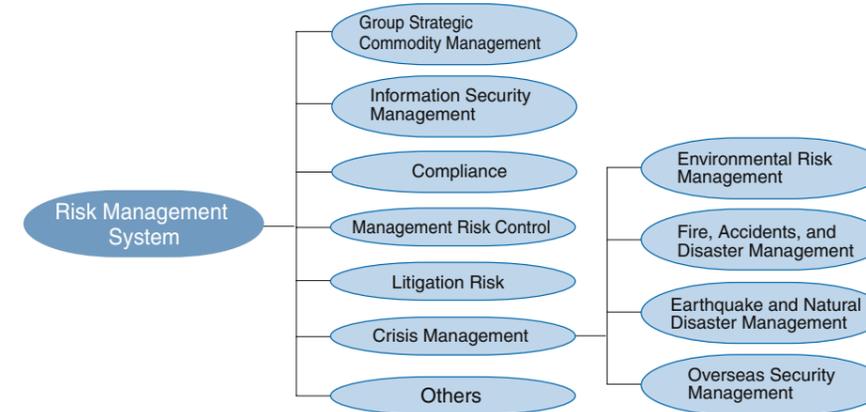


Risk Management

We are vigorously striving to create a risk management system to effectively address the issues of compliance, crisis management, information security management and environment risk control. Our goal is to establish a TRM (Total Risk Management) from a company wide perspective capable of exercising effective control of potential risks surrounding the company.

Companywide Total Risk Management

With the goal of creating a risk management system, we are working to build a companywide management framework that would address such issues a compliance, crisis management, information security management, and management risk control.



Establishment of a Crisis Management Framework

Companies are surrounded by various risks such as fire, earthquakes, and other natural disasters. We have established a crisis management framework to ensure prompt responses against such unforeseen occurrences. This includes the formulation of a "Crisis Management Manual" and the establishment of a "Crisis Management Committee" composed of members from across the organization and the Group.

Environmental Risk Management Using Self-Imposed Standards

Clarion places strict control on air, water, and soil pollution, as well as noise, vibration, and odor by means of self-imposed management standards. A separate set of standards provides for chemical substances and industrial waste processing. These self-imposed standards form the basis by which we manage environmental risks and prevent pollution.

Strengthening Information Security Management

The Information Control Department plays a central role in promoting information security management. It issues a "Security Manual" and educates system users and operators about their responsibilities and penalties concerning information security. The department also provides education on department-specific information control policies, operational procedures, and emergency actions. In terms of Web security, it maintains strict control by establishing security levels according to the sensitivity of information and user categories.



Evacuation drill at Headquarte

Accidents, Legal Violations, and Prosecutions

Clarion was not involved in any accidents, legal violations, or prosecutions in 2003.



Establishing a Compliance Management System

We acknowledge that a solid compliance management system is fundamental for any company to fulfill its social responsibility. The goal of “establishing corporate ethics based on the Company Philosophy and the Compliance Code of Conduct” is firmly set in the Management Principles with its clear definitions within the corporate management. We are working to firmly establish the system by offering compliance programs across the Group, strengthening the compliance management system, and promoting in-house education on compliance.

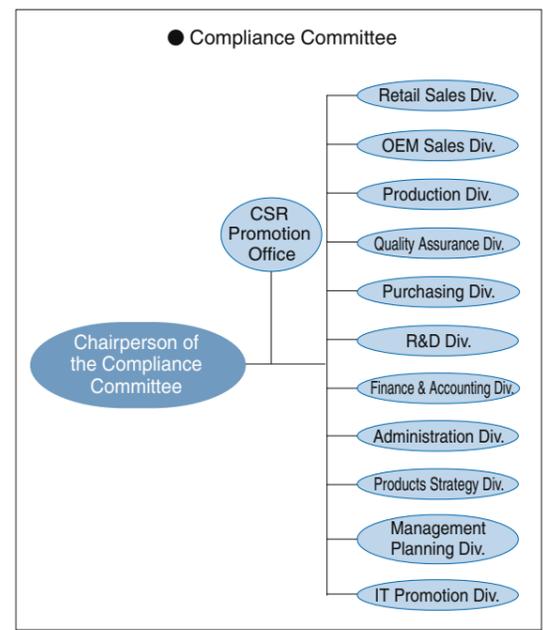
Efforts to Promote Compliance

Up to now, the General Affairs, Personnel, and Environmental Management Departments each addressed compliance matters on their own. We established a “Compliance Program Formulation Committee” in order to address compliance activities from a companywide standpoint. In July 2003, we also formulated the “Compliance Code of Conduct” to promote compliance activities throughout the company.

Compliance Promotion Framework

We established Compliance Committee in July 2003 to promote the establishment of a compliance management system. The committee convenes once every quarter. Also, the CSR Promotion Office gives regular status reports to the president and the director in charge of the Compliance Committee, other directors and executive officers, and works to prevent and solve problems.

Chairperson: President
 General Coordinator: Director of Management Headquarters (Director in charge)
 Secretariat: CSR Promotion Office

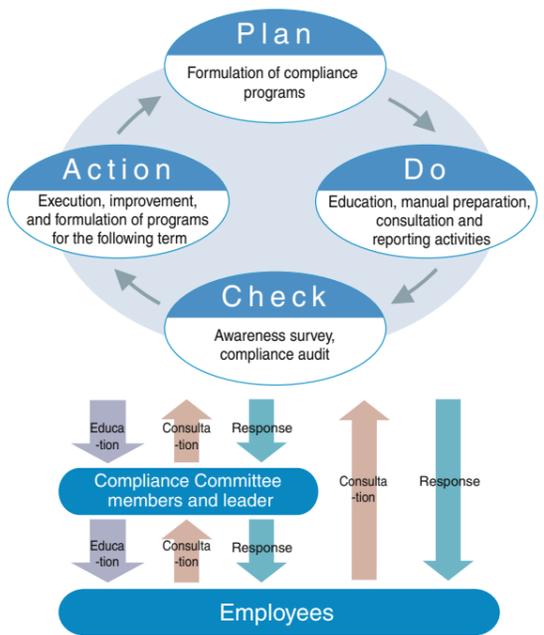


Clarion's Compliance

1. Legal compliance
2. Compliance with the Code of Conduct
3. Risk assessment



Compliance Committee meeting



<Role of Compliance Committee members and leader>
 Compliance Committee members implement compliance programs within each department and serve as the primary contact for consultation and reporting of compliance matters by employees. The leader supports the activities of the committee members.

Disseminating Knowledge and Providing Education on Compliance

The introductory education on compliance was conducted by the employees themselves to ensure that basic knowledge of the compliance management system would spread deeply through the company. Incorporated into departmental education and level-specific training programs, it primarily focuses on the practical aspects of compliance. Management-level personnel receive education first, and they in turn become instructors in educating their subordinates in order to ensure dissemination of information.



Management-level compliance education

- (1) Code of Conduct Card
Distributed to all employees to be carried at all times
- (2) Code of Conduct a case book (reference book on the details of the Code of Conduct)
Made available to all employees on the company's intranet
- (3) Disclosure of the Code of Conduct
Disclosed to all stakeholders through the Clarion Website



The Compliance Code of Conduct is an accordion-style card-sized handbook that employees can carry with them at all times.

- Contents of the Compliance Code of Conduct
1. General provisions (observance of social norms)
 2. Community relationships
 3. Customer, client, and competitor relationships
 4. Shareholder and investor relationships
 5. Employee relationships
 6. Relationships with the company and company assets
 7. Supplementary provisions (consultation, declaration desk, etc.)

Compliance Consultation and Reporting Desk and Measures to Protect Informants

In November 2003, a “Consultation and Reporting Desk” was established within the Compliance Promotion Office (present CSR Promotion Office). The desk receives information from employees in person as well as by telephone, postal mail, and e-mail (anonymous informants are also accepted). By encouraging employees to discuss or report possible compliance violations, the office aims to create a corporate culture that precludes any compliance violations. Informant confidentiality rules and prohibition of unfair treatment are in place to protect informants.

Application to Domestic and Overseas Consolidated Subsidiaries

The Compliance Code of Conduct also applies to Clarion's domestic and overseas consolidated subsidiaries. A risk assessment chart is created for each company, and the Compliance Code of Conduct is made available in English to overseas subsidiaries. It is further translated into the local languages of Clarion's overseas markets, and is applied in accordance with the laws of the respective country.

Creation of a Risk Assessment Chart

All risks that threaten the foundation of legal compliance are assessed and identified. Risks that occur in daily business are identified by relevant personnel in each department and are

included in a risk assessment chart by the Compliance Committee. The obtained results are used in compliance programs and are regularly reviewed.

Risk Assessment Chart

Legal compliance (○○ Sector specific)

*Note: Target risk: Matters that are potential risks or are subject to risks
 <Risk: Potential or overt factors that are obstacles for accomplishment of objectives or achievement of goals>

Depart-ment	Law	Overview of law	Overview of relationship with department	Target risk	Degree of risk		Response and preventive measures	Code of Conduct number
					Degree of risk occurrence	Degree of risk impact		

Economic Performance

The year ending March 2004 marked the final year of the "New Creation 21 Plan" which supported management activities over a three year period from April 2001. Clarion's income earning structure solidified with the final achievement of the plan. Firstly, we drastically reorganized our business activities, reviewed and rebuilt the production system, and merged offices based on a general plan for restructuring. Secondly, we streamlined our operations and implemented activities for cost reduction, expense cutting and improvement of (sales) gross margins. Thirdly, we reduced our inventory and achieved the plan in full. Furthermore, we formulated mid term management plan "MOVE20" and long term management plan "New Corporate Vision—Vision-70" to serve as the foundation of our efforts to promote corporate management and to become a "company truly needed by society."

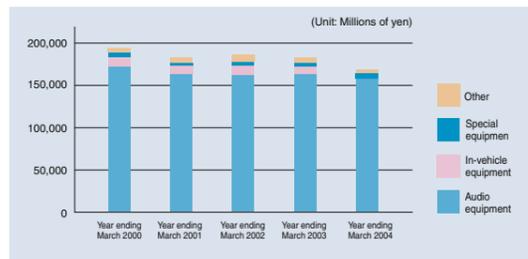
Consolidated Financial Highlights

Consolidated Performance Trend (5 years)

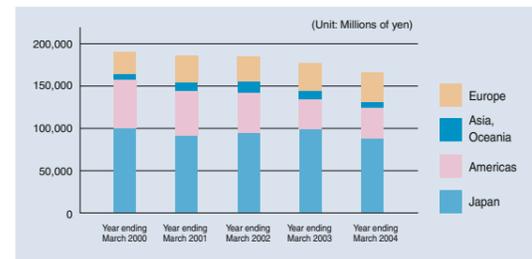
(Unit: Millions of yen)

Consolidated	Year ending March 2000	Year ending March 2001	Year ending March 2002	Year ending March 2003	Year ending March 2004	Projection for year ending March 2005
Sales	191,855	188,686	187,954	185,530	168,947	170,000
Operating income	3,332	(2,058)	4,335	9,534	10,352	9,000
Ordinary income	1,013	(4,825)	1,290	5,757	8,141	6,000
Current income	(17,713)	(7,762)	(7,274)	1,555	6,305	3,000

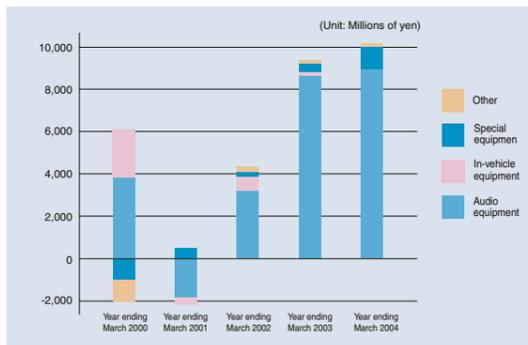
Consolidated Sales Trend by Product



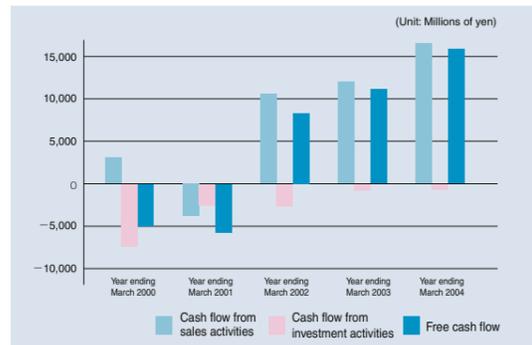
Consolidated Sales Trend by Region



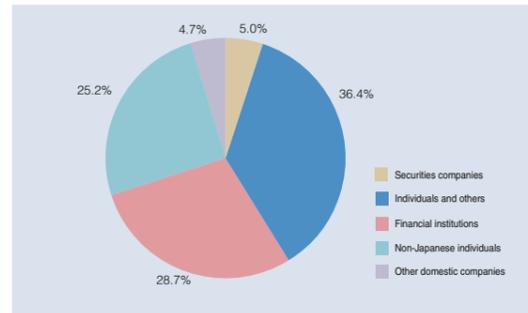
Consolidated Operating Income Trend by Product



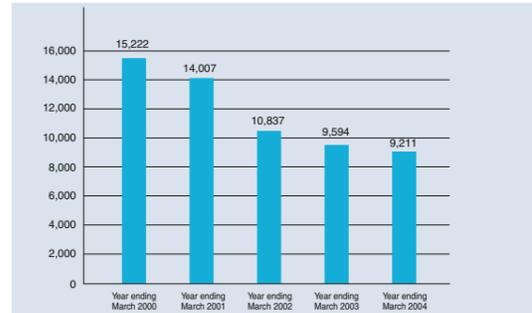
Consolidated Cash Flow



Breakdown of Shareholders by Status



Group employeest



Achievements of Clarion's Three-Year Management Plan and the New Five-Year Management Plan

1 Results of the New Creation 21 Plan (Three-Year Plan) (Consolidated)

Result (Consolidated)

The New Creation 21 Plan achieved results that largely surpassed the initial goals and strengthened Clarion's income earning structure.

Achievement goal	New Creation 21 Plan		Year ending March 2004	
	Goal of the three years	Year ending March 2001	Achievement	Comparison with initial goal
Operating income	More than 7.5 billion yen	(2.1 billion yen)	10.4 billion yen	(+38%)
Ordinary income	More than 4.5 billion yen	(4.8 billion yen)	8.1 billion yen	(+81%)
Current income	More than 3.0 billion yen	(7.8 billion yen)	6.3 billion yen	(+110%)
Achievement goal	Year ending March 2001	Year ending March 2004		
		Achievement	Comparison with year ending March 2001	
Reduction of inventory	49.7 billion yen	22.2 billion yen	(-55%)	
Reduction of interest-bearing debt	105.7 billion yen	58.6 billion yen	(-45%)	
Reduction of net interest-bearing debt	79.7 billion yen	32.6 billion yen	(-59%)	
Capital adequacy (capital adequacy ratio)	7.4 billion yen (4.1%)	21.0 billion yen (16.3%)	(+183%)	
Reduction of Group employees	14,007	9,211	(-34%)	
Consolidation of subsidiaries	54 companies	29 companies	(-46%)	

*Figures are rounded up to the nearest 100 million yen

2 The Process of the New Management Plan (Five-Year Plan)

Progress of the management plan

At present

Year ending March 2002 to year ending March 2004	Year ending March 2005	Year ending March 2006	Year ending March 2007	Year ending March 2008 to year ending March 2009	Year ending March 2010
--	------------------------	------------------------	------------------------	--	------------------------

62nd to 64th fiscal years

65th fiscal year

66th fiscal year 70th fiscal year



New Creation 21 Plan

<Strengthening of Clarion's income earning structure>

- Structural reform
- Rationalization

Vision-70

Period for achieving the "ideal form" in the 70th fiscal year

<Sales expansion + Strategic investment>

MOVE20

Transformation to a "more valuable enterprise"

Ideal form (becoming a company truly needed by society)

Clarion's Environmental Policy

Clarion set forth as a part of its Corporate Philosophy already in 1977, the goal of "maintaining a strong awareness of our place in nature and commitment to the nature" acknowledging that the environmental protection and the realization of a recycle-based society are two of the most important issues for the global community and thus form the core of business activities.

Clarion's environmental policy was established along the lines of the company philosophy as well as the requirements of ISO14001 to serve as an action guideline for the entire Clarion Group.

Clarion Environmental Policy

(Formulated Feb. 25, 1999; Revised June 1, 2001)

Environmental Policy

We, Clarion Co., Ltd., acknowledge that preservation of the environment is one of the most important issues of the world and the fundamental issue in the management of an enterprise. We shall act with considerations to the well being of the environment in every aspect of the corporate activities based on the Management Commitments stated in the Corporate Philosophy;

- Maintaining a strong awareness of our place in nature and a commitment to the environment.
- Fulfilling our responsibility, as a corporate citizen, for better society.

Basic Policies

We shall evaluate the environmental effects by its business activities, by products and services which are development, production and distribution of devices mainly of car-multi-media, and shall set up environmental objectives and targets for important aspects, review them and improve the environmental burdens as much as technically and economically possible.

- 1) We shall comply with all laws and regulations, treaties and self-designated standards concerning the environmental preservation.
- 2) We shall promote to minimize use of hazardous substances and natural resources from the designing stage and promote such resource-saving and recycling designs.
- 3) We shall, in the production activities, promote activities for energy conservation, for less factory wastes and recycling of substances, and aim at recycling-based society.
- 4) We shall take preventive measures against environmental pollution from waste water from offices and factories, or in case of accident or other emergency situation from leakage of oil or other hazardous substances.
- 5) We shall also make efforts to preserve the community environment about the offices and factories by greening with tree planting, by improving appearances, by preventing noise and vibrations.
- 6) We shall let all employees be aware of the Environmental Policy and shall improve their knowledge regarding environmental preservation.
- 7) This Environmental Policy shall be made publicly known.



ISO14001 Certification

Clarion established an environmental management system starting in 1998, and ISO14001 certification was awarded in April 2000.

As of May 2004, all four of our domestic sites and five overseas production plants have been certified, and three more sites are currently working toward their certification.

ISO14001 Certification and Further Outlook

In March 2003, Clarion passed its first ISO14001 renewal audit. In February 2004, all four domestic sites passed their fourth annual audit, and Clarion's environmental management system was acknowledged as functioning appropriately. The Clarion Group has been encouraging its worldwide facilities also to obtain the certification. Our production plant in China was certified in 2002, and Clarion Hungary is currently working to acquire certification in 2004. Supplies are also asked to obtain certification or to develop environmental management system, and to periodically submit a voluntary assessment charts to Clarion.



Clarion's certificate

Status of Domestic Certification

Clarion obtained certification at all its sites on April 25, 2000.

Clarion's Domestic Sites

- Headquarters (Saitama)
- Head Office (Tokyo)
- Tohoku Office (Fukushima)
- CML (Gunma)

Main Subsidiaries

- Clarion M&L Co., Ltd.
- Clarion Sales Co., Ltd.
- Clarion Shoji Co., Ltd.
- Clarion Engineering Co., Ltd.
- Clarion System House Co., Ltd.



Clarion Hungary Electronics Kft.

Certification Status of Overseas Consolidated Subsidiaries

- 3 plants in China → Certified Sept. – Dec. 2002
- Taiwan → Certified July 2003
- Mexico → Certified Feb. 2002
- Hungary → Working to obtain certification in Sept. 2004
- Malaysia/Philippines → Plan to obtain certification in 2004

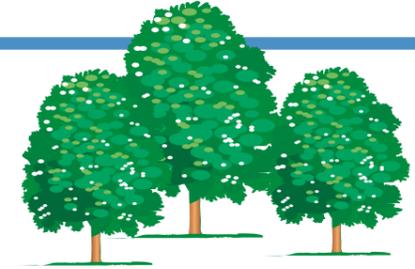


Policy for Promoting Certification and Consolidated Environmental Accounting

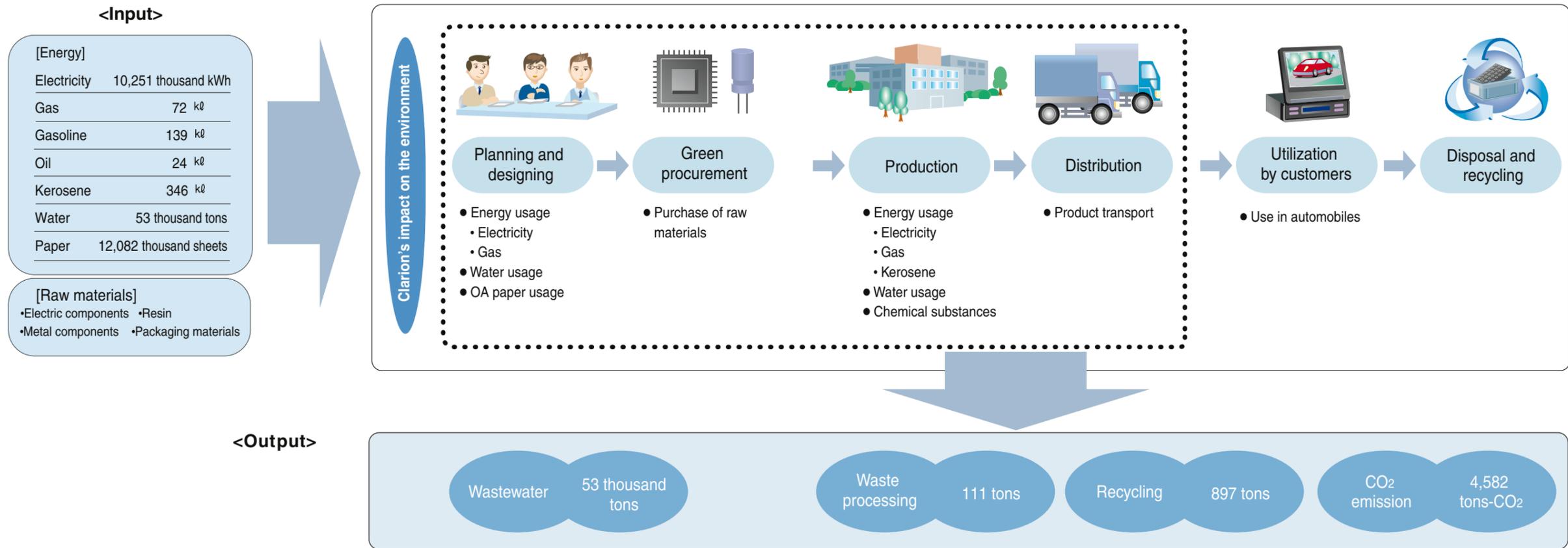
Overseas consolidated subsidiaries, and particularly production facilities, are encouraged to obtain ISO14001 certification. We are planning to achieve consolidated environmental accounting and to issue an environmental report compiling data on environmental protection activities pursued by both domestic and certified overseas consolidated subsidiaries.

Environmental Impact and Future Issues

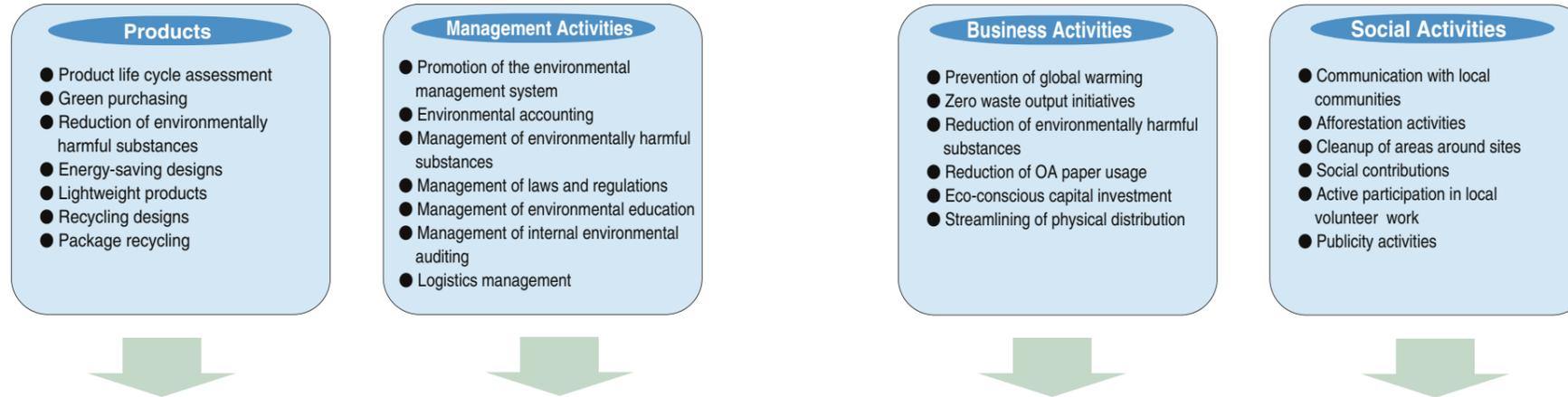
Clarion is committed to implementation and promotion of environmental protection activities in order to mitigate the environmental impact of our business activities. We promote comprehensive efforts to reduce environmental impact in all phases of our business, from the raw material procurement phase to the planning and production phases, and we address relevant issues with a view to creating a recycling based society.



Environmental Impact of Clarion's Business Activities and Future Issues



<Future Issues>



Realization of a recycling based society

Goals and Achievements of Environmental Protection Activities

In 2004, we formulated our mid term management plan for up to 2006, and are implementing companywide environmental protection activities to achieve the goals of the plan. We have achieved the goals set for 2003 and are now pursuing further environmental protection activities toward the mid term goal.

	Issue	Mid term plan (up to 2006)	2003 Goal	2003 Achievement	Evaluation	Page
Products	Development of eco-friendly products	1. Curbing the use of environmentally harmful substances and using alternative components 2. Promoting low environmental impact designs (lightweight, resource-saving, degradability, energy-saving, etc.)	1. Promoting green purchasing 2. Addressing the auto maker toxic substances restrictions 3. Developing alternative products that use fewer or no for toxic substances 4. Discussing the preparation of an environmental design assessment guideline	1. Applied to all products 2. Matter fully addressed 3. Applied to all products 4. Prepared environmental design assessment guideline	○	P22 P25
	Complete discontinuation of the use of leaded solder in products	Achieving the use of lead-free solder in all manufacturing processes by the end of December 2005	1. Trial implementation of lead-free solder	1. Positive quality assessment of the trial product	○	
Business Activities	Prevention of global warming (energy-saving)	Reducing energy usage 4% from 2003 levels by March 2007	Reducing energy usage by 1% (compared with 2002 levels)	Reduced energy usage by 3.7% (compared with 2002 levels)	○	P27
	Reduction of waste output (recycling)	1. Reducing waste output by 10% from the 2003 levels by March 2007 2. Promoting zero waste output	Reducing waste output by 3% (compared with 2002 levels)	Reduced waste output by 19.7% (compared with 2002 levels)	○	P28 P29
	Reduction of environmental pollutants	1. Reducing discharges of IPA, waste oil, and solder 2. Preventing environmental pollution	1. Reducing discharge IPA below 600 kg Waste oil below 1400 kg Solder below 6000 kg 2. Implementing environmental pollution prevention activities	1. Discharge achievements IPA below 284 kg Waste oil below 1195 kg Solder below 7944 kg 2. Implemented prevention measures and patrolling	△ ○	P26
	Reduction of paper usage	Reducing copy papers and EDP papers to less than 11,860 thousand sheets by March 2007	Reducing copy paper and EDP paper usage by 1.5% (compared with 2002 levels)	Reduced copy paper and EDP paper usage by 3.7% (compared with 2002 levels)	○	
Social Activities	Environmental activities in local communities	1. Implementing afforestation activities	1. Afforestation	1. Planted trees at Tohoku site.	○	P36
		2. Cleaning up of area surrounding sites	2. Cleaning up of area surrounding sites	2. Held regular cleanups around the four sites	○	
		3. Communicating with local residents	3. Cooperating with local residents	3. Cooperated in educational activities	○	
Administration Activities	1. Acquisition of ISO14001 certification after regular inspection	1. Passing the second renewal inspection in 2006	1. Obtained certification after the first external audit at four sites	1. Obtained certification in April 2004	○	P15
	2. Compilation of environmental accounting and publication of environmental report	2. Disclosure of the environmental report in July 2003 and yearly upgrading of the report	2. Publishing "Environmental Report 2003"	2. Published "Environmental Report 2003"	○	P19

Evaluation marks indicate degree of achievement: ○→100% or more, △→70% or more, ×→less than 70%

Environmental Accounting

Clarion adopted "environmental accounting" in 2002 in order to assess its environmental activities in quantitative terms from the aspects of "investment," "cost," and "benefits," and to properly evaluate the results of its activities. We regularly disclose environmental information to our stakeholders and to the public at large to obtain their understanding as we further strive to improve the practical benefits of our environmental protection activities. In compiling our environmental accounting report, we employ our own environmental accounting guidelines prepared in accordance with the Ministry of Environment's to Environmental Accounting Guidelines 2002.

Results for 2003

In 2003, investments amounted to 3 million yen, costs to 199 million, and economic benefits to 62 million. We were able to cut back on costs by 12 million with the reduction of waste processing costs and the streamlining of management activities. In addition to the reduction of electricity fees, the expansion of recycling efforts (sale of valuable materials) also contributed to the overall economic effect of 62 million.

Scope of data:

The four sites of Head Office (Tokyo), Headquarters (Saitama), Tohoku Office/CML (Fukushima) and CML (Gunma)
 Period: 2001 : April 1, 2001 to March 31, 2002
 2002 : April 1, 2002 to March 31, 2003
 2003 : April 1, 2003 to March 31, 2004

Environmental Conservation Costs

Category	Description	2001		2002		2003	
		Investment	Cost	Investment	Cost	Investment	Cost
1. Costs within business areas	1. Pollution prevention costs: water receiving and purification tanks, wastewater maintenance, etc.	5	33	14	28	0	31
	2. Global Environmental Conservation cost: inspection and maintenance of airconditioners, etc.	0	11	0	9	3	9
	3. Resource recycling costs: treatment and disposal of general and industrial waste, etc.	0	27	0	22	0	17
2. Upstream/downstream costs	Expanding cardboard re-use	0	2	0	2	0	2
3. Administration costs	Certification cost, maintenance cost, education cost, etc.	0	115	0	110	0	93
4. Research and development costs	Efforts to develop lightweight products, CTS system, lead-free solder, etc.	0	67	14	40	0	47
5. Social activities costs	Nature conservation, afforestation, beautification, etc.	0	0	0	0	0	0
6. Environmental Remediation costs	None in particular	0	0	0	0	0	0
Total		5	255	28	211	3	199

* Figures are rounded up to the nearest million yen

Economic Benefits

Category	Description	2001		2002	
		Investment	Cost	Investment	Cost
1. Effects of environmental protection related to resources utilized in business activities	Utilities cost, cost of purchasing copy paper and EDP paper, etc.	26	10		
2. Environmental impact and waste resulting from business activities	Cost of general and industrial waste treatment, etc.	5	6		
3. Benefits related to property and services produced by business activities	Benefits of producing lightweight products, etc.	13	32		
4. Conservation effects related to transportation	Gasoline and diesel oil usage fees, etc.	(2)	6		
5. Amount of sales of valuable materials, etc.	Amount of sales of valuable materials, etc.	6	9		
Total		48	62		

* Figures are rounded up to the nearest million yen

<Standard for calculating economic benefits>

1. Economic effects calculated based on substantial grounds

- a) Costs reduced through energy-saving efforts, etc. (amount of increase/decrease compared to previous term)
- b) Amount of sales of valuable materials, etc.
- c) Cost reduction effect of streamlining management activities

2. Estimated economic effects

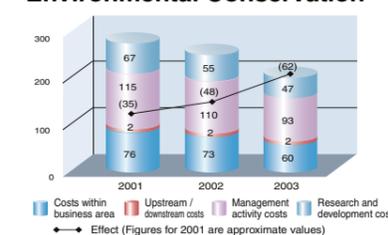
- a) Economic effects of more lightweight products

We strive to make our mechanical modules and other such products as light as possible to minimize the overall weight of automobiles after the product is installed, and thereby reduce the amount of gasoline needed. This reduction in the amount of gasoline needed is calculated as an indicator of economic effect.

Environmental Conservation Benefits (Physical Benefits)

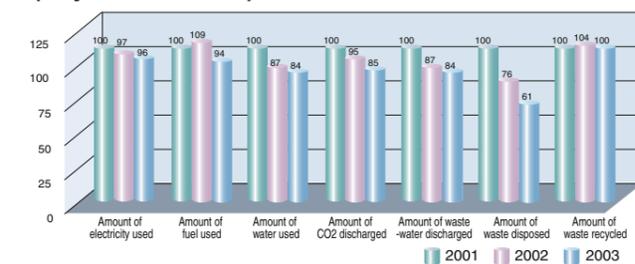
Category	Environmental impact			Environmental protection effect Benefits	Remark
	2001	2002	2003		
Amount of electricity used (thousand Kwh)	10,716	10,363	10,251	112	
Amount of fuel oil used (crude oil conversion kl)	621	679	582	98	Reduction of the amount of gasoline used
Amount of water used (thousand tons)	63	55	53	2	
Amount of CO2 discharged (tons-CO2)	5,417	5,148	4,582	566	Reduction due to less use of electricity and lighter weight
Amount of wastewater discharged (thousand tons)	63	55	53	2	
Amount of waste disposed (tons)	183	138	111	27	
Amount of waste recycled (tons)	895	934	897	(37)	Reduction of the amount of waste disposed
Rate of recycling (%)	8.30%	87.1%	89.0%	1.9%	

Costs and Benefits of Environmental Conservation



Benefits on Environmental Conservation (Physical Benefits)

Increase/decrease assuming 2001 as 100



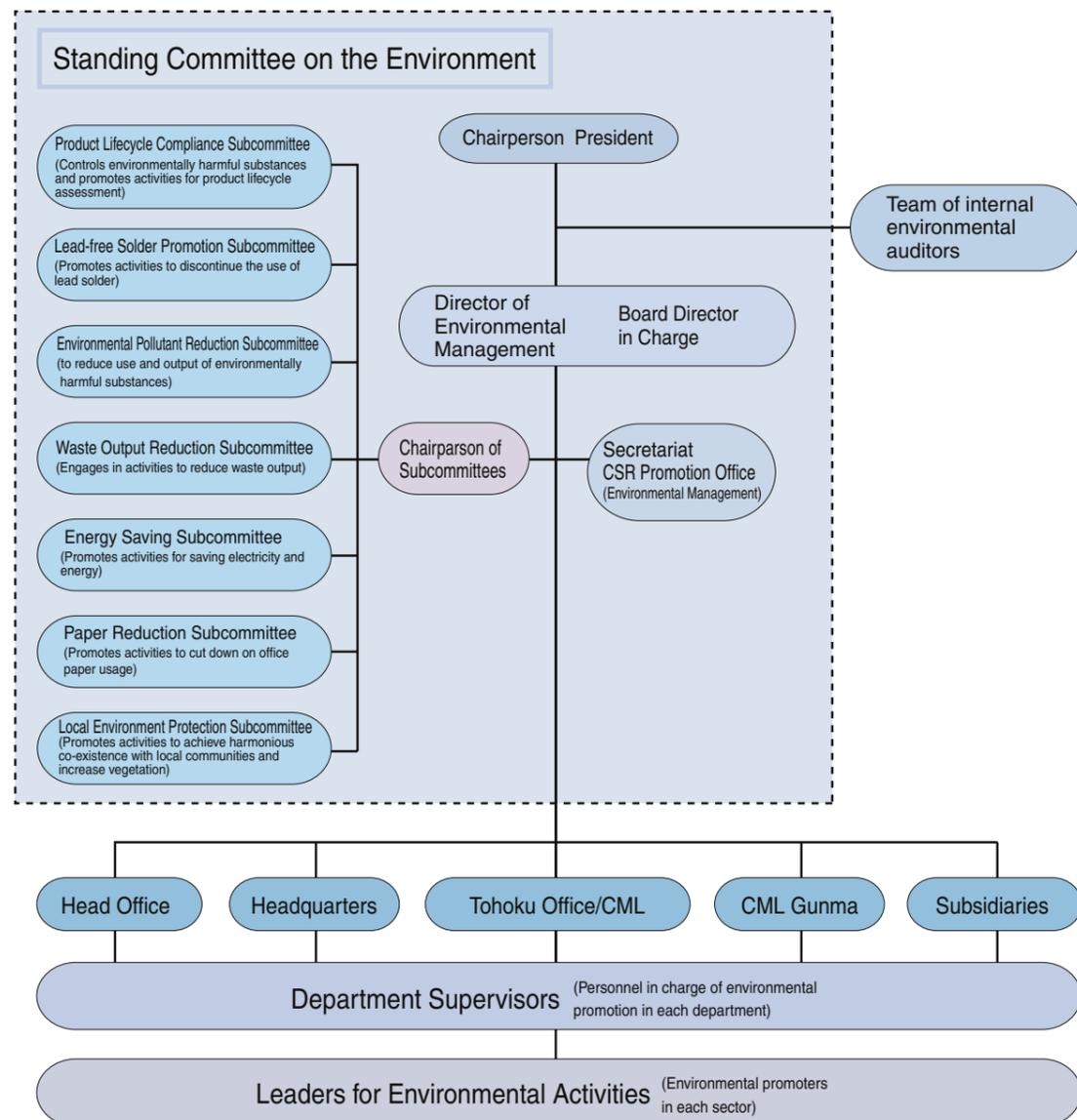
Future Direction

With a view to creating a system of consolidated environmental accounting that includes overseas Group companies, we are seeking to improve the accuracy of our accounting by promoting IT in our information gathering process. We are also working to reduce the emission of environmentally harmful substances from our business establishments as well as to contributing to society through the production of eco-friendly products.

Environmental Management System

We established a Standing Committee on environmental protection activities throughout the company, we established Standing Committee on the Environment with the president acting as chairperson in order to promote environmental protection activities throughout the company. Within the committee are seven subcommittees which cut across all corporate functions to address environmental protection issues from a companywide perspective. "Internal environmental audit's are conducted twice a year to ensure that the environmental management system of each site is functioning appropriately. Details of the audit correspond to those of external audits, and include on-site verifications in addition to paper work. "Responses to accidents and emergencies" and "status of legal compliance" in particular are meticulously checked.

Promotional Framework



<Role of Environmental Leaders>

Each department assigns one or more employees to serve as its leader for environmental activities. The leader for environmental activities is responsible for promoting environmental activities in their respective department in cooperation with activities implemented by each of the subcommittees. As of May 2004, there were 104 such environment leaders serving the important role of assisting department managers.

Internal Environmental Audit

"Internal environmental audit's" are conducted twice a year to confirm the operational status of the environmental management system and environmental performance, whether improvement efforts are being made on a continual basis. The 34 members of the internal environmental audit team check the progress of operations at each department in accordance with the internal audit checklist. The issues pointed out for correction as a result of the audit are reviewed by the respective departments and countermeasures are implemented with the results being reported to the auditing team, thus ensuring continuous improvement.



Results of Internal Environmental Audits Conducted at Clarion's Four Sites

	Date of audit	Major nonconformance	Minor nonconformance	Observation
2002	May	0	1	32
	November	0	7	34
2003	May	0	0	23
	November	0	1	12



Implementation of an internal environmental audit

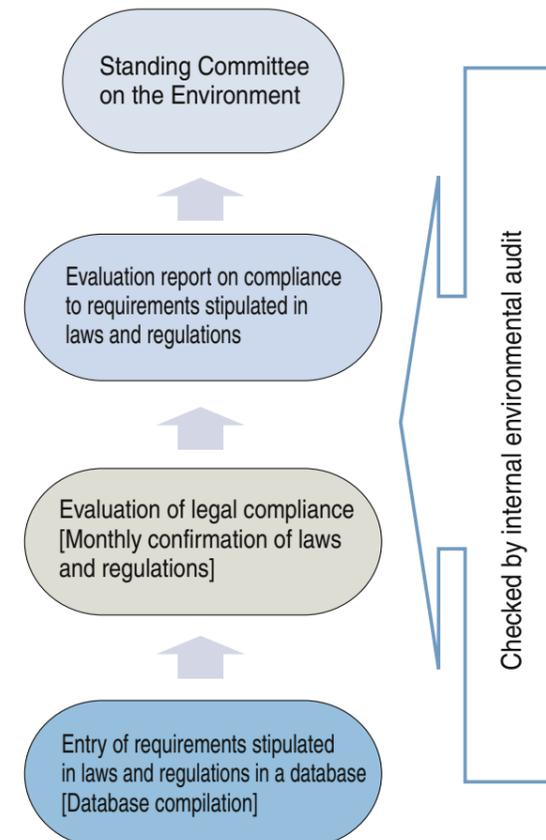
Accident/Emergency Measures and Their Implementation

As a measure to ensure prompt response to accidents and emergencies, "accident and emergency networks" have been established in each department and throughout each of our sites. In sectors likely to have a profound impact on the environment if an accident or emergency occurs, simulation drills are conducted at least once a year based on pre-established procedures. These procedures are regularly reviewed to prepare for unexpected accidents and emergencies. There were no accidents or emergencies in 2003.

Compliance with Laws and Regulations

Information on major laws and regulations related to the environment is collected regularly by the department in charge of the Environmental Management and input into a companywide database. This department also checks the status of compliance to laws and regulations on a monthly basis, and the "Standing Committee on the Environment" evaluates and determines the compliance level of the entire company. Information on local ordinances is regularly collected at each site, and is used to form the basis of "our self-imposed standards," which are usually more stringent than the stipulations of laws and ordinances.

Management Framework for Evaluating Legal Compliance

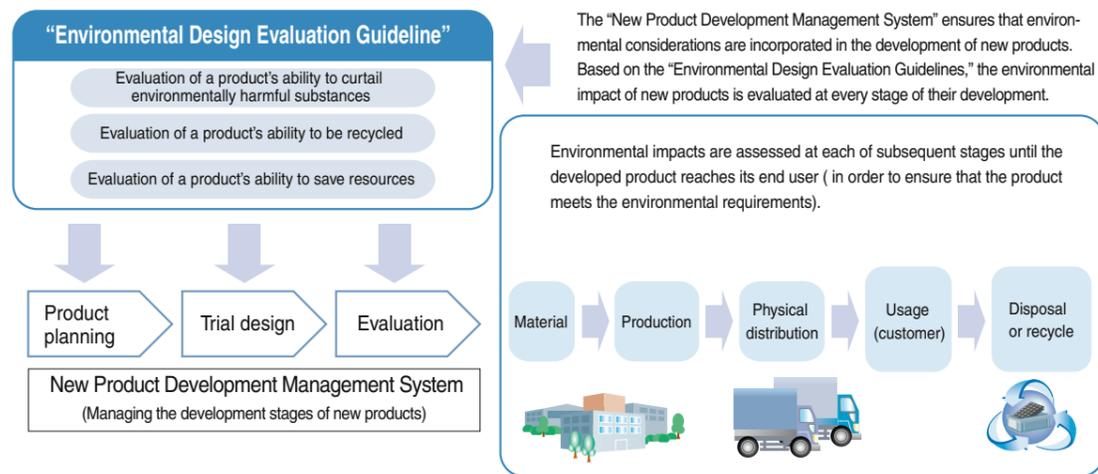


Environmental Considerations in Products

Clarion is strongly committed to developing and offering eco-friendly products. To ensure our products are in strict observance of the European Union End-of-Life-Vehicle Directive (ELV Directive) and satisfy the requirements of automobile manufacturers and the market, we steadily monitor the environmental impacts of the products.

Product LCA (Life Cycle Assessment) Initiatives

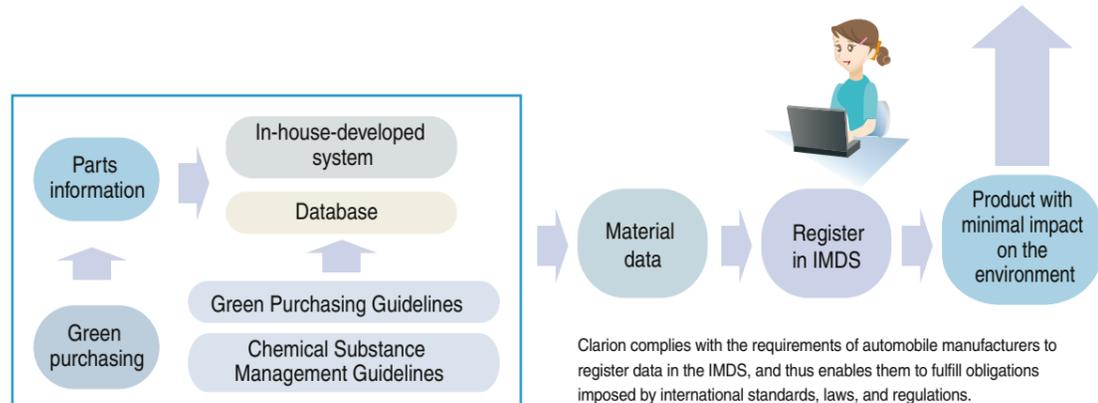
Clarion develops products that have minimal impact on the environment by promoting LCA (Life Cycle Assessment), a system of assessing the environmental impact of products over their entire life cycle. The Product Life Cycle Compliance Subcommittee plays a central role in carrying out LCA activities. Especially in order to control the environmentally harmful chemicals, LCA is implemented from the development stage of products to ensure they are developed in line with laws and regulations and with the requirements of automobile manufacturers.



Evaluating the Effect of Curtailing Environmentally Harmful Chemical Contents in Products

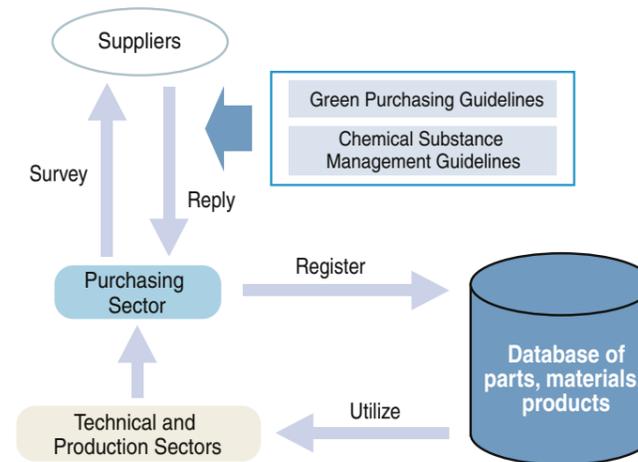
Clarion maintains effective control over environmentally harmful substances through a system developed by ourselves. This system meets the requirements of the IMDS (International Material Data System) required of automobile manufacturers. We are also working to create a system for evaluating the environmental impact of environmentally harmful substances per product, and are requesting, when it is deemed necessary, component manufacturers to develop alternative components with least environmentally harmful chemical contents.

IMDS (International Material Data System) requires suppliers to register all parts and materials they use in their products in a database accessible by Internet.



Promoting Green Purchasing

The "development of eco-friendly products" is essential to reducing the output of substances that are potentially harmful to the environment. In other words, we must develop our products using parts, materials, and other completed products that incorporate environmental considerations. At Clarion, we cooperate with our suppliers in developing products that comply with various laws, regulations and industrial standards in accordance with a "Green Purchasing Guidelines" and "Chemical Substance Management Guidelines." In line with these guidelines, our suppliers are asked to submit updates on their environmental management status and survey data on environmentally harmful substances contained in the products we purchase from them. Data we obtain from them are input into a database and referenced when we develop our products.



Supplier Selection Criteria and Green Purchasing

- Supplier evaluation factors:
1. Q: Reliability Quality
 2. C: Appropriate Cost
 3. D: Stable Delivery
 4. D: Capability Development
 5. E: Consciousness Environment
- These five factors are used to derive a comprehensive evaluation of each supplier

Suppliers with priority procurement

For more details, see the Green Purchasing Guidelines available in PDF on our Website
<http://www.clarion.co.jp/> (in Japanese only)

Product examples with results of efforts to curtail environmentally harmful substances

In response to the ELV Directive (European Union End-of-Life-Vehicle Directive) and requirements of automobile manufacturers, Clarion strictly controls the use of environmentally harmful substances such as hexavalent chromium and lead solder, and strives to develop eco-friendly products.

ADDZEST product example

CD/MD center unit (DMZ435LP)



■ Lead-free solder

Mechanical module examples

GS-1 ~Mechanism Series~



■ Hexavalent chromium-free
 ■ Motor: lead-free solder

Single DVD Mechanism



■ Hexavalent chromium-free
 ■ Motor: lead-free solder

~HMD Series~



■ Hexavalent chromium-free
 ■ Motor: lead-free solder

Eco-Friendly Products

The task of transforming limited car space into a comfortable environment for human beings is not the concern only for the automobile manufacturers. Clarion understands the importance of achieving high-quality audio-visual system designs and offering an aesthetically pleasing and functional car interior. We are committed, as priority issue to developing eco-friendly products based on the understanding that incorporating environmental considerations into car audio is just as important as high-quality, beautiful designs.

Adopting an Active Matrix Control in Consideration of Environment

"Active matrix control" is an ergonomic HMI (human-machine interface). It is the most advanced type of operation system integrating the latest technologies. The conventional use of buttons, knobs, and other operational parts is kept to a minimum, giving way to the innovative concept of on-screen control. Users operate the system by "touching" the display screen or "touching and sliding" their fingers on the display screen. Products that employ active matrix control showcase the latest technologies for ensuring safety, conserving resources, and achieving more lightweight products, not to mention state-of-the-art design.



Touch panel display



Design featuring minimal buttons and knobs
DXZ945MP

Music Catcher™ Technology Saves Resources and Reduces Weight

★ With a touch of a button, Music Catcher™ allows users to freely record CDs that are currently in play for future playback.

Clarion ADDZEST products are equipped with the Music Catcher™ technology, allowing users to record their favorite tunes to the unit's internal memory while listening to a CD, and enjoy the freedom of playing them anytime they wish. It eliminates the need to install a conventional auto changer or to carry around CDs and MDs, thus saving space, resources, and reducing weight. In fact, compared to a unit equipped with a CD auto changer, the Music Catcher™ can reduce the total weight of an audio system by approximately 50%.



Unit equipped with a Music Catcher™ system
DXZ845MC

Reducing CO₂ Emission with Car Navigation Functions

Clarion's car navigation functions go beyond the conventional borders of car navigation to offer extensive audio-visual functions and expand the realm of car entertainment. We are currently developing a "QuickOne" function that would allow users to operate the audio-visual and navigation operation menus with a single touch of a finger. Safe and efficient navigation can improve driving efficiency, reduce fuel usage, and thereby reduce CO₂ emission.



Saving Resources with Hard Disk Car Navigation

With the addition of the Music Catcher™ CD recording function, navigation systems with a built-in hard disk can store many music files without having to install CD changers and other optional equipment. In other words, they greatly improve the functionality of audio-visual and navigation operations while saving resources by eliminating the need for music media and accessories and allowing products to be more lightweight. Compared to a unit equipped with an auto changer, a hard disk car navigation unit is approximately 30% lighter.

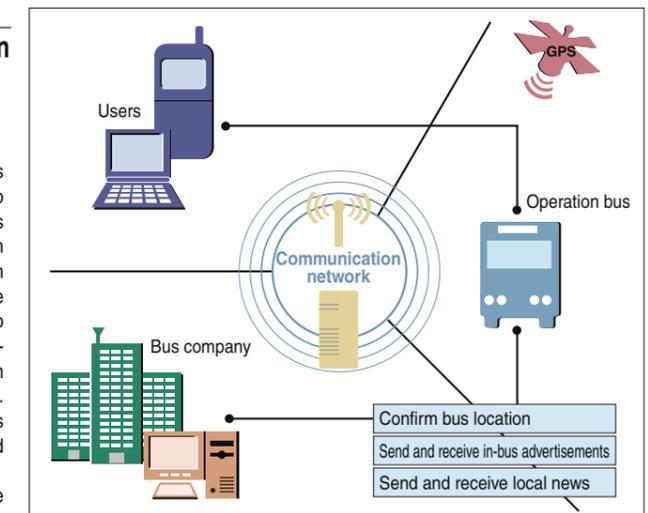


Unit equipped with a hard disk MAX940HD

Reducing Greenhouse effect gases Emission by Streamlining Commuter Bus Operations with the "Networking Auto Guide System"

Clarion is developing a next-generation commuter bus system that utilizes various communication networks to keep constant track of bus operations. The system has two sub-systems. The first system is a bus location system through which bus locations are pinpointed with GPS (Global Positioning System), and the real time operating status and local situations can be conveyed to bus operators and users. The second system is a two-way communication system to exchange information on accidents, local news and passenger load and such. Timely responses and a review of the number of bus services could enhance operating efficiency and ultimately reduce CO₂ emissions.

As an industrial in-vehicle information terminal, the "Networking Auto Guide System" employs an operation system designed by Sun Microsystems, Inc. The system was presented at the "Java™ Technology Conference 2004" sponsored by Sun Microsystems, and received highly favorable reviews.



Exhibition and presentation at "Java™ Technology Conference 2004"



Chemical Substance Management Activities

Clarion strictly observes laws and regulations that are currently in effect, such as the European Union End-of-Life-Vehicle Directive (ELV Directive) and the PRTR Law (Pollutant Release and Transfer Register Law). In anticipation of the future direction of laws and self-imposed regulations and requirements of the industry for environment protection activities. We are aggressively carrying out activities to reduce and eventually completely eliminate harmful chemical substances from our products and production processes.

Preventive Activities

At the Tohoku Office, the area surrounding the site is regularly patrolled (once every three months) to detect any leakage, spill, or accident involving environmental pollutants. Sandbags, absorbing materials and filters are placed throughout the facility to cope with possible leakages and spills in order to minimize the damage on the environment.



Sandbags are placed in containers to avoid being washed away with rain water



A set of absorbing materials



Oil filter

Toward Lead-free Soldering

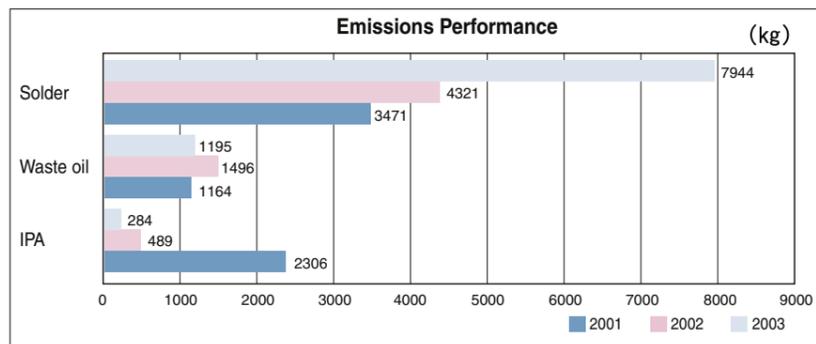
In response to requests from automobile manufacturers and the ELV Directive, Clarion has been seeking ways to implement lead-free solder and soldering from its products and production processes since May 2002. After verification of the reliability of lead-free solder with prototypes, we began the production of lead-free products in a segment of our product line from January 2003. We intend to continue our efforts to employ lead-free solder throughout the product line-up by 2005.



Lead-free soldering machine

Reducing the Output of Chemical Substances

Clarion strives to reduce the output of chemical substances from its production processes to the greatest extent. For example, in August 2003 we began "recycling" IPA (isopropyl alcohol) and waste oil rather than disposing of them by burning as we had previously done.



Supplementary note:
Although the output of solder seems to have increased, this is primarily due to increased production volume. Solder recycling is currently well underway

Energy-Saving Activities

We are devoting ourselves to activities for energy-saving and reducing CO₂ emission through cutting down the use of electricity and fuel. We are also applying our energy-saving activities to physical distribution in an effort to prevent global warming.

Promoting Companywide Energy-Saving Activities

We promote energy-saving efforts starting with matters in our immediate surroundings, such as selecting energy-saving models when updating facilities, meticulously switching off unused lights, and setting personal computers to energy-saving mode.

Applying Energy-Saving Activities to Physical Distribution

We aim to reduce CO₂ emissions by improving product packages in accordance with the size of products and by streamlining product transportation.

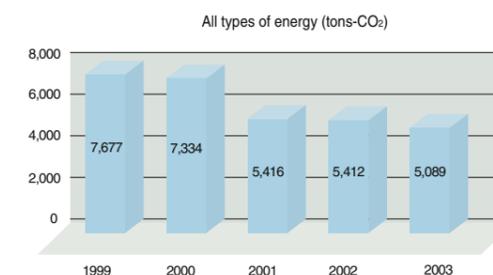
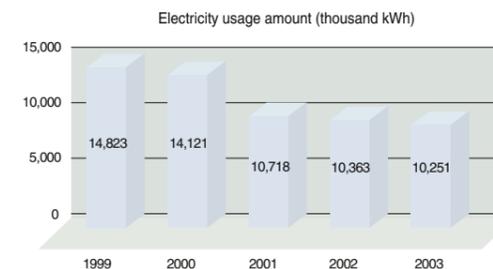
Major Companywide Energy-Saving Activities

- 1.) At Headquarters, we updated the cooling tower to an energy-saving model and succeeded in reducing electricity usage.
- 2.) At Headquarters, we re-examined all ventilation timer settings to improve operation efficiency.
- 3.) At Tohoku Office, we installed sprinklers on the roof of the warehouse as an alternative to installing an air conditioner in an effort to save electricity.
- 4.) At Headquarters, we promoted the downsizing of computers and adopted small computers to take the place of a large-scale host computer, thereby saving electricity.
- 5.) At Tohoku Office, we switched our production process from conveyer style mass production lines to a "cell production method" based on individual work tables as a measure to save electricity.

Major Energy-Saving Activities in Physical Distribution

- 1.) **Promotion of modal shifts**
Truck transportation has a major impact on the environment, in particular, air pollution. We promote modal shifts in long-distance transportation, and encourage the use of rail transport instead of trucks, for example.
- 2.) **Volume efficiency**
In consideration of transportation conditions, we seek to improve transportation efficiency by using appropriate-sized transportation containers so that no space is wasted. We also try to achieve efficient loading ratios corresponding to the size of the truck bed or means of transportation.
- 3.) **Distribution frequency and efficient use of time**
As distribution frequency depends on the quantity of sales, we modify delivery and collection conditions as necessary to achieve the most rational distribution frequency. At the same time, we try to even out loads by adjusting the peak hour transportation load. Furthermore, we specify product arrival and shipment times at distribution centers and our offices in order to shorten truck waiting time.
- 4.) **Thorough enforcement of eco-driving**
We promote eco-driving (avoiding sudden departure and acceleration) and provide guidance on saving fuel and reducing gas emission, as well as enforcing and providing guidance on rule of idling stop (stopping the engine while at stand-still).
- 5.) **Joint transportation and delivery**
If each and every company transported its products separately, the impact on the environment would be substantial. For this reason, Clarion cooperates with other companies and implements a joint delivery system. We also make efficient use of return trips to transport products.

Supplier procurement priority

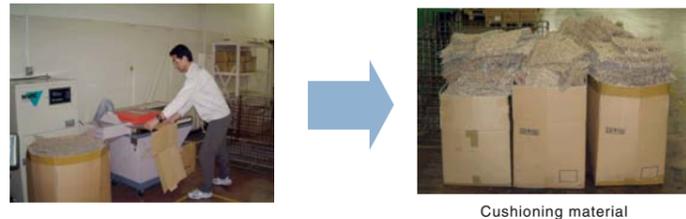


Waste Reduction Activities (Recycling Promotion)

Clarion is actively engaged in activities of recycling and to reduce waste output throughout the company, with the motto "Zero Waste Output".

Reducing Waste Output by Improving Product Delivery Packages

By improving Packages of received Deliveries, we succeeded in reducing the output of cardboard and other industrial waste. Cardboard is also used as cushioning material.



Cushioning material

Mutual Monitoring to Ensure Separated Waste Disposal and Promote Recycling

Departments within the same site monitor each other's waste separation efforts and educate each other on waste materials and the importance of separating them for disposal. These activities have ensured that waste material is disposed of separately and have increased the rate of recycling.

* Mutual monitoring refers to the inter-departmental activity to increase awareness of waste reduction by taking the initiative to mutually monitor waste separation efforts.



Waste monitoring

Environmental Protection Using Recycled Items

Plastic reels and bobbins are recycled into interlocking blocks and used to create flowerbeds around the facility.



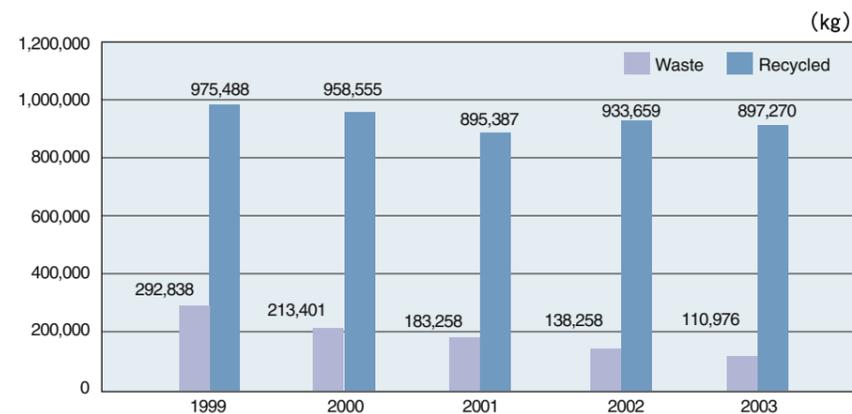
Plastic reels and bobbins

Interlocking blocks

Used to create flowerbeds

Total Waste Output and Recycling Performance

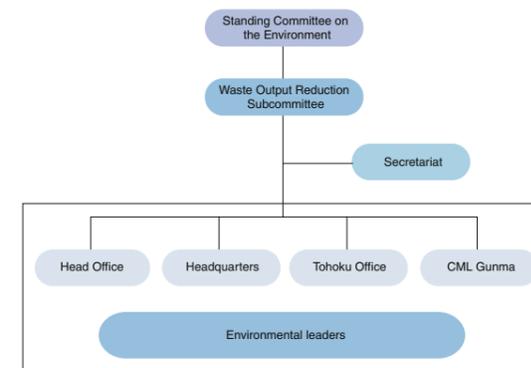
As a result of the above activities and the implementation of environmental education, our waste output is decreasing each year. Total waste output in March 2004 was 19.7% less than in March 2003.



Zero Waste Output Activities

"Promoting Zero Waste Output" is one of the goals of Clarion's mid- to long-term plan for environmental protection. In conjunction with efforts to reduce total output of industrial waste, recycling activities are also implemented to achieve Zero Waste Output.

Zero Waste Output Promotion Framework



Clarion's Definition of Zero Waste Output

Thorough observation of the "5R policy" (refuse, return, reduce, reuse, recycle) to reduce waste output from our sites and recycle of resources to achieve the goal
 Goal: To recycle 95% or more of waste materials generated from our sites to achieve zero landfill wastes
 Target substances:
 42 substances designated by Clarion's waste material classification, excluding those substances that cannot be recycled by ourselves due to laws and regulations
 Implementation: Our four ISO14001 certified-domestic sites
 Target achievement date: March 2005

Achievement of Zero Waste Output at Tohoku Office

Clarion's companywide recycling rate in 2004 was 87.5%, but the Tohoku Office had already achieved the goal of 95% in January 2004. Starting with the Tohoku Office, Clarion is promoting zero waste output activities across the company. In its efforts toward zero waste output, Tohoku Office distributed the Waste Separation

Guidebook (Tohoku Office Edition) to all the departments, and held small group meetings to discuss and study the necessity of waste separation and the responsibility of companies.



Study group session at the Tohoku Office

[Pages from "Waste Separation Guide Book (Tohoku Office Edition)"]



■ The 5Rs for waste output reduction and examples of activities Clarion promotes a five-step waste treatment method as part of its effort to achieve zero waste output.

1. Refuse	2. Return	3. Reduce	4. Reuse	5. Recycle
Do not receive or buy things that may produce waste	Return whatever can be returned to the seller	Do not introduce things that may produce waste	Reuse instead of throwing away	Recycle before disposing

■ Examples of Specific Improvements

- Reusing air packing
We collaborate with transportation companies in reusing air packing as packaging material for product deliveries.
- Recycling materials
We recycle parts trays to make plastic.

[Reusing air packing]



[Recycling plastic]



Relationship with Employees

Clarion is committed to "respecting the individuality and ability of each employee, and establishing a corporate culture of generosity" as our Company Philosophy declares. Our HR administration and development systems are based on this company philosophy. We pay due attention and consideration to each and every one of our employees to provide him/her comfortable working environment and health management services.

Personnel Affairs

Basic Policy of Clarion's New HR Administration System

We renewed our personnel system in 2004 and strengthened our human resource management function to give our employees an incentive to pursue their tasks confidently and with a sense of security.

Ideal Personnel Administration Management

- Establishment of the value of "self realization"
- Cultivation of a free and generous corporate culture
- Discovery and fostering of "independent personnel"



- Appraisals based on roles and degree of contribution to the company

*Independent personnel are:

- Those who can think on their own from a broad perspective
- Those who are capable of increasing the significance of their role
- Those who rise to the challenge of innovation with courage and sincerity



- Shift from a system centered on job performance to one centered on contribution (role ranking system, contribution evaluation)
- Introducing a coaching-style management
- Shift from an age-based wage system to a yearly contract system and introducing bonuses corresponding to achievements
- Shift from competence building efforts to career development assistance
- Employing an in-house recruitment system and free-agent system, and creating an in-house human resources market

Human Resource Development System

The aim of our human resource development is autonomous career development of each department and individual.

[Management]

Clarion implements a management system incorporating OJC (On the Job Coaching), which combines "coaching" and "counseling" mixed with behavior pattern analysis. In support of this management system, we introduced the "mentor system" for the first time in Japan to encourage and assist new employees to become independent, full-fledged members of Clarion.

(*In a mentor system, experienced employees help new employees strengthen their self-awareness and develop competency that is required of all members of society.)

[Educational Programs]

1. Education to foster personnel capable of becoming future leaders in corporate management
2. Technical education aimed at improving and strengthening technical skills
3. Education on quality and the environment to win public trust
4. Education on basic functions and professions essential to achieving the highest productivity in the industry
5. Education in international areas to cultivate a Group-wide perspective



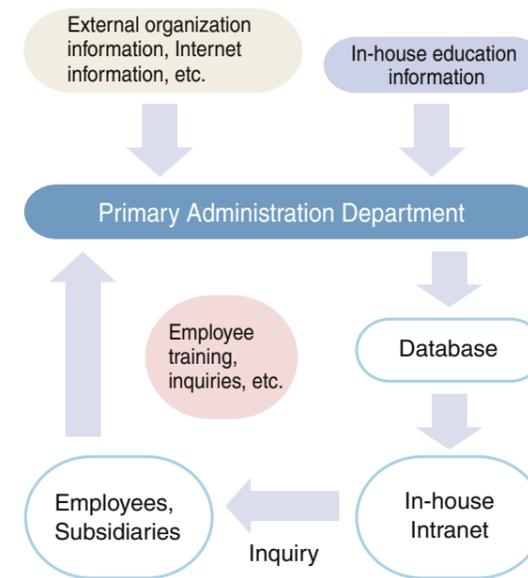
New employee education

Employee Training/Environmental Education

Clarion believes, as stated in the Company Philosophy, that human resources are the driving force behind corporate management, and as such, the continuous development of all employees is essential. Based on this understanding, we provide a wide range of education programs utilizing Internet and e-mails to our employees and work to foster human resources with the aim of achieving sustainable corporate management.

Employee Training Using the Intranet

The primary administration department input educational information into a database which employees can access, and employees use this information to provide employee training to other employees and subsidiaries through the Intranet.



Example of the Environmental Protection Information Database

Environmental Education for Employees

We are constantly upgrading our environmental education system to raise employee awareness of environmental protection activities and to further their understanding of issues necessary for protecting the environment.



Training for internal environmental auditors

Environmental Education System

Clarion's environmental education system is composed of "General Environmental Education" designed for employees, "Level-Specific Education" for new employees and department managers, "Training for Internal Environmental Auditors" targeting internal environmental auditors, and "Professional Education" designed for personnel engaging in tasks related to laws and regulations.

1. General Environment Education

Each department is responsible for providing this education to its employees at least once a year.

2. Level-Specific Education

Hosted by the Personnel and Administrative Affairs Departments, this program on the environmental management system is conducted at each level, from new employees to department managers.

3. Training for Internal Environmental Auditors

This program consists of training by an external training institution and training by Clarion's leading internal auditor group (twice a year, targeting approx. 34 people). Follow-up training sessions are also held as necessary.

4. Professional Training for Workers Engaging in Designated Tasks

Personnel qualified for certain designated jobs by laws and regulations and employees engaging in tasks that have a profound impact on the environment are categorized as "workers engaging in designated tasks," and are provided with professional training by an external institution.

Working Environment

Endeavoring to create a comfortable working environment for all our employees

Clarion strives to create a comfortable working environment for all our employees—an environment capable of responding to various changes that are occurring in the business world. We have adopted flexible working hours, including the “Super Flex” system, to allow our employees the freedom to pursue their own working styles. We also offer various vacation and leave systems in support of childrearing and nursing, physical and mental rest and family services, and local volunteer activities.

Various Vacation and Leave Systems

3-day consecutive vacation system

To refresh their minds and bodies and maintain their motivation to work, employees are encouraged to take three consecutive holidays (five consecutive days counting the weekend) using their paid vacation time. (paid holidays)



Commemorative vacation system

Employees can spend a paid vacation on a personal or family anniversary (twice a year). We encourage all employees to take advantage of this system. (paid holidays)



Flex time system

In addition to the regular flexible hour system, there is a system that allows even more flexible working hours called “Super Flex”, which eliminates core time, for employees engaged in some specific jobs.

Childcare leave system

Employees are allowed to take leave from work until their child is one year old, and work shorter hours until the child enters elementary school. (unpaid)

Nursing leave system

Employees are allowed leave of up to three months to take care of a family member requiring nursing care. (paid for the deposited portion, otherwise unpaid)

Vacation deposit system

Employees can deposit up to 60 days of unused vacation time and take them as necessary for personal medical reasons, to provide nursing care to a family member, or to participate in local volunteer activities. (paid holidays)



Safety and Health

Clarion has shifted its priority in health management of the employees to promotion of health and prevention of illness, as the change in general concept of the time, from treatment and cure to prevention of illness. We also work to enhance employees' mental health and increase their awareness of safety to promote both mental and physical health.

Approaches for the Safety in the Working Environment

We established basic goals for safety in the working environment so that all employees can work safely and without anxiety in their work.

[Basic Concept]

1. Maintenance of mental and physical health
2. Creation of a comfortable working environment
3. Eradication of work related accidents (zero accidents)

Major Points of the Safety and Health Promotion Plan

1. Regular health checkups for all employees
2. Caring of mental health
3. Health education
 - Prevention of lifestyle-related diseases
4. Contribution to local health activities
 - Cooperation in blood donation
5. Regular workplace cleanup
 - Clean-up patrol
6. Increasing awareness for safety
 - Safety Promotion Week
 - Occupational Health Promotion Week
 - Zero accident promotion activities, etc.



Mental Health

Holding of a “Mental Health Lecture”

In recent years, an increasing number of workers are experiencing anxiety, worry, and stress in their work and careers in direct proportion to major structural changes taking place made in the economy and the business world. In response to this situation, Clarion held a lecture to promote greater understanding of mental health. Education on providing mental health care to employees is also held mainly for managers and members of the safety and health committee.



Mental Health Lecture

Education for Preventing Lifestyle-Related Illness

Holding of a lecture on “Countermeasures against Lifestyle-Related Illness”

High blood pressure, diabetes, and hyperuricemia, which are the causes of the three major diseases (cancer, heart attacks, and strokes), often result from people's lifestyles. Thus they are called “lifestyle-related diseases.” We provided a meeting for increased awareness against these illness with preventive knowledge and for better health management.

Regular Health Checkups

Health checkups incorporating a broad range of checkup items are held regularly with a focus on disease prevention and early discovery. Additional optional checks may be included if requested by the employee.

Clarion also has a subsidy system for those receiving more complete physical examinations at hospitals or clinics, and offers other considerations to promote employee health management.

Work-related Accidents

Clarion gives serious consideration to preventing Work-related Accidents. As a result, no accidents involving the suspension of operations have occurred in the past five years.

Relationship with Customers

Clarion manufactures OEM (Original Equipment Manufacturing) products that are sold directly to automobile manufacturers as well as products that are sold in the general market. Our primary concern in both cases is to provide end users with products that they can be satisfied with quality and performance. To this end, we concentrate our efforts on improving quality and safety in order to gain customers' trust reliability in line with our basic policy on quality. We also strive to improve product serviceability.

Clarion's Basic Policy on Quality

We will continue to abide by our basic policy on quality until a circumstance arises that calls for a revision of the policy. Based on activities to maintain ISO9001 and QS9000 standards, Clarion's quality management system is designed so that our products fully satisfy the needs of our customers. Management reviews are held constantly to maintain and control the system appropriately.

Securing Customer Satisfaction and Trust

Relationship with End Users through OEM Products

OEM products supplied to automobile manufacturers account for over 60% of Clarion's net sales. Boasting reliability and superior technical capabilities, they provide Clarion with valuable relationship with OEM customers. Accumulated unique know-how at Clarion on OEM production and our framework for joint businesses have enabled us to forge strong partnerships with automobile manufacturers around the world. Through these automobile manufacturers we provide quality and safety to end users.

Product Safety

Clarion has obtained ISO9001/QS9000 Series certifications on a companywide-scale, and is committed to ensuring product safety at all stages of its operations, from product planning and development, through manufacturing, marketing, and servicing, to final disposal.

—Measures for Product Safety—

1. Measures concerning product liability and product safety
2. Acquisition of the safety standard "e mark" in reference to the EU electromagnetic compatibility (EMC) standard
3. Elimination of products containing hazardous chemical substances
4. Observance of the European Union End-of-Life-Vehicle Directive (ELV Directive) and others

Customer Protection and Information on Product Safety

There were no instances of customer-related trouble regarding violations of laws related to product liability (PL Laws), recalls, or recoveries in 2003.

Improvement of Services

Customer Satisfaction

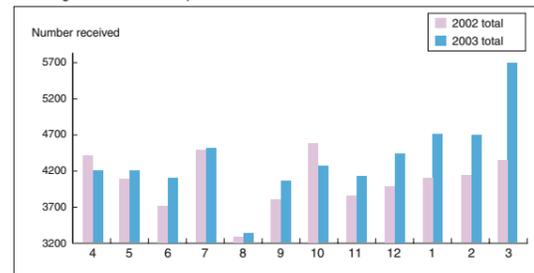
Establishing lines of communication with our customers

In addition to technical development and quality improvement, we also focus on expanding the lines of communication with our customers and strengthening customer support services. In Japan, we offer prompt responses to customer needs and maintain smooth coordination with our service staff through the use of a database-linked CTI (Computer Telephony Integration).

Customer's Opinions and Internal Feedback

Valuable opinions and requests from our customers are handled by our Customer Service Center and are fed back to the various internal departments of the company. They are also compiled into informational reports and a monthly customer reports highlighting queries and responses. Customer-related topics and know-how are also regularly fed back to the internal departments through our digital information network so that they can be shared among all departments and applied to their tasks.

● Changes in the number of opinions received



The increase in opinions received in March coincided with the release of new ADDZEST products



Customers Report

Relationship with Suppliers

Strong partnerships with suppliers are indispensable to Clarion's business activities. As such, Clarion's purchasing policy stresses the importance of valuing our relationship of mutual trust with our business partners. It also advocates a relationship of co-existence and co-prosperity. Under this policy, we pursue various forms of cooperation with our business partners.

"Purchasing Policy" Lecture

In February 2004, a lecture on "Purchasing Policy" was held with the attendance of more than a hundred companies. The lecture presented details of Clarion's purchasing policy and specific purchasing efforts, and also described improvements in purchase order procedures. The lecture served to facilitate communications with our suppliers and obtain their cooperation.



Purchasing policy lecture

Purchasing policy: Enhanced measures for purchasing encompassing quality, cost competitiveness, prompt delivery, technical development capability, and environmental protection.

Goal: Total cost reduction of purchased material and services.

Measures:

1. Promoting a global purchasing policy
2. Promoting green purchasing
3. Total cost reduction from the development stage
4. Improving the quality of parts and strengthening first lot management
5. Promoting outsourcing and alliances

Annual Supplier Awards System

Each year, Clarion awards suppliers who have demonstrated outstanding cooperation in cost-reduction activities, punctual delivery, and quality assurance throughout the year. The awards ceremony for 2003 was held in February 2004. Awards were presented to eight winning companies selected from a total of more than 100 candidates, and promoted rewarding purchasing activities.



Awards ceremony for cooperating suppliers

Cooperation with Suppliers

Clarion welcomes proactive proposals from our suppliers concerning cost cutting methods and new technologies, and requests their cooperation in various aspects of our business. Our suppliers are also asked to support green purchasing and to submit survey data of environmentally harmful chemicals contained in parts they supply.

Furthermore, to facilitate smooth business transactions, we are seeking their cooperation in creating an e-transaction system such as the EDI (Electronic Data Interchange).

Disclosure of Clarion's Purchasing Policy

Our purchasing policy for suppliers is available at our Website.

Please refer to the section on Purchasing Policy under "Procurement" in our Website
<http://www.clarion.co.jp/english>

Relationship with Society (Social Contribution Activities)

Clarion strongly encourages employees to take part in activities contributing to better society as seen in the established volunteer vacation system to support employees. We also make various other measures to promote our social contributions.

Participation in the "Tonegawa River System Cleanup Campaign" (CML Gunma)

As part of its social contribution efforts as a corporate resident of Gunma prefecture, CML Gunma participated in the "Tonegawa River System Cleanup Campaign" and cooperated in cleaning up the Tonegawa River System that flows through the cities and towns of Gunma prefecture.

Overview of the campaign

[Date]: May 16, 2004 (Sun.)

[Place]: Oura-gun, near Musashi Ohashi bridge

[No. of participants]: 1,500

(10 from Clarion)

[Amount of garbage collected]: 17 tons



Participation in the "Tonegawa River System Cleanup Campaign"

Cooperation in the Blood Donation Drive (Headquarters)

In response to an emergency request from the Saitama prefecture Red Cross Blood Center, we called on employees at our Headquarters to cooperate in donating blood, outside our regular periodical blood donating campaigns. According to the Center, there is a shortage of blood for medical institutions in Saitama prefecture. In light of this situation, Clarion intends to make ongoing efforts to promote cooperation in the blood donation drive as part of our contribution to the local community.



Blood donation (Headquarters)



Cooperation in Plant Observation Tours/Academic Activities (Tohoku Office)

Second year students from a junior high school in Koriyama city visited our Tohoku Office to tour the plant and receive hands-on training. After observing the production line, the automated PCB mounting machine, and the 200 ton press, they received hands-on training in soldering. Many of the students commented that the experience was "very interesting." Buoyed by this success, we plan to keep our doors open to factory tours and training programs that would provide social experiences to students who bear the future of Japan.



Training session at the Tohoku Office



Hands-on training in soldering

Afforestation Activity (Tohoku Office)

Dogwood trees are periodically planted at the Tohoku Office as part of its afforestation activities. Beautiful dogwood flowers bloom each year.



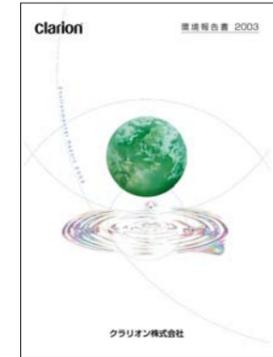
Planting of dogwood trees

Information Disclosure

We disclose information not only of our business activities, but also of our efforts in the areas of environmental protection and social contribution using various media as a measure to maintain communications with a wide range of stakeholders.

Publishing the "Sustainability Report"

In 2003, Clarion published "Environmental Report 2003" and presented Clarion's environmental protection activities in an easy to understand manner. From 2004, we are publishing this "Sustainability Report" in order better to comply with corporate social responsibility (CSR), with enhanced contents on our social and economic performances. We will carry on our activities in consideration of the triple bottom line of the environment, economy, and society as our on-going tasks. We plan to disclose our information in the form of pamphlets and through downloadable file formats on our Website.



"Environmental Report 2003"



Please see "Environmental Protection" under "Corporate Info" on our Website
<http://www.clarion.co.jp/english/>

Publishing of "Information on Clarion 2004"

In 2004, we published "Information on Clarion 2004" to introduce Clarion's aggressive business strategies and its future-oriented products. It also presents information on Clarion's approaches to quality assurance and environmental protection.

Product Exhibition at the Mobile Electronics Show

Clarion products were exhibited at the Mobile Electronics Show (MES) held at Makuhari Messe on June 12 and 13, 2004. The latest 2004 model car navigation and car audio products garnered favorable attention. Clarion's eco-friendly products were also exhibited.



Clarion Group's Portal Site: From Clarion to the World

The Clarion Website is the portal site of Clarion and the entire Clarion Group, which is dedicated to creating in-vehicle equipment for the worldwide market. Taking advantage of the speed and accessibility of the Internet, we facilitate smooth communications with our stakeholders throughout the world, including customers, shareholders, prospective employees, and business partners. Looking toward the future, we will continue our pursuit of creating a Website that maximizes the advantages of the Internet.

Top page (Japanese/English)

Corporate information (Japanese/English)

Topics (Japanese/English)

Product Information (Japanese/English)



History of Clarion (Environment Protection Activities/Social and Economic Activities)

History of Clarion's Environmental Protection Activities

1998	May	Launching of preparation project for ISO14001 certification
	August	Kickoff of activities by specialized subcommittees under the Standing Committee on the Environment
1999	February	Preparation of the Environmental Management Manual (First edition, first printing)
	June	First internal environmental audit
	December	First preliminary inspection
2000	February	Second preliminary inspection
	March	ISO14001 inspection (5 sites)
	April	Acquisition of ISO14001 certification
2001	April	First expanded regular inspection (four sites)
	October	Start of deliberations on introducing the environmental accounting system
2002	May	Launching of project to introduce the environmental accounting system
	May	Establishment of a lead-free solder work group
	August	Publishing of the green purchasing guidelines
2003	February	First renewal inspection (four sites)
	April	Acquisition of the three-year renewal certification
	July	Publishing of the first "Environmental Report"
2004	February	First regular inspection after renewal inspection (four sites)
	April	Acquisition of continued ISO14001 certification
	April	Establishment of the "lead-free promotion subcommittee"

Clarion's History of Social and Economic Activities

1998	January	Joint development of in-vehicle personal computer "AutoPC" with Microsoft Corp.
	December	"AutoPC" marketed for the first time in the United States
1999	December	Commencement of the OEM supply of "AutoPC" to French automaker Citroen
2000	March	Founding of Clarion Sales Co., Ltd.
	December	Establishment of HCX Corporation as a joint venture between Clarion, Hitachi, and Xanavi Infomatics
2001	May	Relocation of Headquarters to Hakusan, Bunkyo-ku, Tokyo
	August	Start of Clarion scholarship "MEDAMA"
	November	AutoPC "CADIAS" exhibited at the Tokyo Motor Show
2002	Mar	Sale of satellite radio receiver in North America
	September	Relocation of Headquarters to Toda-shi, Saitama prefecture
	October	Consolidation of domestic production and logistics companies and establishment of Clarion M&L Co., Ltd.
2003	June	Sale of HDD equipped AV navigation system
	July	Formulation of the "Compliance Code of Conduct"
	July	Establishment of the "Compliance Committee"
2004	April	Establishment of the "Crisis Management Committee"
	May	Implementation of an "evacuation drill" as part of risk management training (at Headquarters and Head Office)
	July	Establishment of the "CSR Promotion Office"

Topics

Economic Effect of the Revival of the "Clarion Girl" Campaign

As a result of rationalization, we were able to pull out of our debt structure and achieve record net income in our 64th fiscal year (year ending March 2004). President Izumi explains that the revival of the "Clarion Girl" campaign after two years had a large economic effect. (Nihon Keizai Shimbun May 19, 2004 "Kessan (Accounting) Talk")

Clarion and Fuji Television Network, Inc. jointly held the Web Scholarship Clarion MEDAMA (MEZASE DAIBA MUSIC AUDITION), a public audition embracing "television," "the Internet," and "real events," and decided on the winning "Clarion Music 2004" and "Clarion Girl 2004."

In support of young men and women who are working hard to achieve their dreams, Clarion presents awards to songs that enhance the driving experience and to young women who love music and are aspiring to make a media debut.



Winning song: Kotoba no Taisetsusa
Name of band: QP-DESIGN



2004 Clarion Girl
Aoi

Adviser's comments on the Clarion's "Sustainability Report 2004" (English Translation)

We were requested by Clarion Co., Ltd. ("the Company") to offer advice from the perspective of a third party in the course of the preparation of "Sustainability Report 2004" ("the Report") on such matters relating to information that should be contained in the Report and that it is understandable and usable. Some comments that we made during advisory procedure are provided below.

1. Social Activities and Reporting

Amid the growing social interest in CSR, the Company released the Report with more social and economic information, such as corporate governance, risk management, compliance, and relationships with employees, customers, and suppliers, as well as environmental information. This is a new attempt to disclose information related to Clarion's CSR activities from the standpoint of the triple bottom line that includes environmental, social, and economic aspects. The Company established a "Compliance Code of Conduct" in 2003, and the "CSR Promotion Office" in July 2004. During the effort to promote CSR, the Company seized the perfect opportunities to disclose the Report. We hope that, in addition to continuous efforts to advance, the Company discloses a wide range of information on its performance by setting action goals and assessing the achievements of those goals.

2. Communication with Stakeholders

The Report contains information on the Company's relationships with stakeholders. With an eye to the 70th anniversary in 2010, the Company is striving to become "a company truly needed by society" by considering what it should be in its ultimate form. Since we recognize that communication with stakeholders is essential to achieve such a goal, we expect that the Company will continue to improve the detail and content of its disclosed information in order to enhance the communication.

3. Scope of the Report

The scope of the Report includes four domestic sites and most of the domestic subsidiaries. The company strongly encourages consolidated subsidiaries to obtain ISO14001 certification, and also considers including them in the scope of environmental accounting. We would like the company to disclose more information on overseas subsidiaries in the future.

Please note that these comments do not express our views or opinions on the effectiveness and reliability of the report data and information contained in the report.



August 2004
ChuoAoyama PwC Sustainability Research Institute
(ChuoAoyama PricewaterhouseCoopers Group)



Meeting with the adviser



Editorial Postscript

"Environmental Report 2003" was primarily concerned with environmental issues, but we upgraded our report this year to also include social and economic information. We covered a wide range of activities to produce a Sustainability Report with a focus on CSR. We tried to provide a clear picture of Clarion's corporate stance, which is based on an active pursuit of its corporate social responsibility. We hope this report will serve to promote communication with our readers.

Publisher: Director, Management Division
Environmental Management Leader
Jiro Seki
Editorial Supervisor: CSR Promotion Office
Environmental Management Group
Tadashi Sato