

CSR Report 2010

ZEON Corporation
Corporate Social Responsibility



ZEON

Introducing the 2010 CSR Report

ZEON Corporation's three-year mid-term management plan, PZ-3 (Proud ZEON-3), covering the years 2005 to 2007, set forth our CSR-oriented management and established a shared awareness of its importance across the entire ZEON Group. The company has worked to expand its CSR through its business activities and regional and social involvement by strengthening its compliance systems, establishing reliable and safe plants, and coexisting harmoniously with local communities.

In the IZ-60 (Innovation Zeon-60) three-year mid-term management plan for 2008 to 2010, we also intended to create environmentally friendly products and factories and generate value, satisfying both our customers and the wider society through our operations as a manufacturer that emphasizes CSR, rigorously ensures compliance, and puts safety first, while recognizing that the company is a social entity.

Furthermore, the ZEON Group has established a new ZEON CSR Policy and a CSR Code of Conduct in fiscal 2010 as a fresh beginning for participation in CSR activities.

This is the fifth year we have issued the CSR Report for all of our stakeholders on the ZEON Group's CSR activities since releasing the Responsible Care Activity Report, which was previously published by ZEON Corporation and subsequently renamed the CSR Report in 2006. We have significantly changed the form for this year's report, which is now issued in two editions: a printed edition in the form of a brochure and a digital version that can be viewed via the Internet. Content in the printed edition has been arranged to present ZEON Group CSR activities in a simpler, easy-to-understand manner with a focus on special feature articles. The online version includes content similar to that found in our previous publications, including reports by site on our CSR activities.

We hope this report will enhance your understanding of the ZEON Group's CSR activities. Please do not hesitate to contact us with any comments or questions you might have.

September 2010



Report Policy

This report was created in line with the following basic policy.

- (1) The number of photographs and comments from individuals were increased to enhance the statement of employees.
- (2) This report is issued annually.
- (3) The report was collated with reference to the 2007 Environmental Reporting Guidelines of the Ministry of the Environment and the 2006 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI).

Organizations Covered

ZEON and the following subsidiaries and affiliates are included:

Japan: ZEON Kasei Co., Ltd., ZEON Polymix Inc., Optes Inc.,
ZEON Chemicals Yonezawa Co., Ltd., RIMTEC Corp.,
Tokyo Zairyo Co., Ltd., ZEON Environmental Materials Co., Ltd.,
ZEON Medical Inc., ZEON Yamaguchi Co., Ltd., ZEON North Co., Ltd.,
Okayama Butadiene Co., Ltd.
Overseas: ZEON Chemicals LP. (USA),
ZEON Chemicals Europe Ltd. (UK), ZEON Chemicals Thailand
Co., Ltd. (Thailand), ZEON Advanced Polymix Co., Ltd. (Thailand)

Period Covered

April 2009 to March 2010
(also includes some new information from April 2010 and later)

Table of Contents

Message

President's Message	2
Business Overview	4

CSR at ZEON Corporation

Corporate Philosophy, ZEON CSR Policy and CSR Code of Conduct.....	6
Environment Philosophy and Safety Philosophy	8
CSR Promotion System	9
Corporate Governance and Internal Controls.....	10

Special Features

Special Report 1-1 ZEON's New CSR

Round-table Discussion: CSR at ZEON Corporation	13
Special Report 1-2: CSR Efforts at Each Plant	18
Special Report 2 Efforts for Mitigating Global Warming	19
Special Report 3 Integrated Management of QMS and Quality Assurance	20

Environmental Activities

Environmentally Conscious Products Development.....	22
Overview of 2009 Targets and Results	24
Third-Party Opinion.....	25



President's Message

In April 2010, ZEON Corporation celebrated the 60th anniversary of the company's founding. On behalf of all the employees of ZEON Group, I would like to take this opportunity to convey our sincerest gratitude to all of our stakeholders, including suppliers, customers, shareholders, investors, concerned parties of each of our local plants and offices, and cooperating firms, whose support and contributions over the years have helped us reach this milestone.

This is the final year of ZEON Corporation's three-year mid-term management plan for 2008 to 2010 (IZ-60 (Innovation Zeon 60)) launched in 2008. Although some revisions were made to our corporate targets in the IZ-60 plan last year amid rapidly changing global economic conditions triggered by the so-called Lehman Shock, we have operated our business with the goal of maximizing corporate value and creating environmentally friendly factories and products. We have sought to do so as a manufacturer with a steadfast, preeminent commitment to CSR, rigorous compliance, and a safety-first approach. As a chemicals company that acknowledges its position as a member of society, we intend to enrich society by applying our advanced innovation capabilities to quickly deliver products that satisfy customers around the world. At the same time, we will carry forward the deepening commitment expressed in our 2005 to 2007 management plan (PZ-3) to emphasize CSR in our operations in the context that "difficult times provide an opportunity for fundamental change and build the foundation for future development" (2009 President's Policy).

We have just started preparing our new three-year mid-term management plan for 2011 to 2013 with an eye toward our 70th anniversary (2020). As a foundation for this plan, we established the ZEON CSR Policy and CSR Code of Conduct in April 2010 to publicly clarify our essential philosophy for CSR activities and call for all of us in the ZEON Group to forge a fresh, new beginning for our engagement in such activities.

The newly established ZEON CSR Policy consists of the following three policies within the framework of our corporate philosophy, "ZEON will contribute to the preservation of the Earth and the prosperity of the human race."

- We will ensure compliance and meet society's needs for safety and security.
- We will contribute to sustainably developing society and protecting the global environment through our corporate activities.
- We will ensure that each and every ZEON person is aware of CSR and acts accordingly.

These policies express the ZEON Group's firm determination to publicly engage in CSR activities. In this context, all our executives and employees are committed to take CSR to the next level through our business activities.

The 2010 President's Policy challenges us to "increase the visibility of our business operations, enabling all of us to think and act quickly to be a company that takes on every challenge of the times." Therefore, in fiscal 2010 we decided to address two major issues: reliable quality assurance (pursuing 100% yield rate in terms of quality assurance for all of our products) and increasing global competitiveness (realizing our global competitive edge based on reliable, safe production), while maintaining our basic stance with a focus on CSR.

We believe the cornerstone of the foundation for our CSR activities is to concentrate on our core business, that is, to contribute to society through our business. The ZEON Group has developed an impressive range of environmentally friendly products through its "original technology that does not imitate others and cannot itself be imitated," including fuel conserving tires, latex for gloves that reduces protein allergies, "Zeoglobule®" polymerized toner that enables copiers to consume less energy, "ZEONOR®" and "ZEONEX®" cycloolefin polymer products featuring outstanding optical characteristics for such applications as mobile phone camera lenses, "ZEONOR optical film®" produced by solvent-free extrusion method to improve the energy efficiency of LCD TVs and make them even thinner, and "Zeorora®" next-generation fluorochemical cleaning agent that won the Stratospheric Ozone Protection Award in the United States and helps protect the ozone layer to prevent global warming. We supply these products to society through eco-friendly, reliable and safe production methods established through our Responsible Care activities. In addition, we expect to achieve even greater efficiencies and reliability through production innovation, New Production System (NPS) and advances in our business operations.



Regarding compliance issues as a core concern of CSR, we intend to sincerely uphold the values and ethics required of a corporate member of society, beyond legal and regulatory mandates, and by so doing maintain fair business practices while conducting business in harmony with local communities and the general public. Adhering to the newly established ZEON CSR Policy and CSR Code of Conduct, we plan to further advance our CSR promotion system to revitalize our CSR activities, and aggressively apply this system to affiliated group companies as well, including overseas affiliates.

In terms of information disclosure, we have always sought to offer as much data as possible in an easily understandable form. At the same time, we updated the CSR topics on our website this year to improve the overall presentation of information.

The ZEON Group will continue working to realize the sustainable development of society and meet the demands and expectations of all of its stakeholders, including suppliers, customers, shareholders, investors, concerned parties of each of our local plants and offices, and affiliated companies through timely action, dialogue and contribution to society. Our goal is to establish ourselves as a group deeply committed to CSR, that earns the trust of society at large as well as the pride of its employees by strengthening compliance systems, establishing reliable and safe plants, and coexisting in harmony with local communities and the wider society.

Finally, I would like to say thank you for taking the time to review this report, and we welcome your opinions and suggestions.

September 2010

Naozumi Furukawa
President and CEO

Business Overview

ZEON's unique technology delivers vital benefits to society

ZEON's extensive range of products occupies a commanding position, particularly in international markets. These include synthetic rubber designed specifically for timing belts and other safety-critical components in automobile engines, green note aroma chemicals (leaf alcohol) for perfumes and food flavors, and environmentally sound products such as lightweight, transparent cycloolefin polymer resins and etching gases for semiconductors that do not damage the ozone layer.

At ZEON, we strive for innovative and revolutionary new technology that "does not imitate others" and "cannot itself be imitated" while pursuing continuous improvement of our core strengths. Our ultimate aim is to establish a leading presence in society.

ZEON's Business Sectors

• Elastomer Business

Synthetic Rubber, Synthetic Latex,
Chemical Products

• Specialty Material Business

Chemicals, Electronics Materials,
Specialty Plastics

• Other Businesses

RIM, Medical Devices,
Other Products



Company Profile

Company Name: ZEON Corporation

Established: April 12, 1950

Capital: 24.2 billion Yen (as of March 31, 2010)

Employees: 2,815 (consolidated), 1,642 (ZEON Corporation only) (as of March 31, 2010)

Description of Businesses:

- Elastomer Business: Manufacture and sale of synthetic rubber, synthetic latex, and chemical products
- Specialty Materials Business: Manufacture and sale of chemical products, electronic materials, and specialty plastics
- Other Businesses (including ZEON group businesses): RIM combination liquid and molded items, medical equipment materials, butadiene extraction technology, vinyl chloride compounds, packaging and distribution materials, building materials, etc.

Head Office: Shin-Marunouchi Center Building, 1-6-2 Marunouchi, Chiyoda-ku, Tokyo 100-8246 Japan

TEL: 03 (3216) 1772 (reception)

FAX: 03 (3216) 0501

Elastomer Business

- **Synthetic Rubber**

Styrene-butadiene rubber, butadiene rubber, isoprene rubber, acrylonitrile-butadiene rubber, acrylic rubber, epichlorohydrin rubber, hydrogenated nitrile rubber, carbon master batch, etc.

- **Synthetic Latex**

Styrene-butadiene latex, butadiene latex, acrylonitrile butadiene latex, acrylate latex

- **Chemical Products**

C5 petroleum resin, thermoplastic elastomer SIS, etc.



Gloves using synthetic latex



Timing belt using synthetic rubber



Gaskets

Specialty Material Business

- **Chemicals**

Aroma chemicals, specialty solvents, functional chemicals, etc.

- **Electronics Materials**

Photoresist, etching gas, toner products, binder resin for electromagnetic tape, sealing compounds for lithium-ion rechargeable battery, binder for lithium-ion rechargeable battery, etc.

- **Specialty Plastics**

Cycloolefin polymers and processed products



Mobile phone using specialty plastics



Raw film



Perfumes using aroma chemicals



Truck wind deflector made by RIM (Reaction Injection Molding)



Medical equipment (IABP balloon)



Combined septic tank

Other Businesses

- **RIM**

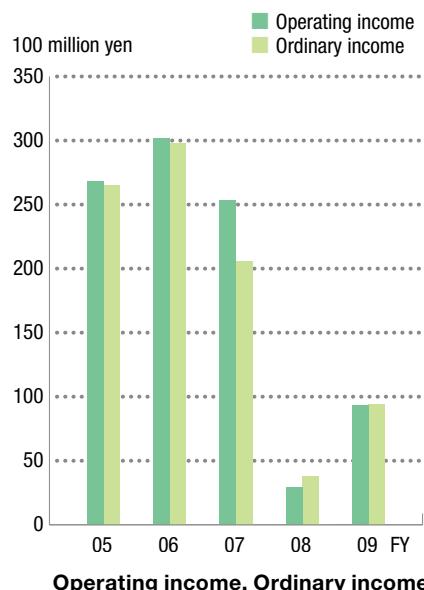
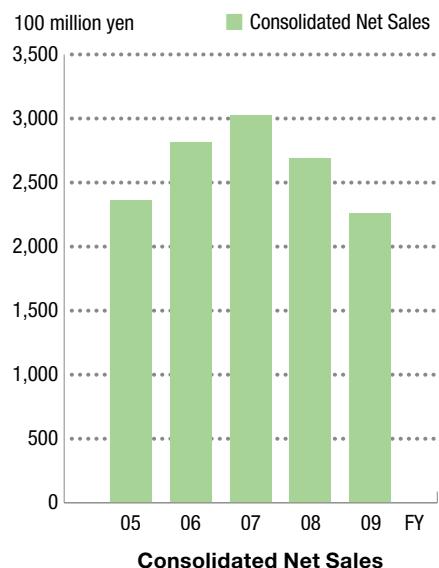
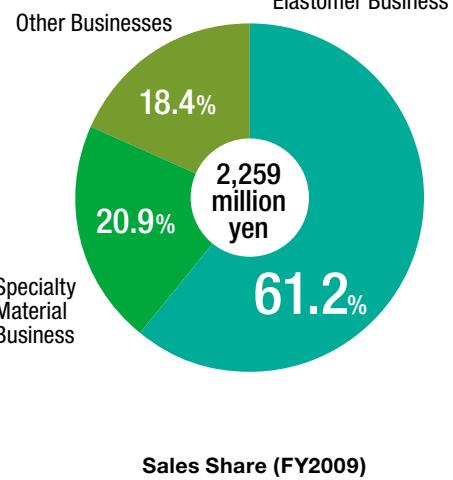
Combined septic tank, building equipment components, RIM (reaction injection molding) combination liquid, construction and agricultural equipment components, game console cases, etc.

- **Medical Devices**

Various therapeutic catheters, etc.

- **Other Products**

Vinyl chloride compounds, butadiene extraction technology, isoprene extraction technology, butane-1 extraction technology, synthetic rubber and latex manufacturing technology, packaging and distribution materials, and building and construction materials





ZEON Group's CSR CSR Policy

Corporate Philosophy (Established April 1997)

“ZEON will contribute to the preservation of the Earth and the prosperity of the human race.”

In keeping with its name, which derives from the Greek words “geo” (the Earth) and “eon” (eternity), ZEON will contribute to the sustainable development of people, society and the global environment through innovative world-class technologies.

ZEON CSR Policy (Established April 2010)

- We will ensure compliance and meet society's needs for safety and security.**
- We will contribute to sustainably developing society and protecting the global environment through our corporate activities.**
- We will ensure that each and every ZEON person is aware of CSR and acts accordingly.**

The ZEON CSR Policy has been established to replace ZEON's 7 Articles (established September 1997) and will serve as the basic philosophy on which the ZEON Group's CSR is built. Each policy is further defined as follows.

First principle

Beyond complying with laws and regulations, we intend to firmly uphold the values and ethics required of a corporate member of society and cause no distress to society. Moreover, we will conduct all business operations appropriately in order to prevent accidents, provide a sense of security to our employees as well as our local communities, thoroughly address quality and product liability issues, and undertake enterprise-wide environment and safety initiatives to avoid impairing the safety and security of society.

Second principle

We will contribute to the realization of a ubiquitous society and protect the global environment through our core business. We will encourage proactive action across the world, refine innovative technology, and continually create new products. As an indispensable and valuable corporate citizen, we will enhance our corporate value and meet the expectations of society.

Third principle

Through our CSR management, we will continue to strengthen our corporate governance and ensure that all employees thoroughly recognize CSR as a personal commitment, perform their duties in accordance with this understanding, achieve our mission to meet the public's expectations, and fulfill ZEON's CSR with enthusiasm. We will remain dedicated to environmental preservation as well as safety and quality assurance through the participation of every individual and in every corporate activity.

CSR Code of Conduct (Established in April 2010)

This code of conduct was established after the ZEON CSR Policy by thoroughly reviewing the previous Zeon Compliance Code of Business Practice (established October 2003). While the Zeon Compliance Code of Business Practice was essentially regarded as a list of prohibited activities by stakeholder category, with an emphasis on legal and regulatory compliance, the new code is intended to clearly outline the behavior to be progressively adopted with the perspective of meeting society's expectations in accordance with the ZEON CSR Policy.

CSR Code of Conduct

All directors and employees of the ZEON Group are committed to complying with the following code of conduct based on the corporate philosophy and the ZEON CSR Policy.

April 21, 2010

1. Ensure compliance and meet society's needs for safety and security	2. Contribute to sustainably developing society and protecting the global environment through our corporate activities
(Establishment of CSR system and presence as role model by top management in ensuring compliance) <ul style="list-style-type: none"> i. Top management will demonstrate the utmost leadership and clarify the corporate philosophy, basic CSR policy and CSR code of conduct to ensure that compliance matters are made well known throughout the company. ii. Top management will establish a company-wide operating structure for CSR. 	(Promotion of corporate activities) <p>Top management will present the goals and directions of corporate activities in the fiscal policy and the medium-term management plan, and each department will implement specific actions and plans accordingly. Each and every employee will understand these actions and plans and actively take steps to achieve the set goals and directions.</p>
(Compliance with antitrust laws) <p>Under no circumstances shall we be engaged in any act that violates antitrust regulations such as cartels, collusive tender, maintenance of resale price, or abuse of dominant bargaining position; we will engage in fair, free corporate competition.</p>	(Dealing with environmental issues) <ul style="list-style-type: none"> i. With respect to research, development, production, sales and disposal of products, we will adequately recognize the importance of environmental protection at all times, comply with environmental laws and regulations, and make efforts to manufacture products with due consideration to the environment. ii. We will make continuous efforts to reduce harmful chemical substances, industrial wastes and CO2 gas emissions. iii. When outsourcing the collection, transport and disposal of industrial wastes, we will take adequate caution in selecting the service provider in order to prevent illegal disposal and will conduct periodical audits.
(Prohibition of entertaining and gift-giving to civil employees) <p>We will not entertain or offer gifts to civil employees or their equivalent.</p>	(Compliance with local laws and regulations and respect for cultures, traditions, customs and religions) <p>When pursuing business activities overseas, we will not only comply with the local laws and regulations but also pay respect to the cultures, traditions, customs, religions and other characteristics of the respective country or region.</p>
(Severance of relationships with anti-social forces) <ul style="list-style-type: none"> i. Under no circumstances shall we provide benefits or utilize the influence of anti-social forces (e.g. gangs, racketeers, troublemakers and provokers of discrimination). ii. We will not be engaged in any transaction with an anti-social force or any party related with an anti-social force. iii. We will deal with anti-social forces in a strong, fearless, non-provoking, non-despising, articulate and non-submissive manner. 	(Contribution to society) <p>As a good corporate citizen, each and every employee will collaborate with local society, be actively involved in dealing with social contribution matters, and aim to form a corporation that is trusted by society.</p>
(Provision of product safety, manufacturing responsibility and product information) <ul style="list-style-type: none"> i. We will provide customers with quality goods, products and services that have high reliability and safety, and will implement the necessary measures to prevent any damage occurring to the lives and assets of our customers. ii. We will properly provide customers with information on goods, products and services and respond sincerely to inquiries from customers. 	(Communication with the society) <p>Through interacting with the local community and pursuing promotional activities, we will promote mutual communication between the company and the society.</p>
(Selection of production service providers) <p>When outsourcing the manufacturing of products, we will ensure in advance that the service supplier demonstrates strict compliance with laws and regulations and will continue to verify that stance throughout the duration of our relationship with the service provider.</p>	(Security and disaster prevention) <p>We will properly conduct production activities and safekeeping and transport activities related to sales and prevent the occurrence of any accidents and emergency situations. Should an accident occur, we will make efforts to promptly prevent its escalation, secure the safety of the region and properly disclose information.</p>
(Appropriate accounting treatment and disclosure of management information) <ul style="list-style-type: none"> i. We will accurately update and make postings on the accounting ledgers and tickets in accordance with the respective laws and regulations and our internal regulations. ii. We will properly disclose management information of the ZEON Group, including financial data and status of operations. 	3. Ensure that each and every ZEON person is aware of CSR and acts accordingly
(Protection of personal information) <p>We will properly manage personal information so as to prevent unauthorized access and leakage of information to unrelated or outside parties.</p>	(Compliance with internal regulations and respect for social standards) <p>All directors and employees of the company will not only comply with laws and regulations of Japan and of respective overseas countries and our internal regulations but also respect social standards.</p>
(Management of confidential information of the company) <p>Confidential information of the company will be properly managed and will not be disclosed or leaked outside of the company without prior consent.</p> <ul style="list-style-type: none"> (1) Confidential information of the company and of other companies will be placed under strict management and will not be disclosed to outside parties or used for purposes other than for operations of the company. (2) When disclosing confidential information of the company to an outside party, we will enter into a confidentiality agreement with such party and make efforts to prevent leakage of information. (3) We will not misappropriate confidential information of other companies or use the information for purposes other than as authorized by the subject company or companies. (4) After our employees leave the company, they will not disclose any confidential information of the company or of other companies and will not use the information for any purpose whatsoever. 	(Prohibition of insider trading) <p>In conducting business activities, when accessing any internal information of the ZEON Group or of our business counterparts, we will not trade stocks and corporate bonds of the subject company or companies until the information is formally disclosed to the public.</p>
(Protection of intellectual property rights) <p>Intellectual property rights are crucial assets of the company, and we will properly make use of those rights and make efforts to protect them.</p> <ul style="list-style-type: none"> (1) With respect to inventions associated with production and development, we will promptly apply for patents or protect the relevant know-how and take other actions to protect the intellectual property rights of the company. (2) In pursuing production and development, we will conduct appropriate research in advance to ensure that we do not infringe upon the intellectual property rights of other parties. (3) We will properly use and manage only the licenses that have been formally acquired and comply with the conditions of usage for any and every piece of software, and will not use illegal copies. 	(Respect for human rights and prohibition of discrimination) <p>We will make efforts to maintain a sound working environment at all times, respect the human rights of each individual, and not engage in any act that may lead to discrimination.</p> <ul style="list-style-type: none"> (1) We will not commit unlawful discrimination based on birth, nationality, race, ancestry, creed, religion, sex, age, disability, preference, academic history or any other characteristics. (2) We will not force business operations through violence, jeering, abusing, smearing and threatening behavior, nor will we infringe upon human rights through bullying and other such acts. (3) We will not engage in child labor and forced labor nor will we purchase any product manufactured through such labor.
(Compliance with competition laws of other countries) <p>When pursuing business activities overseas, we will be fully aware of the Antitrust Law of the U.S., the Competition Law of the EU and other laws and regulations of respective countries, and comply with such laws and regulations.</p>	(Prohibition of sexual harassment) <ul style="list-style-type: none"> i. We will not commit sexual harassment or any act that may be misinterpreted by others as sexual harassment. ii. We will not initiate unpleasant comments or acts of a sexual nature and be sure to prevent others from demonstrating such comments or acts.
(Strict export management under a security pact) <p>With respect to all export transactions, we will conduct appropriate research, in advance, of the profile and business conditions of counterparties to ensure that exported products and technologies are not used for the development of weapons and for other military purposes.</p>	(Prohibition of conflicts of interest) <p>We will not make use of our position in business or information obtained on duty to pursue any activity that may damage the interest of the ZEON Group. We will also not take action that runs contrary to the benefits of the ZEON Group without prior consent nor will we place ourselves in such a position.</p>
(Compliance with import and export regulations) <p>In pursuing import and export procedures, we will comply with trade-related laws and regulations, international conventions and other rules.</p>	(Reporting of violations against the code of conduct) <ul style="list-style-type: none"> i. When detecting or committing any act that violates or that may possibly violate the code of conduct herein, we will promptly report the matter to a higher management and to the organization prescribed in the internal regulations. ii. The individual reporting such an act shall not be given any disadvantageous treatment whatsoever.
(Prohibition of entertaining and gift-giving to foreign civil employees) <p>We will not provide or make promises to any foreign civil employees or their equivalent regarding benefits such as money, or suggest to them the possibility of such benefits, in order to gain unauthorized benefit in business or in return for a favor offered.</p>	(Submission of pledge) <p>Directors and officers shall submit a pledge agreeing to comply with the code of conduct herein addressed to the President & CEO.</p>
(Establishment of a safe, clean working environment) <p>We will place top priority on securing safety and hygiene in the workplace and make efforts to ensure such a working environment is maintained. In addition, we will understand and comply with laws and regulations related to operational safety and hygiene. Should an emergency situation arises while conducting business, we will make efforts to keep the accident at the minimal level and ensure that we follow the respective procedures, including immediate reporting, to prevent recurrence.</p>	4. Supplementary provisions
(Compliance with labor-related laws) <p>We will comply with laws and regulations related to labor and make efforts to maintain a pleasant, healthy working environment.</p> <ul style="list-style-type: none"> (1) We will strictly manage working hours, breaks, holidays and annual paid leave to ensure that we do not violate the Labor Standards Law. (2) We will not force our employees to carry out operations including excessive labor and overtime. (3) We will commit to maintaining sound physical and mental conditions of our employees at all times. 	(Scope of application of the code of conduct) <p>The code of conduct herein shall apply to all directors and employees of the ZEON Group. It will also be applied correspondingly to dispatched workers and other individuals employed under part-time contracts.</p>
(Application to overseas group companies) <p>Overseas group companies may, with prior approval from ZEON CORPORATION in Japan, make partial amendments to the code of conduct in respect of local laws and regulations, cultures, traditions, customs, religions and other characteristics.</p>	(Penalty) <p>Any individual who has violated the code of conduct herein or has ignored a violation against the code of conduct shall be penalized based on working regulations and other internal rules.</p>
(Management department) <p>The code of conduct herein shall be managed by the Legal Department of ZEON CORPORATION Japan.</p>	

Environmental Philosophy and Safety Philosophy

Environmental Philosophy and Safety Philosophy

Environmental Philosophy

1. Environmental protection is a mission of a socially responsible organization.
2. Our basic belief is that environmental protection can be achieved with innovative technology.
3. Environmental protection will be achieved when all employees work together with a sense of mission to overcome challenges.

Safety Philosophy

1. Safety is the foundation of all business activities and the greatest priority.
2. Our basic belief regarding safety is that we can prevent all accidents.
3. Safety will be achieved by performing the 5Ss and when everyone takes responsibility for their own actions.

Responsible Care Policy

1. Prioritize the environment and safety

Protecting the environment and ensuring safety are preconditions for all business activities and are the most important priorities. We will work continuously to enact full accident prevention countermeasures, and provide education and training for all employees to prevent safety and environmental accidents.

2. Collect and distribute the latest information on chemical products

We will collect, store and manage the latest information required for the appropriate handling, use and disposal of chemical products, and distribute them to employees and users.

3. Minimize the discharge of toxic chemicals and waste

We will work to reduce the discharge of hazardous chemical substances, minimize waste, and develop technology for recycling and reusing materials.

4. Promote activities for conserving resources and energy

We will aim to dramatically reduce the amount of energy we use and help alleviate global warming by developing innovative technology and actively promoting resource and energy conservation activities that involve all employees.

5. Take the environment and safety into account when developing new processes and products and performing quality assurance

We will perform thorough environmental and safety evaluations from the initial stages of research, develop technology and products that take the environment and safety into account, and work to maintain and improve the quality of technology and products.

6. Live together with society

We will strictly observe regulations related to the environment and safety, whether the regulations come from the local community, the national government, overseas, or organizations to which we belong. While cooperating in these activities, we will work to enhance our communication with the local community and society in order to receive a better understanding of ZEON's activities and further strengthen the trust that society has in our company.

7. Perform continuous improvements

We will continuously improve our environment safety management and technology by operating a Responsible Care Audit, the Safety Management System, an Environment Management System based on ISO14001, and an Occupational Health and Safety Management System.

ZEON Group's CSR CSR Promotion System

A CSR Coordination Division was established to oversee the company's social responsibilities as part of organizational changes that occurred in June 2008.

CSR Promotion Organization



CSR Promotion System

Meetings	Risk Management Conference (twice a year) Discussion and decision-making concerning the progress reports from the five committees (Risk Management, Compliance, Anti-trust Law Regulatory Committee, Export Security Control Committee and Corporate Governance Committee) Chairman: President	
	Environment and Safety Conference (twice a year) Discussion and decision-making concerning company-wide policies and actions on the environment and safety. Chairman: President	
	Quality Assurance Conference (once a year) Discussion and decision-making concerning company-wide policies and quality assurance initiatives. Chairman: President	
	PL Conference (twice a year) Discussion and decision-making concerning fundamental, company-wide issues related to chemical safety and product liability. Chairman: President	
	Committees	
	Risk Management Committee Prevention and control of risks. Dealing with crises.	Export Security Control Committee Proper export security control.
	Compliance Committee Prevention of violations of law. Education, training and audits of compliance with law.	Corporate Governance Committee Promotion of establishment and evaluation of internal control over financial reporting.
	Anti-trust Law Regulatory Committee Prevention of violations of the Anti-trust Law.	Public Relations Committee Control of public relations activities to be conducted appropriately in a timely manner.

Corporate Governance and Internal Controls

Our Basic Philosophy Regarding Corporate Governance

The company focuses on increasing profits and consistently enhancing corporate value while balancing the various interests of its shareholders and other diverse stakeholders. To this end, we have been working to establish a system that supports efficient and sound corporate management through corporate governance.

By putting into place our corporate governance system, we are clarifying the functions and roles of each organizational entity within the company and facilitating quick decision-making and implementation. We are also accurately monitoring the status and results of our activities and disclosing information to improve business transparency.

We are determined to further enhance our corporate governance system to effectively carry out these functions.

The components of our corporate governance structure are summarized below.

Board of Directors

Board of Directors meetings are, in principle, held every month with the attendance of corporate auditors to ensure the directors act in compliance with applicable laws and the articles of incorporation in the execution of the company's businesses. The Board of Directors primarily makes decisions about basic management policy, strategies and other key aspects of business execution, including directors' duties as stipulated by laws and regulations. At present, no outside directors have been appointed as members of the Board of Directors.

Executive Committee

This committee is composed of the President and directors serving as corporate executive officers at managing-director grade or above as well as other members separately nominated by the President in accordance with the rules for the Executive Committee. The committee meets, in principle, twice a month and deliberates and decides on matters including consultation with corporate auditors presenting attendance. Of the agenda items discussed and determined by the committee, key items as stipulated in the regulations for the Board of Directors are taken up by the board for further discussion and deliberation.

Board of Corporate Auditors

The Board of Corporate Auditors is composed of five members, including three outside corporate auditors. The board meets quarterly, in principle, to report, discuss and resolve important issues related to corporate audits.

In accordance with the auditing policy set by the Board of Corporate Auditors, each member audits directors' execution of duties through various means, such as attending meetings of the Board of Directors and monitoring the status of company business operations, including subsidiaries.

Risk Management Conference

This conference discusses and decides on the annual activity plan of the Risk Management, Compliance, Anti-trust Law and Regulatory, Export Security Control, and Internal Control Committees, as well as various measures related to this plan. This conference, which is chaired by the President and meets, in principle, twice a year, issues necessary instructions to each committee after receiving their status reports.

Risk Management Committee

This committee was established to manage risks for maintaining business continuity. It is responsible for systematically preventing potential risks and gaining control over emerging risks. It is also responsible for coordinating sound action to minimize loss from any crisis that may occur. This committee meets from time to time as the need arises.

Compliance Committee

This committee was established to prevent violations of laws and regulations and is responsible for creating education and training programs and audit plans for legal compliance. The programs are assigned to the department in charge of their implementation. The purpose of this committee is to make sure each executive and employee of the ZEON Group acts in full accordance with the values and ethics that society expects of them, and by so doing maintains fair and proper business practices while developing business in harmony with local communities and the general public. This committee meets from time to time as the need arises.

Anti-trust Law Regulatory Committee

This entity was set up to proactively prevent any breaches of anti-trust law by executives or employees of ZEON and the ZEON Group with the goal of maintaining fair and free competition. The committee meets from time to time as the need arises.

Export Security Control Committee

As the body responsible for exercising appropriate export security controls, this committee oversees export and domestic sales of the products and commodities the ZEON Group sells as well as the technologies provided by the Group in compliance with the foreign exchange law, the foreign trade control law and other applicable laws and regulations. The committee meets from time to time as the need arises.

Corporate Governance Committee

This committee establishes and reviews internal controls related to financial reporting by the ZEON Group and administers the Group's internal reports as regulated by the Financial Instruments and Exchange Law.

PL Conference

Basic policies and measures related to product liability are discussed and decided on during this conference, which is chaired by the President and meets twice a year, in principle.

Quality Assurance Conference

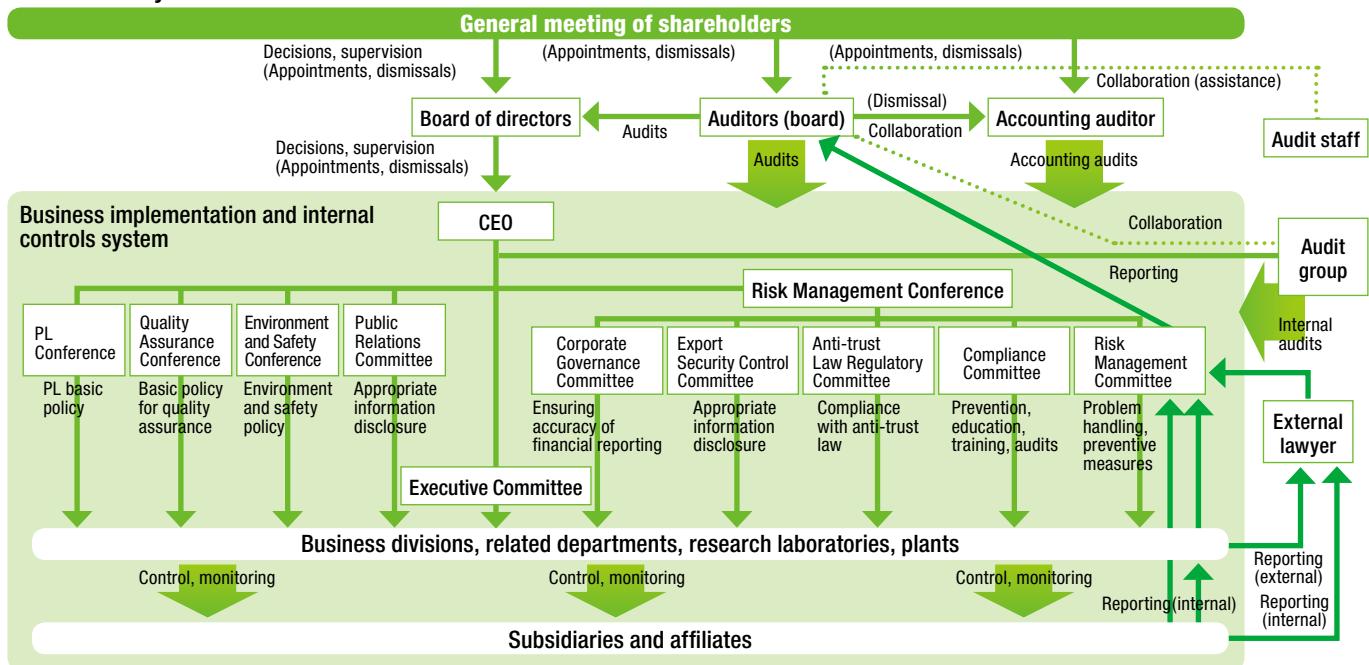
Policies and actions related to quality assurance are discussed and decided on during this conference, which is chaired by the President and meets once a year, in principle.

Environment and Safety Conference

This conference, which is chaired by the President and meets twice a year, in principle, discusses and decides on policies and actions related to the environment and safety.

Public Relations Committee

This committee, which meets from time to time as the need arises, deliberates on the content and availability of information to be disclosed to ensure its appropriate and timely release.

Governance System

Risk Management and Compliance System, and Details of Each Committee's Activity

Risk management and compliance activities of the ZEON Group are currently overseen by five committees (Risk Management, Compliance, Anti-trust Law Regulatory, Export Security Control, and Corporate Governance) under the supervision of the Risk Management Conference chaired by the President.

The specific activities conducted by each committee in fiscal 2009 are summarized below.

- The Risk Management Committee continued handling incidents as they occurred and implemented preventive measures to prevent their recurrence in fiscal 2009. In particular, the committee developed measures against the potential outbreak of new types of influenza as part of the 2009 Business Continuity Plan (BCP).
- The Compliance Committee conducted a workshop on legal and regulatory compliance at each plant, as in the previous year, and completely revised Compliance Textbook II into a question and answer format. Activities for improving the awareness of compliance issues by ZEON Group executives and employees during Compliance Month included a call for compliance slogan submissions and a "message relay" on compliance. The committee also initiated measures for revising the Action Plan for "ZEON's 7 Articles" (Zeon Compliance Code of Business Practice) in fiscal 2009.
- Preceding the introduction of several new price changes in fiscal 2009, the Anti-trust Law Regulatory Committee met in advance and thoroughly reviewed these changes before they went into effect. In addition, a survey to ascertain the rate of attendance at industry association meetings and in-house workshops on the anti-trust law was conducted.
- The Export Security Control Committee met in fiscal 2009 with the goal of establishing a workflow for examining applicable and inapplicable items as well as reviewing transaction evaluation sheets, revising internal company rules, and holding training sessions on the revisions to address related partial amendments.
- The Corporate Governance Committee implemented activities to deal with the company's internal reporting system (described on the following page) in fiscal 2009.

ZEON Group's Risk Management and Compliance System



Risk Management and Compliance Activity Topics

Specific topics related to risk management and compliance, including actions related to Business Continuity Planning (BCP), information security and J-SOX compliance, are summarized below.

BCP

BCPs are required for minimizing the impact on our neighboring communities, customers, suppliers, and other affected groups. These ensure that our business can continue to operate and recover quickly in the event that risks such as natural disasters including major earthquakes, an outbreak of a new influenza strain, or fires caused by our plants actually occur.

The ZEON Group began developing such plans from a CSR perspective in 2007, with specific components put into place

beginning in the following year. Five leading potential risk areas have been addressed: a major earthquake in the Kanto region, an explosion at a production plant, an outbreak of a new strain of influenza, disruption of product distribution or supply of raw materials, and product liability problems. We began reviewing each of these risks, one by one, including responses to a new influenza strain, in fiscal 2009.

Ensuring Information Security

In addition to establishing a comprehensive information technology framework for improving operational efficiency and quality, the ZEON Group is also addressing information security. A company-wide anti-virus system was installed in 1997, security policies were established in 1999, a ZEON information security code was established in 2002, and comprehensive internal rules were established for affiliated group companies in Japan in 2005. An information systems committee chaired by ZEON Corporation's head of IT meets regularly as the top decision-making body for matters relating to information security.

Improving the level of information security requires more than structural and technical measures; it also depends upon the understanding and action of everyone involved. Therefore, updated e-learning courses were conducted during 2008 as part of a regular training regimen. Internal audits of information

security and information security training programs were also conducted to ensure that policies were being correctly implemented in the workplace and to reinforce employee awareness of the importance of information security. The Information Systems Department has also worked with an affiliated company (ZIFTEC), which performs development, operations, and maintenance work. The department has worked to revise and improve business processes, and introduce and deploy an Information Technology Infrastructure Library to further reinforce internal controls and information security. ZIFTEC received Information Security Management Systems accreditation in 2004 and accreditation was renewed after a review audit in fiscal 2009.

J-SOX Compliance

In fiscal 2008, during which the company's internal reporting system (known as J-SOX, the Japanese version of the Sarbanes-Oxley Act) was adopted, we continued to step up our efforts to bolster the system's operation and prepared related evaluation documents and processes. In addition to implementing measures for guaranteeing the accuracy of financial reporting by the ZEON Group, we have looked into activities for improving business operations since adopting J-SOX. Handling the system, however, proved to be overall more of a challenge than we had expected and left us with fewer resources to implement other actions. Although our auditors commented favorably on the appropriateness of our internal controls for financial reporting, we nevertheless sought, through consultation with the auditor, to cut back the number of samples taken by half through reduction of the number of

performance evaluations required. We were consequently able to significantly decrease the workload at our worksites, since implementing these steps meant that in-house evaluators could spend less time on evaluations with fewer samples taken. On the other hand, we aggressively unified supervisory controls. For example, we extended the reach of the system to strengthen overall control by applying a system formerly used by one department to other departments.

We again received a favorable comment from our auditors on the appropriateness of our internal controls for financial reporting in the second year of J-SOX compliance. Nevertheless, we intend to work even harder to bolster the reliability of our financial reporting, as several issues remain unresolved.

Special Report 1-1 ZEON's New CSR

Round-table Discussion

CSR at ZEON Corporation

Participants

Naozumi Furukawa, President and CEO
Shunichi Yamamoto, Director of CSR
Natsuko Nakamura, (Specialty Materials Laboratory 1, R&D Center)
Yuichi Ishiguro, (Accounting & Finance Department, Head Office)
Ryoji Oda (Elastomer & C5 Chemicals Laboratory, R&D Center)
Go Miyauchi (Energy Materials Department of Sales and Marketing, Head Office)
Shuhei Okude (Product Technology - Optes, Specialty Plastics & Components Division, Head Office)

A round-table discussion on the ZEON CSR Policy and CSR Code of Conduct, which were formulated in April 2010, was held with President Furukawa and young employees on July 12, 2010. The event provided an opportunity for gaining deeper insight into how employees felt about CSR and future efforts. We also sought feedback on how we can intensify CSR efforts at plants and offices.

Executive Thoughts on Formulating the ZEON CSR Policy

Yamamoto: I have convened young employees and offered them an opportunity to share their thoughts on CSR. As the company determined the ZEON CSR Policy and CSR Code of Conduct this April, I would like you to discuss your everyday feelings about CSR and future efforts with the hope that this discussion helps us all

gain deeper insight. First, I would like President Furukawa to explain the background behind developing the CSR Policy.

Furukawa: I always mention management with a strong commitment to CSR in our annual reports and the 3-Year Mid-Term Management Plan. These days, the world has changed in such a way that any compliance violation could result in the entire company ceasing to exist. The impetus for this commitment was an incident that

occurred in 2003 when I took up the post of president. The company was under investigation by the courts for allegedly engaging in price-fixing with NBR in Europe and North America. Then, on November 15, we received the humiliating news that the self-safety inspections for accreditation at the Mizushima and Tokuyama Plants had been revoked by the Nuclear and Industrial Safety Agency of the Ministry of Economy, Trade and Industry. We were able to regain accreditation after taking the necessary steps. Our concern for the ongoing situation, however, has led us to shift our corporate structure to focus on compliance.

In an effort to sincerely tackle this issue, we established the Compliance Action Guide (ZEON's 7 Articles) in 2003. Compliance begins with following laws and regulations. While normally a company does not violate laws, that alone does not justify its continuing right to exist. We came to the realization that we should evolve into a company that serves society in a more positive way. In that light, we established the ZEON CSR Policy with the belief that we should project the correct CSR message externally.

CSR that Individuals Need to Think About (What should each department do?)

Yamamoto: President Furukawa has explained the background behind establishing the ZEON CSR Policy. Clause 3 of the policy states, "individual employees shall be aware of CSR and take action." I would like you to talk about what steps you are taking in each of your departments that is leading to CSR.



Nakamura: Currently, I'm developing new materials. I believe there are roughly three important CSR-related factors in R&D.

The first is safety. Working while ensuring the safety of the workplace and the local community is customary; we must, however, consider the safety of those who use our products and the environment in which products are used as we release new ones. We try to select materials



with this in mind. Second, we must consider the environment. This issue may overlap with safety, but what makes it different is that we should think about the environment beginning with research and development. Examining whether a product impacts the environment at any point of its lifecycle, from development, production, sales, and use to disposal, is also important.

The third area is contribution to society. By considering what users expect, what end users expect, and the various possible roadmaps for how technology could advance, I would like to move forward with researching and developing new, eco-friendly materials to offer to users.

Ishiguro: I am in charge of accounting at the Head Office. For me, CSR in daily operations is related to paying taxes and IR activities. A company must pay taxes to operate. I believe it's also important to establish a system for disclosing management information to shareholders and investors in a timely and appropriate manner.

Oda: I am engaged in the research and development of C5 elastomer. We value product quality in research and development. We also strive to meet society's desire for safety by improving products as well as reducing CO₂ emissions to mitigate global warming. Also, we shouldn't forget that we want to contribute to the creation of a better society by developing new products based on our own proprietary technology.



Miyauchi: I am in charge of the sales of battery materials. For us, CSR comes down to legal issues. Specifically, we must adhere to anti-trust laws and Security Export Administration Regulations. Because we are involved in customer's battery development, I believe we can contribute, although indirectly, to the conservation of the global environment. Understanding

customer expectations and offering innovative materials, or discerning market needs and proposing new materials to expand business is our CSR.

Okude: I belong to Product Technology - Optes of the Specialty Plastics & Components Division, and my main job is technical support for customers. To maintain close customer relationships, I provide technical follow-up, including provision of a variety of information, from quality-related materials to contracts. In addition, as a bridge between research and development, the plants, and sales, I believe that assisting my work colleagues so that they can do their jobs in a sound environment and thereby satisfy customers is important. In my department, our customers have their own customers; therefore, ensuring technical follow-up in a way that builds confidence and satisfies end users is our CSR.

Yamamoto: Now, we have heard from five people about their efforts and attitudes associated with CSR. What do you think about their statements, President Furukawa?

Furukawa: I think they precisely reflect the critical issues of CSR. Nowadays, in our society, we must sufficiently consider the global environment throughout the product life cycle: we provide materials to customers, they make their own products, and ultimately, users dispose of the products. Take fuel-efficient tires, for example. Before becoming a product, they consume energy, but after they have become a product they are environmentally friendly. We intend to more strongly promote this concept. In terms of the environment, I would like to see Life Cycle Assessment, which deeply embeds into an organization the calculated balance of earnings and expenditure of energy at the time of production, customer use, and disposal is also important. I believe all of you are thinking deeply about CSR in your

own workplaces and from your own perspectives.



Expectations for ZEON's CSR and Actual Efforts

Yamamoto: This is a valuable opportunity for directly exchanging ideas with President Furukawa. Do you have any questions for the president?



Ishiguro: The emphasis on CSR has been incorporated into the president's policy since 2005. How do you think the demands of society upon ZEON and stakeholder expectations have changed over the last five years?

Furukawa: Early on, people were somewhat skeptical about a materials maker boasting about its CSR. Consequently, we tended to discuss our contributions to local communities, such as sponsoring local festivals, cleanups around plants, and plant tours. Of course these are important activities, and we are grateful our plants and worksites do these things on their own. Beyond these efforts, however, there is another way for making an even greater difference in society, and that is through our products, such as energy-saving products that are environmentally friendly. When we begin to draw upon natural energy sources, we will need equipment to store energy. Since no one watches television only when the sun is shining or the wind is blowing, there is a growing demand for rechargeable batteries. What this



means to us is that the ways in which we contribute to society may change as society itself changes.

Unless we work on protecting the environment, society will not pay attention to us. I guess this is one major change.

Oda: Compared to 2005, when the company first began emphasizing CSR, how much do you think CSR has spread within the company and how has daily work changed?

Furukawa: I would rather like to ask you that question. [Laughing] I always wonder how much things really change. Putting that aside, I believe there have been big changes. As plants become cleaner, my guess is that employees feel more cheerful. What do you think?



Today's society is flooded with information and there is a sense of constantly being chased by something. Under these circumstances, plant managers at ZEON are demonstrating initiative under the motto, "Be happy and have fun." I sometimes worry that employees will become too happy and have too much fun. [Laughing]

In any event, I believe things have substantially improved since 2005.

Nakamura: I work at the R&D Center. My question for President Furukawa has to do with the concept that CSR means being a company that benefits society and does not cause society any harm. What specific efforts can be done at ZEON in this context?

Furukawa: First of all, reliably supplying high-quality products to society is fundamental. We must at least maintain this foundation. Many other activities then follow, such as creating jobs, eagerly working on environmental conservation, disclosing information, protecting consumers, precisely responding to shareholders and so on. In short, all stakeholders,

including communities, shareholders, and customers, should be able to regard ZEON as a sound enterprise, and we should hear comments such as, "If it is possible, I would like my children to work there," "I'm glad I became a shareholder," and "I'm glad that we conducted business with ZEON." This can be achieved if employees do what they can from their own perspectives and workplaces.

Future Issues for ZEON's CSR



Miyauchi: Now we have a ZEON CSR Policy and CSR Code of Conduct. I think the next task is to disseminate them and help them take root. What plans do you have in terms of employee education?

Furukawa: Since we didn't have many opportunities for receiving inquiries about CSR using a regular format, we are now thinking about incorporating CSR training into legal training seminars conducted by the Legal Affairs Department at each plant. In regard to the ZEON CSR Policy and CSR Code of Conduct, we have just distributed the current compliance textbook to employees. We would, however, like to change this into the CSR Textbook, which will be distributed in the second half of fiscal 2010 to all employees to help instill CSR throughout the company. Up to now, our training and seminars were compliance-oriented, which given the circumstances was inevitable. Since ZEON's CSR training started with compliance issues, we intend to shift toward CSR education covering a wider range of issues. In short, education is simply repeating the message. Compliance has taken root in its own way. Because of the shift in society toward a CSR orientation, however, we may require new CSR education efforts. In the future, we would like to appoint a manager in charge of promoting CSR in each department or at each plant and office, creating a system for taking action with these individuals at the core. To this end, we are preparing to set up a CSR Committee.

Okude: As mentioned several times already, I believe CSR efforts will change in a quickly evolving market

environment. How do you think the company should respond to this change?

Furukawa: Well, the essence of CSR will not change in terms of contributing to society. Specific efforts, however, will change, and I think they should. In other words, the main principles under which the company contributes to society are invariable whereas how we contribute to society can change in accordance with changing times and social needs.



Okude: The goal of disseminating CSR throughout the company has been incorporated into various CSR guidelines. On this point, I am clearly aware of the importance of implementing initiatives regularly and repeatedly.

three concepts. In this sense, I do not exaggerate when I say that individual abilities will be put to the test.

Okude: Optes Toyama Plant has many visitors that take a look at our products. I believe visitors feel this is a pleasant place after seeing the condition of the plant and the people working there. I have come to believe that those outside the plant do keep track of its condition, and that this can be a factor for winning customer trust.

Furukawa: When touring the plants of other companies, if employees greet me with "Good morning" and the inside of the plant appears neat and clean, I think that surely the plant is a good one. On the contrary, if desks are messy, I wonder what is going on there.



Intention of the ZEON CSR Policy

Furukawa: One major feature of the ZEON CSR Policy and CSR Code of Conduct is that we place value on making them easy to remember and easy to understand. In ZEON's 7 Articles formulated in 1997, only the catch phrase of each article stands out. Underneath these articles, however, are many more detailed policies such as "Basic Management Policy, Article 5" and "ZEON Logistics Management, Article 8." Too many detailed regulations are difficult to remember. In a modern society like this, policies must be easy to remember so they can be declared in unison. We simply cannot remember many policies filled with details. [Laughing] Mere slogans are not useful either. Unifying words and action is necessary so they can be put into actual practice. Based on this insight, the drafters of the CSR Policy and the Code of Conduct were repeatedly reminded to make them easy to understand.

Yamamoto: The draft was filled with various words and phrases. Yet as President Furukawa has just explained, the policy and Code of Conduct were made more concise and reduced to only three items so that they can be more easily recited in unison. Since the fundamentals were narrowed down to three items, I would like everyone to deeply explore the spirit of these

Okude: When I joined the company, I was taught to always be seen as a ZEON employee, since people outside the company could not tell from my appearance alone if I was a newcomer or an old hand. I believe actions and appearance are important criteria for judging a company.

Yamamoto: That's true: our personal behavior is under scrutiny, and our conduct can influence someone else's impression of ZEON.

While it feels like we could keep talking forever, I would like to wrap things up. I hope all of you will continue to think about what CSR means at your own workplace and help to promote CSR. Thank you very much.

Special Report 1-2

CSR Efforts at Each Plant



Takaoka Plant

Approximately 800 people work in the Takaoka region at locations associated with the ZEON Takaoka Group (the Takaoka Plant, laboratory, and affiliated companies, such as Optes Inc., ZEON Medical Co., Ltd., and ZEON North Co., Ltd.). This large ZEON presence in Toyama Prefecture, especially in the Gosei district including Takaoka City, is often unexpected and consistently attracts the attention of local

government and residents. To broadly instill the recently established ZEON CSR Policy and CSR Code of Conduct in all employees of the ZEON Takaoka Group, we will strengthen a sense of solidarity centered around the compliance committee and make a determined effort to contribute to the prosperity of the local community.

Kawasaki Plant

Since its establishment in 1959, the Kawasaki Plant has contributed to society through the production of synthetic rubber and synthetic latex over 50 years. We will continue to turn out products that benefit the general public in line with the ZEON CSR Policy and CSR Code of Conduct. To this

end, we will continue to focus on reducing environmental impact, such as water and air pollution as well as landfill waste. We will also strive to exist in harmony with the local community as a civically engaged plant that fulfills its corporate social responsibility.

Tokuyama Plant

Location is a major feature of the Tokuyama Plant, which is adjacent to residential areas and the JR bullet train line and also close to Tokuyama Station, Tokuyama Port, and the city of Tokuyama. While we enjoy the convenience of our location, we realize that we bear a larger social responsibility for the environment and safety. In accordance with the ZEON CSR

Policy, we will move forward with creating a reliable and safe plant and endeavor to build a better living environment in the community, including an emphasis on communication with local residents, reducing toxic chemical emissions, achieving zero emissions in landfill disposal, and reducing water and air pollution.

Mizushima Plant

The Mizushima Plant is working on a production innovation program and thoroughly implementing “ABC,” which stands for *atarimae, bakashoujiki* and *chanto*, or in English, earnestly and properly performing the basic tasks we do all the time, which seem routine to us. We are striving to be a reliable and safe plant in which this ABC mindset is pervasive. In terms of the ZEON CSR Policy, which was established this

year, we understand we are “contributing to the sustainable prosperity of society through safe production activities without causing any inconveniences to customers or society.” We intend to continue these efforts, ever-mindful that society expects us to steadfastly pursue our production innovation program and reliably provide quality products from a safe plant in which the ABC concept has taken root.

R&D Center

Based on the ZEON CSR Policy, all employees at the R&D Center conduct research with a full awareness of CSR. In compliance, we follow applicable laws and regulations through our product research activities and strive to be a safe and dynamic laboratory. To propose new research themes at the R&D Center and appropriately allocate resources before commencing research, the research and supervisory

departments jointly review compliance with relevant laws and regulations, ensure the safety of chemical substances, study and confirm safety measures, such as protecting researchers from exposure, and conduct safety inspections for new experiments. We intend to conduct research and development for steadily supplying safe, reliable quality products and merchandise to customers.

Special Report 2

Efforts for Mitigating Global Warming

Emphasizing harmony with the environment, ZEON is diligently working on mitigating global warming. Our main efforts include (1) energy-saving initiatives at production plants; (2) the use of petroleum residue for fuel; and (3) reduction of greenhouse gas emissions.

1. Energy-saving initiatives

ZEON Corporation has participated in a voluntary action plan on the environment through the Japan Chemical Industry Association since fiscal 1997. Our goal is to reduce the average energy consumption rate for the fiscal 2008 to 2012 period to 87% of fiscal 1990.

In fiscal 2004, the Tokuyama Plant updated its generator system and saved the crude oil equivalent of 2,500 kl per year in energy. In the past, one boiler operated two turbines to produce 12,500 kW and 7,000 kW. Updating the generator to a high-efficient

17,200 kW turbine model improved the efficiency of electrical generation operating one boiler.

In fiscal 2006, greater efficiency was achieved by introducing a new gas engine and updating the cogeneration system at the Kawasaki Plant. As a result, we have saved 1,300 kl per year in crude oil equivalent.



Cogeneration system at the Kawasaki Plant

2. Use of petroleum residue for fuel

Asahi Kasei Chemicals, ZEON and Nippon Petroleum Refining (the refining arm of ENEOS) launched a joint program at the Mizushima industrial complex in fiscal 2009 to save energy by recycling petroleum residue. The project has been adopted as part of the NEDO Energy Conservation Project Support Scheme. Nippon Petroleum Refining will build a new solvent de-asphalting line at the Mizushima Refinery for extracting kerosene and light oil from asphalt and other heavy oil distillates. The petroleum residue generated by the extraction process will be used as fuel for new boilers to be built by Asahi Kasei Chemicals and ZEON. This will save energy by reducing the amount of heavy oil used. We have achieved energy-savings of 38,400 kl per year in crude oil equivalent in this project.

Although the unit consumption index declined to 95% due to a significant drop in plant use in fiscal 2008 in the wake of the financial meltdown of 2008, remarkable improvement (74.6%) was achieved in fiscal 2009 as a result of these energy-saving efforts. Looking ahead, we plan to implement a series of energy conservation actions that we discovered through an energy analysis method called Pinch technology, increasing the likelihood we will achieve our goal of reducing the average energy consumption rate for the fiscal 2008 to 2012 period to 87% of the fiscal 1990 rate.



Jointly built boiler

3. Reduction of greenhouse gas emissions

Greenhouse gas emissions (ZEON's targets CO₂ only) in fiscal 2009 were approximately 530,000 tons per year, 83% of fiscal 1990 levels. The use of petroleum residue for fuel at the Mizushima Plant, which reduced the use of fossil fuels, cut CO₂ emissions by approximately 100,000 tons per year.

The Japanese government has pledged to the international community to reduce greenhouse gas emissions by 2020 to 25% of 1990 levels. ZEON Corporation has participated in the Commitment to a Low Carbon Society advocated by Nippon Keidanren through the Japan Chemical Industry Association and is now drawing up a road map for reducing carbon dioxide to achieve the targets.

CO₂ emissions



Special Report 3

Integrated Management of QMS and Quality Assurance

Takashi Kiuchi, General Manager, Quality Assurance Department



The Foundation of CSR is Quality Assurance

President Furukawa stresses management with the emphasis on CSR in his president's policy every year, and I believe the foundation of CSR for a manufacturer is quality assurance. These days, large-scale recalls are often reported in the newspaper, and if this were to happen at ZEON, the company would face a life-and-death crisis.

I understand the Quality Assurance Department and Environmental & Safety Affairs Department were reorganized

into the CSR Coordination Division with the intention of giving concrete form to the president's statements. The Quality Assurance Department is therefore working to improve the system of quality assurance and engage with R&D and production technology so that the intentions of top management will permeate throughout the company. In addition, we are steadfastly pursuing activities to reliably supply high-quality products.

System for Spreading the President's Intention Throughout the Company

First, it is important for the president's policies to be implemented by all employees in their own workplaces and from their own perspectives. Since winning the Deming Prize in 1985, policy management has been evolving in accordance with the needs of the times and has continued as an essential tool for handling problems. Unfortunately, there have been situations in which quality assurance has been delayed for departments that support our core businesses.

Concerned about ongoing conditions, the Quality Assurance Conference was established in March 2010 to bring together top

executives with the president serving as chair to ensure that quality problems were quickly identified and that instructions for improvement were rapidly communicated to department managers. In addition, the Quality Assurance Promotion Conference was set up to ensure concrete implementation. This group consists of managers who take the lead in quality assurance in their departments and report to the Quality Assurance Conference.

Newly established meeting bodies in which executives participate

Quality Assurance Conference
(company-wide management review)

Quality Assurance Conference (the highest decision-making body for quality assurance)

Chaired by the president, held annually
Participants: Operational department heads, plant managers, Director of R&D Center
Person in charge of the meeting: Director of CSR
• Deliberation and decision-making on annual policy and actions
• Deliberation and decision-making on annual plan for improvement

Quality Assurance Promotion Conference

Established as a subordinate body

Chaired by person in charge of company-wide quality control, held biannually
Participants: Person in charge of company-wide quality control, department managers in charge of quality control, technical managers, managers of research and planning control, production technology department
• Formulation of and reporting on annual improvement activities plan
• Checking implementation status of quality assurance measures

Departmental Quality Assurance Conference
(departmental management review)

Deliberation and decision-making on quality assurance for departments

Chaired by person in charge of departmental quality (system) assurance

Company-wide Integration of QMS

In May 2010, we integrated ISO9001 certifications obtained by operational divisions and plants into one certification encompassing the entire enterprise so that the policy of top management can be easily implemented throughout the company. To unify tasks and QMS, we are striving to deeply embed quality management in operations by incorporating the quality manual into the work flow and entering system improvements into the quality manual.

We also keep in mind that persons in charge of production must

perceive QMS as a company-wide quality management system to encourage improvement. The manager of the Quality Assurance Department oversees the management of quality in an integrated QMS while maintaining and improving ISO mechanisms. Apart from internal audits, the manager has the authority to manage quality-related operations and give instructions to correct problems or conduct quality audits in each department.

Quality Manual Contents

- | | | |
|---|---|---|
| 1. General | 6. Design and development processes | 8. Sales processes |
| 2. Organization of quality management system | 6.1 Research management | 8.1 Sales management |
| 3. Definition of terms | 6.2 Information collection | 8.2 Logistics management |
| 4. Quality management system | 6.3 New product development | 9. Improvement and modification processes |
| 4.1 General requirements | 6.4 Product design | 9.1 Dealing with complaints |
| 4.2 Responsibilities and authority | 6.5 Decision-making on commercialization | 9.2 Handling process abnormalities |
| 4.3 Management system | 6.6 Trial production
(prototype and actual machines) | 9.3 Modification management |
| 4.4 Documentation requirements | 6.7 Full-scale production | 9.4 Improvement |
| 4.5 Quality management activities | 7. Production processes | 9.5 Data analysis |
| 5. Policy management process | 7.1 Procurement | 9.6 Monitoring and measuring processes |
| 5.1 Basic concept of policy management | 7.2 Production standards | |
| 5.2 Formulation of president's annual policy | 7.3 Initial production control | |
| 5.3 Formulation of department managers' annual policy | 7.4 Production plan | |
| 5.4 Quality Assurance Conference | 7.5 Management of production facilities | |
| 5.5 Quality Assurance Promotion Conference | 7.6 Process and product inspections | |
| 5.6 Departmental Quality Assurance Conference | 7.7 Management of testing equipment | |
| | 7.8 Management of non-conforming products (identification and disposal) | |

Activities for Full Length and Full Volume Assurance

Inspecting random samples is a fundamental activity for ZEON as a materials maker. Depending on how it is done, inspections may guarantee only a portion of our products. Moreover, no defective products or components are acceptable for the automobile and electric appliance industries to which our customers belong. To respond to this situation, activities for full length and full volume assurance have been launched under the president's policy.

Although there is no single-piece concept for bulk products, we are striving to guarantee full volume by lot unit. After confirming

the rationality of standards for all products, we must substantially reduce discrepancies within a lot to a level that can be deemed uniform.

To this end, we must search for flaws in polymer design and production technology, making full use of current scientific knowledge. Confirmed control items must be properly managed at production sites. To promote this management, we are moving ahead with innovative research and development with extensive discussions on the previously mentioned quality audits as well as technology.

Environmental Activities

Environmentally Conscious Product Development

Products that Promote Energy Saving

Nipol®S-SBR synthetic rubber for fuel-efficient tires

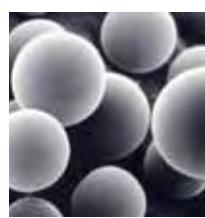
Synthetic rubber is the primary material used in car tires that contributes to vehicle safety and comfort. As growing concern over the global environment has led to stronger demand for more fuel-efficient tires, ZEON has developed a synthetic rubber that reduces energy loss by 20%. This rubber is increasingly expected to be used for fuel-efficient tires certified by the fuel-efficient tire labeling system under the voluntary standards of the tire industry.



Automobile tire made of fuel-efficient synthetic rubber

Zeoglobule® Polymerized toner

Pulverization is the conventional method for producing the toner used in copiers and other printing equipment. Polymerization is a recognized toner production method for consuming less energy. The microcapsule toner produced using the polymerization method developed by ZEON contributes to better print quality at a lower fixing temperature. This in turn allows printers to achieve better energy efficiency.



Toner electron microscope image

Products that Help Eliminate the Use of Organic Solvents

Binder for aqueous lithium-ion rechargeable batteries

By using water as a dispersant, ZEON's binder for aqueous lithium-ion rechargeable batteries eliminates the cost of solvent recovery and reprocessing that is required for the alternative material PVDF (polyvinylidene fluoride), which uses NMP (N-methyl-2-pyrrolidone) as a solvent. This also helps meet working condition standards at battery production plants and contributes to lower capital investment and operating costs in these plants.

Energy Savings

Reduction of VOC Emissions

Environmentally Friendly Products that Conserve Energy

QUINTIER™ EV

ZEON developed the QUINTIERTM EV series of oxygen-impermeable resins, which are as impermeable to oxygen as aluminum foil, by combining our newly developed oxygen-absorbent resin with ethylene-vinylalcohol copolymer (EVOH), a standard oxygen-impermeable resin.

When applying the QUINTIERTM EV series to packaging materials: The shelf life of food products can be extended to help reduce food wastes;

Metal packaging materials can be replaced with these materials, leading to reduced energy consumption in transportation; Refrigerated food products can be distributed at normal temperatures, decreasing storage energy.

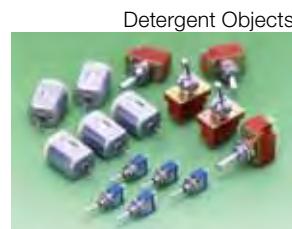


ZEON booth at TOKYO PACK

Products that Help Protect the Ozone Layer and Prevent Global Warming

Next-generation fluorocarbon detergent Zeorora® H, Etching gas and Zeorora® ZFL-58

The Zeorora® H fluorocarbon detergent and Zeorora® ZFL-58 dry etching gas used for manufacturing semiconductors received the Stratospheric Ozone Protection Award from the U.S. Environmental Protection Agency in 1998, and Zeorora subsequently won five awards, including the GSC Environmental Award from the Green & Sustainable Chemistry Network (GSCN) in 2003, and an excellence award at the Eleventh Ozone Layer Protection and Global Warming Prevention Awards sponsored by Nikkan Kogyo Shimbun, Ltd., the Ministry of Economy, Trade and Industry, and the Ministry of the Environment in 2008. Consequently, these globally recognized products can contribute to mitigating global warming.



EPA Ozone Protection Award

Products with Low Environmental Risks

New ether solvent

Cyclopentyl methyl ether (CPME)



This is the first eco-friendly ether solvent in the world that was made in Japan. It is a landmark C5-derivative product that makes use of the properties of ether solvents and overcomes their shortcomings. CPME is now highly regarded for reducing environmental impact (less waste water, effluents and CO₂ emissions), avoiding hazardous processes, and shortening processing times. It is therefore widely used in the manufacture of high value-added products such as pharmaceuticals, agrochemicals, aroma chemicals and electronics materials.

The product received a prize from the Society of Synthetic Organic Chemistry, Japan and was mentioned in the 2008 progress report as the best practice of the NEDO project. It was also chosen as a green solvent by the American Chemical Society in 2009.

Products with Low Environmental Risks Products that Promote Energy Saving

Cycloolefin polymer

ZEONEX® and ZEONOR

ZEONEX® and ZEONOR® are new thermoplastics with a high level of transparency that are already being used in optical lenses and optical film. Because these thermoplastics are lighter by 20% or more than conventional engineering plastics and have high heat-resistance, they can be used in place of glass for a high level of transparency and for high-specific-gravity engineering plastics such as heat-resistant plastics. They are, therefore, contributing to greater mass production and reduced weight, and are also expected to improve the energy efficiency of transportation equipment during transport.



Lenses and prisms

Products that Support the Environment

ZEON Johkaso: GPU

Because this GPU-type johkaso (septic tank) is a combined unit that can be installed in nearly the same space as existing stand-alone septic tanks, it has opened up possibilities for converting stand-alone units to combined units.

The outer case is made from PENTAM® dicyclopentadiene resin, which exhibits excellent shock-resistance, and blower power consumption meets the energy-saving standards stipulated by the Japanese government. This johkaso, therefore, is tailored for the needs of a low-carbon society. In addition, its sophisticated processing unit also removes nitrogen, contributing to the protection of our waterways.



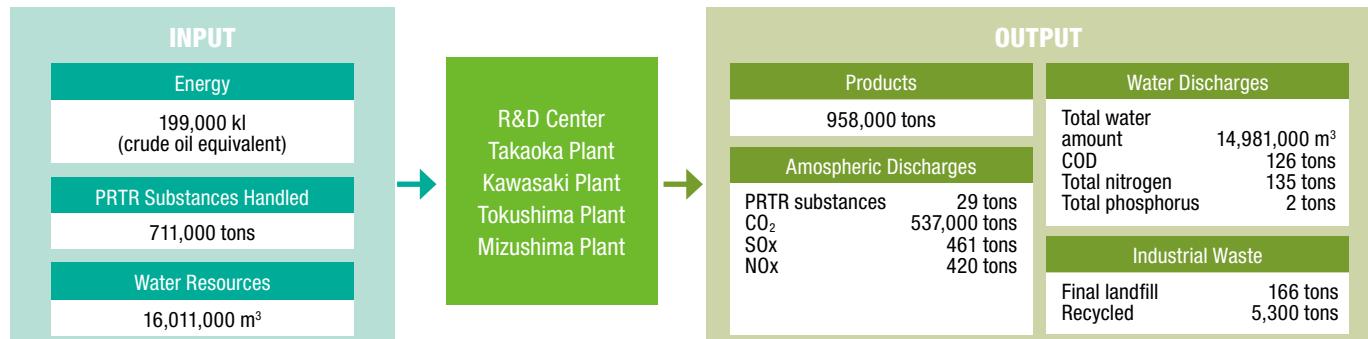
Environmental Activities Targets and Results

Overview of 2009 Targets and Results

Item		2009 Targets	2009 Results	Evaluation
1	Eliminate environmental and safety incidents	(1) Full implementation of plant safety evaluation	14 investigations performed	☆☆☆
		(2) Implementation of 5S safety program and expand to affiliated group companies (all target workplaces and offices)	Same 5S safety audit was performed company-wide at 42 workplaces. 5S safety audits were also performed at affiliated group companies: all target workplaces and offices	☆☆☆
		(3) Training to raise awareness of accident prevention (at 4 plants and 1 affiliated group company)	Implemented at all 4 plants (also implemented at head office and 1 affiliated group company)	☆☆☆
		(4) Zero environmental and safety incidents	No environmental incidents, no safety incidents	☆☆☆
2	Promote occupational health and safety	(1) Use risk assessment to eliminate dangers (more than 5 incidents per workplace in a year)	Risk assessments of workplace operations are conducted on an average of 5.9 times/workplace each year	☆☆☆
		(2) No lost-time accidents, no serious non-lost-time accidents	No lost-time accidents, no serious non-lost-time accidents	☆☆☆
3	Reduce environmental impact	(1) Implement voluntary management plan for air-polluting toxic substances		
		Reduce butadiene emissions from 2008 level of 18.4 tons to 4.1 tons	Butadiene: 5.4 tons (70% reduction from previous year) (2010 target: 3.9 tons)	☆☆
		Reduce acrylonitrile emissions from 2008 level of 14.2 tons to 11.5 tons	Acrylonitrile: 14.1 tons (1% reduction from previous year) (2010 target: 9.9 tons)	☆
		(2) Implement zero emissions plan for industrial waste		
		Reduce volume of waste sent to landfill to 430 tons in 2009	Final landfill amount: 166 tons (305-ton reduction from previous year) (2010 target: 211 tons)	☆☆☆
		(3) Strengthen company-wide energy conservation project		
		Reduce unit energy consumption to 87% of 1990 level	Unit energy consumption was 74.6% of the 1990 level (2010 target: 87%)	☆☆☆
4	Promote chemical safety and product safety	(1) Implement product safety reviews for new products and new applications	5 reviews performed	☆☆☆
		(2) Provide customers with environmental and safety information (MSDS)	Issued MSDSs for all products and implemented revisions (implementation rate: 100%)	☆☆☆
		(3) Report new substances (laws related to chemical substance investigation and production regulations, Occupational Health and Safety Law)	Performed fully	☆☆☆
		(4) Zero violations of law	No violations of law	☆☆☆
5	Promote safety in logistics	(1) Promote employee understanding of yellow cards and check carrying status of these cards	Training performed through logistics council and confirmed carrying status of yellow cards	☆☆☆
		(2) Zero logistics accidents	1 logistics accident	☆

☆☆☆ Target reached ☆☆ Target was almost reached ☆ Requires improvement
2010 targets are shown in parenthesis in "Reduce environmental impact" section.

Overview of Environmental Impact



Third-Party Opinion

Review of the ZEON Corporation CSR Report

Hitoshi Okada (Dr. of Engineering/Professional Engineer)

Senior Researcher

Institute for Environmental Management Accounting



CSR Objectives at ZEON Corporation

With the establishment of a ZEON CSR Policy and CSR Code of Conduct, which replaced ZEON's 7 Articles, ZEON Corporation took a major step forward in corporate social responsibility (CSR). The CSR Policy is quite easy to understand, with its essence distilled into three statements that employees can periodically declare in unison. The Code lays out specific guidelines that ZEON employees are expected to follow. In addition, executives have expressed their strong resolve for CSR in the President's Message and at roundtable discussions with young employees. In reviewing the 2010 CSR Report, one can clearly grasp ZEON Corporation's firm determination to clearly set out a new direction for CSR and to sincerely interact with society. I very much appreciate this attitude toward CSR. I look forward to seeing ZEON further manifest this commitment by inspiring employees and more broadly disseminating CSR as well as by communicating with stakeholders to more accurately understand the needs of society.

Enthusiastic Efforts for Quality Assurance

CSR represents the responsibilities a company bears for society. When thinking about what should be done for society as a corporate responsibility, quality assurance is without doubt one of the most important responsibilities for ZEON, whose products form the foundation of industries around the world. ZEON listed "trust in quality" as a key concern in the president's policy for fiscal 2010. Then, to systematically embody this concern, the company has implemented a quality assurance meeting headed by the president with integrated quality assurance management. It also launched the "full length, full volume assurance" activities advocated by the president, thereby establishing a framework at ZEON for promoting quality assurance activities at the highest level. Looking ahead, I expect ZEON to set goals for its activities, to move forward with management utilizing PDCA cycles, and to report on the results of these actions to society.

Efforts for the Global Environment

Efforts for the global environment are another key responsibility companies must fulfill for society. By recognizing the need to mitigate global warming, reduce environmental impact, and ensure the safety of chemical substances and products as key CSR concerns for ZEON, an enterprise that contributes to society by supplying chemical products, the company is developing environmentally sound products and effective management, including measures for saving energy. Quantitative targets against the previous year had been set for some aspects of the environmental plans for fiscal 2009. Although the targets in some areas have not been achieved, most targets have been met. In

the future, I would like to see ZEON further advance its use of quantitative targets to enhance the objectivity of its assessment of performance outcomes.

Disclosing Information to Society

In addition to conventional printed reports, ZEON Corporation began publishing information on a web site this fiscal year, thereby increasing the volume of information shared with the public. As site reports and more detailed environmental information have been moved to the web site, more information concerning items related to society has been included in the printed reports. This approach to information disclosure using two media, a printed report and a web site, has been adopted by many other companies. For some companies that have shifted most of their principal information to web sites, however, it has become difficult to grasp the overall picture of their CSR efforts in the printed report alone. Disclosing information through two media, as ZEON Corporation has done, requires balancing the information presented in a printed report and that released on a web site with due consideration for the different roles these tools play as channels of communication with society. In addition, the future will require ways to respond to stakeholder requests for CSR information. Looking ahead, I have high expectations for ZEON Corporation in further intensifying its CSR management.

Hitoshi Okada

Senior Researcher, Institute of Environmental Management Accounting

Graduated in 1979 from the Division of Welding Engineering, the Graduate School of Engineering, Osaka University; graduated in September 2006 from the Graduate School of Business Administration, Kobe University, specializing in modern business administration (a professional graduate school for mid-career education); awarded PhD in Business Administration, Graduate School of Business Administration, Kobe University in March 2010; part-time lecturer, Osaka City University; appointed by the Ministry of Economy, Trade and Industry to a committee investigating how to encourage the more efficient use of resources in supply chains.

While undertaking research into corporate misconduct, CSR, compliance, business ethics, revival management and other fields, he also renders assistance in areas such as CSR management and the introduction of material flow cost accounting.

Response to Third-Party Opinion

Seiichi Okada
Executive Officer and
Director with Responsibility for CSR

On the occasion of our 60th anniversary in April 2010, ZEON established a ZEON CSR Policy and CSR Code of Conduct to boldly declare its determination as a Group to be an enterprise that both benefits society and satisfies its expectations.

The comments of Mr. Hitoshi Okada, senior researcher at the Institute of Environmental Management Accounting, indicate a sincere understanding of our approach, including the clarification of our CSR Policy. In addition, he stated what he would like to see in our continued evolution toward achieving more effective stakeholder communications, company-wide quality assurance activities, and care for the global environment, all in the interest of deepening our CSR initiatives. We intend to steadfastly continue our efforts to meet these expectations.



ZEON

Inquiry: ZEON Corporation CSR Team

Shin Marunouchi Center Building, 1-6-2 Marunouchi, Chiyoda-ku, Tokyo 100-8246, Japan
Tel: +81-3-3216-2349 Fax: +81-3-3216-0568 <http://www.zeon.co.jp>