



Environmental Report

2004



SMK Environmental Charter

Basic Philosophy

The SMK Group pursues environmental preservation as well as economic development, by integrating its current technological strengths and creating advanced technology. As a good corporate citizen, every one of us will contribute to the promotion of sustainable global development.

Action Guidelines

1. Develop environmentally friendly products
2. Reduce waste by using everything to its fullest extent
3. Preserve natural resources and saving of energy
4. Encourage 3R(reduce, reuse and recycle)
5. Realize waste-free procurement and manufacturing

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About This Report

Reporting Period

This report presents data for the period from April 2003 to March 2004.

Scope of Data

The data in this report was compiled for SMK's domestic offices and primary subsidiaries in Japan.

Guidelines Used in Creating This Report

This report adheres to the Environmental Reporting Guidelines 2000 and the Environmental Accounting Guidelines 2002 published by Japan's Ministry of the Environment.

Message from the Management

The 21st-century Corporation —Fulfilling Social Responsibility as a Good Corporate Citizen

Many contemporary environmental issues, such as global warming, acid rain, and the destruction of forestry resources, are global in nature. Coexistence with the global environment is now the most important issue facing humankind. A truly 21st-century corporation must be able to contribute to the resolution of these environmental issues, and to fulfill its social responsibilities as a good corporate citizen.

At SMK, we have made environmental issues management's most important responsibility, building a management philosophy that rests on the twin pillars of corporate economic growth and environmental preservation, based on the spirit of the SMK Environmental Charter adopted in 1995.

To ensure effective utilization of limited resources, we promote product design and development based on the concept of 3R (reduce, reuse, and recycle), and also strive to develop environmentally friendly products. In addition, we are making progress toward acquisition of ISO14001 certification for all of our domestic and overseas subsidiaries, and toward the realization of "zero emissions" of waste products. The medium term business plan through FY2005 includes company-wide environmental management targets to strengthen our efforts in environmental management.

Our business activities overseas have been expanding along with the globalization of our business. While continuing to promote environmental initiatives in Japan, we want to strengthen our environmental activities overseas, as well.

This report provides an overview of the environmental conservation initiatives being undertaken at SMK, with the hope that it will provide readers with a better understanding of our corporate initiatives. Our goal is sustainable global development, as described in the SMK Environmental Charter, and we believe that detailed information disclosure is the key to transparent environmental management.

July 2004



Terutaka Ikeda

Chairman and Chief Executive Officer

Tetsuya Nakamura

President and Chief Operating Officer

Chairman and CEO Terutaka Ikeda (Right) and
President and COO Tetsuya Nakamura

Corporate Data

(As of March 31, 2004)

Name

SMK Corporation

Established

January 15, 1929

Primary Businesses

Manufacturing and sales of electronic components for use in electrical equipment, communications equipment, electronic equipment, industrial machinery, IT equipment and other applications.

Major Products

Switches	Board-to-board connectors
Remote control units	High-frequency coaxial connectors
Keyboards	Interface connectors
Control panel units	Card connectors
Electret capacitor microphones	Power connectors
Earphone/microphone assemblies	Metal ferrules
Camera modules	Jacks
AC adaptors	External power plugs/jacks
Cradles	Fuse holders
Antennas	Resistance sensitive touch panels
Crimp connectors	Optical touch panels
FPC and FFC connectors	

Capital

7.996 million yen

Number of Employees

908

Head Office

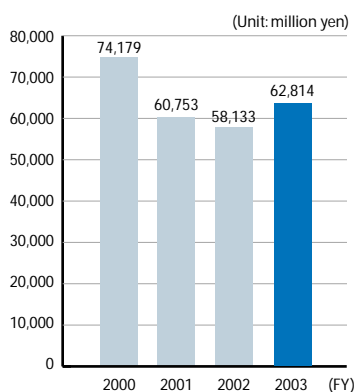
5-5, Togoshi 6-chome, Shinagawa-ku, Tokyo 142-8511 Japan

Tel: +81-3-3785-1111

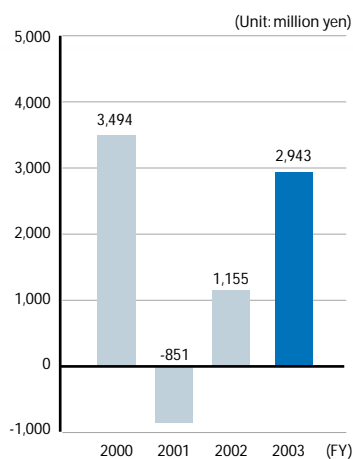
Fax: +81-3-3785-1878

URL: <http://www.smk.co.jp/>

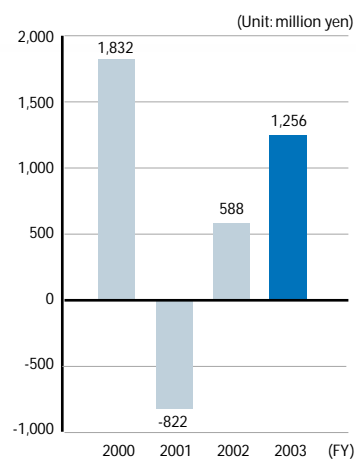
Consolidated Net Sales



Consolidated Operating Income



Consolidated Net Income



Environmental Management

Organizational Framework

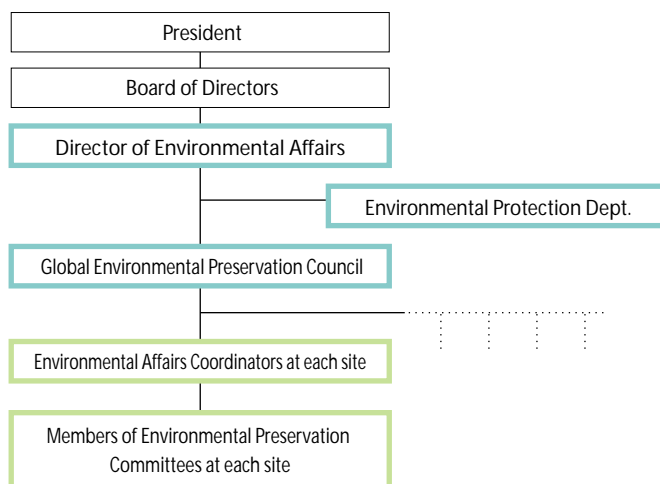
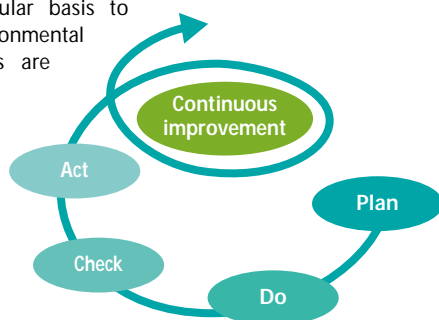
At SMK, decision-making for corporate policies and initiatives related to environmental preservation is conducted by the Global Environmental Preservation Council, which is chaired by the Director of Environmental Affairs. Environmental policies and initiatives are also reviewed at the Board of Directors level when the need arises.

At the manufacturing works, sales office and branch level, corporate policies and initiatives are implemented by Environmental Preservation Committees, which have been established at each site. These committees are responsible for establishing policies and targets to guide the implementation of environmental initiatives. The Environmental Preservation Committees at each site are further responsible for addressing additional environmental issues relevant to each site.

Environmental Management Systems

SMK's environmental management systems adhere to ISO 14001 standards, which require that the company establish environmental policies on a company-wide level and for each of its sites. These policies serve as the basis for creating environmental action plans that guide the implementation of environmental initiatives within SMK. SMK also conducts internal audits to assess the effectiveness of its environmental initiatives and improve upon initiatives for the future.

Senior management also plays a role in assessing the effectiveness of SMK's environmental management systems by mandating improvements that are reflected in future corporate environmental policies and future environmental action plans. This system of reviews and checks is conducted on a regular basis to ensure that SMK's environmental management systems are continually improved.



ISO 14001 Certification

SMK is committed to acquiring ISO 14001 certification at its head office and at each of its manufacturing works in Japan and abroad. The company's domestic manufacturing works in Toyama and Hitachi have already acquired ISO 14001 certification. Further preparations are also underway to acquire ISO 14001 certification at SMK's head office.

As of FY2003, six of SMK's eight overseas manufacturing subsidiaries have acquired ISO 14001 certification, covering subsidiaries in United States, Mexico, UK, Malaysia, Philippines, and both Shenzhen and Dongguan subsidiaries in China. The remaining overseas manufacturing subsidiaries, in Hungary and South Korea, are working to acquire ISO 14001 certification in the near future.

Observing Regulations

SMK offices and sites prepare regulations suited to their operations and local situation, giving due consideration to national and local laws and regulations, and comply with these standards. Based on the ISO 14001 certification system, the offices and sites formulate responses for potential accidents that carry the risk of environmental contamination or to address conditions that exceed standard values, and perform regular training exercises so as to be ready for any eventuality.

State of ISO 14001 Environmental Management System Certification

Office or Site	Country	ISO 14001	Certifying Institution
Hitachi Works	Japan	Certified September, 3, 1999	JQA
Toyama Works	Japan	Certified March, 27, 1998	
SMK Manufacturing Inc. (U.S.A.) SMK Electronica S.A. de C.V. (Mexico)	United States Mexico	Certified October, 21, 1998	LRQA
SMK Dongguan Gaobu Factory	China	Certified September, 12, 2002	CQC
SMK (U.K.) Ltd.	UK	Certified January, 27, 2000	BSI
SMK Electronics (Malaysia) Sdn. Bhd	Malaysia	Certified May, 25, 2000	SIRIM
SMK Electronics (Shenzhen) Co., Ltd	China	Certified February, 28, 2000	CQC
SMK Korea Co., Ltd	South Korea	Expected to be certified in March 2005	KSQA
SMK Electronics (Phils.) Corporation	Philippine	Certified December, 18, 2003	TÜV
SMK Hungary Kft.	Hungary	Expected to be certified in March 2005	TGA

FY2003 Environmental Conservation Initiatives

SMK has established a roadmap to guide its environmental conservation initiatives. The following table summarizes the company's major environmental targets and achievements in FY2003.

	Mid-Range Target (by FY2001 to FY2005)	FY2003 Target	FY2003 Achievement	Page
Global deployment of environmental management systems	Acquisition of ISO 14001 certification at head office and four manufacturing subsidiaries abroad	Acquisition of ISO 14001 certification at manufacturing subsidiary in the Philippines	Certification acquired (December 2003)	4
Energy conservation	8% reduction in energy consumption on a production value basis, compared with FY2001 levels (Target for FY2005: 0.068 kl/million yen*)	4% reduction in energy consumption compared with FY2002 levels (0.075 kl/million yen)	Achieved 2.2% reduction (0.077 kl/million yen)	6
Reduce industrial waste output	20% reduction in industrial waste output on a production value basis, compared with FY2001 levels (Target for FY2005: 0.0145 tons/million yen)	3% reduction in waste compared with FY2002 levels (0.0147 tons/million yen)	Achieved 3.0% reduction (0.0147 tons/million yen)	6
	20% reduction in landfill waste compared with FY2001 levels (Target for FY2005: 95.3 tons/year)	5% reduction in landfill waste compared with FY2002 levels (111 tons/year)	Achieved 6.0% reduction (110 tons/year)	6
Reduce the use of environmentally harmful chemical substances	Reduce the use of chemical substances designated under Pollutant Release and Transfer Register (PRTR) Law	Complete elimination of chlorine-based organic substances	Nearly eliminated chlorine-based organic solvents	10
Reduce the use of environmentally harmful chemical substances in products	<ul style="list-style-type: none"> - Convert to lead-free solder and lead-free plating - Complete elimination of hexavalent chromium - Reduce use of halogen compounds 	<ul style="list-style-type: none"> - Promote switch to equivalent lead-free products for solder and plating - Reduce use of products containing hexavalent chromium 	Now working to bring each product into conformity with regulations	12

Energy and Resource Conservation Initiatives

Management Philosophy Driven by Global Environmental Conservation

SMK is dedicated to conservation of our irreplaceable global environment, through enhancement of individual awareness and ensuring that environmental concern is reflected in action. SMK's major initiatives are focused on: (1) reducing energy consumption; (2) cutting industrial waste output; (3) and implementing recycling of resources. SMK is committed to quantifying its environmental performance and mapping the direction of future environmental initiatives in order to successfully implement environmental efforts within the company.

Scope of Data	SMK	Head Office, Gate City Office, Toyama Works and Hokuriku Sales Office, Hitachi Works and Ibaraki Sales Office, Yamato Works and Kanagawa Sales Office, Osaka Branch, Nagoya Branch, Fukuoka Sales Office
	Domestic subsidiaries	Toyama Showa Co., Ltd., Showa Denshi Co., Ltd., Yatsuo Denshi Kogyo Co., Ltd., Ibaraki SMK Co., Ltd., SMK-Engineering Co., Ltd., SMK R&D Co., Ltd.
Period	Target period	Previous data
	FY2004 (April 2004 to March 2005)	FY2003 (April 2003 to March 2004) FY2002 (April 2002 to March 2003) FY2001 (April 2001 to March 2002) FY2000 (April 2000 to March 2001)

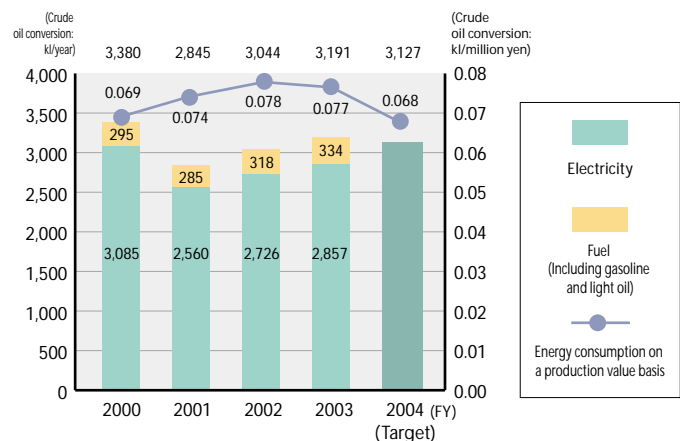
Energy Consumption

- Energy consumption on a production value basis: 98% (vs. FY2002)
- Energy consumption: 105% (vs. FY2002)
- Production volume: 107% (vs. FY2002)

Major Initiatives

SMK is working to further reduce its energy consumption as measured on a production value basis. Due to an initiative to reduce electrical consumption from manufacturing and office activities, though production volume increased by 7% over FY2002, energy consumption only rose by 5%, yielding a 2% reduction in energy consumption on a production value basis.

Energy Consumption (fuel, electricity and energy consumption on a production value basis)



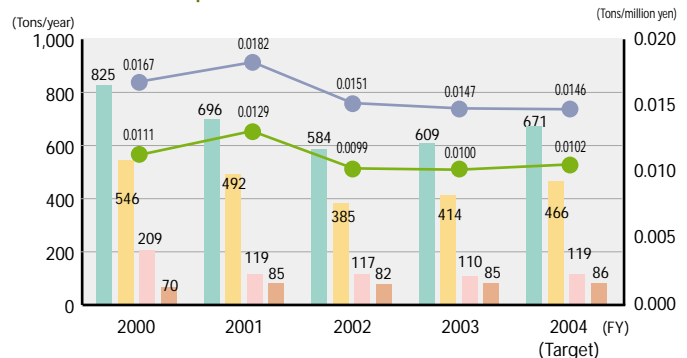
Industrial Waste Output

- Industrial waste output on a production value basis: 97% (vs. FY2002)
- Recycling on a production value basis: 100% (vs. FY2002)
- Landfill waste on a production value basis: 88% (vs. FY2002)
- Industrial waste output by volume: 104% (vs. FY2002)
- Recycling by volume: 107% (vs. FY2002)
- Intermediate waste by volume: 104% (vs. FY2002)
- Landfill waste by volume: 94% (vs. FY2002)

Major Initiatives

Production volume rose by 7% over FY2002, and industrial waste output rose by 4%, so industrial waste output on a production value basis declined by 3%, landfill waste on a production value basis dropped by 12%.

Industrial Waste Output



Recycling

- Recycling rate: 68% (103% vs. FY2002)
- Thermal recycling rate: 8%
- Materials recycling rate: 60%
- Landfill waste rate: 18% (90% vs. FY2002)

Major Initiatives

SMK placed priority on materials recycling, and achieved an increase of 3% in the recycling rate over FY2002. The company aims to reduce landfill waste rate by a further 18% to achieve "zero emissions."

Glossary

Energy consumption on a production value basis: Volume of energy consumed (kJ) measured per million yen of production value.

Industrial waste output on a production value basis: Amount of industrial waste output volume (tons) measured per million yen of production value.

Recycling on a production value basis: Amount of waste recycling volume (tons) measured per million yen of production value.

Landfill waste on a production value basis: Amount of landfill waste volume (tons) measured per million yen of production value.

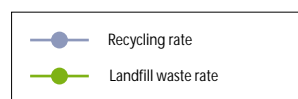
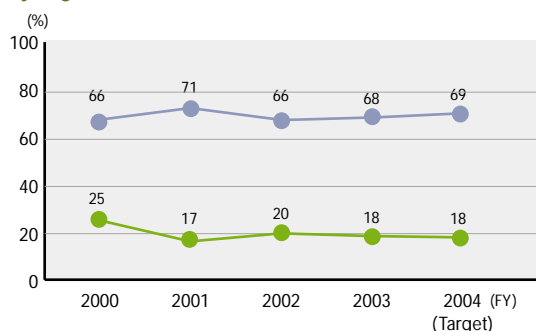
Zero emissions: Elimination of industrial waste through recycling and reuse of materials.

Intermediate processing waste: Waste that is crushed, separated or subjected to a process such as thermal processing, chemical fusion, chemical neutralization or chemical detoxification. Intermediate processing is conducted for recycling purposes. (Industrial waste is categorized as recycling waste, intermediate processing waste or landfill waste.)

Thermal recycling: Reuse of industrial waste as an alternative fuel for industrial boilers and other equipment.

Material recycling: Recovery of raw materials from industrial waste for recycling purposes.

Recycling Rate and Landfill Waste Rate



Energy and Resource Conservation Initiatives

Initiatives in the Toyama Region

SMK works and subsidiaries in the Toyama region of Japan: Toyama Works*, Hokuriku Sales Office*, Toyama Showa Co., Ltd.*, Showa Denshi Co., Ltd. and Yatsuo Denshi Kogyo Co., Ltd.

Locations with an asterisk (*) have ISO 14001 certification.

Energy Consumption

- Energy consumption on a production value basis: 110% (vs. FY2002)
- Energy consumption: 116% (vs. FY2002)
- Production volume: 106% (vs. FY2002)

Major Initiatives

SMK worked to further reduce its energy consumption as measured on a production value basis. Production volume increased by 6% over FY2002, and energy consumption rose by 16%, resulting in a 10% increase in energy consumption on a production value basis. The target for FY2004 is a reduction to 97% of the performance in FY2003.

Industrial Waste Output

- Industrial waste output on a production value basis: 102% (vs. FY2002)
- Recycling on a production value basis: 105% (vs. FY2002)
- Landfill waste on a production value basis: 83% (vs. FY2002)
- Industrial waste output by volume: 107% (vs. FY2002)
- Recycling by volume: 111% (vs. FY2002)
- Intermediate waste by volume: 122% (vs. FY2002)
- Landfill waste by volume: 88% (vs. FY2002)

Major Initiatives

Production volume rose by 6% over FY2002, and industrial waste output rose by 7%, leading to an increase of 2% in industrial waste output on a production value basis. Recycling on a production value basis rose by 5% due to a recycling initiative. As a result, landfill waste on a production value basis dropped by 17%.

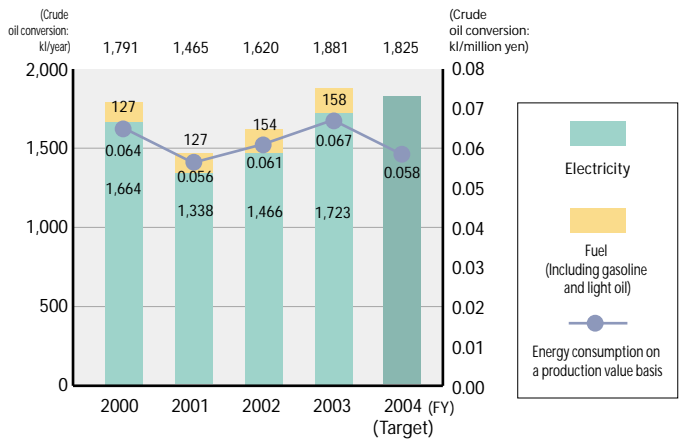
Recycling

- Recycling rate: 61% (104% vs. FY2002)
- Thermal recycling rate: 6%
- Materials recycling rate: 55%
- Landfill waste rate: 20% (82% vs. FY2002)

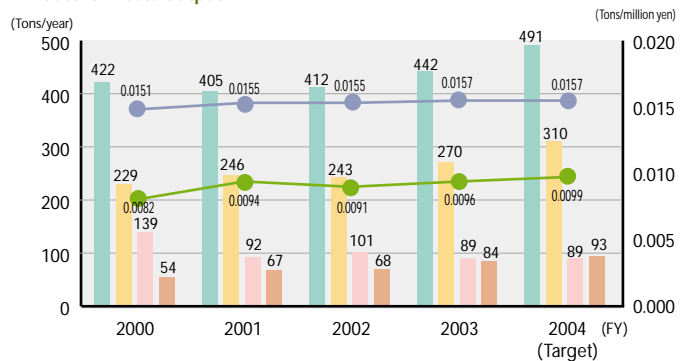
Major Initiatives

The recycling rate rose by 4% over FY2002. SMK has made efforts to switch its recycling emphasis from thermal recycling to materials recycling. The eventual goal is 100% materials recycling. SMK also aims for an additional 20% reduction in landfill waste volume, toward "zero emissions."

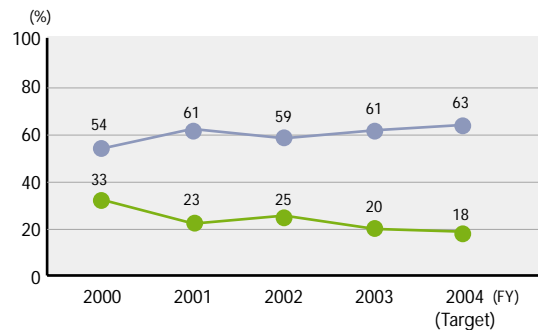
Energy Consumption (fuel, electricity and energy consumption on a production value basis)



Industrial Waste Output



Recycling Rate and Landfill Waste Rate



Industrial waste collection and sorting plant

Initiatives in the Ibaraki Region

SMK works and subsidiaries in the Ibaraki region of Japan:
Hitachi Works, Ibaraki Sales Office*, SMK Engineering Co., Ltd.* and Ibaraki SMK Co., Ltd.*

Locations with an asterisk (*) have ISO 14001 certification.

Energy Consumption

- Energy consumption on a production value basis: 71% (vs. FY2002)
- Energy consumption: 79% (vs. FY2002)
- Production volume: 111% (vs. FY2002)

Major Initiatives

In the area of conservation, SMK undertook the following measures:

1. Room air conditioning temperatures set at 28°C, or 4°C higher than last year
2. Thermal insulation film implemented
3. Personal computer power-save function added.

In addition, production volume increased by 11% over FY2002, while energy consumption fell by 21%, for a 29% drop in energy consumption on a production value basis.

Industrial Waste Output

- Industrial waste output on a production value basis: 80% (vs. FY2002)
- Recycling on a production value basis: 80% (vs. FY2002)
- Landfill waste on a production value basis: 0% (vs. FY2002)

- Industrial waste output by volume: 89% (vs. FY2002)
- Recycling by volume: 100% (same as FY2002)
- Landfill waste by volume: 0% (same as FY2002)

Major Initiatives

Achieving "zero emissions" for three consecutive years. Landfill waste volume was zero for the years FY2001, FY2002, and FY2003. Industrial waste output volume on a production value basis was reduced by 20% over FY2002. SMK is promoting further reductions.

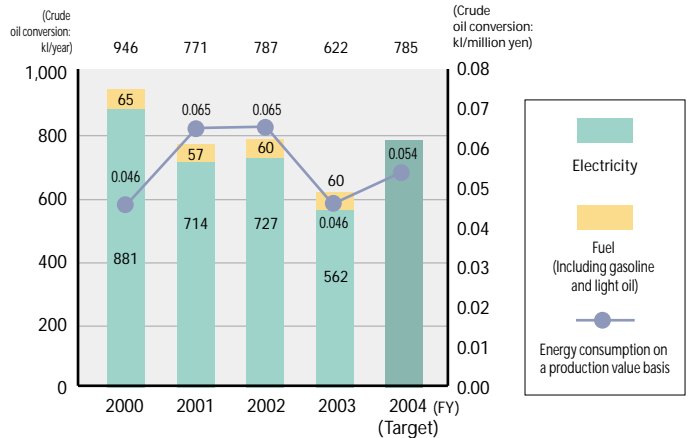
Recycling

- Recycling rate: 100%
- Thermal recycling rate: 0%
- Materials recycling rate: 100%
- Landfill waste rate: 0%

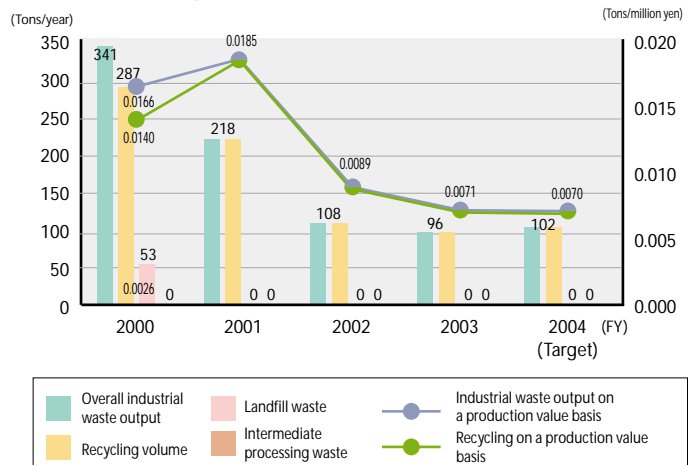
Major Initiatives

Reached a 100% recycling rate three years in a row. SMK engaged in comprehensive sorting of garbage into five categories, including non-ferrous metals, metals, waste plastics, cardboard boxes, and waste paper. The company also engaged in complete recycling of resource materials.

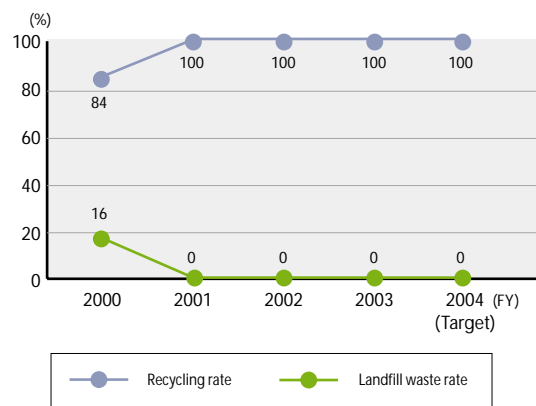
Energy Consumption (fuel, electricity and energy consumption on a production value basis)



Industrial Waste Output



Recycling Rate and Landfill Waste Rate



Sorting in the office

Spotlight: Energy and Resource Conservation

Thermal Insulation Film Implemented at Toyama Works and Hitachi Works to Conserve of Energy

In FY2003, SMK implemented thermal insulation film at the Toyama Works and Hitachi Works to improve air conditioning efficiency and reduce energy use. While it is difficult to determine precise statistics on the specific effects of implementation because energy use for air conditioning varies depending on the weather, the effect has already been noticeably large.



Thermal insulation film implemented on the inside of windows



Before implementation

In the future, SMK plans to develop other effective initiatives to conserve energy. Moreover, initiatives found to have been particularly effective will be implemented at other offices and sites, as well as other companies in the group.

Toward Zero Emissions

As described on the previous page, all of the SMK Group's locations in the Ibaraki region achieved zero landfill for the last three years in succession, and also reached a 100% materials recycling rate. The Group's locations in the Toyama region, on the other hand, because they use glass compound parts and materials that are difficult to recycle, and also because they generate sludge related to processing of waste water, have been unable to reduce landfill waste volumes to zero. Nevertheless, the Toyama region has achieved solid results through improvement of recycling rates year by year.

In FY2003, moreover, the Hitachi Works introduced packing compressors that are used mainly for sorting and compression of waste packing materials. These packing compressors have contributed to the improvement of sorting and transport efficiency, as well as to the general orderliness of the plant site.



Packing compressor

Activities at Overseas Sites

SMK has production and sales sites in Europe, North and South America, and Asia (see p.14). As a common worldwide goal for environmental conservation, SMK is acting under the SMK Environmental Charter to introduce ISO 14001 environmental management systems at all overseas locations, and to independently implement various other initiatives.

While the SMK Group is currently undertaking local initiatives suited to the law and culture of each country, it is moving toward a common goal everywhere in the world, and making progress toward management under common measurement indices. SMK made a start in FY2003 with a survey of environmental-related data collected and analyzed at overseas sites, and of details regarding their implementation.

As a result, SMK found that its overseas affiliates showed as much or even more enthusiasm than its offices and sites in Japan for the reduction or elimination of environmentally harmful substances that are incorporated into products or used in industrial processes. They are already demonstrating solid results. Nevertheless, the conditions under which data related to energy and resource conservation is collected and

analyzed vary hugely in terms of data units, collection accuracy, and collection items, and the company is still far from being able to issue reports based on unified worldwide statistical data.

SMK is working to close this gap through steady unification of management indices, and plans to incorporate some of the data from overseas into next year's environmental report.

Environmental Education and Training

At SMK, environmental conservation is one of the topics addressed in employee education, from new employee training up to senior levels, and the company is committed to enhancing employee awareness about the environment. In particular, employee education is an important part of annual planning at manufacturing sites, where the environmental impact of the company's operations is the most significant, both in Japan and abroad.

SMK's campaign to achieve and maintain ISO 14001 certification at manufacturing sites in Japan and abroad also aids in boosting employee awareness of environmental conservation.

SMK will continue to undertake initiatives to enhance awareness among company employees, and work to foster environmental specialists who can be enlisted to provide education about the environment to the surrounding community.

Green Procurement Initiatives

SMK procures various materials and parts required for manufacturing of products, and also procures equipment and secondary materials for the processing and assembly of those products. While SMK has for many years considered conservation of the environment when making these purchases, the company went even further in FY2003 with the launch of the Green Procurement Project. Participating in the project were the departments most closely involved with environmental management and the purchasing departments, working together to create a more systematic, organized system for green procurement.

The results of this project have been compiled to create the Green Procurement Guidelines, and distributed to major vendors as needed. The guidelines describe SMK's initiatives for the environment, and require vendors to introduce environmental management systems and engage in activities that show consideration for environmental conservation, and also to cooperate with assessment of harmful environmental substances and to work toward their elimination. The two main guideline topics are summarized below.

Environmental Management Systems

For environmental management systems, SMK recommends to vendors the ISO 14001 certification system.

While it is not SMK's intent to insist on ISO 14001 certification as an absolute condition for vendor transactions, the company does require that a system be put in place regardless of whether certification is obtained or not. Moreover, as the company is increasingly engaged in trade with overseas vendors, it sees the international ISO 14001 standards as a common language for environmental conservation, and sets certification as the goal. With publication of these guidelines, SMK is working with vendors to secure continuous improvements in environmental performance—fulfilling the basic principle of the ISO 14001 standards.



Assessment and Elimination of Environmental Harmful Substances

At SMK, we ask vendors of parts and materials used in SMK products to cooperate in assessment of environmentally harmful substances, and to work toward their elimination, in order to satisfy SMK standards established for the purpose of supplying products that minimize environmental impact, and to comply with laws and regulations in Japan and abroad, as well as customer demands.

SMK's vendors have long used inspection cards provided by SMK to respond to the company's concerns. Now, however, SMK has commenced utilization of a new inspection method described in the "Practical Application of Green Procurement—Materials Declaration," a publication prepared last year by the Japan Green Procurement Survey Standardization Initiative (Secretariat: Japan Electronics and Information Technology Industries Association, Environmental Product Safety Department), updating the guidelines for vendor assessments and reductions.

SMK is dedicated to striving to acquire vendor cooperation in reducing the environmental impact of SMK products.

Preventing Pollution of the Surrounding Environment

While SMK manufacturing sites do not include facilities that consume large amounts of energy, have processes that use large amounts of chemicals with adverse impact on the environment, nor store large amounts of oil or chemicals on-site, SMK nevertheless performs constant inspections to ensure that no harmful substances escape from the sites, while at the same time engaging in proactive training so as to be ready should an environmental emergency arise.

Chemical Substance Management

SMK stores and utilizes chemical substances in product manufacturing at its manufacturing sites in Japan and abroad.

In the storage phase, the company performs regular inspections to prevent pollutants from escaping into the surrounding environment. It has also installed oil retaining walls, and provides training to employees in emergency procedures in case of chemical spills.

For the utilization phase, SMK has installed filters at exhaust ports to limit the effects on the outside environment, and consigned the disposal of waste fluids and other contaminated items to specialized companies. Finally, the company has made protective masks mandatory for employees, and provides regular health check-ups.

Noise and Vibration Inspections

SMK manufacturing sites use compressors, plastic molding machines, metal presses, and other equipment. Regular maintenance is performed on the equipment to prevent malfunctions that could increase noise and vibrations in the surrounding vicinity. Moreover, SMK has established in-house standards that are stricter than standards established by law, taking regular measurements of noise and vibration levels on the borders of sites and around equipment, to ensure that all sites satisfy the standards.

Other Facility Management

For other equipment that could potentially generate local pollution in the case of a malfunction, such as boilers used for heating and air conditioning, purification tanks, or processing waste disposal devices, SMK performs regular inspections, monitoring air exhaust and waste water using in-house standards that are stricter than the standards established by law.

Volunteer Participation in Local Clean-Ups

The SMK Group's locations in the Ibaraki region, which lie in a region facing the Pacific Ocean, are long-time participants in a clean-up campaign along the nearby Isohara Coastline, a natural environment protection activity sponsored by Kitaibaraki City. For the latest clean-up campaign, a total of 60 company volunteers participated in picking up discarded cans, plastic bottles, glass bottles, driftwood, and other detritus. The SMK Group's locations in the Toyama region also participate in clean-up activities around the industrial park where SMK's manufacturing works are located, contributing to protection of the surrounding environment.



Employees engaged in a training exercise for prevention of chemical spills



Measuring noise and vibrations



Participants in a clean-up campaign along the Isohara Coastline sponsored by Kitaibaraki City

Environmentally Friendly Products

A manufacturer's chief responsibility is the timely provision of quality products at a reasonable price. SMK, as an electronic parts manufacturer, has a further responsibility to provide "environmentally friendly products," and is engaged in a number of initiatives toward that goal.

SMK's efforts can be summarized under the following three categories.

1. Reduction and elimination of substances regulated under the SMK Green Procurement Guidelines
2. Development of products that are more environmentally friendly than previous products, based on product assessments
3. Development of products that take energy conservation and recycling into account

For provision of environmentally friendly products, activities at the product development stage are extremely important. With the introduction of product assessments, SMK now engages in "product environmental impact assessments" as one aspect of design evaluations.

Furthermore, in FY2004 SMK launched a management system for product development, based on the ISO 14001 standards already in implementation at manufacturing sites, to ensure more systematic, organized "product environmental impact assessments" at the design stage.

Introducing the SMK Environmental Symbol Mark

In FY2003, SMK held an in-house competition for design of an SMK Environmental Symbol Mark that would serve to reinforce SMK's environmental conservation activities, and bring the issue of environmental conservation closer to each employee. The result was an outpouring of interesting design proposals, demonstrating the high level of employee interest in environmental conservation.

The winning SMK Environmental Symbol Mark is described below. This symbol will be used in the future for all environmental conservation initiatives at SMK.



Meaning of the Symbol Mark

The symbol mark incorporates the following ideas, as described by the mark's creator. SMK will implement these ideas in all of our future initiatives.

1. The symbol mark represents the idea of green earth and quiet waters glistening in the sunlight, out of which living things sprout to life. If people could approach the Earth with feelings of affection, as if taking good care of the things they treasure, then environmental destruction would probably cease of its own accord.

The globe represents the Earth, the sprouting leaf represents the growth of living things, and the red wing heading for the globe is heart-shaped, representing people's thoughts and feelings. The watery blue in the upper part of the globe represents water and air, while the darker blue banded in green in the lower part of the globe represents land and sea, and the white band glitters under the rays of the sun.

2. Wrapped around the mark is the phrase "A natural feeling, protect the Earth," a message from the symbol mark's creator that protecting the Earth is a natural feeling that does not require any expert awareness.

Environmental Accounting

Since 2000, SMK has adopted environmental accounting practices as an effective method for quantitative assessments of environmental conservation initiatives, to gain a better understanding of environmental costs and benefits. The figures below are in accordance with the Environmental Accounting Guidelines 2002 published by Japan's Ministry of the Environment.

Environmental Conservation Costs and Benefits

(Unit: million yen)

Category	Environmental Conservation Cost						Economic Benefits Accrued		Environmental Conservation Benefit (Materials)		Page
	Major Initiatives	Investment		Expense		Amount	Year-on-Year	Consumption/ Output Savings	Year-on-year		
		Amount	Year-on-Year	Amount	Year-on-Year						
Business area costs	Pollution prevention costs	Operation and upkeep of processing facilities used to prevent pollution	6.1	1166.3%	18.1	111.8%	0	—	Reduction of toxic substances: (0.4 tons)	—	11
	Global environmental conservation costs	Maintenance, inspection and efficient operation of energy conservation equipment, air-conditioners, etc.	2.0	—	2.1	86.2%	0	—	Energy consumption on a production value basis: (0.002 kl/million yen)	—	6,7,8,9
	Resource circulation costs	Appropriate processing and recycling of industrial waste	0.4	—	25.6	82.2%	18.2	19.8%	Landfill waste by volume: (6.7 tons) Industrial waste output on a production value basis: (0.0004 tons/million yen)	13.1%	6,7,8,9
	Sub-total		8.6	1635.0%	45.9	92.1%	18.2	19.8%			
Upstream/downstream costs		Green procurement	0	—	0.2	50.9%	0	—			10
Administration costs		Education for environmental management; acquisition of ISO 14001 certification; auditing and assessment of environmental impact	7.7	93.9%	88.0	50.0%	0	—			11
R&D costs		Development of environmentally friendly products	0	—	37.8	81.6%	0	—			12
Social activity costs		Initiatives to expand use of green space of manufacturing works	0	—	1.2	141.5%	0	—			11
Environmental remediation costs			0	—	0	—	0	—			—
Total environmental conservation costs			16.3	186.3%	173.0	63.3%	18.2	19.8%			

Overall investment by SMK and domestic subsidiaries: 2,223 million yen

Overall R&D costs borne by SMK and domestic subsidiaries: 3,044 million yen

Analysis and Future Policy

Environmental Conservation Costs

In FY2003, SMK's environmental conservation costs consisted of approximately 16 million yen in environmental investments and 173 million yen in environmental expenses, or an 8 million yen increase in investments and 100 million yen decrease in expenses compared with FY2002. The investment for the year included purchase of machines and equipment for the manufacture of environmentally friendly products, and of an XRF spectrometer used for heavy metals analysis. The decline in expenses, meanwhile, was mainly due to a decline of 88 million yen in administration costs compared to FY2002. With heavy metal pollution becoming a worldwide issue, SMK had moved aggressively in FY2002 to totally eliminate use of heavy metals in company products, resulting in a 517% rise in administration costs over FY2001, for expenses related to content assays survey and measurements of cadmium, lead, and other heavy metals, and for labor expenses incurred in the course of initiatives to eliminate these elements from use. In FY2003, SMK completed construction of its own management system that brought the measurement operations in-house and enhanced efficiency, facilitating a sharp reduction in expenses and reducing administration costs.

Benefits

Environmental benefits totaled 18 million yen in FY2003. Compared with the previous fiscal year, use of toxic chemical substances decreased by 0.4 tons and energy consumption decreased by 0.002 kl per million yen on a production value basis. Industrial waste output on a production value basis decreased by 0.0004 tons, and landfill waste output decreased by 6.7 tons compared with FY2002. In FY2003, a recovery in the market led to a sharp rise in production that made it impossible for SMK to reduce the volume of parts and materials used, resulting in a significant decline in the economic

benefit. Meanwhile, however, continued progress in energy conservation initiatives, focused mainly on reductions in electrical use, and recycling initiatives resulted in reductions in all items related to economic conservation benefits (materials).

Next steps

In the future, SMK plans to expand its environmental accounting to include its overseas subsidiaries, and will create a systematic framework for efficiently compiling environmental accounting data. In addition, SMK will strive to improve the accuracy of its environmental accounting practices and make environmental accounting more useful in corporate management.

Environmental Accounting Practices

1. SMK's environmental accounting practices adhere to the Environmental Accounting Guidelines 2002 published by Japan's Ministry of the Environment.

2. Environmental accounting covers all expenses, including depreciation and equipment investments, as well as benefits related to environmental conservation initiatives implemented between April 2002 and March 2003 by SMK and its domestic subsidiaries.

3. Data was collected from SMK's domestic manufacturing works, branches and sales offices, and six of its domestic subsidiaries in Japan.

SMK: Head Office, Gate City Office, Toyama Works and Hokuriku Sales Office, Hitachi Works and Ibaraki Sales Office, Yamato Works and Kanagawa Sales Office, Osaka Branch, Nagoya Branch, Fukuoka Sales Office

Subsidiaries: Toyama Showa Co., Ltd., Showa Denshi Co., Ltd., Yatsuo Denshi Kogyo Co., Ltd., Ibaraki SMK Co., Ltd., SMK-Engineering Co., Ltd., SMK R&D Co., Ltd.

4. Benefits accrued consist of economic benefits measured on a monetary basis, and benefits accrued from consumption or output savings measured by volume.

5. Data for environmental conservation benefits indicated the decrease in volume compared with the previous fiscal year.

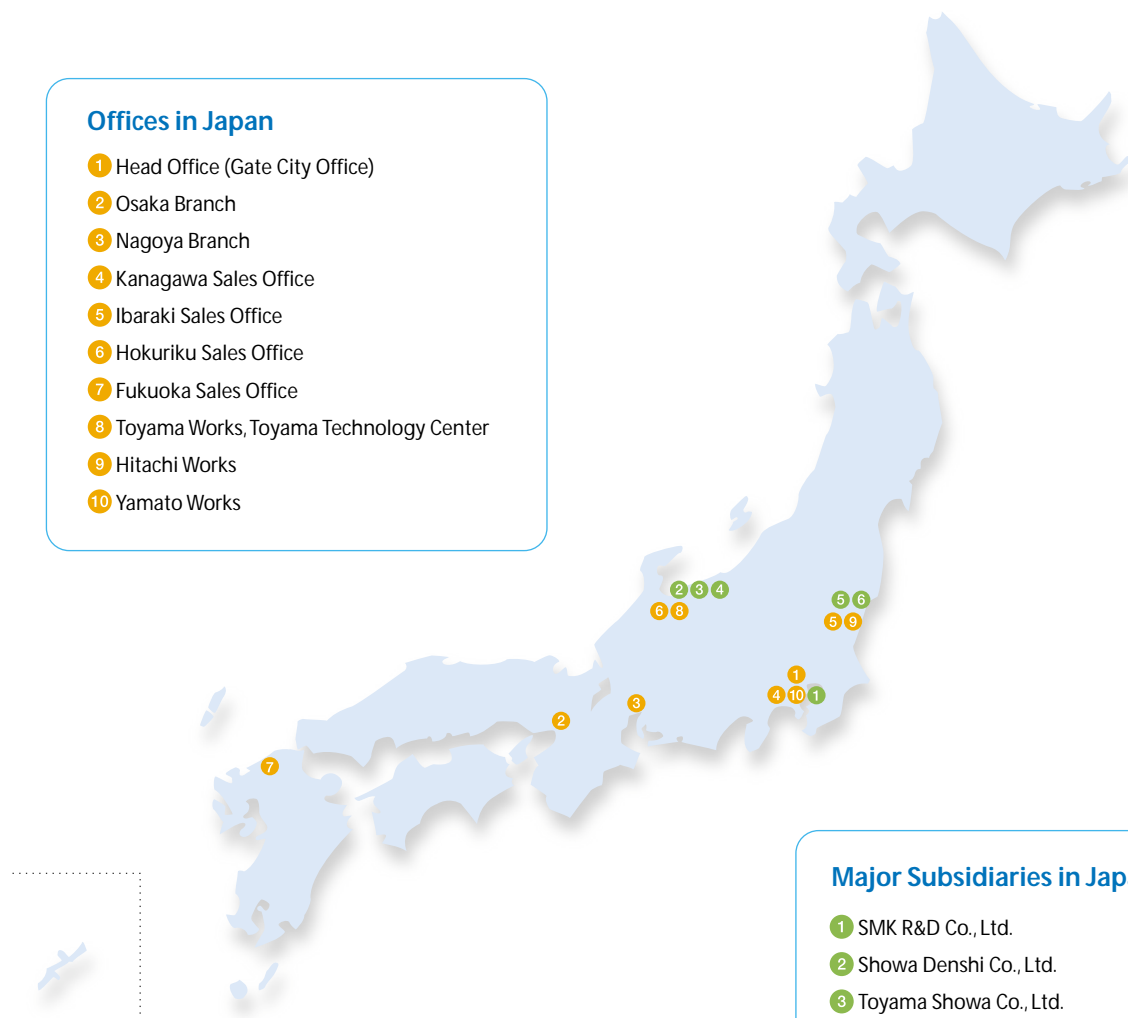
6. Economic benefits accrued are clearly demonstrable and do not include speculative benefits.

7. Depreciation on equipment investments was calculated at a climbing rate based on the preceding four years.

Offices and Subsidiaries

Offices in Japan

- ① Head Office (Gate City Office)
- ② Osaka Branch
- ③ Nagoya Branch
- ④ Kanagawa Sales Office
- ⑤ Ibaraki Sales Office
- ⑥ Hokuriku Sales Office
- ⑦ Fukuoka Sales Office
- ⑧ Toyama Works, Toyama Technology Center
- ⑨ Hitachi Works
- ⑩ Yamato Works



Major Subsidiaries in Japan

- ① SMK R&D Co., Ltd.
- ② Showa Denshi Co., Ltd.
- ③ Toyama Showa Co., Ltd.
- ④ Yatsuo Denshi Kogyo Co., Ltd.
- ⑤ Ibaraki SMK Co., Ltd.
- ⑥ SMK-Engineering Co., Ltd.

Overseas Manufacturing and Sales Subsidiaries

Asia

- SMK High-Tech Taiwan Trading Co., Ltd.
- SMK Electronics (H.K.) Ltd.
- SMK Trading (H.K.) Ltd.
- SMK Dongguan Gaobu Factory
- SMK Electronics (Shenzhen) Co., Ltd.
- SMK Electronics Singapore Pte. Ltd.
- SMK Electronics (Malaysia) Sdn. Bhd
- SMK Electronics (Phils.) Corporation
- SMK Korea Co., Ltd.

Europe

- SMK Europe N. V.
- SMK (U.K.) Ltd.
- SMK Hungary Kft.

North America

- SMK Electronics Corporation U.S.A.
- SMK Manufacturing Inc.
- SMK Electronics S.A. de C.V.

South America

- SMK Sao Paulo Industria Eletronica Ltda.



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