

Corporate Governance

(1) Basic Concepts of Corporate Governance

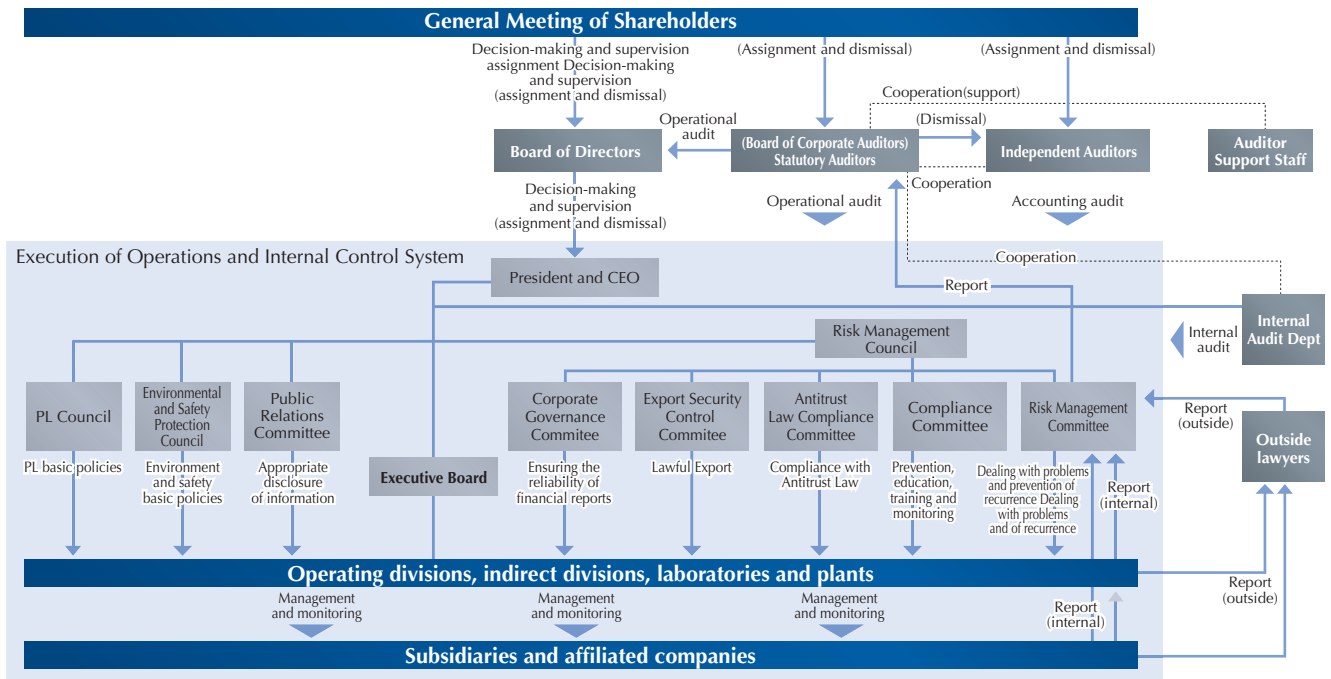
ZEON aims to continue generating profits and enhancing its corporate value, while conscientiously attending to the interests of shareholders and other stakeholders and securing coordination among them. To this end, ZEON will continue to build an effective corporate governance system for efficient and sound corporate management. At the same time, ZEON will improve its internal control system, in which the roles and functions of each internal body and organization are clearly stated. Thus, the Board of Directors can make a quick decision

and instruct the internal organization proper executions for the operation. The progress and results of these processes will be monitored and disclosed in a proper manner, thereby increasing management transparency. In order for these functions to work effectively, ZEON intends to further improve its corporate governance system.

(2) Internal organizations and control system

ZEON has a corporate auditor system, under which five statutory auditors, including three outside auditors, have been

Corporate Governance and Internal Control System



appointed.

ZEON's corporate governance and internal control system and its reporting lines are as follows.

• Board of Directors

The Board of Directors ensures that operations are executed conformance with relevant laws and the Company's articles of association. The board meets on a monthly basis in principle, with statutory auditors attending. The chairman presides over

the meeting. In addition to responsibilities stipulated by law, the Board's primary roles are to decide on basic management principles and strategies and to make important decisions on the execution of business operations. ZEON currently has no outside directors.

• Executive Board

The Executive Board consists of full-time directors with the title of managing director or above and any person the president

delegates according to the Regulations of the Executive Board. After having full discussions and hearing opinions from standing statutory auditors present, the board makes decisions on important management issues. Of proposals discussed and resolved at the Executive Board, important matters specified in the Regulations of the Board of Directors are submitted to the Board of Directors for deliberations and decisions.

The Executive Board, over which the president presides, meets twice a month in principle.

• Board of Corporate Auditors

The Board of Corporate Auditors consists of five statutory auditors, of which three are outside auditors. The roles of the board, which meets once every four months in principle, are to report, discuss and make necessary resolutions for audit-related important matters. Based on auditing standards determined by this board, each auditor monitors the execution of duties by directors through such means as attendance at the Board of Directors' meetings and holds an internal inquiry into business operations, including subsidiaries' operations.

• PL Council

The PL (Product Liability) Council discusses and determines basic guidelines and policies with regard to ZEON's product liability. The council, over which the president presides, meets twice a year in principle.

• Environmental and Safety Promotion Council

This council discusses and determines policies and actions regarding environment-and safety-related matters. The council, which the president chairs, meets twice a year in principle.

• Public Relations Committee

To ensure timely and appropriate disclosure of information, this committee discusses and determines corporate information to be disclosed and its details whenever necessary.

(3) Internal audits, statutory auditors' audits and accounting audits

As a company using a corporate auditing system, ZEON has five statutory auditors, of which three are outside auditors. Statutory auditors attend the Board of Directors' meetings and other important internal meetings to provide any advice as required. In addition, they join in the operational audits carried out by the Internal Audit Department. In this way, statutory auditors conduct efficient audits, maintaining close cooperation with the department responsible for internal audits. If necessary, statutory auditors request the department responsible for internal audits or other relevant sections to conduct an inquiry and submit reports to them.

The Internal Audit Department has been established as the section responsible for internal audits. The department carries out internal audits, which are necessary for ensuring appropriate operations at each division and subsidiary. The department has three staff members, who are also responsible for supporting statutory auditors. Statutory auditors and the Internal Audit Department regularly exchange views with the independent auditors regarding the results of their accounting audits. If necessary, they stand by during an accounting audit and discuss matters with the certified public accountants who conduct the audit, thereby enhancing mutual cooperation.

(4) Risk Management System

ZEON has the following three committees associated with risk management under the Risk Management Council, over which the president presides.

• Risk Management Committee

This committee is responsible for dealing with crises that have occurred and preventing similar incidents from occurring in the future.

Using ZEON's internal network, the committee quickly gathers risk-related information. In addition, the Compliance Hotline, a reporting system in which outside lawyers participate, has been established.

• Compliance Committee

This committee's roles are to provide training and education and to carry out inspections with the aim of preventing any crisis from occurring. The committee draws up and implements preventive measures regarding violations of laws and regulations, and compliance-related training and education programs and inspection plans.

• Antitrust Law Compliance Committee

This committee was established to prevent any director or employee from violating the Antitrust Law.

• Export Security Control Committee

The Security and Export Control Committee is an organization that observes and appropriately implements export regulations. During fiscal 2007 the committee responded to the partial amendment of the Export Trade Control Order and revised the company regulations.

• Corporate Governance Committee

The Internal Controls Committee promotes the creation and evaluation of internal control systems governing financial reports, and administers the internal control reporting system based on the Financial Instruments and Exchange Law.