

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

Clarion's Corporate Governance Structure

Clarion has adopted the auditing system. The Board of Directors sets basic management policies for the corporate group, makes decisions on important management issues, and directs and supervises the conduct of business. A management committee comprising of directors and corporate officers has been established as a consultative body to assist the Board. It is here that the direction and policies of Clarion and its corporate group are clarified. The Board of Directors consisted of eight members as of the end of the subject fiscal year. The effective management now being provided through the Board of Directors demonstrates the efficiency of its functions under the current auditing system. Clarion has also introduced the corporate officer system. Based on the decisions of the Board of Directors, corporate officers, under the direction of the Board of Directors and the representative directors, are able to conduct business expediently. The term of office for directors has been set at one year since June 2002, a change that increased flexibility.

Development of Clarion's Internal Control Systems

Clarion established a Compliance Promotion Office in July 2003 to promote corporate activities based on compliance, as well as to establish and further the Group's internal control structure. We also established a cross-organizational Compliance Committee, chaired by the president, with the aim of developing a compliance program among all affiliated companies. This committee has become an integral part of our organization.

In November 2003 we introduced a consultation/reporting system that has helped us to quickly identify and resolve internal problems. In April 2005 we gave independent status to the CSR Promotion Office and Internal Audit Office, a reorganization that strengthened our internal control structure.

Clarion also undertook a thorough revision and updating of its internal regulations beginning in fiscal 2004, which is still ongoing. Along with drafting and implementing proper and appropriate operating procedures, new regulations have been established that cover internal auditing, timely disclosure and

protection of personal information, serving to enhance the internal control system. We have also launched a Crisis Management Committee as part of our risk management structure, to facilitate a quick response to any unforeseen occurrence.

Status of Internal, Corporate and Financial Auditing

The Internal Audit Office conducts regular audits of all the Company's divisions and group companies in accordance with the internal control system described in the preceding section. The Office evaluates business activities in terms of efficiency, conformity and compliance with laws and regulations as well as internal regulations. It reports its findings to the president, who takes actions to correct any inconsistencies.

The Board of Corporate Auditors consists of four members, two of whom are outside auditors. Each auditor objectively supervises and evaluates the duties conducted by the directors, regularly exchanging opinions with representative directors, and offering advice and counsel regarding the management structure.

Clarion has a public accountant auditing contract with ChuoAoyama PricewaterhouseCoopers, provides appropriate management information to markets and other relevant parties, and makes appropriate revisions to its corporate environment to guarantee equitable auditing.

Status of Measures to Enhance Corporate Governance Implemented within the Last Year

Clarion avoids holding its general meeting of shareholders on a day when many other companies hold their meetings as a means of respecting the basic rights of shareholders and ensuring that they are able to properly exercise their voting rights. We are also making efforts to improve the system by sending out invitation notices as early as possible, and adopting systems for shareholders to exercise their voting rights electronically.

Clarion has formulated a remuneration system for directors that incorporates performance-linked factors. With increased transparency and closer links to performance in the system

regulations, we aim to merge the interests of shareholders and directors, and increase corporate value. We also require the purchase of the Company's stock through the Executive Shareholder Association spending a part of executive remuneration, helping to foster a sense of sharing the corporate value with shareholders.

Clarion is increasing its management transparency by enhancing its IR website with timely and appropriate information disclosure and globalization of its homepage. We have also been working to strengthen our communication with foreign shareholders by sending English translations of our shareholder meeting invitation notices through standing proxies.

Environmental Measures

Widespread adoption of highly safe and efficient car navigation systems will improve driving efficiency of automobiles, reduce fuel consumption and lead to a reduction in CO₂ emissions. The new HDD car navigation systems now coming on the market do not have such accessories as CD auto-changers, and so can be made up to 30% lighter. Also, networked auto-guidance systems for community buses will facilitate operation management by communicating information on accidents and number of passengers between the operations center and the bus, thereby leading to a reduction in CO₂ emissions.

Clarion employs a green purchasing program in response to End-of-Life Vehicle (ELV) regulations in Europe and the requirements from automobile manufacturers to limit substances that are potentially harmful to the environment. We are also developing our products to be lead free and eco-friendly, with a limited amount of environmentally harmful substances and eco-friendly. We have set targets to reduce energy use by 4% and waste output by 10% by 2007, and are making steady progress with efforts to promote zero waste output, and reduce amounts of waste oil, solder, and paper.

Social Contributions

Clarion has established a leave system to allow its employees to participate in local volunteer efforts, and is working to create a corporate environment contributing to a better society. One example is our support for cleanup efforts along the Tone River in Gunma Prefecture.

The Company's corporate philosophy with regard to its employees is "respecting the individuality and ability of each employee, and establishing a corporate culture of generosity." In accordance with this philosophy, we have introduced coaching management practices and evaluations based on degree of contribution, as well as HR systems such as the annual salary and free agent systems. We have also created a work environment incorporating flex time and various leave systems that allow employees to feel comfortable with their jobs, and give due consideration to the health management of all employees.

Clarion is attentive to preventing workplace accidents, and we have not had a work-related injury for the past five years. During fiscal 2004 there were no accidents, violations of laws or legal actions filed against the Company.



Clarion Sustainability Report 2004