

**ALPS**<sup>®</sup>

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ALPS CSR Report

2006



**ALPS ELECTRIC CO., LTD.**

# Business Summary

The Alps Group conducts business in three main areas: electronic components, audio equipment and logistics. The parent companies for each area are Alps Electric Co., Ltd., Alpine Electronics, Inc. and Alps Logistics Co., Ltd., respectively.

Alps Electric Co., Ltd., which functions as headquarters of the Alps Group, has progressed as a comprehensive manufacturer of electronic components since its establishment in 1948. Alps Electric purchases materials and parts that have undergone primary processing from suppliers and further processes them into components and unit components which are sold to set manufacturers. Thus, although we don't sell products directly to end-users, we contribute to people and society through these set manufacturers.

We are currently designing and manufacturing electronic components in five main business fields - Components, Magnetic Devices, Communications, Peripheral Products and Automotive Electronics - at 86 business locations in 17 countries.

## Alps Group Business Structure

|  | Electronic Components  | Audio Equipment   | Logistics  |
|--|--|---|--|
| <b>Parent Companies</b><br>Form the core of the Alps Group   | Alps Electric Co., Ltd.<br>Listed on the first section of the Tokyo Stock Exchange | Alpine Electronics, Inc.<br>Listed on the first section of the Tokyo Stock Exchange | Alps Logistics Co., Ltd.<br>Listed on the second section of the Tokyo Stock Exchange |
| <b>Operating Companies</b><br>Conduct business in the core areas, namely electronic components, audio equipment, and logistics of the Alps Group     | Japan 2<br>Overseas 29   | Japan 8<br>Overseas 22  | Japan 2<br>Overseas 10   |
| <b>Administrative Companies</b><br>Focus on providing services to Group companies including performing administration functions for parent companies | Japan 10<br>Overseas 2   | Japan 2   | Overseas 1   |

The above table defines the scopes covered by company terminology denoted in this report.

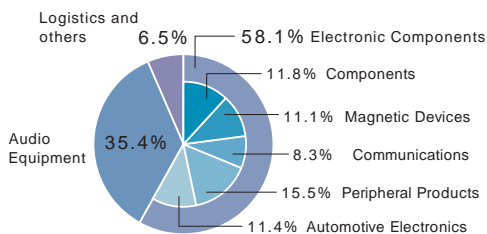
— Alps Electric — Alps Electric Global — Alps Electric Group — Alps Group

### Company Data (as of end of March 2006)

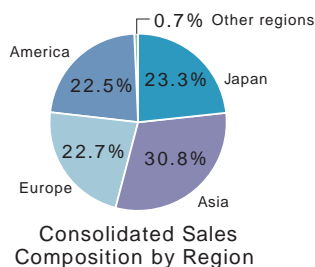
|                         |                         |
|-------------------------|-------------------------|
| Name of company         | Alps Electric Co., Ltd. |
| Established             | November 1, 1948        |
| Capital                 | ¥ 23,623 million        |
| Number of issued shares | 181,560,000             |
| Number of employees     | 6,290                   |
| Fiscal year ending      | Annually on March 31    |

### Financial Data (year ending March 31, 2006) (million yen)

|                  | Consolidated | Non-consolidated |
|------------------|--------------|------------------|
| Net Sales        | 709,613      | 366,110          |
| Operating Income | 45,471       | 16,855           |
| Ordinary Income  | 46,402       | 20,790           |
| Net Income       | 18,870       | 7,989            |



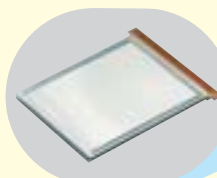
### Breakdown of Consolidated Sales



## Alps' Electronic Components Used in Our Daily Lives

### Peripheral Products

"Peripheral products" refers to supporting or auxiliary equipment. The Peripheral Products Division provides products for our daily lives such as input devices, including keyboards for laptop computers, touch panels and game pads; liquid crystal display panels and other display devices; and a range of printers.



Liquid crystal display

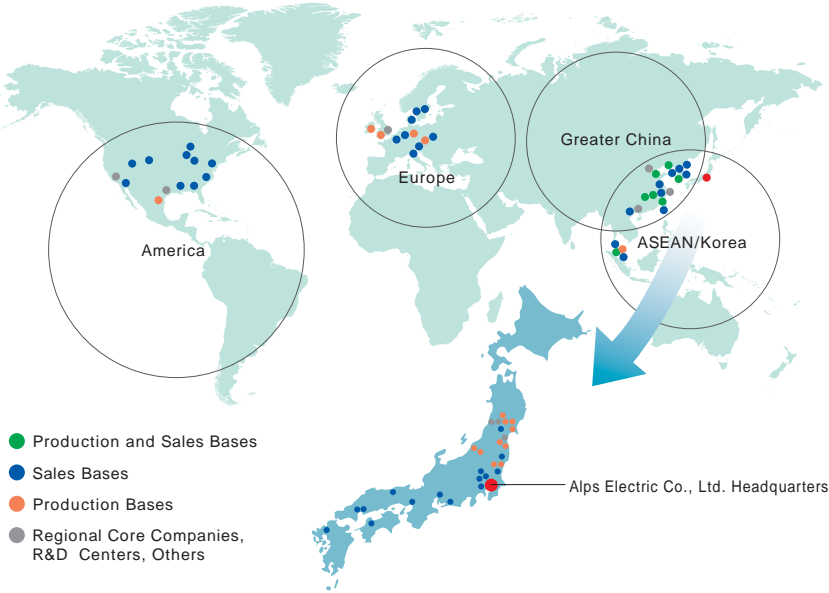
### Automotive Electronics

Working in strong partnership with the world's leading automobile manufacturers, the Automotive Products Division contributes to the development of computerized automobiles by providing products such as automotive switches, air-conditioning panels and steering modules to ensure safe and comfortable performance for drivers.



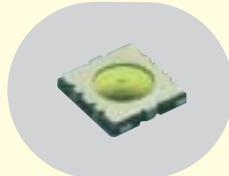
Steering module

## Major Business Locations Around the World



### Components

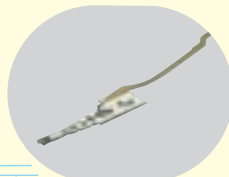
The Mechatronic Devices Division produces a great variety of component products such as switches, connectors, potentiometers and sensors to cover a wide range of areas in the electronics industry. To meet market needs, this division produces components that allow optimum size and functionality of customers' end-products.



Low-profile TACT switch

### Magnetic Devices

The Magnetic Devices Division provides products based on magnetic material technology, magnetic application technology, manufacturing process technology and high-precision processing technology, such as the thin-film heads used in hard disk drives (HDDs) for DVD recorders.



MR thin-film head

### Communication Devices

To support our ubiquitous society, the Communication Devices Division provides communications- and broadcasting-related units, modules, and devices based on high-frequency circuit technology, high-density mounting technology and digital technology.



Digital terrestrial broadcasting tuner

## Table of Contents

|   |   |
|---|---|
| Business Summary, Table of Contents, Editorial Policy ..... | 1 |
| Top Commitment .....  | 3 |

### Features

|   |    |
|---|----|
| CSR of the Alps Group .....                                   | 5  |
| Alps Electric's CSR Mid-Term Plan: The Planning Process ..... | 7  |
| Alps Stakeholders .....                                       | 9  |
| CSR Management .....  | 11 |

### Management Structure

|  |    |
|--|----|
| Trustworthy Management and Its Structure ..... | 13 |
|--|----|

### Social Report

|  |    |
|--|----|
| Delivering the Art of Electronics to Customers .....                             | 15 |
| Communication with Suppliers .....   | 16 |
| Communication with Shareholders and Investors .....                              | 16 |
| Toward Creating a Workplace Where Each Employee's Personality is Maximized ..... | 17 |
| Interaction with Local Communities .....   | 19 |

### Environmental Report

|  |    |
|--|----|
| Environmental Management .....   | 21 |
| Fiscal 2005 Plan and Results .....                                     | 23 |
| The Fifth Medium-Term Action Plan for Environmental Preservation ..... | 25 |
| Environmental Impact Status and Environmental Accounting .....         | 26 |
| Development, Design and Logistics .....                                | 27 |
| Prevention of Global Warming .....                                     | 28 |
| Waste Reduction .....  | 29 |
| Environmental Risk Measures .....                                      | 30 |

## Editorial Policy

The 2005 fiscal year was very significant for Alps Electric in that it was used to make initial preparations for our new CSR action plan. We have featured our 2006-2008 CSR Mid-Term Plan in this *Alps CSR Report*, a report that presents Alps' social contribution and succeeds last year's *Social and Environmental Report*.

We hope that this will be a useful tool for facilitating valuable communication with all stakeholders. Please feel free to write to us with any feedback you may have.

E-mail: [csr@jp.alps.com](mailto:csr@jp.alps.com)

The GRI's *Sustainability Reporting Guidelines 2002* and the Ministry of the Environment's *Environment Reporting Guidelines (2003 Edition)* have been referenced in editing this report.

Period covered : April 1, 2005 - March 31, 2006

Organizations covered : Alps Electric Global

Published : June 2006

Next publication : June 2007

\* CSR: Corporate Social Responsibility

At Alps, every single employee fulfills his or her social responsibility as a crew member of “ Spaceship Earth ”.

Masataka Kataoka President



## Aiming to achieve corporate growth and harmony with the earth

I believe that when companies conduct business in the future, what should be foremost in their minds is harmony with the earth. As it turns, the earth is carrying an infinite number of living creatures of all sizes, including 6.5 billion people. The earth is a spaceship floating in space from which we cannot disembark and transfer to another, and its crew members' mission is to sustain the ship for the ages to come. The earth's resources are limited, as are the number of places to where hazardous substances can be disposed of, so it is only natural that the crew members are obliged to reduce these substances that are being discharged daily. All corporate activities should also be seen as issues related to the entire globe, or Spaceship Earth. If every individual human and company cooperated in tackling such issues as the environment, food, energy and various disputes from this Spaceship Earth perspective, we would have a peaceful and smooth journey. In order to maintain our spaceship in good condition, we, the crew members, must play our part.

Meanwhile, companies have to grow through their business activities. I believe that what is most important in balancing the need for protecting the environment with corporate growth, is a management system designed to achieve harmony with the earth, therefore achieving corporate social responsibility.

## Supporting modern society through “ perfecting the art of electronics ”

Alps Electric is an electronic components manufacturer at the core of the Alps Group, which also consists of Alpine Electronics, Alps Logistics and 83 consolidated affiliates, employing a total of 45 thousand employees.

The electronics industry has become an essential part of modern society. Electric and electronic devices have made our lives convenient and raised our standard of living, allowing us to lead even more sophisticated and creative lives. This is a wonderful achievement of the human race.

We develop electronic components - the backbone of electronics - and supply them to many parts of the world. Our mission is to assist people's lifestyles by devoting ourselves to *monozukuri*, and to supply outstanding electronic components while keeping in mind the necessity for a harmonious relationship with the earth as a whole.

To be outstanding, electronic components must have several characteristics: they must have a beautiful and refined appearance; they must achieve a balance between performance and price; they must last long, be easy to disassemble, and be energy- and resource-efficient. We attempt to perfect such devices. Because we want to balance the high standard of people's lives with the stability of the global environment, "perfecting the art of electronics" is what gives meaning to our existence as a company.

## Passing on our founding spirit

*We shall create top-quality products, always remembering to contribute to society.* Since our foundation, we have progressed with the philosophy that a company is a social entity that has an obligation to contribute to society. This is included in our company precepts, and we abide by it in our managerial practices.

The Alps Group finds its corporate social responsibility (CSR) origins in this very founding spirit, which has also become our foundation in implementing business activity. We recognize that it is very important to have a common corporate philosophy of social contribution at all of our business locations around the world.

I believe that the globalization of our Group is manifested in smooth communication that goes beyond the many races, languages, and national boundaries, as well as in the sharing of "Alps-ism" - our Group's unique corporate culture.

With this as the Group's background, our basic policy on group management states, "As entailed in our founding spirit, the Alps Group shall work to improve its enterprise value as a whole and contribute to societies by creating new values that satisfy stakeholders and are friendly to the earth through close collaboration and collective strengths of Group companies, while acknowledging their autonomous nature".

Our aim is that each and every employee at all of our business locations around the world maintains a high level of awareness and contributes to society, particularly in environmental preservation as a member of Spaceship Earth, not only at work, but in their communities and homes as well.

# CSR of the Alps Group

CSR is  
management itself.

Takahide Sato

Senior Managing Director  
CSR Committee Chairman



## Integrating our corporate and CSR plans

In an EU white paper issued by the European Commission, CSR is defined as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis". In other words, CSR aims to promote a balance between corporate growth and social accountability, exemplified by action to further the stability of the global environment. This description really questions corporate philosophy, and refers to management itself.

The Alps Group launched its 5th Mid-Term Business Plan in April 2006. As the person responsible for CSR, I decided to integrate that management plan with the promotion of CSR.

## Our founding spirit (Alps Precepts): the origin of CSR management

In order to draw up our CSR Mid-Term Plan, we formed an internal working group in January 2006, and began deliberation by defining CSR of the Alps Group.

During that process, we found that *Societal Contribution*, a concept that exemplified the spirit of the time of our foundation, was clearly mentioned in the Alps Precepts. We were reminded that social contribution had been the basis of our management system from the time of our foundation to the present day, and decided to consider CSR as the starting point for Alps Group management.

## Promoting CSR as the Alps Group

In drawing up Alps Group's CSR objectives and establishing a system to promote CSR, we placed a great deal of importance on group management. The Alps Group encompasses Alps Electric, Alpine

Electronics and Alps Logistics, and consists of 45,000 employees. These 45,000 employees make up "one Alps". The importance of CSR must be perceived equally among Group companies, and our objectives will never be reached until all employees are aware of the Group's social responsibility.

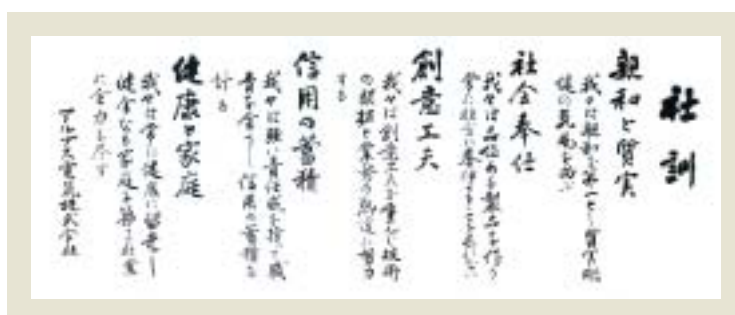
At the same time, these days, new management issues are arising, such as how to deal with corporate law, internal controls, compliance and establishing risk management systems. However, detailed investigation revealed that these issues all related to elements of CSR, so we decided that ultimately they would comprise CSR promotion initiatives. We had a strong conviction that we would be able to promote group management with CSR as the keyword.

## Setting one's own objectives and aiming to conduct daily CSR activities

The most salient characteristic of our CSR Mid-Term Plan is the fact that representatives from each department established their own objectives. Representatives from sales, development, and management departments thought about the nature of CSR issues in their department and held discussions. In the end, production line and sales departments decided on the objectives for Alps' core businesses, and corporate departments decided on the objectives for management.

There were some objectives consistent with profit making, and others that seemed at first to be incompatible with short-term profit. Therefore, it is not possible to attain such objectives without a keen awareness of the necessity for social responsibility.

Fiscal 2006 is the initial year of CSR for Alps. First of all, based on the 2006-2008 CSR Mid-Term Plan, the CSR Committee will thoroughly enlighten the employees as to why the Alps Group is promoting CSR. Then, each employee at all of our business locations around the world will gain an awareness of their company as a social entity. When they begin to carry out their daily work whilst having the idea of harmony with the earth in mind, our company would truly have accomplished CSR.



### Alps Precepts (Founding Spirit)

|                        |  |
|------------------------|--|
| Friendship & Substance | We shall treat friendship as foremost and respect simple and sturdy character.                                 |
| Societal Contribution  | We shall create top-quality products, always remembering to contribute to society.                             |
| Respect for Creativity | We shall value creativity while committing to technology cultivation and job perfection.                       |
| Confidence Building    | We shall maintain a strong sense of responsibility to fulfill our duties and gain trust.                       |
| Health and Family      | We shall fully apply ourselves to our jobs while taking good care of our health in order to build solid homes. |



Headquarters during the founding years

# Alps Electric's CSR Mid-Term Plan: The Planning Process

At Alps Electric, fiscal 2006 has been determined the first year of CSR. The company integrated the CSR activities that had been conducted separately by each business location and division and worked on the 5th Mid-Term Business Plan (FY2006-FY2008) from the perspective of CSR. The sections below present the process according to which the members of the working group formed in January 2006 discussed CSR initiatives and laid out the plan.

## Fulfilling the Expectations of Society and Customers

Society is demanding that companies practice increasingly integrated CSR management. Among customers such as set manufacturers and automobile manufacturers, an increasing number of companies are adopting CSR promotion as a criterion for procuring products and services, including green procurement, which requires environmental awareness in the manufacturing process.

Responding to this social trend, Alps decided to start drawing up its CSR Mid-Term Plan - a concrete plan to promote integration of CSR management.

## Foundation for Alps' CSR

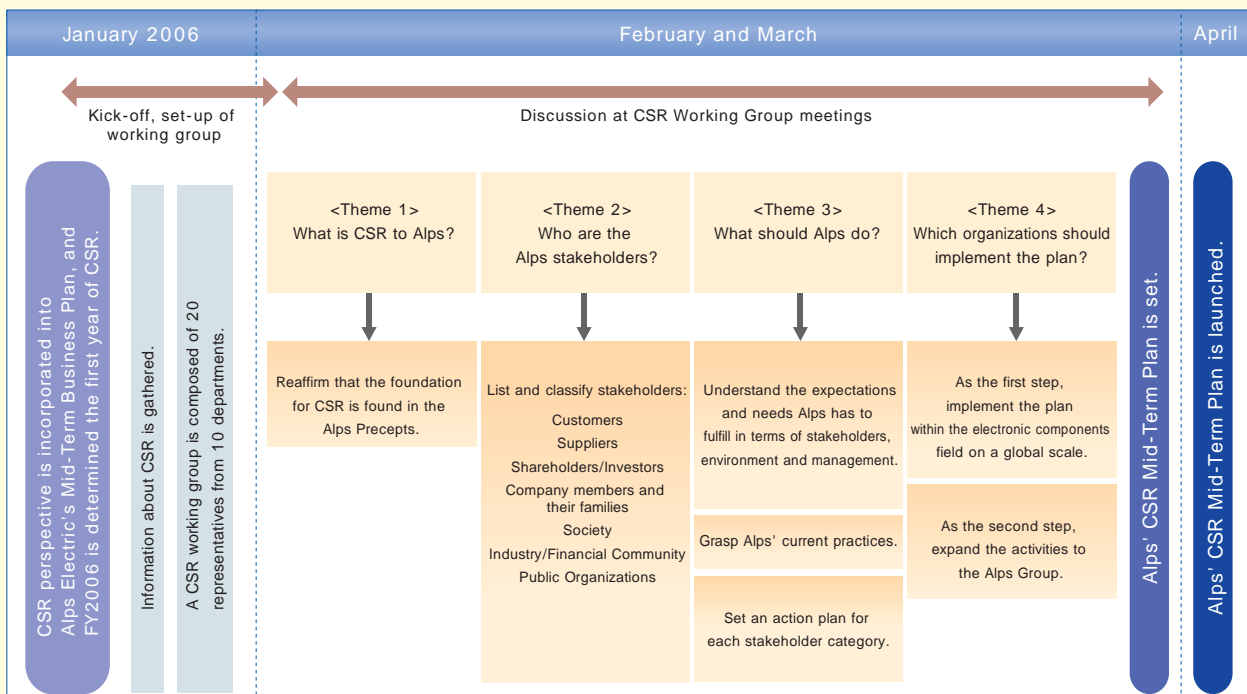
The foundation for laying out this CSR Mid-Term Plan was the company precepts of Alps Electric (See p.6). In 1958, ten years after the company's establishment, the precepts were created to hand the founding spirit down from generation to generation. *Societal Contribution* and *Confidence Building* cited in the precepts created about 50 years ago represent exactly the spirit of today's CSR.

We have launched this plan based on the idea that the starting point of our CSR initiatives can be found in company activity thus far - we are not starting from scratch.

## Formation of a CSR Working Group

The CSR Working Group was formed in January 2006. For the CSR plan, we needed to determine how to build relations of mutual trust with a variety of stakeholders. In order to consider our relations with a wide range of stakeholders from as wide a perspective as possible, we selected 20 representatives from ten departments, including sales and marketing, human resources, materials control, environmental planning, corporate treasury, and public relations.

The 2006-2008 CSR Mid-Term Plan: Planning Process Timeline







## Laying Out the CSR Mid-Term Plan

First of all, the working group members formulated a "stakeholder" definition, making sure that there were no omissions of stakeholders related to Alps (See pp.9-10).

Subsequently, they examined and analyzed, first, what Alps is expected to do, second, what it is currently responding to and, third, what it will need to satisfy in terms of sociality, environment and management. This procedure was completed by the departments that have close relationships with each group of stakeholders, for example, "shareholders and investors" were assigned to the Corporate Treasury Department, and "company members and their families" to the Human Resources Department.

While progress was smooth for domestic production bases, the working group found it difficult to grasp the situations of overseas production bases. This was due to lack of information about the way CSR activities were conducted at these bases. Nevertheless, CSR is a worldwide movement and in the near future all our business locations around the world will need to respond to this trend. This prediction led the group members to a realization that each business location needs to quickly investigate its current situation and clarify its tasks, and they decided to draw up a plan accordingly.

Moreover, the working group discussed ways of coordinating the Alps Group as a whole, aiming to undertake Alps Group-wide activities in the future. The present Mid-Term Plan however, applies to Alps Electric's domestic locations and overseas affiliates (Alps Electric Global).

Next, the working group discussed the structure for promoting CSR initiatives. In this discussion, it was confirmed that it was necessary to establish a structure that allowed the company to respond flexibly to diverse requests from stakeholders. As a result, the group set up a multi-functional, highly flexible General Subcommittee (group and global governance) within the CSR Committee, rather than many smaller subcommittees.

In addition, the group members confirmed that each business location had officers in charge of personnel, legal matters, compliance, resources, quality assurance and environment services. It was surmised that using these officers as a network to promote CSR would accelerate Alps Electric Group's CSR campaign.

## The First Year of the CSR Campaign

The 2006-2008 CSR Mid-Term Plan drawn up through the above discussion was launched in April 2006, the first year of Alps' CSR campaign. To fulfill the expectations of customers and society and to continue to be a reliable and trustworthy corporation, Alps employees will join forces to aggressively undertake the campaign. Some of the targets set in the plan will take a long time to accomplish. However, by achieving the targets one at a time, in the way the company has done so far, Alps is determined to promote steady CSR activity.

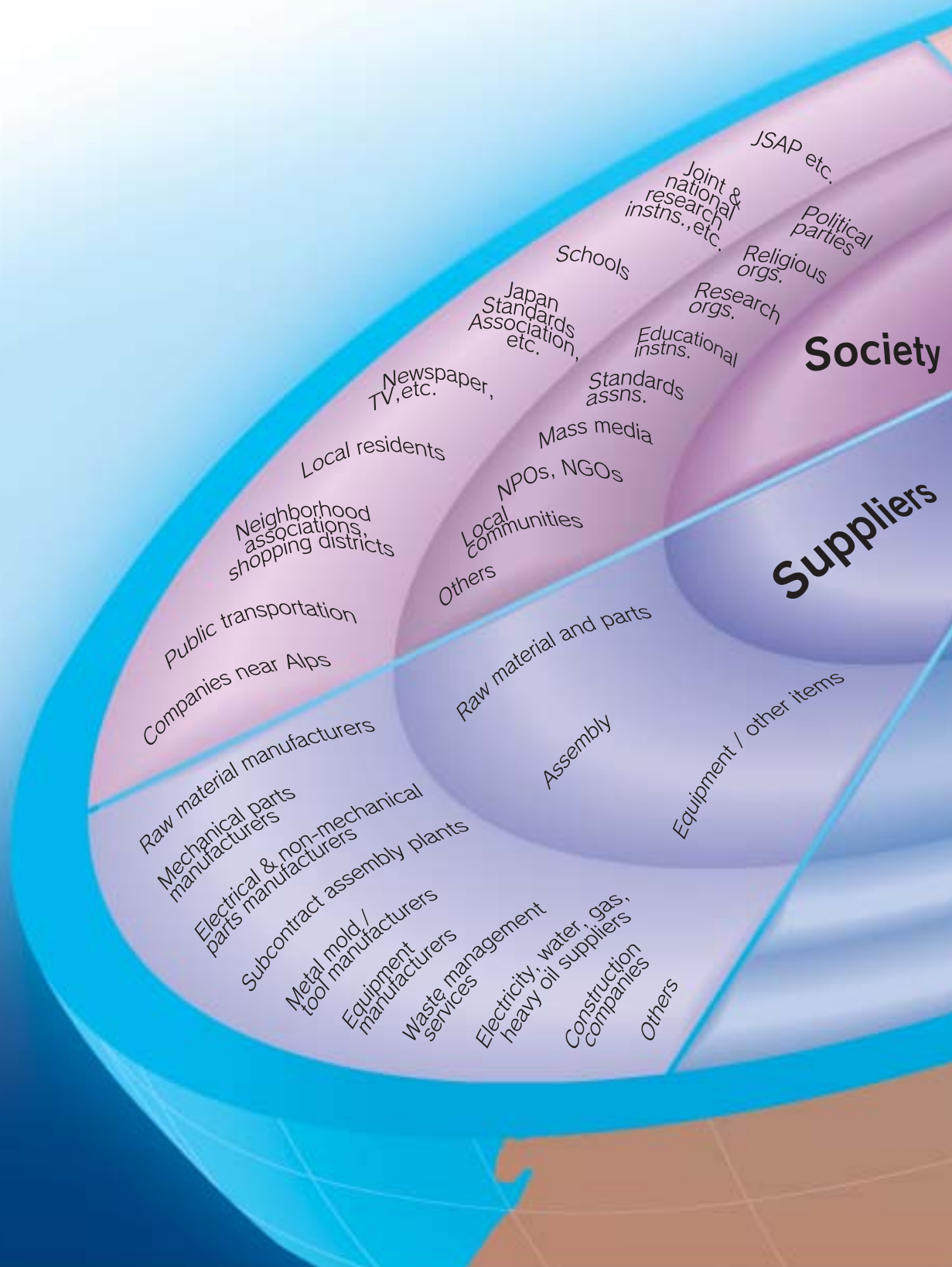


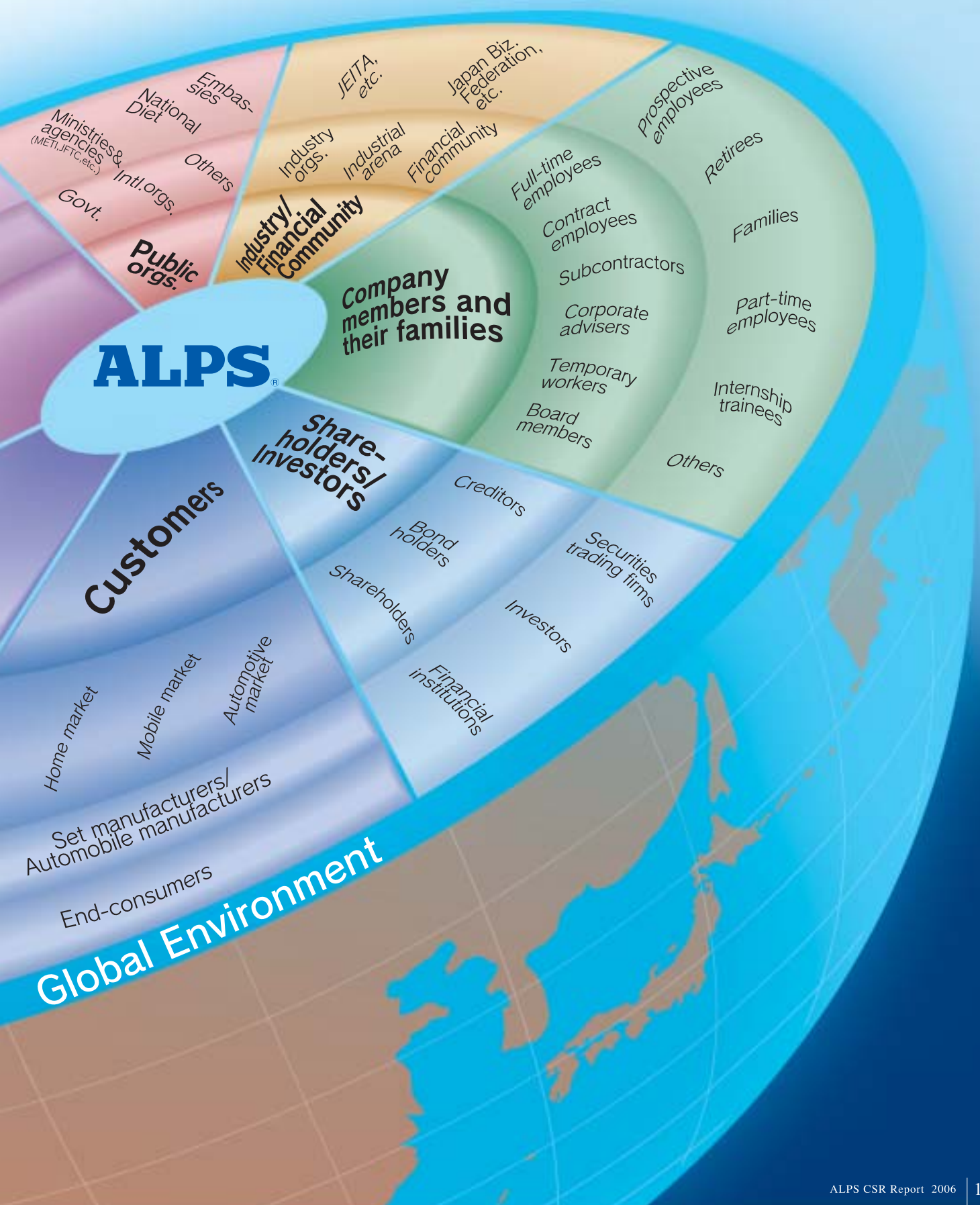
\* Departments from which CSR Working Group members were chosen:  
 Sales & Marketing Headquarters    Human Resources    Environmental Planning  
 Materials Control    Corporate Treasury    Public Relations  
 Quality Engineering    Information Systems    Compliance    Corporate Planning

# Who are the Alps Stakeholders?

Generally, the word “stakeholders” refers to interested parties related to a corporation, such as customers, suppliers, shareholders and investors, and the local community.

According to the sector of industry and type of management, stakeholders have different influences on the corporation, as well as different expectations to be fulfilled by it. Alps attempted to draw up a specific action plan from the perspectives of these stakeholders, in order to fulfill their differing expectations of the company. The following exhaustive schematic diagram consequently shows the wide range of stakeholders and their categories.



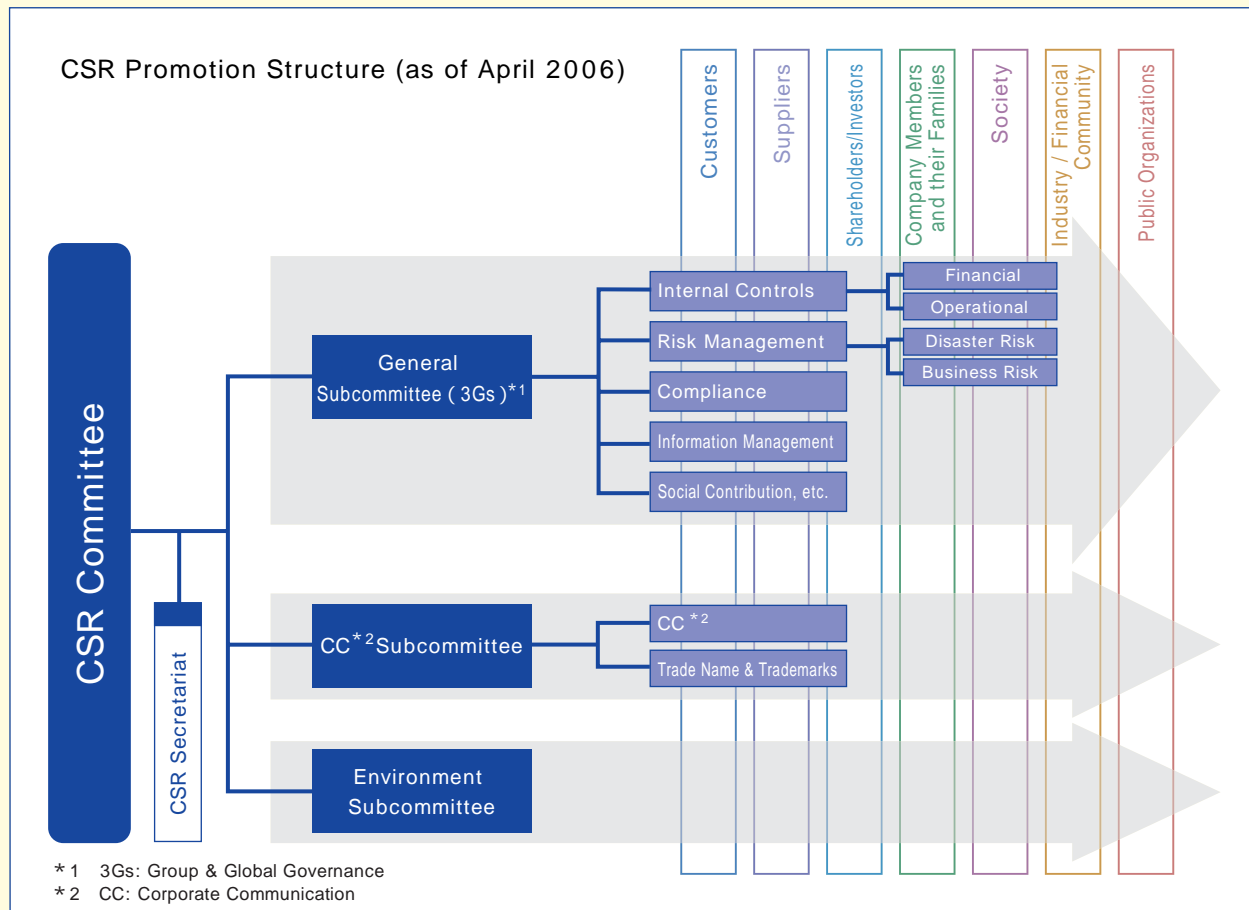


# CSR Management

The 2006-2008 CSR Mid-Term Plan is the initial step for Alps Electric Group's CSR campaign. The plan was drawn up through discussions held by a working group composed of 20 representatives from CSR-related departments. From the perspective of all stakeholders' expectations, we analyzed the current business practices of the company, and consequently decided to prioritize areas that did not fulfill these expectations. We set three year targets for the plan, aiming to achieve fulfillment in all areas. Every individual employee from corporate and all other departments will play their part in promoting Alps' CSR based upon this Mid-Term Plan.

## CSR Promotion Structure

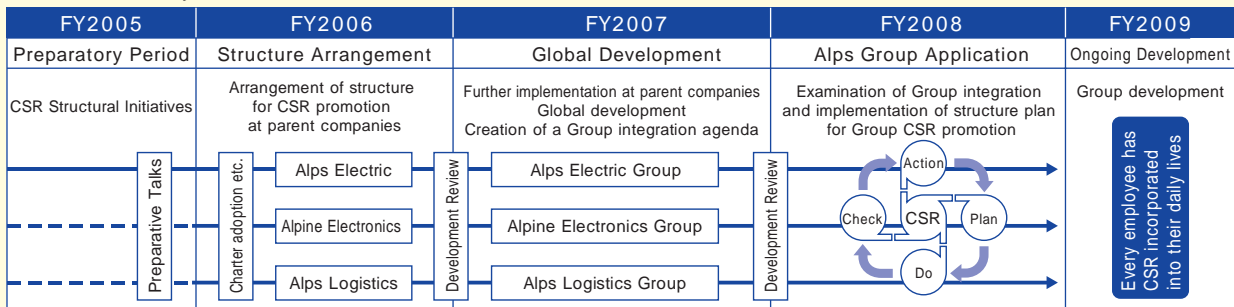
The Risk Management & Compliance (RC) Committee, which was composed of four subcommittees - the Compliance, Risk Management, Information Management, and Corporate Communication (CC) Subcommittees, was active until April 2006 when the committee was newly reorganized to form the CSR Committee. This new committee is expected to play a central role in CSR management and is composed of three subcommittees - the General (3Gs: Group & Global Governance), CC, and Environment Subcommittees, which have been embodied with the added functions of environmental preservation, social contribution and internal controls. Under the new administration, Alps seeks to promote comprehensive and effective CSR initiatives both globally and across the entire Group.



|                                      |   |
|--------------------------------------|---|
| <b>General Subcommittee (3Gs) *1</b> | In order to promote CSR initiatives in a prompt and integrated way, this subcommittee tackles themes other than those dealt with by the CC and Environment Subcommittees. In addition, the General Subcommittee also coordinates and cooperates with other Group companies including Alpine Electronics and Alps Logistics for themes such as internal controls, etc. that require Group consistency, hence, strengthening group and global governance. |
| <b>CC*2 Subcommittee</b>             | This subcommittee plans and creates corporate messages that are disseminated both internally and externally, and now include CSR activity. It also has a role in implementing communication measures to disseminate a favorable corporate image and to obtain reliance and trust.   |
| <b>Environment Subcommittee</b>      | This subcommittee is in charge of deliberating and examining company-wide policies that involve environmental management.   |
| <b>CSR Secretariat</b>               | The secretariat plans and promotes company-wide policies and strategies for CSR activities, while establishing CSR management structure. In addition, it serves as an information desk, responding to both internal and external CSR inquiries, while planning and promoting CSR educational and developmental programs.  |

## CSR Mid-Term Basic Policy of the Alps Group

With fiscal 2006 as our CSR campaign's year of inception, and with focusing on group and global governance, the Alps Group aims to establish a CSR structure throughout the electronic components, audio equipment and logistics business areas by fiscal 2008.



## Alps Electric Global 2006-2008 CSR Mid-Term Plan

|                                 |   |  |
|---------------------------------|---|--|
| Management Goals                | <p>Reorganize the RC Committee into the CSR Committee, made up of three subcommittees: the General Subcommittee (3Gs), CC Subcommittee and Environment Subcommittee, and establish a secretariat for CSR promotion.</p> <p>Appoint a CSR officer at each business location in Japan and overseas, and establish a group and global CSR management system.</p> <p>Plan and promote educational and developmental programs for CSR to be incorporated into the daily lives of every employee.</p>   |  |
| Social Goals (for stakeholders) | Customers   | <p>Establish a Group CSR system enabling flexible and prompt response to increased and diverse CSR needs and procurement requirements from customers; and establish a concurrent framework for accurate response to CSR surveys and audits.</p> <p>Enable response to a wide range of questions from customers concerning PDCA performance of our CSR system covering the electronic components business area.</p> |
|                                 | Suppliers   | <p>Create a guidebook for CSR infiltration.</p> <p>Encourage CSR of suppliers through ascertaining their performance according to the above guidebook.</p>   |
|                                 | Shareholders/Investors  | <p>Provide clear and satisfying PR and information disclosure services to shareholders and investors in Japan and overseas.</p>  |
|                                 | Company Members and their Families  | <p>Overseas locations are particularly targeted for the following goals:</p> <p>Ascertain working environment conditions as the first step and establish standards necessary for relative human resource management.</p> <p>Discuss working environments of cooperating company employees and establish rules to maintain conditions.</p>  |
|                                 | Society   | <p>Ascertain how global business locations are communicating with their local communities.</p> <p>Set policies and goals for each business location and promote them.</p> <p>Communicate Alps' CSR initiatives to all stakeholders.</p>  |
|                                 | Industry / Financial Community  | <p>Contribute to the continuous development of CSR in the electronic devices industry.</p>   |
|                                 | Public Organizations  | <p>Contribute to the continuous development of CSR through cooperation with public organizations.</p>  |
| Environmental Goals             | <p>The following environmental goals are set to realize an environmental management system:</p> <p>Work on establishing a global environmental management system.</p> <p>Familiarize our personnel in the electronic components business area with the Fifth Medium-Term Action Plan for Environmental Preservation (FY2006-FY2008), and establish and promote plans for each business location accordingly.</p> <p>For further information, see the Fifth Medium-Term Action Plan for Environmental Preservation (FY2006-FY2008) (p.25).</p> |  |

# Trustworthy Management and Its Structure

In striving to fulfill our own corporate social responsibility, the Alps Group originates its Group management style from its founding spirit - the Alps Precepts - and seeks to develop and strengthen this management structure to ensure sound and efficient corporate activities throughout the entire Group.

## Alps Group Management

The Alps Group deals in three main lines of business: electronic components, audio equipment and logistics. A parent company exists for each business: Alps Electric Co., Ltd. for electronic components, Alpine Electronics, Inc. for audio equipment, and Alps Logistics Co., Ltd. for logistics. In addition, Alps Electric serves as the headquarters of the entire Alps Group.

With our founding spirit (Alps Precepts) as the foundation of Group management and the CSR campaign, we at the Alps Group established a management paradigm in May 2006 based on Alps Group Management Regulations, the Group Compliance Charter and the Group Environmental Charter, thereby seeking to develop and strengthen our management structure throughout the Group organization.

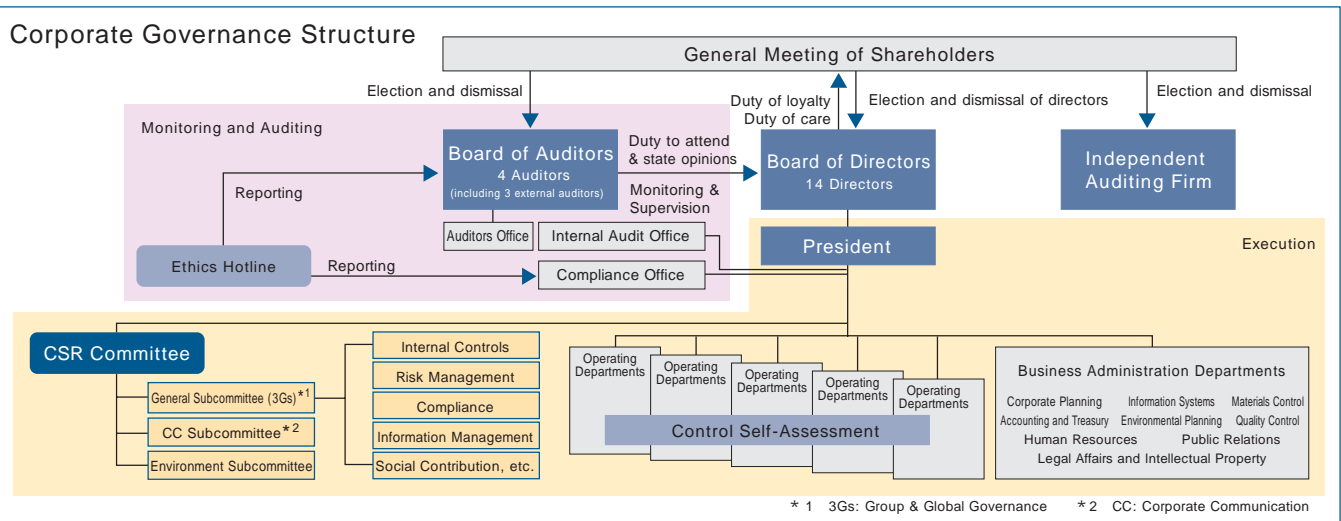
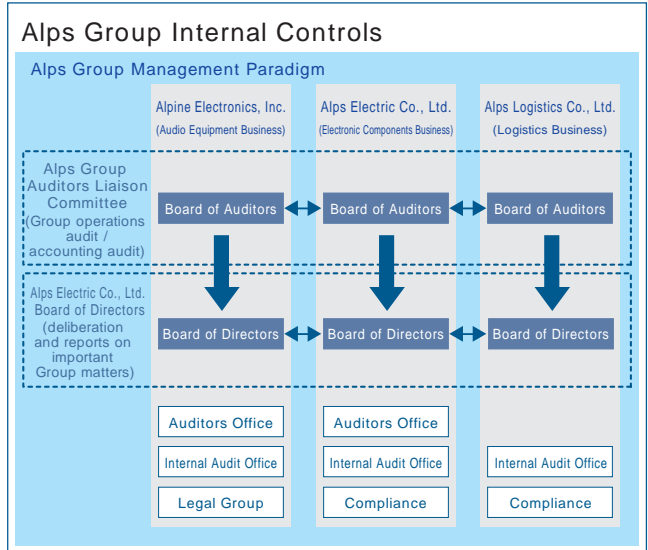
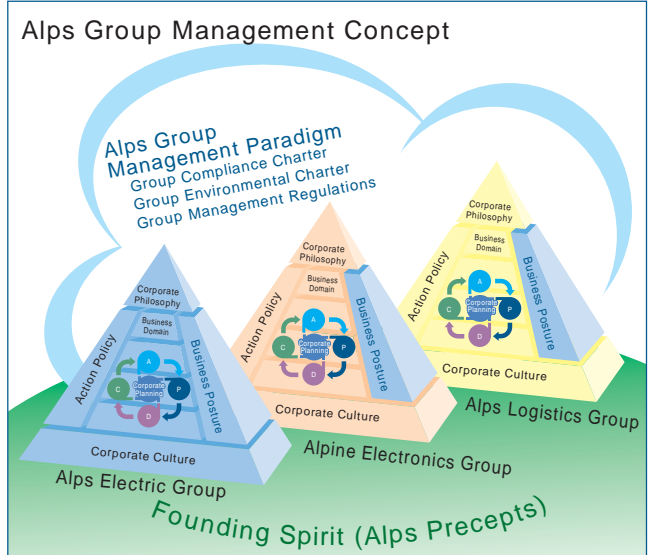
## Approach to Global Governance

As stipulated in Group regulations, the Board of Directors at Alps Electric, which serves as the headquarters for the Alps Group, deliberates and reports on important matters concerning Group companies. The Compliance Office examines their legality, and the Corporate Accounting Department assesses investment/loan strategies and performance. In addition, collaboration with auditors is strengthened and audited information is shared through the Group Auditors Liaison Committee.

## Corporate Governance Structure

Alps Electric seeks to develop and strengthen its corporate governance by ensuring sound and efficient management through a corporate auditor system.

In April 2006, we reorganized the Risk Management and Compliance (RC) Committee to form the CSR Committee so that we could comprehensively promote CSR initiatives throughout the Alps Group.



\* 1 3Gs: Group & Global Governance \* 2 CC: Corporate Communication

## Initiatives in Compliance

Alps Electric has made the Compliance Office independent from the other existing business administration organizations. The office is in charge of developing regulations and promoting educational programs relating to compliance with laws and corporate ethics, as well as monitoring operations.

In addition, Alps is promoting management based upon Group and global compliance through appointing compliance officers at each of its regional core companies in North America, Europe, and China. These officers coordinate systems for regional compliance while being in liaison with the Compliance Office at headquarters.

In fiscal 2005 Alps established the Alps Group Compliance Charter, enabling globalization of its original Compliance Charter. This Group charter was signed by the President of Alps and representatives from overseas affiliates in the electronic components business, enabling global unification of Alps' fundamental approach to compliance. Moreover, an internal report system (Ethics Hotline) was set up, which assists in prevention, early detection and correction of violations of corporate ethics, regulations and legislation.

Educational programs for compliance include workshops for new employees, current and future managers, and overseas affiliate-bound employees. Such educational programs will continue to be strengthened and developed with full use of e-learning and the company's intranet.

### Alps Group Compliance Charter

#### Fundamental Philosophy

As a member of the global community, Alps is committed to displaying fairness in its corporate activities, as well as to taking responsible and sensible action, in order that Alps may continue to develop with society while making a valuable social contribution.

## Initiatives in Risk Management

Until fiscal 2005 decisions on basic policies and important matters related to risk management and compliance were made by the Risk Management and Compliance (RC) Committee. In fiscal 2006 however, we reorganized the committee into the CSR Committee and accordingly risk management initiatives are now formulated by the General Subcommittee (group and global governance).

Learning from experiences suffered at the Nagaoka and Koide Plants caused by the Mid-Niigata Prefecture earthquake in 2004, we developed and strengthened our risk management system in fiscal 2005 enabling swifter action in the event of a disaster. As part of those activities, under the supervision of the RC Committee's Risk Management Subcommittee, we reviewed the company-wide standardized risk management manual and created individual manuals for business locations according to their individual conditions. In addition, individuals are now pre-assigned with certain roles to carry out in the time of disaster, composing a crisis management system that is always prepared.

Practical disaster response drills using mobile phone text messaging and e-mail to confirm employee safety etc. comprise further preparatory efforts for fiscal 2006.

Overseas business locations are also preparing risk management procedures and guidelines to respond to the type of disasters expected in their areas.

In terms of BCM\*, we aim to perform a comprehensive examination of not only disaster risk, but also business-related risk, and will work toward a risk management system that is fully integrated company-wide.

\* BCM: Business Continuity Management (a method of risk management that involves specifying essential business that at the very least must still continue even in the case of a disaster or emergency situation; and preparing for such an eventuality in advance)

## Initiatives in Information Management

Regulations for information management were established at Alps Electric in fiscal 2005. We defined information confidentiality levels, and according to document type, stipulated managing departments, storage periods, and ranges of disclosure and distribution for corresponding documents. To this end, we have also assigned an information management officer at each department. This system is fully underway in fiscal 2006. We are also reinforcing information security measures to prevent information leaks and other accidents by strengthening authentication procedures for intranet access from employees' computers, and requiring users to pre-register their names when planning to use their computers outside the company.

## Delivering the Art of Electronics to Customers

In keeping with our fundamental quality management principle of "offering outstanding products and services that satisfy customers", we are committed to enhancing our systems so that we may promptly respond to customer requirements.

### Who are Alps' Customers?

Our customers are so-called "set manufacturers". They manufacture diverse products in their respective lines of business, which include household electrical appliances, communications devices and automobiles. Consumers essentially use Alps' electronic devices when they operate these manufacturers' products.

We strive to satisfy our customers by perfecting the art of electronics through components crafted with advanced technological capabilities, thereby contributing to the greater society through customers' end-products.

### Efforts to Satisfy our Customers

#### Alps Quality Assurance System Initiatives

We have been guided by the philosophy of "Customer First" ever since our foundation. We coined the slogan "Quality Determines Our Future" in 1957, our tenth anniversary, and adopted the captioned fundamental quality management principle in 1992. We have been striving to maintain and improve quality ever since.

Under this fundamental principle, our quality management systems have obtained the latest certifications for such international standards as ISO9001 and ISO/TS16949 at all of our domestic and overseas production plants according to their respective operational needs, as we work continually toward quality improvement.

With a view to responding promptly to ever-changing customer trends and requirements, we ensure that relevant information is shared by every plant, and hold regular Global Quality Conferences so that tasks and challenges may be shared and reflected in our efforts to achieve customer satisfaction.

These meetings are attended by the director in charge of Quality Control, representatives from our sales and marketing departments, senior managers of production plants and other parties concerned.

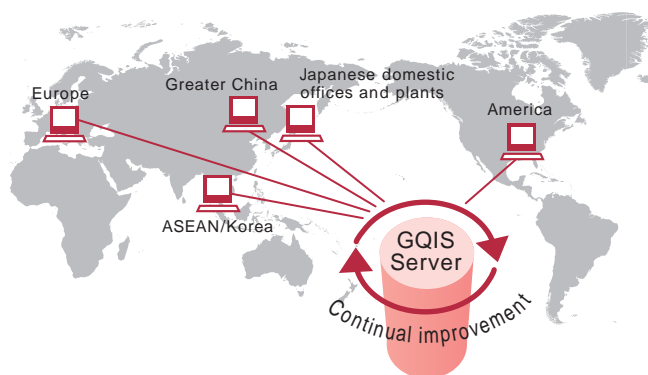
In addition, we strive to see things from the customer's perspective. For example, we evaluate product performance according to the philosophy of "doing it right from the beginning" rather than "fixing it if it doesn't work". Alps is engaged in the development of products that will satisfy customers and in the elimination of inadvertent shipments of defective products through an evaluation method that incorporates quality engineering techniques.

### Worldwide Information Network

The Global Quality Information System (GQIS) uses an intranet to log customers' investigation requests and other needs received by sales and marketing departments in electronic form such as drawings and images. Responses from plants are also recorded.

Delivery dates and status reports of logged items are posted on this intranet, allowing every office and plant worldwide to see where things stand in real time. In addition, evaluations of response speed and technological capabilities by customers and our own sales and marketing departments are quantified for improvement. The introduction of this system and database has enabled us to reflect improvements in products and processes.

GQIS Network



Staff from the Quality Engineering Dept. explaining GQIS

### Product Demonstration Bus

The Alps Product Demonstration Bus, a modified large bus that can be called a "moving showroom", tours Japan visiting customers so that they can listen to our employees' explanations while actually seeing the products in question.

The first bus went on the road in 1970 and the one in service now is our fourth. It carries a number of products for demonstration and is equipped with the latest facilities, including a 50-inch plasma display for presentations. In 2005, the bus visited approximately 50 companies and attracted some 3,000 people.



Alps Product Demonstration Bus on a countrywide tour



## Communication with Suppliers

Alps is committed to coordinating and cooperating with suppliers in the promotion of green procurement.

### Approach to Supplier Selection

In the area of procurement, Alps strives to establish long-term business relations with suppliers that have excellent QCD+E2\* records. Furthermore, we promote local procurement so that we may interact with local communities and provide prompt service to customers. In our day-to-day purchasing activities, we abide by relevant laws and regulations and work to build solid cooperative relations with suppliers.

\* QCD+E2: Quality, Cost, Delivery, E-Commerce and Environment

### Communication with Suppliers

#### Green Procurement

In order to make safe, environment-friendly products, Alps promotes green procurement. We purchase products free of toxic substances from suppliers with adequate environmental management systems. In this context, we have distributed our *Green Procurement Standard* to suppliers, and implement company evaluation to check individual suppliers' approaches to environmental issues, and parts evaluation to ensure that

their components do not contain substances that we have prohibited.

#### Business Partner Meetings

In order to accelerate direct interaction with suppliers and strengthen mutual trust, we hold Business Partner Meetings (BPMs) that give us opportunities to explain our policies, exchange information and enhance relations. Until 2003 we had held such meetings only in Japan, but in 2004 we began holding them in Asia/ASEAN and in 2005 also in Europe. We endeavor to get together with our suppliers and work to foster better relations.



A BPM held in Hong Kong

## Communication with Shareholders and Investors

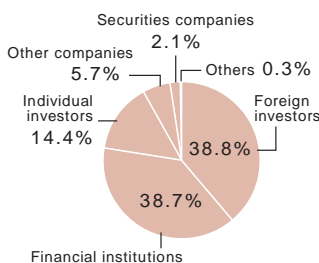
Alps values relationships of trust with shareholders and investors, and strives to implement timely and appropriate disclosure of information.

### History of Stock Market Listings

In April 1961 Alps became the first company in the domestic electronic components industry to launch a public offering on the Tokyo OTC Market, and in 1967 the company was listed on the first section of the Tokyo Stock Exchange. As of August 2005 the trading unit for our shares was changed from 1,000 to 100 to make it easier for individual investors to purchase them.

### Shareholders

Ownership by type of investor



Major shareholders (Top 5)

|   |       |
|---|-------|
| Japan Trustee Services Bank, Ltd. (Trust account)                         | 7.55% |
| The Master Trust Bank of Japan, Ltd. (Trust account)                      | 6.97% |
| Deutsche Bank AG London-PB Irish Residents 619                            | 3.57% |
| The Sumitomo Trust & Banking Co., Ltd. (Trust account B)                  | 2.98% |
| Trust & Custody Services Bank, Ltd. (Securities investment trust account) | 2.57% |

\* As of March 31, 2006

### Communication with Shareholders and Investors

To ensure prompt, accurate and fair disclosure of information to our shareholders and investors in a timely and appropriate manner, Alps has a dedicated investor relations department. With a view to better informing interested parties of financial conditions and corporate activities, we publish the *Alps Report* (a quarterly business report) and an *Annual Report*. We also hold full-year and half-year corporate result briefings for institutional investors and financial analysts.

We endeavor to provide clear information on our website, which includes a page for private investors. Furthermore, we are enhancing our regular shareholders meeting in various ways, including giving business reports supported by images and sending meeting notices written in English to overseas shareholders.



Webpage (Japanese) for investors  
<http://www.alps.co.jp/jir/index.htm>

## Toward Creating a Workplace Where Each Employee's Personality is Maximized

Alps strives to create a workplace where employees can work with vitality, and to cultivate the working environment of the entire Alps Electric Group with due consideration to cultures of different countries and regions.

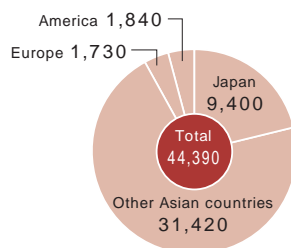
### Efforts to Have All of our Employees Work with Vitality

Alps upholds "respect for the individual" as a management principle. We strive to create a working environment that will draw out the passion in individual employees, enabling them to display their capabilities and work with vitality.

While expanding our operations in different parts of the world, we intend to improve the working environment of the entire Alps Electric Group, giving due consideration to the cultures and customs of the countries or regions concerned.

The number of Alps employees as of the end of March 2006 totaled approximately 44,000 globally, with 9,400 working in Japan, 31,420 in other Asian countries, 1,730 in Europe and 1,840 in the American region.

Number of Alps employees by region  
(as of the end of March 2006 - Alps Electric Global)



\* Figures include regular employees, fixed-term employees, temporary employees and in-house contract employees.

### Creating a Pleasant Working Environment

With a view to creating a pleasant working environment, Alps proactively carries out diverse activities for safety and health, which include workplace patrols as well as safety and health education.

At each of our domestic and overseas business locations, various types of physical checkups are conducted to maintain and improve employee health in accordance with the laws and regulations of the countries and regions concerned.

Furthermore, in terms of mental health - an issue that has been in the spotlight in recent years - health management personnel such as company doctors, nurses and industrial counselors coordinate with each other to implement preventive steps and to counsel employees. As part of our programs, we have had an EAP\* (Mental Health) Consultation Room at our headquarters since 2004, helping to create an ideal working environment from the perspective of mental health.

\* EAP: Employee Assistance Program

### Global Human Resource Development

#### Philosophy on Human Resource Development

Alps proactively supports employees' capacity building under the motto of "Work hard, study hard, play hard", with the belief that developing individual employee skills leads to company progress.

In addition to training for each echelon of employees from new recruits to executives, and position-specific or issue-specific education, we offer a number of programs to encourage skill development among employees. These

include a qualification incentive system and partial coverage of expenses for correspondence studies.

#### IT-based Activities for Employee Development

Alps utilizes an intranet for effective employee education. In 2005 e-learning on information security was conducted for all of our employees. E-learning offers several advantages; for example, it enables the company to record and administer employees' participation and degree of understanding, and enables employees to participate whenever it is convenient for them to do so.

Guidelines for compliance are also posted on the intranet. (See p.14)



An e-learning screen (Japanese) available to all employees

### Environmental Education Linking the Workplace and the Home

Alps Electric (Ireland) displays environmental notice boards, which present a variety of information related to environmental protection initiatives that may be put into practice at the plant as well as at employees' homes.

At the plant, efforts are made to conserve energy and protect the environment; machines are turned off when they are not in use, plastic waste, cardboard and different kinds of packaging are sorted before being recycled, reusable parts are saved, and employees contrive ways to improve efficiency.

Environmental education received at the workplace is put into practice in employees' homes, promoting the 3Rs for resource conservation - reduce, reuse and recycle.



An employee's children sorting trash  
(Alps Ireland, County Cork)

## Enhancement of In-house Communication

### Disseminating Messages in the Top Executive's Own Words

Alps has long held a morning assembly once a month in which the President shares management policies with all employees. These days, the President's messages are also recorded and forwarded to the company's business locations throughout the world and published in the monthly company newsletter. In addition, they are translated into English and Chinese and made available at any time to all employees worldwide on the intranet.

Furthermore, in 2005 the President personally visited each domestic production base, speaking at their morning assemblies. He writes without fail prefatory notes for *Alps*, an in-house communication magazine that is distributed to employees in Japan. The magazine is also translated into English and made available to business locations throughout the world in electronic form.



The President speaking directly to employees at a morning assembly



The company newsletter and *Alps* (Japanese editions)

## Global Communication

Domestic and overseas business locations are equipped with videoconferencing systems so that employees can see each other whenever necessary and exchange and share information in real time. This method enables efficient, instant exchange of information among employees and quick decision-making through videoconferences involving multiple overseas business locations.

Moreover, all of our business locations are linked by an intranet, and business communication is mainly conducted by

e-mail. Notices to employees are sent out in Japanese, English and Chinese on a timely basis.



A videoconference linking domestic and international locations

## Communication Among Employees

Alps has introduced a "free-address" system. Under this system, employees do not have stationary seats - they carry around the materials necessary for any given day and a laptop PC, sit wherever they like and do their work. This has enhanced communication and information-sharing among employees, breaking down departmental barriers.

Concurrently with the introduction of the "free-address" system, we have promoted paperless office work through the use of IT. As a result, office space that was used to store documents can now be used more effectively, and our consumption of paper has been drastically reduced. In this way, we are also contributing to environmental preservation.



Office with a "free-address" layout

## Interaction with Local Communities

As a good corporate citizen, Alps strives to add vitality to local communities and increase cooperation with them. We will continue to proactively develop the distinctive activities that have taken root in each community.

### Social Contributions Made by Alps Electric Global

Alps' business locations make various social contributions in accordance with the conditions of each of the societies or communities concerned.

### Passing Down *Monozukuri* to Future Generations

Alps believes that passing down the wonder and fun of *monozukuri* - the craft of making things - to future generations is an important social responsibility of the manufacturing industry. Alps strives on a company-wide basis to provide opportunities for young people to experience the pleasure of *monozukuri*.

Alps' domestic and overseas plants each organize plant tours for parents and children in their respective areas. Handicraft classes are also planned and held on a continual basis. For example, the company's headquarters supports the "Monozukuri Science School" organized by the Board of Education of Ota Ward, provides assistance with the planning and management of the event, and sends instructors to teach elementary and middle school students how to make such items as IC radios and gliders.

In 2005 the company participated as a co-sponsor in the "Ookayama Erekiteru Contest", an open-to-the-public event organized by the Department of Electrical and Electronic Engineering, at the Tokyo Institute of Technology's Faculty of Engineering. In the contest, entrants competed based on the amount of integral electrical energy of their hand-made power generators and on the artistic attributes of their light displays using light-emitting diodes. Alps employees provided technical assistance in hand-making power generators and served as judges as well.

We intend to continue providing opportunities for such experience and passing down *monozukuri* to future generations.



Monozukuri Science School



Ookayama Erekiteru Contest

### Regional Activities

#### Foster Home Visits

At Alps Electric Korea, volunteer employees have been visiting a foster home for children since 1999. Through playing music, making model planes and other toys, cleaning, cooking and preparing baths, the employees provide children in this facility with opportunities to interact with adults in a warm atmosphere.



Making balloons with children (Alps Korea, Gwangju)

#### Tree-planting

Alps promotes greening activities. In the spring of 2005 Dalian Alps Electronics, in cooperation with more than a dozen suppliers, planted 300 cherry trees to commemorate the completion of the third-stage building and the tenth anniversary of its inception. It is our hope that Dalian Alps will become a famous cherry-blossom viewing spot in the future.



Commemorative tree-planting (Dalian Alps, China)

#### Summer Festivals

Alps' domestic production bases hold summer festivals every year in order to promote interaction between our employees and people in local communities. Some 8,000 local residents came to the 2005 summer festival organized by the Communication Devices Division, and enjoyed the festivities, which included *Bon* dancing, concerts, refreshment stands and fireworks.



Live *taiko* (Japanese drum) performance (Communication Devices Division, Kakuda Plant, Miyagi Prefecture)

### Christmas Presents for Children

Cirque Corporation supports a program called "Shop with a Sheriff". This is a welfare activity in which local sheriffs go Christmas shopping with children in the community. Cirque provides support to get four to eight children Christmas presents every year.



Christmas presents  
(Cirque Corp., Utah, U.S.A.)

### Contributions to Local Culture

Alps Electric (Ireland) has been one of the sponsors of the Millstreet Community Council Annual Awards since 1990 to commend people who have made contributions to the local culture. In January 2006 two bagpipe players who had been leading the local pipe band for 55 years were commended for their service.



Millstreet Community Council  
Annual Awards Ceremony  
(Alps Ireland, County Cork)

### Tours of the Alps Museum

The Alps Museum welcomes visitors from various fields. Displays of parts that were actually used at the time of our inception and chronology charts give viewers an understanding of the development of Alps and the Japanese electronics industry.



Pupils of Koike Elementary  
School visiting the Alps Museum  
(Alps Headquarters, Ota Ward, Tokyo)

### Work Experience

The Wakuya Plant provides local high school students with work experience to give them opportunities to think about their future courses and occupations. After a plant tour, the students can experience how products are made through the actual manufacturing process.



Work experience for  
Wakuya High School students  
(Mechatronics Devices Division,  
Toda-gun, Miyagi Prefecture)

### Fundraising Activities

Alps Electric (UK) participated in "National Giving Week", a welfare week held in October 2005. All of the money raised through such activities as cake sales was donated to a community welfare foundation.



Alps UK employee (right)  
donating the collected money  
(Alps UK, Milton Keynes)

### Community Cleanup Activities

Alps' domestic production plants participate in community cleanup activities. Employees of our Peripheral Products Division work as volunteers to clean up Toyoma Beach every summer. In 2005 some 280 employees and their family members took part in the beach cleanup.



Cleanup of Toyoma Beach  
(Peripheral Products Division,  
Iwaki City, Fukushima  
Prefecture)

# Environmental Management

At Alps we promote global environmental management based on our Environmental Charter.

## Approach to Environmental Management

Alps does not stop at strict compliance with laws and regulations. We established an Environmental Charter in 1994 and initiated a series of medium-term plans, the purpose of which has been to undertake more proactive, more preventative activities for environmental preservation.

We have since expanded these activities and aim to implement environmental management to fulfill our corporate responsibility as an occupant of Spaceship Earth. This will

involve lowering the environmental impact of business activities and providing society with low-impact green products, "green" being an essential characteristic of "perfecting the art of electronics". We are endeavoring to develop a system based on the ISO 14001 international environmental management system standard. ISO 14001 certification has been acquired by our production bases worldwide as part of our CSR initiatives.

## The Alps Group Environmental Charter

### Basic Philosophy

Alps, as a member of the global community, is committed to protecting the beauty of nature and to safeguarding our precious resources through the use of technologically advanced business practices and the efforts of its employees, in order to promote sustainable development.

### Action Program

Placing priority on environmental preservation, we at Alps will:

1. Develop products in light of environmental concerns
2. Engage in environmentally friendly production and sales
3. Conserve our natural resources
4. Reduce or eliminate waste
5. Increase recycling activities

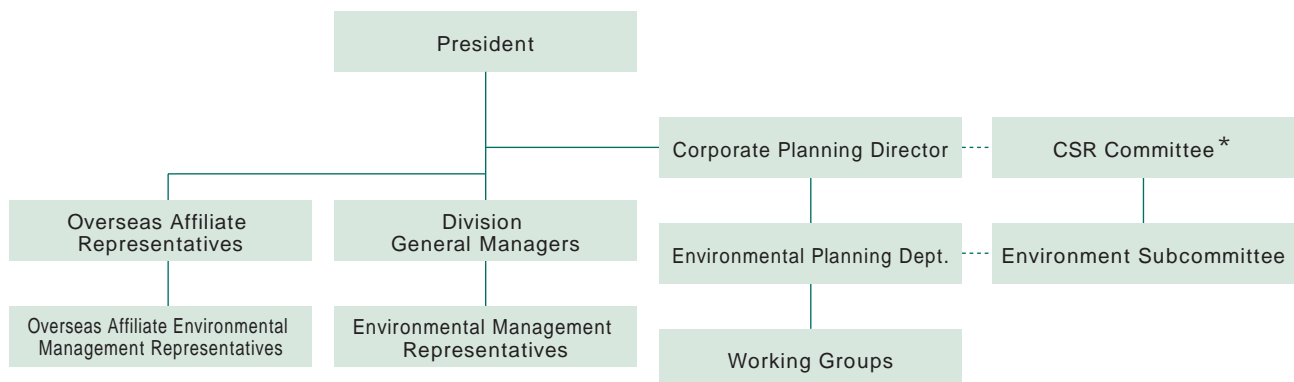
## Organizational Structure for Environmental Management

Corporate environmental policies and measures are discussed and determined by the Environment Subcommittee, which is positioned beneath the CSR Committee and chaired by the Environmental Planning Department Senior Manager. Policies and strategies are then approved by the CSR Committee and put into effect throughout the company; in Japan, through general managers and environmental management representatives of domestic divisions, and

overseas, through overseas affiliate representatives and affiliate environmental management representatives.

The Environmental Planning Department has been set up to administrate environmental management under the supervision of the Corporate Planning Director. It promotes environmental activities by planning company-wide environmental measures and gathering relevant information. Working groups have also been positioned under the department to examine particular issues such as energy conservation and waste management.

Environmental Management Structure (as of June 2006)



\* The position of CSR Committee Chairman is held by the Corporate Planning Director.

### ISO 14001 and Environmental Audits

Alps views the ISO 14001 environmental management system as a crucial tool for environmental preservation activities. With ISO 14001 certification of Alps Electric (UK) in fiscal 2005, all of our ten production-based facilities in Japan

and thirteen overseas are now certified.

Certified facilities perform internal environmental audits once or twice a year in accordance with ISO 14001 requirements.

All of our production-based facilities have acquired ISO 14001 certification



#### Overseas Production-based Facilities

| Facility  | Certification Date |
|---|--------------------|
| Alps Electric (Ireland) Limited                     | April 9, 1997      |
| Alps Electric Europa GmbH, Dortmund Plant (Germany) | July 3, 2000       |
| Alps Electric (Malaysia) Sdn. Bhd., Jengka Plant    | September 12, 2000 |
| Alps Electric Korea Co., Ltd.                       | June 18, 2001      |
| Alcom Electronicos De Mexico, S.A. de C.V.          | December 6, 2001   |
| Wuxi Alps Electronics Co., Ltd. (China)             | March 20, 2002     |
| Dalian Alps Electronics Co., Ltd. (China)           | June 14, 2002      |
| Alps Electric (Malaysia) Sdn. Bhd., Nilai Plant     | August 12, 2002    |
| Alps Electric Czech, s.r.o.                         | January 15, 2003   |
| Shanghai Alps Electronics Co., Ltd. (China)         | January 6, 2004    |
| Ningbo Alps Electronics Co., Ltd. (China)           | June 1, 2004       |
| Tianjin Alps Electronics Co., Ltd. (China)          | December 11, 2004  |
| Alps Electric (UK) Limited                          | November 30, 2005  |

#### Domestic Production-based Facilities

| Facility  | Certification Date |
|---|--------------------|
| Communication Devices Division, Soma Plant  | August 14, 1998    |
| Communication Devices Division, Kakuda Plant  |                    |
| Automotive Products Division / Mechatronic Devices Division, Furukawa Plant                                 | October 30, 1998   |
| Mechatronic Devices Division, Wakuya Plant  |                    |
| Mechatronic Devices Division / Business Development Headquarters, Production Engineering Development Center | November 27, 1998  |
| Peripheral Products Division, Onahama Plant   |                    |
| Peripheral Products Division, Taira Plant   | December 24, 1999  |
| Magnetic Devices Division, Nagaoka Plant  |                    |
| Magnetic Devices Division, Koide Plant  | March 17, 2000     |
| Business Development Headquarters, Process Technology Development Center                                    |                    |

### Legal Compliance

Alps seeks to comply with laws and regulations by setting voluntary standards that are more stringent than the laws established by national governments.

At the Furukawa Plant, the sound level at the boundary with the public road that cuts across the plant grounds was 55dB, higher than the nighttime noise limit of 50 dB. In fiscal 2005, we closed down the generators that were partially causing the noise. In fiscal 2006, we plan to close down the liquid waste incinerators in order to meet noise standards.

In fiscal 2005, Alps did not experience any environmental accidents, nor was it the subject of any environmental fines, legal action, or complaints from local residents.

### Environmental Education

Alps provides employees with environmental education that is relevant to their duties. Specialized education, including internal environmental auditor training, is also provided at the division level. Since legal requirements and customs vary according to the country or region where overseas production affiliates are located, highly effective individualized training is provided for each one.

In April 2005, President Kataoka encouraged managers to promote environmental preservation activities in the home as well as in business operations.



President Kataoka speaking to employees about environmental preservation activities.

## Fiscal 2005 Plan and Results

This report presents the fiscal 2005 results of the Fourth Medium-Term Voluntary Action Plan for Environmental Protection.

### Report on the Fourth Medium-Term Voluntary Action Plan for Environmental Protection

In fiscal 2002 Alps Electric formulated its Fourth Medium-Term Voluntary Action Plan for Environmental Protection, which covered the 2003-2005 fiscal years and mainly domestic business locations. This plan set concrete, numerical targets for continuous reduction of greenhouse gases and waste.

By fiscal 2005, the plan's final year, we had achieved all of our targets, with the exception of specific CO<sub>2</sub> emission-reducing goals. With Alps Electric (UK)'s acquisition of ISO 14001 certification in the same year, all of our production facilities around the world are now certified - a goal we had been working toward since 1995.

Environmental initiatives in relation to products include

The Fourth Medium-Term Voluntary Action Plan for Environmental Protection and Fiscal 2005 Results

| Objectives   |   | Action Targets (FY2003-FY2005)   |
|--|---|--|
| <b>Management</b><br>Develop an appropriate organizational structure to achieve effective environmental management while fostering environmental awareness among all employees | Environmental management system                 | Acquirement of ISO 14001 certification at overseas production bases<br>Promotion of information exchange with overseas operations  |
|  | Environmental communication (external)          | Periodical publication of environmental reports<br>Information distribution via the internet   |
|  | Environmental education                         | Enhancement of environmental education programs for management   |
|  | Environmental accounting                        | Establishment of environmental accounting  |
| <b>Environmental initiatives through our products</b><br>Reduce the environmental impact of products through environmentally conscious design and development                  | Design for the environment                      | Promotion of environmentally conscious design and development<br>Development of a chemical substance database  |
|  | Reduction of hazardous substances               | Total elimination of banned substances<br>Completely eliminate the use of lead, cadmium and hexavalent chromium<br>Reduction of restricted substances  |
|  | Green procurement                               | Prioritizing purchases from environmentally conscious suppliers  |
| <b>Environmental initiatives at production bases</b><br>Reduce the environmental impact of production processes and office operation   | Prevention of global warming                    | Reduction of CO <sub>2</sub> emissions<br>Reduce FY2005 CO <sub>2</sub> emissions from energy consumption per unit of output <sup>1</sup> to FY2001 level<br><br>Reduction of greenhouse gas (other than CO <sub>2</sub> ) emissions<br>Reduce the use of PFCs and HFCs <sup>2</sup> by 60% from FY1998 level by the end of 2003 |
|  | Recycling                                       | Complete achievement of zero-emissions<br>Completely achieve zero-emissions by FY2004<br><br>Reduction of total waste volume<br>Reduce waste per unit of FY2005 output <sup>1</sup> by 20% of FY2001 level   |
|  | Management and reduction of chemical substances | Management of chemical substances<br>Reduce the risk of contamination by promoting appropriate management of chemical substances<br><br>Complete elimination of ozone-layer depleting substances<br>Completely eliminate the use of HCFCs <sup>3</sup> by the end of 2003  |
|  | Green purchasing                                | Promotion of green purchasing for office supplies and components   |
|  | Logistics                                       | Promotion of environmentally conscious logistics   |
|  | Social contribution activities                  | Promotion of activities in society supporting environmental protection   |
|  |   |  |

Notes: 1 Amount per unit of output: value obtained by dividing the amount of CO<sub>2</sub> emissions or waste emissions by the value of production  
 2 PFCs and HFCs: perfluorocarbons and hydrofluorocarbons  
 3 HCFCs: hydrochlorofluorocarbons  
 4 GWP: Global Warming Potential. Index describing the relative warming of a unit mass of a greenhouse gas in comparison to the same mass of CO<sub>2</sub>



green procurement, an initiative involving steady progression of supplier evaluation, and the daily updating and expansion of our Database for Chemical Substance Management. In addition, we have begun life cycle assessment (LCA) trials.

We have also made progress in global warming prevention through initiatives at production bases. However, we did not achieve our target for reduction of CO<sub>2</sub> emissions due to the

increase of energy-intensive facilities such as clean rooms at these bases. We reached our total emission targets of greenhouse gases (PFCs) reduction, as well as with total discharged waste.

The table below summarizes our fiscal 2005 results and our assessments of them.

|   | FY2005 Results   | FY2005 Self-evaluation |
|---|--|------------------------|
| Production-based facilities                   | One overseas base newly acquired ISO 14001 certification. Alps Electric (UK) (November 2005)<br>All 13 production-based facilities have now been certified.                          | ✓                      |
| Communication                                 | E-mail used to exchange information with production bases  | ✓                      |
| Information                                   | Social & Environmental Report published (June 2005)<br>Relative information posted on the website  | ✓<br>✓                 |
| Trainers/engineers                            | Held chemical control study sessions (Japan)   | ✓                      |
| Costs   | Aggregated costs and effects   | ✓                      |
| Product development                           | Continuous product assessment, and LCA trials<br>Database for Chemical Substance Management in full operation (since October 2003)   | ✓<br>✓                 |
| Compliance by the end of 2004                 | Successfully abolished all use of lead, cadmium and hexavalent chromium  | ✓                      |
| Suppliers                                     | Implemented supplier evaluations and training sessions for overseas suppliers  | ✓                      |
| CO <sub>2</sub> output <sup>1</sup> by 20% of | CO <sub>2</sub> emissions per unit output: 42.1t/100 million yen<br>12.9% reduction from FY2001 level (improvement)<br>5.1% reduction from FY2004 level (improvement)                | ✗                      |
| At the end of FY2010                          | PFC/HFC purchases (GWP <sup>4</sup> conversion bases) per unit output: 19,887t<br>78.7% reduction from FY1998 level (improvement)<br>43.2% reduction from FY2004 level (improvement) | ✓                      |
| Waste   | Zero-emissions achieved domestically (March 2004)  | ✓                      |
|   | Waste emissions per unit output: 3.94t/100 million yen<br>20.5% reduction from FY2001 level (improvement)<br>5.2% reduction from FY2004 level (improvement)                          | ✓                      |
| Control of chemical substances                | Ascertained emergency risks, installed leakage preventative equipment and implemented training   | ✓                      |
|   | HCFC purchases: 0t (Completely eliminated usage in December 2003)  | ✓                      |
| Company-owned cars                            | Commenced green purchasing of office supplies for headquarters area and all divisions  | ✓                      |
|   | Reduced hazardous substances in packaging materials and made shipping systems more efficient   | ✓                      |
| Environmental protection                      | Performed cleanups around various production/business locations  | ✓                      |

Self-evaluation ✓ : Achieved  
✗ : Not yet achieved

## The Fifth Medium-Term Action Plan for Environmental Preservation

We have formulated the Fifth Medium-Term Action Plan for Environmental Preservation for the fiscal 2006-2008 period in order to actualize environmental management.

### Formulating the Fifth Medium-Term Action Plan for Environmental Preservation

For the new plan beginning in fiscal 2006, we aim to strengthen collaboration with overseas production bases in order to establish a global management system, and also to reorganize our environmental education system so that environmental awareness is enhanced among employees. This fifth plan is a series progression from the fourth plan described on pp. 23-24.

We plan to totally eliminate greenhouse gases other than CO<sub>2</sub>, which are used in our production processes, by fiscal 2010. In addition, the new plan includes reducing volatile organic compounds, and life cycle assessment (LCA) trials for quantitatively ascertaining the impact that products have on the environment.

#### The Fifth Medium-Term Action Plan for Environmental Preservation

| Objective  |   | Action Targets (FY2006-FY2008)   |
|--|---|--|
| <b>Management</b><br>Develop an appropriate organizational structure to achieve effective environmental management while fostering environmental awareness among all employees | Environmental management system                 | Strengthen collaboration with overseas production bases  |
|  | Environmental communication                     | Publish periodical environmental reports<br>Distribute information via the internet  |
|  | Environmental education                         | Promote organized environmental education<br>Promote educational activities related to the home environment  |
|  | Environmental accounting                        | Further environmental accounting   |
| <b>Environmental initiatives through our products</b><br>Reduce the environmental impact of products through environmentally conscious design and development                  | Design for the environment                      | Promote environmentally conscious design and development<br>Perform LCA trials   |
|  | Reduction of hazardous substances               | Maintain non-use of banned substances<br>Reduce environmentally hazardous substances   |
|  | Green procurement                               | Propagate green procurement  |
| <b>Environmental initiatives in our plants and offices</b><br>Reduce the environmental impact of production processes and office operation                                     | Prevention of global warming                    | Reduce CO <sub>2</sub> emissions<br>Reduce FY2010 CO <sub>2</sub> emissions from energy consumption per unit of output <sup>1</sup> by 15% of FY2004 level<br><br>Reduce greenhouse gas (apart from CO <sub>2</sub> ) emissions<br>Abolish the use of PFCs and HFCs <sup>2</sup> (for production) by the end of FY2010 |
|  | Recycling                                       | Maintain and improve zero-emissions performance<br><br>Reduce total waste volumes<br>Reduce total waste per unit of FY2008 output <sup>1</sup> by 15% of FY2004 level<br><br>Reduce paper use<br>Reduce FY2008 paper use by 20% of FY2004 level  |
|  | Management and reduction of chemical substances | Perform appropriate management of chemical substances<br>Reduce contamination risk by promoting appropriate management of chemical substances at production facilities including overseas locations<br><br>Reduce VOC emission volumes<br>Reduce FY2010 VOC <sup>3</sup> emissions by 30% of FY2000 level              |
|  | Green purchasing                                | Promote green purchasing for office supplies and company-owned cars  |
|  | Logistics                                       | Promote environmentally conscious logistics  |
|  | Greening  | Promote greening campaigns   |
|  | Social contribution activities                  | Promote activities that contribute to the social wellbeing of local communities  |

Notes: 1 Amount per unit of output: value obtained by dividing the amount of CO<sub>2</sub> emissions or waste emissions by the value of production

2 PFCs and HFCs: perfluorocarbons and hydrofluorocarbons

3 VOC: volatile organic compound that is required to be reduced on a voluntary basis pursuant to the Air Pollution Control Act

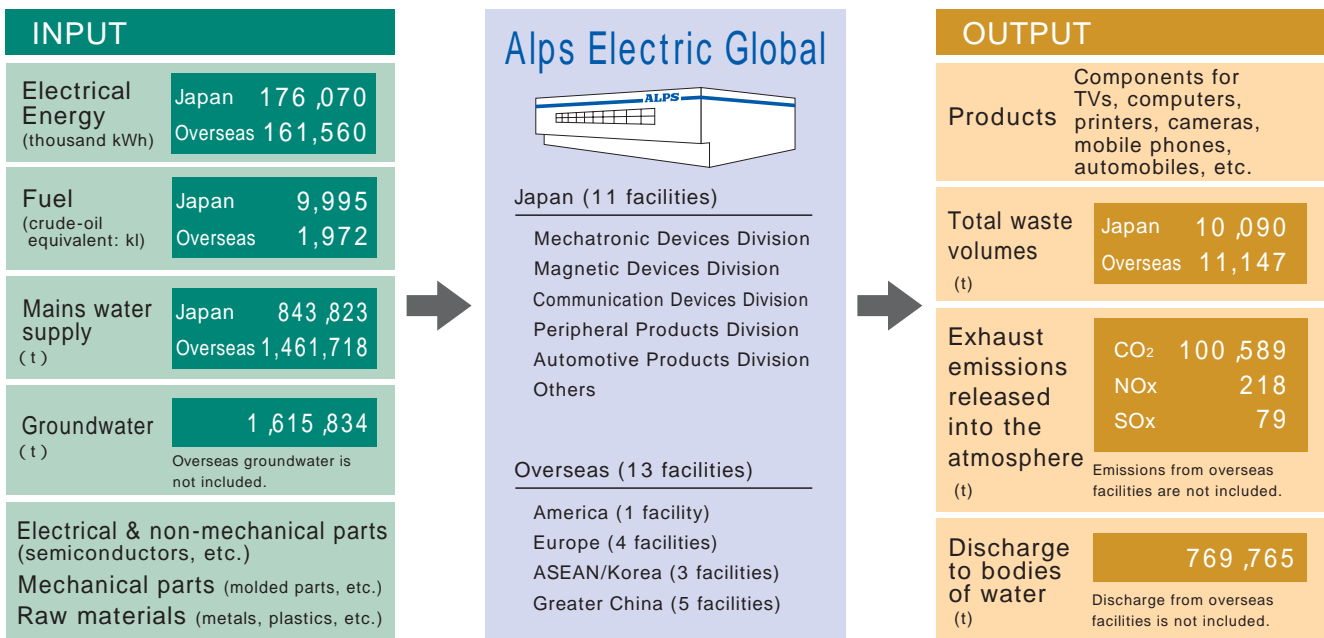
# Environmental Impact Status and Environmental Accounting

Overseas production bases are making advances in quantifying environmental impact in conjunction with global expansion of our operations.

## Material Balance

Alps Electric has been providing overseas-inclusive material balance (input and output) reports since fiscal 2003. However, quantitative data from overseas has taken longer to obtain due to differences in laws and environmental assessment procedures. Overseas data is consequently presented as an independent category from the domestic

information, of which we have a comprehensive understanding. The environmental impact generated by our overseas activities becomes more significant as we expand abroad. In light of this, we will continue our efforts in reducing environmental impact by increasing the range of categories for which we collect and utilize this data.



## Environmental Accounting

Alps Electric introduced its environmental accounting system in fiscal 2000 in accordance with the Ministry of the Environment guidelines, to monitor its environmental costs and associated economic benefits.

The investments and expenditures for fiscal 2005 environmental costs<sup>1</sup> exceeded those of the previous year's

due to the implementation of bioremediation for treating soil and groundwater.

The economic benefits<sup>2</sup> derived in fiscal 2005 increased from those in fiscal 2004 due to higher profit from sales of materials as a result of increased production.

### Alps Electric

#### FY2005 Environmental Costs

Unit: million yen

| Classification                                 | Main Objective  | Investment <sup>3</sup> (FY2004) | Cost <sup>4</sup> (FY2004) |
|--|---|----------------------------------|----------------------------|
| Operation costs                                | Pollution prevention, recycling of waste products             | 243.6 (216.3)                    | 518.0 (537.3)              |
| Upstream and downstream production costs       | Green procurement, Database for Chemical Substance Management | 2.5 (12.2)                       | 158.1 (135.2)              |
| Administration costs                           | ISO 14001 certification maintenance                           | 6.5 (0.0)                        | 141.9 (131.3)              |
| R & D costs                                    | Developing lead-free products                                 | 0.0 (10.0)                       | 12.3 (32.3)                |
| Social contribution costs                      | Community cleanup activities                                  | 13.6 (0.0)                       | 25.3 (11.4)                |
| Cost of restoring the environment after damage | Groundwater remediation                                       | 126.0 (12.0)                     | 517.5 (180.0)              |
| Other costs                                    | -   | 0.0 (0.0)                        | 0.0 (0.0)                  |
| <b>Total</b>                                   |   | <b>392.2 (250.4)</b>             | <b>1,373.1 (1,027.6)</b>   |

#### FY2005 Economic Benefits from Environmental Preservation Measures

Unit: million yen

| Classification                              | Value (FY2004)           |
|---|--------------------------|
| Profit on material sales                    | 1,589.3 (1,163.0)        |
| Cost reduction as a result of energy saving | 48.5 (49.4)              |
| <b>Total</b>                                | <b>1,637.8 (1,212.3)</b> |

#### Notes:

- 1 Environmental costs comprise all investments and expenses incurred solely for environment preservation purposes. They do not include partially related expenses.
- 2 Economic benefits include sales of wastes that have been separated, recycled and recovered, as well as electric, fuel and other cost savings resulting from energy conservation. Economic benefits do not include deemed benefits.
- 3 Investment comprises both capital investment and leasing expense totals.
- 4 Costs include maintenance administration and depreciation expenses, as well as lease costs for the relevant fiscal year.

## Development, Design and Logistics Initiatives

Alps strives to reduce environmental impact through environmentally friendly product life cycle assessments, design, development, and world-wide logistics.

### Stance on Design and Development

*Alps creates new values that satisfy stakeholders and are friendly to the earth.*

This corporate philosophy underlies our efforts in creating products that are in harmony with the global environment. While performing product assessments, we pursue improvements in designing products that enable reductions in energy consumption and hazardous substances, as well as resource conservation through product miniaturization.

In addition, we commenced life cycle assessments (LCA) in fiscal 2005 as a tool to promote environmentally conscious product design.

### Response to Regulations for Chemical Substances Contained in Products

Alps Electric published its first version of the Green Procurement Standard in July 2002 and has since been working towards complete abolition of substances prohibited in the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) Directive. With the cooperation of our customers and suppliers, we have completed this goal on schedule.

In response to the need to eliminate lead, which is used mainly for solder, we are now applying surface treatment using tin and noble metals. In addition, other substances including cadmium have also been completely abolished.

### Logistics Initiatives

To reduce logistics-related environmental impact, Alps Electric is endeavoring to improve quality in its logistics system. This includes packaging in collaboration with Alps Logistics, a Group company.

Standardization of box size and type has contributed to improved efficiency in shipping. We have introduced a type of box that does not require staples or glue, which inhibit recycling. In addition, we have developed a tape cutter that can fold in the tip of packing tape for easy removal from the box later.

Alps is taking a wide range of initiatives toward global warming prevention and waste reduction - investigating a modal shift to railway containers, using reusable two-way delivery boxes between countries, and abolishing wrapping film for short-distance shipping by using reusable belts to stabilize stacked shipment pallets.

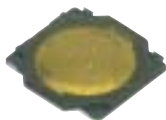
### Product Life Cycle Assessments - helping to perfect the art of electronics -

Alps perfects the art of electronics in not only their appearance and functionality, but also their environmental impact-reducing qualities. In order to achieve this goal, we introduced life cycle assessments (LCA) in fiscal 2005 to promote environmentally sound product designs.

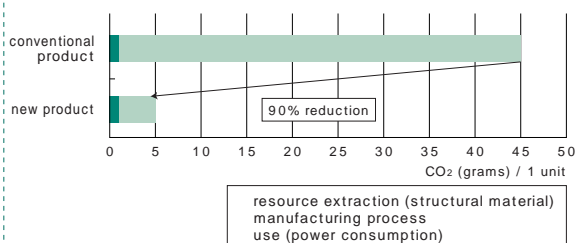
An LCA is a means of quantitatively assessing the environmental impact of a product's entire life cycle, from its resource extraction through to its manufacturing processes, final use and disposal. Our evaluation covers resource extraction to the extent possible for a components manufacturer, through to the product's end use, focusing on CO<sub>2</sub> emission volumes, a major factor in global warming. Here we present two instances where a product's CO<sub>2</sub> emission volumes have been reduced. The figures have been calculated using information about parts and raw materials used in our product, energy consumed in manufacturing the product, the average lifespan of the final set-product (which has our component incorporated into it), and our product's power consumption based on its design.

#### Small Low-Profile TACT Switch

This model is a surface-mounting type of TACT switch suitable for high-density mounting, and is a smaller and thinner model than conventional products. Its dust-proof construction gives its high reliability.



CO<sub>2</sub> Emissions Reduction

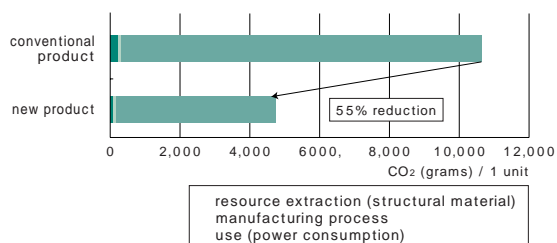


#### Digital Terrestrial Broadcasting Tuner

The size of this tuner is half that of the conventional product, since it incorporates a custom IC and high-density board mounting. In addition, this product's power consumption has been drastically reduced on account of its built-in power saving function.



CO<sub>2</sub> Emissions Reduction



# Initiatives for the Prevention of Global Warming

Alps takes measures to prevent global warming such as reducing power consumption and improving equipment, thereby reducing emissions of greenhouse gases, including CO<sub>2</sub>, into the atmosphere.

## Initiatives for Energy Saving and Reduction of Greenhouse Gas Emissions

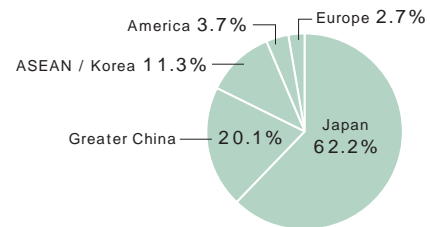
We know that we must reduce energy consumption in order to curtail CO<sub>2</sub> emissions, but other greenhouse gas emissions must also be controlled to hinder global warming.

Alps Electric aimed to reduce CO<sub>2</sub> emissions from energy consumption by 20% from fiscal 2001 levels by fiscal 2005 through enhancing efficiency in production facilities, power substations at plants, and air-conditioning equipment. The result was that the CO<sub>2</sub> emission volume per unit of output in fiscal 2005 was 42.1 (t) /100 million yen, 12.9% down from the fiscal 2001 level. We did not achieve our goal because energy saving effects were offset by the expansion of energy-intensive facilities, including clean rooms.

Alps uses perfluorocarbons (PFCs), which are also greenhouse gases, mainly as solvents. We aimed to reduce PFC purchase values (on a GWP conversion basis) by 60% from fiscal 1998 levels by the end of fiscal 2010 and soon achieved our goal in 2003. Since then, we have already drawn up a further action plan for completely abolishing such solvents and replacing them with water-based solvents by fiscal 2010.

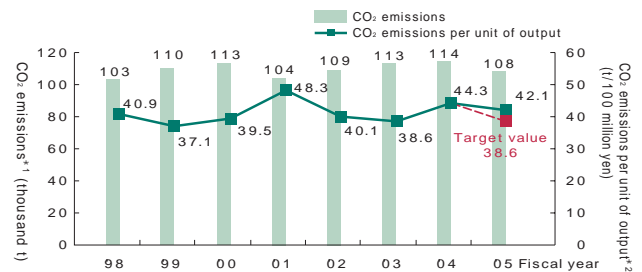
### Alps Electric Global

Energy Consumption (Joule conversion basis): 1,643TJ



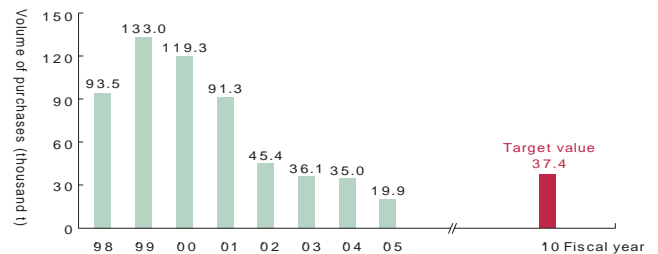
### Alps Electric

#### CO<sub>2</sub> Emissions



\* 1 Total volume of CO<sub>2</sub> emitted by Alps Electric and subcontract plants  
 \* 2 Total CO<sub>2</sub> emissions divided by total value of production  
 Some figures shown in last year's report were incorrect, and have been amended accordingly.

#### Purchased volume of PFCs (GWP\* conversion basis)



\* GWP: Global Warming Potential. Index describing the relative warming by a unit mass of a greenhouse gas in comparison to the same mass of CO<sub>2</sub>.

## Regional Initiatives

### Japan

At the Communication Devices Division's Kakuda Plant, we achieved a constant level of air pressure and improved the loading rate of compressors by modifying compressor pipe sizes and increasing receiver tank numbers. This resulted in the non-use of engine compressors in the summer, and also a reduction of 250,000 kWh in power consumption.

At the Onahama Plant of the Peripheral Products Division, we reduced fuel consumption by 50% by removing boilers and engine compressors. In addition, we saved 190,000 kWh of power consumption throughout the year by upgrading to inverter-controlled compressors. These measures, taken in the past three years, not only contributed to energy saving but also to a lower risk of leakage in and around our plants due to the removal of fuel tanks.

### Korea

Alps Electric Korea has introduced an inverter-controlled turbo freezer and saved 700,000 kWh of power consumption over the year. This is equivalent to 3.7 % of total power consumption for the whole plant.

### America

Alcom Electronicos (Mexico) has introduced a "Power Conservation Project" for energy saving. As part of this project, the company is training its employees in energy saving, creating equipment checklists, adjusting equipment operating hours and enhancing lighting efficiency.

# Waste Reduction Initiatives

In Japan, zero-emissions and reduction of total waste discharge have been the two pillars of our environmental activities. Furthermore, our overseas locations are also advancing in recycling and waste reduction.

## Efforts to Reduce Waste

All of Alps' domestic divisions have implemented "zero-emissions" initiatives and have successfully achieved the goal of recycling all emissions by the end of fiscal 2004. This covers ordinary wastes from offices and cafeterias and all other waste<sup>1</sup> excluding products that contain material for resale.

Additionally, we aimed to reduce the total amount of waste emissions per unit of output by 20% from fiscal 2001 levels by fiscal 2005 and have achieved a reduction of 20.5%.

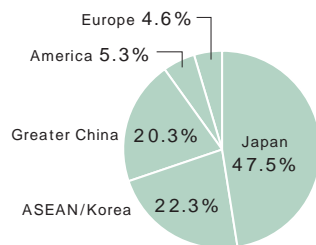
Some overseas production bases show a lower recycling

rate due to inadequate recycling infrastructures. All of our production bases, however, are working on recycling waste by separating recyclable from non-recyclable material.

<sup>1</sup> Certain types of emissions which have a potential risk of producing a greater environmental impact in the recycling process and are technically difficult to recycle are excluded from this initiative. Excluded substances account for 2% of the total amount, and are mostly general wastes including sludge from cleaning tanks.

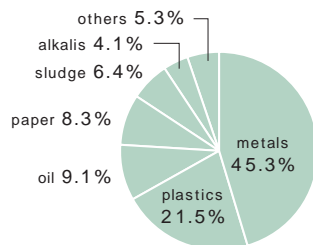
### Alps Electric Global

Total Emissions: 21, 237t



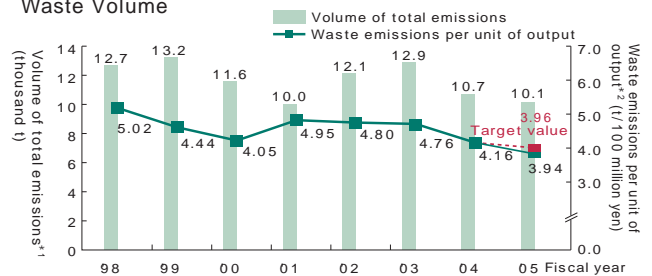
### Alps Electric

Waste Classification and Breakdown: Total emissions 10,090t



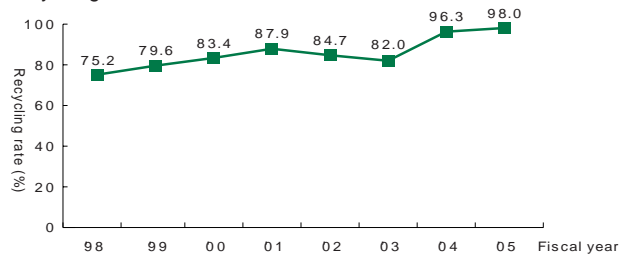
### Alps Electric

#### Waste Volume



\* 1 Volume of total emissions: total waste for disposal and resale, discarded externally as unneeded material  
 \* 2 Waste emissions per unit of output: total waste emissions divided by the value of production

#### Recycling Rate\*



\* Recycling rate: proportion of recycled waste to the total volume of emissions

## Regional Initiatives

### Japan

Alps achieved zero-emissions domestically by the end of fiscal 2004, which resulted in a recycling rate of 98.0% in fiscal 2005. Nearly 200 tons of the remaining emissions which have not been recycled were general waste, half of which was sludge from cleaning tanks.

The Kakuda Plant of the Communication Devices Division successfully achieved a recycling rate of 99.9% by sorting waste into 34 types. At the plant, in addition to containers for separating normal waste by material type, a container for unclassifiable waste that does not fit any of the waste types is provided for employees. This waste is classified and disposed of by waste management officers. This system has contributed to avoiding mix-ups of waste types.

### China

Ningbo Alps Electronics recycles by using different colored sorting containers according to material type, and attaching photos of waste types on the containers for easy recognition. There are four types of containers for standard waste - paper, metal, plastic and others. Waste produced only in specific manufacturing departments is separated from normal waste and disposed of by each relative department.

Dalian Alps Electronics recycles wastewater by performing advanced wastewater treatment. In fiscal 2005 the company expanded its facility for wastewater treatment and recycled 19,000 tons of water - a substantial increase over the 13,000 tons recycled in fiscal 2004.

### ASEAN

Alps Electric (Malaysia) used to dispose of 2,700 liters of waste solvent containing isopropyl alcohol annually, but since January 2006 the company has been recycling it as a paint ingredient.

## Environmental Risk Measures

We set up our Supporting System for Managing Chemical Substances Contained in Products to properly manage chemical substances, wastewater and emissions, thereby preventing accidents. We also strive to reduce the risk of contamination.

### Chemical Substance Management

The Alps Environmentally Hazardous Substance Control Standard was established to control the use of hazardous substances, prevent environmental pollution, protect the working environment, and control chemical substances used in products and in the manufacturing process. In addition, the intranet-based Supporting System for Managing Chemical Substances Contained in Products was set up to allow our bases around the world to share information through our Database for Chemical Substance Management.

Alps Electric reports the domestic use of chemical substances to the government pursuant to the Pollutant Release and Transfer Register (PRTR) Law, and stores and manages chemicals properly. The volume of nickel compounds and toluene - substances subject to the PRTR

Law - that we handle has decreased due to changes in specifications of materials and processing improvements. We have also been able to reduce lead because of progress made in complying with the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) Directive.

For treatment of polychlorinated biphenyls (PCBs), we intend to enforce complete management of end-of-life devices as well as sequential treatment of PCBs in accordance with treatment plans stipulated by the government.

Asbestos used under the roofs of some buildings as fireproofing is hermetically sealed and does not have any environmental impact.

#### Alps Electric PRTR Substance Survey Results

Unit: t/year (except for dioxins)  
mg/year for dioxins

| Substance                              | Volume      | Emission Volume |           | Transferred Volume |           |
|--|-------------|-----------------|-----------|--------------------|-----------|
|  |             | Air             | Water     | Waste              | Sewage    |
| Inorganic cyanide compounds            | 6.1 (7.1)   | 0.0 (0.0)       | 0.0 (0.0) | 0.5 (0.5)          | 0.0 (0.0) |
| Nickel                                 | 6.5 (6.5)   | 0.0 (0.0)       | 0.0 (0.0) | 0.1 (0.1)          | 0.0 (0.0) |
| Nickel compounds                       | 5.8 (10.8)  | 0.0 (0.0)       | 0.0 (0.0) | 2.3 (7.1)          | 0.0 (0.0) |
| Silver and its water-soluble compounds | 9.1 (9.3)   | 0.0 (0.0)       | 0.0 (0.0) | 0.1 (0.1)          | 0.0 (0.0) |
| Dioxins                                | -           | 2.3 (0.1)       | 0.0 (0.0) | 0.0 (0.0)          | 0.0 (0.0) |
| Lead and its compounds                 | 0.1 (1.5)   | 0.0 (0.0)       | 0.0 (0.0) | 0.3 (0.3)          | 0.0 (0.0) |
| Ethylene glycol                        | 6.3 (6.5)   | 0.0 (0.0)       | 0.0 (0.0) | 6.3 (6.5)          | 0.0 (0.0) |
| Xylene                                 | 1.1 (1.3)   | 0.5 (0.5)       | 0.0 (0.0) | 0.7 (0.8)          | 0.0 (0.0) |
| Toluene                                | 11.2 (20.1) | 4.6 (7.9)       | 0.0 (0.0) | 6.6 (12.2)         | 0.0 (0.0) |

Note 1: Data in parentheses are from FY2004.

Note 2: Data include Alps' subsidiary factories in Japan.

Note 3: The figures for nickel in last year's report have been corrected.

### Cleanup of Soil and Groundwater

In 1999 soil and groundwater pollution due to organochlorine compounds was found at four domestic plants (Furukawa, Wakuya, Kakuda and Soma). Alps immediately cleaned up the polluted groundwater with volatilization treatment - groundwater was pumped up and pollutants absorbed into activated carbon. Then we used anaerobic bioremediation to decompose pollutants by means of microscopic organisms. In continuing to assess this cleanup progress, we examine the extent of contamination regularly and report our findings to the Board of Directors.

### Prevention of Environmental Pollution

All production facilities perform risk management to prevent environmental pollution resulting from chemical substance leaks and other causes. The specific measures we have taken involve constructing a barrier against chemical pollutants including heavy oil; establishing a management system to control, analyze and detoxify liquid waste from plating plants; modifying underground pipelines into ceiling pipelines with a double cover; providing emergency measure manuals; and restricting access to chemical storage areas.

### Regional Initiatives

#### Japan

The Furukawa Plant of the Mechatronic Devices Division aims to reduce potential risk by upgrading underground pipelines used for plating to surface pipelines with a double cover. In addition, the plant provides periodical training for emergencies. The photo shows a 2005 emergency training session for responding to a wastewater leakage from the plant's underground pit.



Emergency training for a leakage

With the introduction of a printing mask cleaning apparatus, the Onahama Plant of the Peripheral Products Division successfully reduced the annual usage of organic cleaning solvent by 3.9 tons, most of which had previously been lost through evaporation.

#### America

Alcom Electronicos (Mexico) controls chemical substances using its database, pursuant to the PETC Law (a law in Mexico corresponding to the PRTR Law). In addition, these substances are safely stored in a special warehouse with a pit for leak prevention.



Friendly to people, Friendly to nature.

# ALPS®

The environmental symbol shown in the upper left of this back cover expresses the three elements - air, water and earth. This symbol was selected from many submissions from Alps members.

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We look forward to any comments and feedback you may have.



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