

CSR Report 2011

ZEON CORPORATION
Corporate Social Responsibility



ZEON

Report Policy

We are pleased to present our CSR Report 2011, which has been made available in a digital version and as a printed brochure. The report includes a special feature called "CSR in the Age of ISO26000—What Does Society Expect from Corporate Enterprises?," a stakeholder dialogue held by the ZEON management team with three outside experts.

The Web-based version includes descriptions of all our activities and includes detailed background data, while the brochure provides selected content that we would like more stakeholders to read. The latest CSR news is posted on our website.

We hope the report will enrich your understanding of the ZEON Group's CSR activities.

August 2011

About the Report

Period Covered

April 2010 to March 2011 (also includes some new information from April 2011 and later)

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)

Notes on the Report

(1) This report is published annually.

(2) The report was compiled 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).

http://www.zeon.co.jp/index_e.html

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Head Office (Shin Marunouchi Center Building)

President's Message

I extend my thoughts and prayers to all of those whose lives have been impacted by the Great East Japan Earthquake. On behalf of all employees of the ZEON Group, I hope the affected areas will soon be restored and rebuilt.

In accordance with our Mid-Term Management Plans, developed every three years, we have implemented policies each fiscal year. In fiscal 2010, the final year of IZ-60 (Innovation ZEON-60), we summed up the results of the past three years and set out a new three-year Mid-Term Management Plan, which started in fiscal 2011. A large number of ZEON Group employees from various positions participated in discussions on the development of the new Mid-Term Management Plan through workshops and other activities.

As the foundation supporting the new Mid-Term Management Plan, we defined our key sense of value as speed, dialogue and contribution to society and our treasured ZEON characteristics as mutual trust and fellowship. These are based on our corporate philosophy, "ZEON will contribute to the preservation of the Earth and the prosperity of the human race" as well as elements of our CSR Policy established in April 2010, which states: "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," and "We will ensure that each and every ZEON person is aware of CSR and acts accordingly." We then created an enterprise blueprint for 2020: "ZEON creates the future today through the power of chemistry" and "ZEON will continue to contribute to the realization of customer dreams and a prosperous society."

The new Mid-Term Management Plan lays out the specific steps through fiscal 2013 for embodying our enterprise blueprint for 2020. The essential component of our business strategy is: "We will further strengthen our elastomer and specialty materials businesses as the twin pillars for expanding business worldwide." Details on this strategy can be found in the plan, and the corporate philosophy and CSR Policy lie at the heart of the strategy. With this in mind, all our executives and employees are committed to taking CSR to the next level and pushing forward with our business activities to contribute to society.

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. We supply these products to society reliably and safely through our Responsible Care activities. In fiscal 2010, we reduced CO₂ emissions by 8.8% from 1990 levels, achieving the 6% reduction goal of the Kyoto Protocol. As a chemicals company that comprehensively uses petroleum-derived C4 and C5



fractions, we recognize we must improve the transparency of product impact not only from the perspective of production processes, but also in Life Cycle Assessment, which evaluates the total energy balance from production and use by customers through disposal.

We established the ZEON CSR Policy and CSR Code of Conduct in April of last year to guide our CSR activities. This January, we inaugurated a new CSR promotion system under the guidance of the CSR Conference, and we have focused on installing our systems for developing our CSR activities. In order to lay a new foundation for ZEON's CSR within this framework, this fiscal year we will organize our CSR activities by category and stakeholder to increase visibility through the development of a CSR Matrix, while developing an outline for new CSR activities—CSR Core Projects—in which everyone can participate.

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, which earns the trust of society at large as well as the pride of its employees.

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

August 2011

Naozumi Furukawa
President and CEO

New Mid-Term Management Plan

● Positioning of the Mid-Term Management Plan

Corporate Philosophy

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

CSR Policy

- 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.

Key sense of value

- Speed
- Dialogue
- Contribution to Society

Treasured ZEON characteristics

Mutual trust and fellowship

Enterprise Blueprint for 2020

ZEON creates the future today through the power of chemistry

ZEON will continue to contribute to the realization of customer dreams and a prosperous society.

Evolve above ideas toward their fiscal 2011–2013 execution

Mid-Term Management Plan (New 3-year Plan)

● Business Strategy

We will further strengthen our elastomer and specialty materials businesses as the twin pillars for expanding business worldwide.

Strategy by business segment

Elastomer Business

Further bolster our areas of strength by responding to growing markets through our global operations

Specialty Materials Business

Expand business by accelerating R&D in three vital business fields

Enhance cost competitiveness

Our new Mid-Term Management Plan defines our key sense of value and the most treasured ZEON characteristics in order to create an enterprise blueprint for 2020 based on our corporate philosophy and the ZEON CSR Policy.

The new Mid-Term Management Plan lays out the specific steps through fiscal 2013 for embodying our enterprise blueprint for 2020. Here are the essential components of our business strategy.

In the elastomer business, we are responding to growing markets through our global operations by constructing an S-SBR* production plant in Singapore and planning to build a plant for Zetpol® (HNBR) in order to further bolster our areas of strength. At the same time, we are striving to enhance our cost competitiveness.

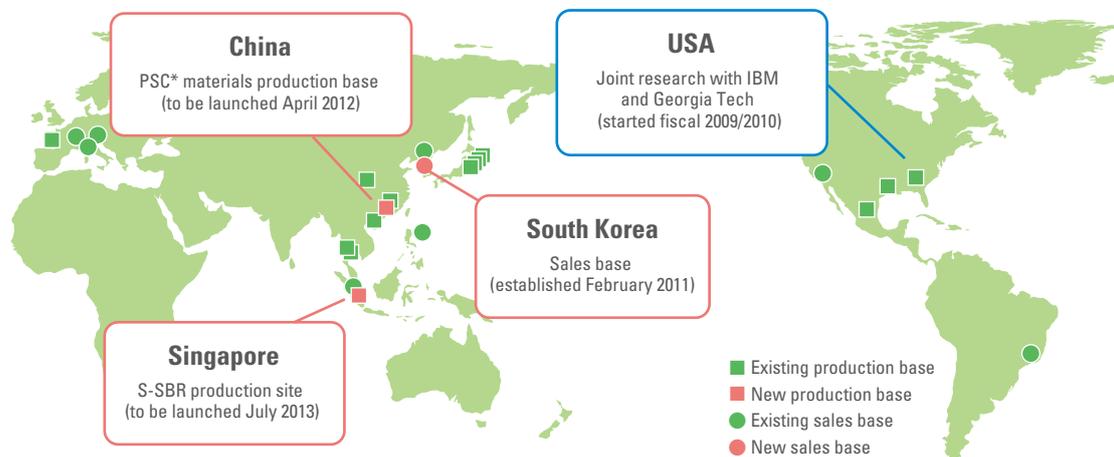
In the specialty materials business, we intend to focus on R&D for three vital business fields: IT components (film for 3D televisions, coatable organic insulators, a new low-dielectric constant inter-layer insulation film (Low-k) material, digital signage film, LCD retardation film, organic EL materials, etching gas, and film for mobile terminal devices); energy components (binder for lithium-ion rechargeable batteries, high volume capacitor electrodes, and sealing compounds for lithium-ion rechargeable batteries); and medical devices (sensor equipped IABP balloon catheters, Bipolar ESD treatment devices, IABP balloon catheters, and bipolar snares).

ZEON will establish the global operation network illustrated below to lift its overseas production ratio to more than 50% by 2020.

*S-SBR: Solution-polymerized Styrene-Butadiene Rubber

Establish a network for quickly and steadily conducting R&D, production, and sales in growing markets

Increase overseas production to over 50% by fiscal 2020



*PSC: powder slush compound for automobiles

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.

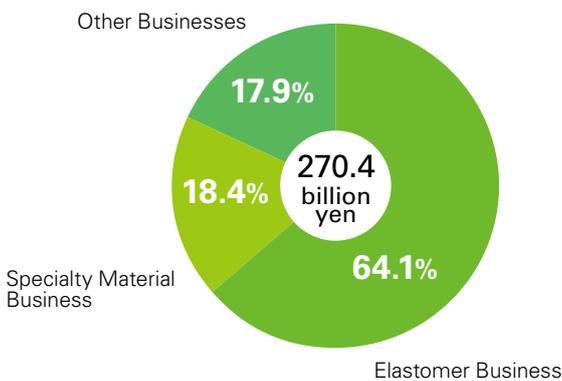
Company Profile

- Company Name: ZEON CORPORATION
- Established: April 12, 1950
- Capital: 24.2 billion yen (as of March 31, 2011)
- Employees: 2,836 (consolidated), 1,590 (ZEON CORPORATION only) (as of March 31, 2011)
- 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, 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

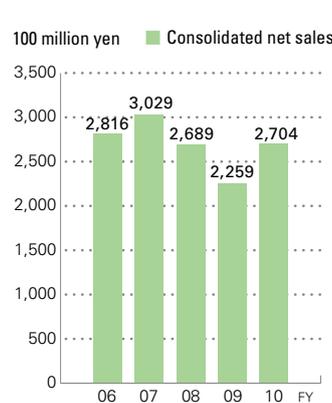


Overview of the Mizushima Plant (Kurashiki, Okayama Prefecture)

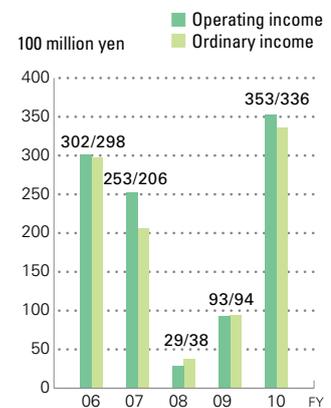
Financial Results



Sales Share (FY2010)



Consolidated Net Sales



Operating income, Ordinary income

ZEON's Businesses

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.



Zetpol® hydrogenated nitrile (HNBR) elastomers



Synthetic latex



C5 petroleum resin



Gaskets



Timing belt using synthetic rubber



Gloves using synthetic latex

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 batteries, binder for lithium-ion rechargeable batteries, etc.

• Specialty Plastics

Cycloolefin polymers and processed products



Cycloolefin polymer



Aroma chemicals



Raw film



Medical devices using specialty plastics



Mobile phone using specialty plastics



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

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



Combined septic tank



Truck wind deflector made by RIM (Reaction Injection Molding)



Bathtub pan made by RIM



Medical equipment (IABP balloon)

Corporate Philosophy, CSR Policy and CSR Code of Conduct

Borrowed from the Greek words “geo,” meaning “Earth,” and “eon,” meaning “eternity,” ZEON, in keeping with the origin of its name, reflects the significance of these terms in its corporate philosophy as a company that contributes to the preservation of the Earth and the prosperity of the human race. Our goal is to be a creative enterprise that has a unique character.

In addition, we want everyone at ZEON to have the ability to be discerning, to think, act, and always take on challenges in line with the ZEON CSR Policy, established in 2010.

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 was established in April 2010 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 April 2010)

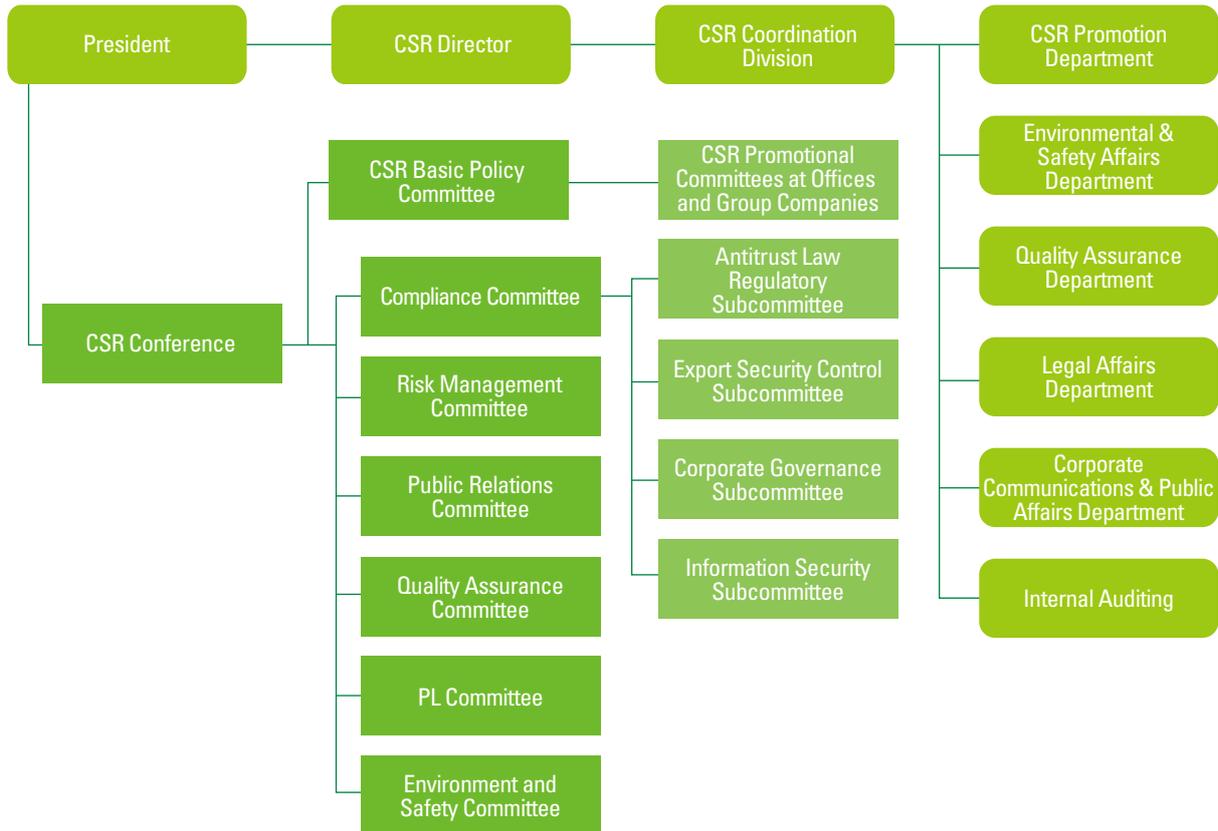
This code of conduct was established after the ZEON CSR Policy by thoroughly reviewing the previous Zeon Compliance Code of Business Practice (established October 2003). While the Zeon Compliance Code of Business Practice was essentially regarded as a list of prohibited activities by stakeholder category,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

CSR Promotion System

CSR Promotion Organization

With the restructuring in January 2011, we reconfigured and integrated organizational units that decide on and promote the ZEON Group's CSR activities under the CSR conference.

CSR Promotion Structure



● CSR Conference

This conference was established as the chief decision-making organ for the Group's CSR. It deliberates and decides on annual activity plans for the CSR Basic Policy Committee, Compliance Committee, Risk Management Committee, Public Relations Committee, Quality Assurance Committee, PL Committee, and the Environment and Safety Committee as well as related measures. It also provides necessary instructions based on the results of progress reports from these committees. The conference is held as the need arises and chaired by the President.

● CSR Basic Policy Committee

This committee was established to stimulate the ZEON Group's CSR activities. It formulates basic policies for CSR activities and promotes their implementation throughout the Group.

● Compliance Committee

This committee was established to prevent violations of laws and regulations and is responsible for creating education and training programs on 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. The committee meets from time to time as the need arises.

● Antitrust Law Regulatory Subcommittee

This subcommittee was set up under the Compliance Committee to proactively prevent any breaches of antitrust law by executives or employees of 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 Subcommittee

This subcommittee was set up under the Compliance Committee to exercise appropriate export and domestic sales in compliance with the Foreign Exchange Law, the Foreign Trade Control Law and other applicable laws and regulations concerning products, commodities, and technologies provided by the ZEON Group. The committee meets from time to time as the need arises.

● Corporate Governance Subcommittee

This subcommittee was set up under the Compliance Committee to promote internal control related to the ZEON Group's financial reports. The committee meets from time to time as the need arises.

● Information Security Subcommittee

This subcommittee was set up under the Compliance Committee to manage information appropriately in the ZEON Group and protect the confidentiality, integrity, and availability of its intellectual property from the threat of intentional or unintentional errors, accidents, and disasters. The committee meets from time to time as the need arises.

● 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. The committee meets from time to time as the need arises.

● Public Relations Committee

This committee deliberates on the content and availability of information that is disclosed in order to enhance corporate image and ensure the appropriate and timely release of information. The committee meets from time to time as the need arises.

● Quality Assurance Committee

This committee is responsible for the planning of management improvement activities and training for the ZEON Group's quality assurance as well as supervising their execution. The committee meets twice a year in principle.

● PL Committee

This committee formulates prevention activities and training related to product liability of the ZEON Group. It also oversees how emergencies are being handled. The committee meets twice a year in principle.

● Environment and Safety Committee

This committee plans and formulates concrete items to be included in the ZEON Group's environmental and safety measures and oversees the execution of environmental and safety activities. The committee meets four times a year in principle.

Safety Philosophy and Environmental Philosophy

A stable, safe workplace is the foundation for production operations. ZEON is working to provide customers with safe, consistently high-quality products while reducing its environmental impact under its Safety Philosophy, established in 1997, and its Environmental Philosophy, introduced in 2001.

Safety Philosophy

(Established March 1997)

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.

Environmental Philosophy

(Established August 2001)

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.

Responsible Care Policy (Established June 1998)

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 this information 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 convey 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.

5Ss: Seiri (neatness), Seiton (order), Seisou (cleanliness), Seiketsu (hygiene), and Shitsuke (discipline)

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. An outside director was appointed to the Board of Directors at the June 2011 shareholders' meeting.

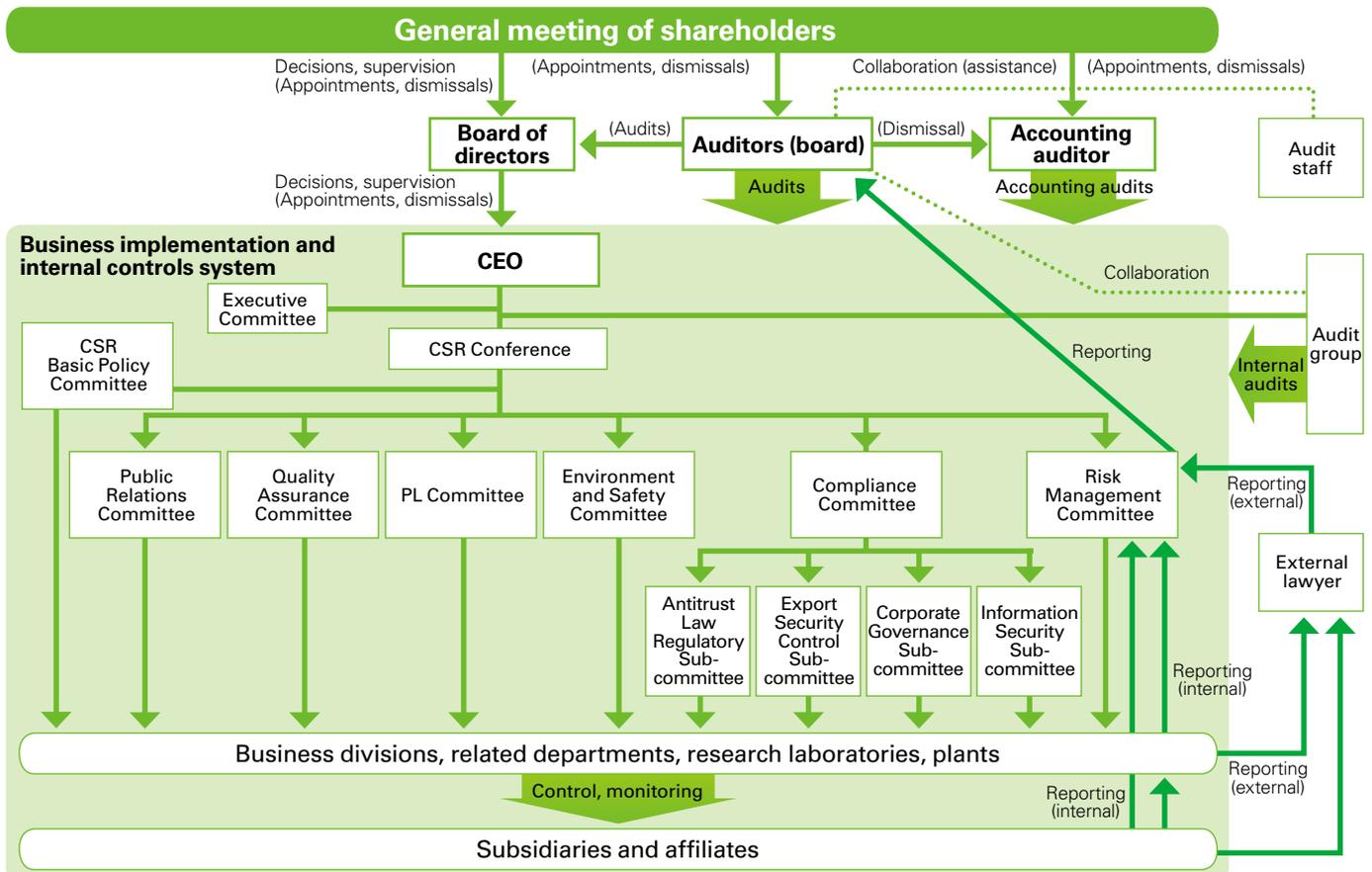
● Executive Committee

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 in 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.

Governance System



Risk Management and Compliance System

Under the CSR Conference chaired by the President, standing committees manage risks of loss. The Antitrust Law Regulatory Subcommittee, the Export Security Control Subcommittee, the Internal Control Subcommittee, and the Information Security Subcommittee, which were established under the Risk Management Committee and the Compliance Committee, are advancing the ZEON Group's risk management and compliance efforts. Here are the main activities of the committees and subcommittees in fiscal 2010.

- The Risk Management Committee continued handling incidents as they occurred in fiscal 2010 and took steps to prevent their recurrence. As part of our efforts related to Business Continuity Planning (BCP) in fiscal 2010, this committee reviewed and revised action plans for five leading potential risk areas that we identified: 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. A comprehensive review is under way, however, in light of the Great East Japan Earthquake.
- The Compliance Committee conducted orientations at worksites in Japan in fiscal 2010 as well as at affiliated companies in Asia to ensure all employees understood the newly established ZEON CSR Policy and CSR Code of Conduct. The committee strived to improve compliance awareness among all executives and employees of the ZEON Group by conducting monthly workshops on legal and regulatory compliance at each worksite. During Compliance Month, the committee called for compliance slogan submissions and conducted simultaneous inspections to ensure legal and regulatory compliance.
- The Antitrust Law Regulatory Subcommittee analyzed the reasons for raising prices, the timing of the price increases, conformity with the rising prices of raw materials, and other factors in fiscal 2010 prior to raising prices for ZEON products (including Group companies). In addition, the subcommittee reviewed the status of attendance for industry entities to thoroughly implement rules and held in-house seminars on the Antitrust Law.
- The Corporate Governance Subcommittee, marking its third year, strived to improve the efficiency of the internal control evaluation team and focused on standardizing operations. As a result, this subcommittee produced nine operation manuals and integrated pending on-site inventory procedures for domestic group companies.
- The Export Security Control Subcommittee conducted 189 assessments in fiscal 2010 to ascertain whether our products fall under categories stipulated in Annex 1 of the Export Trade Control Order. It also conducted 32 inspections regarding Catch-All Controls and 318 assessments requested by users on the applicability of ZEON products. In addition, this subcommittee held in-house seminars.
- The Information Security Subcommittee was established under the Compliance Committee and began work in January 2010. This subcommittee will provide training for and the auditing of information security and establish an information management system for the ZEON Group.

ZEON Group's Risk Management and Compliance System



Special Feature: Stakeholder Dialogue



CSR in the Age of ISO26000 —What Does Society Expect from Corporate Enterprises?

ZEON has been conducting CSR activities under a new promotion system established in January this year. With the goal of gathering external opinions in the context of this effort, a management team led by President Furukawa held a dialogue with three outside experts on June 9, 2011, under the theme, “CSR in the age of ISO26000—What does society expect from corporate enterprises?” The discussion deepened their understanding of CSR.



Wone Akiyama
President, Integrex Inc.



Eiichiro Adachi
Research Chief, Head of ESG Research Center, The Japan Research Institute, Ltd.



Toshihiko Fujii
Consulting Fellow, Research Institute of Economy, Trade and Industry (RIETI)
Visiting Professor, Graduate School of Economic Science, Saitama University
Principal Director, Multilateral Trade System Department, Trade Policy Bureau, Ministry of Economy, Trade and Industry



Naozumi Furukawa
President and CEO



Hiroshi Takegami
Director and Corporate Officer



Shunichi Yamamoto
Director & Senior Corporate Officer, Director of CSR (served as facilitator)

CSR at ZEON CORPORATION: Cue to Start CSR Efforts and Recent Activities

Yamamoto: Today we invited three outside experts for a dialogue on what society expects from corporate enterprises in the age of ISO26000. Our guests have already viewed a video introduction to ZEON CORPORATION as well as a television commercial about the company to gain an overall understanding of our business. President Furukawa will lead off the discussion by confirming his commitment to CSR as the head of the company.

Furukawa: I assumed the post of company president at the end of June 2003. In March of the same year, I was called before the European Commission to testify on an alleged anti-competitive practice in our NBR (nitrile-butadiene rubber) transactions, with a similar allegation subsequently announced in the United States.

Around May, several chemical makers were found to have omitted safety inspections under the High-Pressure Gas Safety Law. Suspecting similar omissions, the Nuclear and Industrial Safety Agency of the Ministry of Economy, Trade and Industry inspected other companies and discovered that our Tokuyama and Mizushima plants also omitted these safety inspections, and in November, the ministry consequently revoked our authorization to carry out these inspections.

I believe the historical background for the anti-competitive practice was the antirecession cartel in the vinyl chloride industry from the mid-1970s to the 1980s, which may have influenced our behavior overseas. The omission of the safety inspections may have been a result of cutting back too much on spending at our plants to reduce fixed costs while suspending dividend payments for two consecutive years in 1993 and 1994 and struggling to achieve profit targets after

the bursting of the economic bubble.

To break away from this kind of practice, we first worked only to ensure full compliance. Although the corrective actions were not as sophisticated as today's CSR efforts, the executive officer at that time took the initiative and regained authorization to carry out the safety inspections. From what we have learned, I believe we can now guarantee compliance. At the time, however, I was worried if we were doing enough. I had the opportunity to hear Shigeru Nakajima, an attorney, talk about compliance and CSR, and was inspired to work on CSR and create a company that could make a greater contribution to society.

We want to advance our CSR efforts, including quality assurance, across our entire business operations, starting at the regional level, such as by organizing summer festivals at our plants for local residents. For example, we intend to apply Life Cycle Assessment (LCA) to accurately estimate the benefits provided by using our rubber products for fuel-efficient tires. Despite any challenges that may arise, we are seriously exploring this kind of direction.

We are now developing a new Mid-Term Management Plan aligned with our vision of society in 2020. The plan is geared toward making us a company that contributes to society and that works to embody the spirit of the ZEON CSR Policy. We are now polishing the final details of this plan.

Yamamoto: Let me add to what the president has said by describing the CSR activities at ZEON over the past year or so. Fiscal 2010 was a year of major changes for ZEON. We established the ZEON CSR Policy and CSR Code of Conduct in April, reviewed meetings held across the company to reconfigure our CSR promotion system in December and launched a new promotion system under the CSR Conference in January this year.

We held two CSR briefing sessions for all head office employees as well as all plants and group companies to provide an opportunity for considering CSR at each milestone of our efforts. We are encouraging everyone to be aware of, think about and act for CSR by developing a CSR Matrix. The matrix will increase the visibility of our CSR activities through a system chart, organized by category and stakeholder in each department, under the new promotion system in cooperation between the CSR Basic Policy Committee and CSR Promotion Committees at the Head Office, five operating sites and 10 group companies. We have also launched the CSR Core Project to develop activities in which all employees participate that could be regarded as ZEON's CSR project. I think these two pursuits will form the foundation of ZEON's CSR in the future.

What is CSR? —Listening to What Each Expert Has to Say

Adachi: The President said he understood CSR in terms of correcting one's own behavior and launched CSR efforts to restore balance after a one-sided pursuit of profits had resulted in harm. I think this is a typical example of how Japanese companies have begun to engage in CSR activities.

I believe this type of engagement is right in a sense. I also became keenly aware that different approaches to CSR are being used in the development of ISO26000. The definition in ISO26000 states:



Any decision-making and activities of an organization inevitably have some impact. Some stakeholders may appreciate the impact, but some may speak out against it. How a company responds to this interaction between impact and feedback is CSR.

Company presidents in Japan are typically unable to immediately answer questions with a list of what their stakeholders within and outside of their company are saying. Overseas, however, I sometimes observe a distinct difference in the sense of urgency and priorities related to CSR. For example, Shell was publicly criticized in the late 90s for dumping waste into the sea from its rigs in the North Sea oil field. What I remember from an interview with the manager of that company was his comment saying "CSR for Shell at that time was not a mid- to long-term issue; we had to make urgent decisions with the possibility of seeing our gas stations burned the next day." This is clearly a different perception of CSR.

I mentioned that the ZEON experience is a typical example of how Japanese companies begin engaging in CSR. Since the President has included globalization in the new Mid-Term Management Plan, the company's next task may be to identify the appropriate ways of conducting business in overseas operations. I would advise you to adopt this perspective in the CSR Matrix and CSR Core Projects your company is now working on.

Akiyama: When we began surveying companies for the purpose of SRI (socially responsible investment) in 2001, the acronym was simply not present in Japan. Our surveys focused on corporate ethics and compliance. The compliance efforts of Japanese companies were triggered by a series of corporate misdeeds. Especially in 2001, we observed incidents, one after another, at large corporations. To prevent such incidents, many companies started focusing on compliance. Compliance itself was a foreign word that was unfamiliar to the general public at that time, and we were often asked, "What does the word mean? How can you operate a business with it?" As companies proceeded with compliance efforts, however, we started to think that it is not about what you shouldn't do. Instead, we saw it as a positive effort for fulfilling our responsibilities to society and thought that it is also important to be ready to explain how we do this, which led to the current understanding of CSR. The CSR of Japanese companies started off as an area for fulfilling responsibilities. In recent years, the direction of CSR has shifted to proactively contributing



to society in addition to simply fulfilling responsibilities. I think enterprises that initially started CSR efforts from a defensive stance have now shifted to a more proactive approach of using CSR as a competitive advantage.

I believe CSR is deeply rooted in a company's corporate philosophy.

Compliance is not just about maintaining legal compliance; it is about a company strictly adhering to its own philosophy. Your company's philosophy, "ZEON will contribute to the preservation of the Earth and the prosperity of the human race," clearly proclaims your company's commitment to benefit society and the human race. This inevitably leads to the question: How will the company benefit society far beyond legal compliance? CSR is about defining your corporate values and corporate intentions, and then putting these into practice every day while communicating them to society. I think it is significantly noteworthy that the company last year developed the ZEON CSR Policy, which is easy to understand and remember. Also,

it reviewed and improved its corporate regulations and introduced a new promotion system to establish the foundation for its CSR efforts. There are two important points in working on CSR activities. One is to define what area, focus and initiatives are right for managerial goals and for the company. The other is to clearly communicate this information to employees so they can perform their daily tasks in alignment with this direction. These two tasks should be pursued simultaneously. Since employees are the people who put CSR activities into practice, the absence of employee awareness, in particular, would render even the best plan useless.

Fujii: I'd like to say two things. First, when considering the value of CSR efforts, it is very important to recognize the difference between what is considered good in Japan and what is considered good outside of Japan. The antirecession cartel mentioned by President Furukawa was developed in what may be referred to as "the good old age" in Japan, and it was publicly accepted as unique to Japan. There has been nothing similar in Western history. So it's not about whether Japan was right or wrong; there is simply a difference in what is deemed acceptable.

Here's another example. A certain Japanese company employed people with disabilities to work at a factory in which only people with disabilities worked and proclaimed this to overseas media as an example of CSR. From the Western perspective on human rights, however, setting up a work environment exclusively for people with disabilities was considered as segregation; Western philosophy dictates that people with and without disabilities should work together. Before the matter could become a major issue, it was brought back onto safe ground.



What we now consider to be right is often not considered to be right outside of Japan. This could become an Achilles heel for a company expanding its business overseas. Embracing different cultures within a company as well as differences in values could cause some troubles in the company.

My second point: The description of your CSR Policy includes the phrase, "We will contribute to sustainably developing society and protecting the global environment through our corporate activities." Contribution through business activities may be divided into two categories. One is contributing to the sustainable development of society and the global environment through products and services. The other is contributing to society by changing the manufacturing process without changing the products themselves. The shortcomings of the former are easier to see because you receive immediate feedback from the market and lose customers. This is not so true in the latter case because issues are difficult to identify and do not cause any immediate problems. This is why it is important to stick to the philosophy Ms. Akiyama mentioned earlier. Without a clearly expressed philosophy, you may not attract much feedback, and there is always the risk that the company will deviate further and further from its fundamental direction. I think it is important to focus on things that are not usually visible to the public, such as manufacturing processes.

Impact of ISO26000

Yamamoto: Mr. Adachi suggested that the history of ZEON's

engagement in CSR efforts is typical for Japanese companies, and he also described his experience in the process of developing ISO26000. Although ISO26000 does not require certification, I think its status as an international standard has a major impact on corporate operations. How do you think Japanese companies should respond?

Adachi: The first point is: to what extent you can identify your impact. Japanese companies may find it somewhat embarrassing to discuss their negative impacts, much less, "An Inconvenient Truth." For example, it may be difficult for a chemicals company to talk about running out of fossil fuels, which



are its raw materials, or tripling, even quadrupling prices. Other than developing a management plan, I suspect people usually refrain from discussing these kinds of issues. It's pretty much the same with the issue of reducing CO₂ emissions. I think it is important to create an atmosphere that encourages people to recognize these issues and freely express their opinions.

This is a little off topic, but I am very curious about why the company withdrew from the vinyl chloride business. If you explained that it was simply an issue of economic efficiency or there was some consideration about social impact in 10 to 20 years, our perception toward your company could change.

Second, I think Japanese companies have no choice but to carefully listen to what stakeholders say. There are not many outspoken groups or stakeholders in Japan. The market, however, is closely monitoring what companies are doing at every moment, so you must be able to hear them as well.

After we combine social impact and stakeholders' feedback, I think the third most important factor is the selection of business. Many in Japan may say the existence of a company or turnover of its sales activities in the market bear witness to its social value and contribution to society. They also say that the goal of CSR is to accomplish the business at hand or improve quality regardless of the specific business field or product portfolio. However, I think a little bit differently: Companies need to establish an organizational framework in which members constantly consider whether they should continue or stop their current business and production operations in the context of society and the Earth 50 years from now. It is not until such a practice works that their own sustainability as well as that of society as a whole will be guaranteed.

Yamamoto: Mr. Adachi mentioned three points: the extent to which we can identify impacts, our relative openness to what stakeholders say, and conducting our entire business with a mid- to long-term consideration of what we should deliver to the world. With respect to the second point, one of the key aspects of ISO26000 and a principal statement in the amendment to the Keidanren Charter for Good Corporate Behavior is to ensure trust through dialogue with a broad spectrum of stakeholders. We know we have not done enough in this regard, and we must intensify our efforts. Concerning the selection of business, I think Japanese companies are doing this to some extent. For example, in our new Mid-Term Management Plan, we determined our activities for the three years using the image of the company we would like to be in 2020. President Furukawa, what do you think about this?

Furukawa: I think that in addition to ISO26000, various regulations such as the RoHS Directive, REACH Regulation and IFRS have

been introduced overseas, making it difficult to respond to impacts. [Laughing] I suspect we would be in big trouble if we selected our business without first looking ahead 20 or 30 years. Merely recognizing impacts, however, is not enough. We are planning to open a plant in Singapore but have yet to know the countries in which we will recruit employees or what the corporate culture will be. Since we are required to get all of these things right, corporate management will definitely be challenging.

Fujii: Concerning ISO26000, I think it is important to become aware of the parts you have not considered before. Many business scholars have observed that one of the driving forces behind the strength of Japanese enterprises is the Japanese consumer's passion for quality, that is, Japanese companies have benefited from discerning consumers who refuse to purchase any product with even the slightest flaw. On the other hand, as Mr. Adachi suggested, Japanese consumers rarely express their concerns to companies. Although environmental issues may be an exception, in other areas of concern, such as discrimination, companies in Japan are rarely subject to boycotts with anywhere near the frequency that businesses in the West face such protests. Since Japanese consumers remain patient on social issues but strict on quality, I think Japanese companies have given extraordinary consideration to quality while not feeling pressed to give much thought to social issues. In a sense, Japanese companies, over the long term, may be handicapped compared to their Western counterparts. So I think reading ISO26000 from the perspective of cultural differences can be useful for noting content that may surprise Japanese companies, making them wonder why they should consider certain kinds of things.

Furukawa: I agree. The Charter for Good Corporate Behavior was revised because Japanese companies lack a global perspective from which to respond to issues such as human rights and poverty. ZEON's Code of Conduct is also weak in this regard and requires improvements.

Takegami: On a second reading of ZEON's CSR Code of Conduct, I noticed that it states: "We will not engage in child labor and forced labor nor will we purchase any product manufactured through such labor;" however, it is not significantly emphasized. I think ZEON's code reflects a part of ISO26000 here, but I feel we need to squarely respond to such issues and act accordingly.

Contribution to Society through Core Business

Yamamoto: Now, let's leave the issue of ISO26000. Ms. Akiyama and Mr. Fujii have mentioned "contribution to society," so let's discuss how we should make a difference through our core businesses, which would also impact environmental concerns.

First, Director Takegami will briefly explain how ZEON is contributing to the environment through its core business.

Takegami: At the risk of sounding like a commercial for ZEON products, I truly believe that the right way to contribute to society and the environment through our core business is to consistently deliver products that meet the needs of society by taking advantage of our "original technology that does not imitate others and cannot itself be imitated." Representative products include: (1) rubber for fuel-efficient tires; (2) latex for gloves that reduces protein allergies; (3) "Zeoglobule®" polymerized toner that enables copiers to consume less energy; (4) "ZEONOR®" and "ZEONEX®" cycloolefin polymer products featuring outstanding optical characteristics for such applications as mobile phone camera lenses; (5) "ZEONOR optical

film®" produced by a solvent-free extrusion method to improve the energy efficiency of LCD TVs and make them even thinner; and (6) "Zeorora®," a 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 environmentally sound products through eco-friendly, reliable and safe production methods established through our Responsible Care activities. In respect to contributing to society through our manufacturing processes, which was mentioned earlier, we reduced unit energy



consumption in production to 67.8 in fiscal 2010. This represents a 32% reduction from 1990, significantly beating the 20% reduction goal of the voluntary environment-related action plan of the Japan Chemical Industry Association. If we converted this level of reduction into CO₂ emissions, it would be equivalent to 581 thousand tons in fiscal 2010, an 8.8% reduction from fiscal 1990 (637 thousand tons), exceeding the 6% reduction target for fiscal 2008 and 2012 under the Kyoto Protocol.

Yamamoto: Earlier Mr. Fujii stated that there are two categories of contribution through business activities: the products and services themselves and the process for producing them. The polymerized toner mentioned before is not only an environmentally sound product, but it is produced using a method that is completely different from conventional pulverization. In this sense, I think we are doing fairly well in terms of process and marketability as well. Since ZEON's products are material or semi-manufactured goods, it is not always easy to see whether they are truly contributing to society. We were wondering what we can do to increase this awareness, and one possibility is the lifecycle assessment mentioned by the President in his opening presentation.

Furukawa: The chemical industry can create a variety of materials, including those with very unique characteristics. For example, airplane tires are high in natural rubber content. You could almost say they consist solely of natural rubber, which has a well-balanced durability. As Mr. Takegami has explained, we can develop rubber with ever-increasing fuel efficiency, but taken to the extreme, a car would not stop when it should. So we create distinctive rubbers that to a certain degree compromise on fuel efficiency. The exact opposite situation is rubber used for F1 races. Since racing cars drive at high speeds without any consideration for fuel efficiency, tire makers ask us to produce rubber that will not skid at high speeds, regardless of fuel efficiency. We can create products with a variety of distinctive features. Now, in the context of wanting to genuinely contribute to society while meeting customer demands, I believe our job is to turn out products that are environmentally sound throughout their entire lifecycle, from production through consumption and ultimate disposal. We want to clearly present this analysis in concrete, quantitative measures, despite the difficulty, which is our concern.

Global Business Building and CSR

Yamamoto: Now, let's start exploring our third topic, how should we think about CSR in the midst of the globalization we discussed earlier. We have already expressed the fundamental concept of our new Mid-Term Management Plan, mentioned by the President in the

opening of this dialogue. It is based on our Corporate Philosophy and CSR Policy. These two will not and should not change. With this in mind, all our executives and employees are committed to taking CSR to the next level. On the other hand, we will apply our CSR Code of Conduct worldwide while modifying it in response to the needs of the times. Mr. Fujii, you have already started discussing how we should think about CSR in relation to globalization. Could you please elaborate on it a little more?

Fujii: I think CSR will serve as a strong walking stick for supporting us in globalization. When one company has acquired a foreign company, especially a large foreign enterprise, it is not at all unusual to later have a hard time remembering which company acquired the other in terms of, say, corporate philosophy. Westerners are good at expressing their worldviews, while Japanese companies discuss the next half step based on a deep-seated *kaizen* policy. In this way, the two sides talk right past each other forever. This situation could make it particularly difficult for the head office in Japan to control decisions on overall policy. This kind of situation tests how strongly you hold to your philosophy. The other day, I read President Furukawa's 2011 New Year message. I have never read a president's message that was so explicit. Each word was very simple and convincing. Because Westerners value clearly articulated thoughts, I think it is ultimately essential to express your ideas about human rights, the world we hope to create, or how we can address poverty, for example, when discussing values on the global stage.

In addition, I am concerned about the use of the phrase "contribute to the realization of customer dreams and a prosperous society" to create an enterprise blueprint for 2020. Westerners may well ask, "what is the dream of our customers?" The idea comes from the Japanese notion of serving customers. I fear that losing the uniquely positive aspects of Japanese companies is tantamount to digging your own grave, which you should never do. The Japanese notion of customer service, however, is hard to understand at the global level. Western companies, such as Google, talk about their own dreams first. They say they are working to realize their own dreams and not to realize their customers' dreams. Of course, they serve their customers, but they talk about their own dreams first. This means that when you travel overseas you will be asked, "What is ZEON's dream?" and I think it is very important to explain this in a way that everyone can understand.

Akiyama: As you expand your business overseas, it is essential to maintain a sense of center, and I think this is the role of the corporate philosophy, as I said earlier. You must gain an understanding of how much every employee understands the philosophy. When we use the term "overseas," it clearly does not refer to any one place. Countries in the Americas and Europe are quite different from each other, just as countries are different in Asia. When developing business overseas, you must remain aware of the differences that vary by region or nation. The main role of your corporate philosophy is to unite these differences. When communicating your philosophy, be sure not to change its core spirit, but also be sensitive to how it could be perceived by local residents. We use the term "global business development," but I think what we are actually doing is dealing appropriately with individual areas, which together make up the global community ("glocal"). In order to disseminate the philosophy to each area, you should make sure to fully explain it in a way that every local worker can understand. At the same time, it is very important to provide opportunities for local workers to ask themselves: "What exactly does this philosophy mean in our job?"

Everyone should think about how they should work, what products they should make and what manufacturing processes to apply, while examining their own jobs in light of the corporate philosophy. It is, of course, important in overseas operations to disseminate your philosophy throughout the plant. But you must also pay attention to your business partners as well as the supply chain. Otherwise, you could incur significant risks.

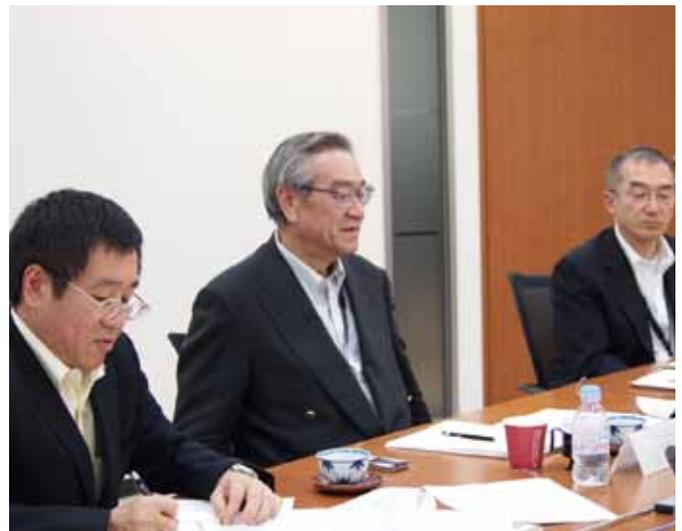
Furukawa: I think so too. It is important to reflect the corporate philosophy in each worker's job. This is expressed in the third item of our CSR Policy, which states: "each and every ZEON person is aware of CSR and acts accordingly." Regarding the CSR Matrix mentioned earlier, we will establish a framework for ZEON CORPORATION's CSR activities through a process in which the CSR promotion committees at all 16 sites will discuss a matrix and propose it to the CSR Basic Policy Committee for further discussion and compilation.

Adachi: In this context, when you talk about ZEON's dream, I think it is important to stick to your products and services when expressing your philosophy. The core of your business appears to be byproducts of naphtha. That is, it seems your company's history began with producing byproducts of naphtha and has thoroughly pursued every possibility for making good use of them. We could even say that the company's history is a history of recycling naphtha.

In a manner of speaking, the company holds seeds that have inherited its DNA and aspires to have a certain technology flourish. This information must be clearly presented to the public. If you do this, it will play a symbolic role when you talk about the company's dream and philosophy.

Furukawa: Yes, as Mr. Adachi has said, the core of our business is byproducts of naphtha and we are trying to use the C5 fraction in every possible way. At first, our ideas were not at all lofty. We wanted to use all of the C5 fraction, simply because transporting it by ship back and forth was very costly. I think we successfully differentiated the company as a result of how we used the C5 fraction. In addition, because it is only 15% isoprene, we tried a variety of ways to exploit the remainder of the C5 fraction, and as result, discovered a perfume, for example.

Adachi: I think these stories make your CSR much more accessible.



Conclusion: Advice from the Experts

Yamamoto: We have certainly covered a wide range of topics. I would like to ask all our guests to offer their suggestions for ZEON.



Since it is the first time for ZEON to exchange opinions on CSR with people outside the company using this format, I invite President Furukawa to speak first.

Furukawa: Although ZEON does not have a wealth of experience in M&A, I would like to mention our experience in this area. Our first entry into the United States

started out well, although we subsequently experienced some difficulty with the president we had recruited in regard to cultural differences in such areas as quality management and layoffs. At the time, I realized the difference between the Japanese way of thinking and how others think.

I think global business development is really difficult. We are planning to establish a base in Singapore, where Singaporeans, Indonesians and Bangladeshis will work together. This could prove to be even more challenging than our entry into the United States.

I wonder if people overseas understand why we put “the preservation of the Earth” in our corporate philosophy. It originally referred to the production of vinyl chloride using raw material taken from the Earth. We dug carbide out of the ground, brought in limestone, used electricity for burning, added water to make acetylene, and combined it with chloride to produce vinyl chloride. This is why we use the term, “the Earth.” Perhaps employees in the U.S. subsidiary haven’t been fully aware of this. [Laughing]

Akiyama: Have you told this story to all the employees there? Has it been told in a manner that people in the United States can understand? Americans are just as fond of these stories as the Japanese. They like to hear about the corporate philosophy or history, what they sometimes refer to as the “back story.” If you have a story, I think you should effectively communicate it. After hearing your explanation, I feel I now fully understand the relationship between the Earth and your company’s back story. Knowing this can completely change how you view the video that introduces the company.

Furukawa: I don’t think I have shared it often enough. I will tell the story more often in the future.

Fujii: Every company says it will do business globally, but even a global company is still managed by people. So in the end, this dialogue has been nothing more than a discussion about how each one of us can become genuinely global. In order to call ourselves “global persons,” we must realize that the key to doing business globally is becoming a community of global persons. Nevertheless, we should not abandon our Japanese sensibilities. We tend to approach this issue from the extreme positions of clinging to it exclusively or completely abandoning it. For example, the way in which you express your opinion about child labor reflects your own understanding of the issue. How and what we understand is an eternal challenge for everyone, which I believe is essential for making globalization work.

Akiyama: I think both corporate management and CSR should be based on maintaining a certain essence while taking on new changes. There are things you should not change and things you should change quickly. You can never be overly strict in preserving the core tenets of your corporate philosophy, but with other matters, particularly those you deal with abroad, you have to change depending on the situation and where you are. And understanding the local situation accurately is necessary for making changes. If you are from somewhere else, you must get to know and understand the

people, their cultural background and their ways of thinking. And I think it is important to appropriately communicate the story behind your philosophy including some of the stories you have mentioned, and share the necessary information.

One more thing I’d like to mention is the pride in your work. Your philosophy is one component of your pride, but you should also communicate, both inside and outside the company, stories about your products, like the one we have just heard. Those involved in making the products know this information, but others, such as administration staff members at the head office, might not completely realize how your company’s products contribute to society, which would be a waste. The information must be communicated to employees because it cultivates pride in their work and the company. In addition to sharing information about CSR efforts, I strongly advise you to share these aspects with your employees.



Adachi: A large part of my advice may overlap with what Ms. Akiyama has just said.

I advise you to maintain your corporate philosophy and speak out. I encourage you to speak out because I think it is a challenge for many Japanese companies to have the confidence and means of expression for stating their contributions to society and to proudly declare how they intend to make a difference. It might sometimes be necessary to make an objection or defend a viewpoint upon hearing opinions from outside the company. Companies in the West are superior to Japanese companies in their abilities to speak out boldly. In my experience, I see they are often staging a performance and saying that they are doing something different than what they are actually doing. As you go global, however, you must compete with them. So Japanese companies simply must speak out more often, regardless of the cost or time required. I feel CSR efforts represent an ideal and are an important arena for speaking out.

Yamamoto: Thank you for your time today. Last year, we exchanged our thoughts on CSR through a round-table discussion with young employees, which was related to the recently announced ZEON CSR Policy and CSR Code of Conduct. This year, we discussed CSR with external experts. We looked at the importance of paying close attention to what people outside the company have to say in order to meet society’s expectations and demands.

I would like to end the meeting by expressing hope that this dialogue will stimulate further discussions related to CSR throughout the company.

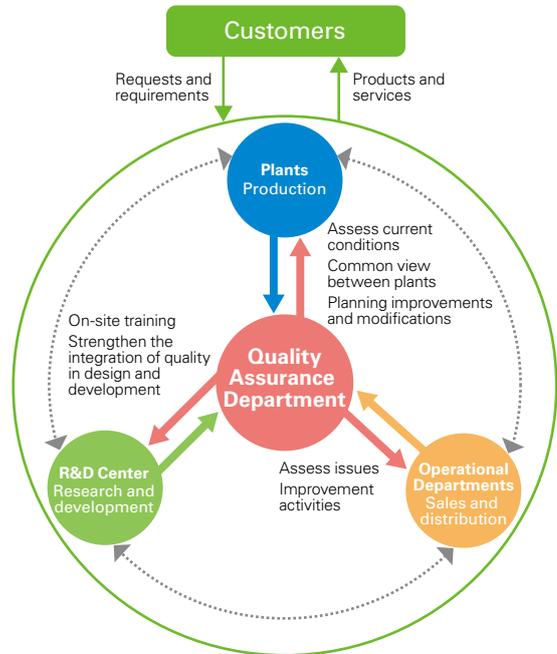
Relationship with Stakeholders

We engage in a variety of activities to maintain a sense of harmony and mutual growth with all our stakeholders, including customers, shareholders, investors, local communities, suppliers, and employees.

Relationship with Customers

Quality Assurance

To consistently manufacture products that reflect the needs and wants of customers and to ensure product quality, ZEON is undertaking quality assurance efforts throughout the company by strengthening cooperation among operational departments, research units (R&D Center) and plants and more effectively integrating production, sales and technology. Independent departments were established at each plant to enhance quality assurance company-wide, and the overall system was reorganized to reinforce cooperation with the Head Office Quality Assurance Department. We are actively improving communications and addressing problems for plants and the company as a whole. Particular company-wide efforts for the fiscal year are focused on ensuring that we identify root causes, take countermeasures, confirm effectiveness and standardize quality targets. Our intent is to decrease the number of persistent production problems at plants, and we will also take steps to prevent defective products from reaching the market toward our goal of reducing customers' claims and complaints to zero.



Communication with Shareholders and Investors

Communication with Shareholders

To facilitate shareholder understanding of our business, we offer presentations and an exhibition on the day of the annual general shareholders' meeting, including displays for explaining clients' commercial products or models of products that use our manufactured goods. We also post information on our website about the annual general shareholders' meeting, audio files of the financial results presentation at our quarterly results briefing, and videos of the "Current Status of Management and Topics" given by top management (currently in Japanese only).

Communication with Investors

We encourage media coverage and visits by institutional investors and analysts from both Japan and abroad. In fiscal 2010, ZEON held briefing sessions for analysts to announce quarterly results in August and November 2010 and February and May 2011. In addition to summarizing financial results, sessions for the 2nd quarter and the end of the fiscal year included a briefing from top management on the current status of management and medium- and long-term plans.

ZEON held a Briefing for Individual Investors in September 2010, which was organized by Nomura Investor Relations Co., Ltd., and, for the second time after 2008, a Briefing for Individual Investors in November 2010, which was organized by Takara Printing Co., Ltd., publisher of Japanese Investor magazine.

Under the theme, "Surprisingly ZEON," we presented our products and business operations in an easy-to-understand manner. The company will continue to actively disseminate information and deepen mutual communications with individual investors through these briefings. At the same time, the company intends to be more proactive in conducting IR activities for individual investors.



Briefing for Individual Investors



Displaying information at a Briefing for Individual Investors

Relationship with the Local Community

Local Community and Society

Each plant is strengthening relationships with their local communities. Major activities are listed below.

● Festivals

Some of our plants host summer festivals.

- ZEON Summer Festivals (Takaoka, Kawasaki, and Mizushima plants)
- ZEON Waraku Odori Dance Festival (Tokuyama Plant)

These plants also participate in summer festivals held by local communities.

● Cleaning

Cleanups are conducted in the areas surrounding each plant. Employees also participate in volunteer cleanups held by local communities as well as joint cleanup activities with neighboring companies.

- Himi Waterfront Cleanup near the Takaoka Plant
- Joint cleanup of Tonomachi Yakosen Street with neighboring companies (R&D Center, Kawasaki Plant)
- Higashi-gawa river cleanup (Tokuyama Plant)
- Volunteer cleanups in the Shionasu District (Mizushima Plant)
- Joint cleanup with the Marunouchi Neighborhood Association (Head Office)

● Plant and laboratory tours

Plants and laboratories offer tours for high schools, vocational schools, universities, local governments, business partners, related organizations, and other interested community members.



Jointly patrolling the streets under the "Ordinance for Betterment of the Living Environment" in Chiyoda Ward

Support for the victims and stricken areas of the Great East Japan Earthquake

ZEON donated 30 million yen through the Central Community Chest of Japan to aid victims of the earthquake that struck Japan on March 11, 2011 and assist in the reconstruction of affected areas.

We pray for those whose lives were lost in this disaster and offer our deepest condolences to everyone affected by the calamity. All employees of the ZEON Group hope for the speedy recovery of the stricken areas.

Relationship with Suppliers

Relationship with Suppliers

ZEON CORPORATION strives to reliably offer products that satisfy customers through our daily efforts, guided by our ZEON CSR Policy and CSR Code of Conduct. We have taken steps under our green procurement initiative to voluntarily prohibit suppliers from handling certain substances and to monitor the content of substances governed by laws, regulations, and the RoHS Directive. We are diligently disclosing information on substances contained in our products and establishing mechanisms to ensure the provision of safe products.

Relationship with Employees

Basic Policy

We encourage employees to seize the initiative in pursuing lofty goals, develop human resource systems that challenge them to achieve their potential, and maintain comfortable working environments that value dialogue toward establishing ZEON as an enterprise in which every employee can work with pride.



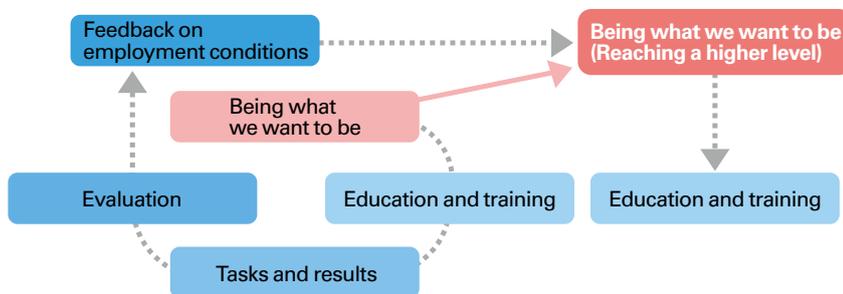
Human Resource Development

Encourage Employees to Keep Pursuing Lofty Goals under Their Own Initiative

ZEON's concept of "being what we want to be" refers to people who act by thinking rigorously for themselves and continue to change in order to achieve lofty goals. The company aims to foster people who take rigorous approaches to challenges, work independently, and pursue change and improvement toward the achievement of their goals.

Up to now, ZEON has mapped out each individual's objectives in the form of an "image of what we want to be," and has revamped its education and training practices to ensure their relevance to specific daily activities, and not to just fill in the gap between objectives and the current situation. The aim is for employees to accept the challenges of even loftier goals after fairly evaluating results achieved through performing tasks, which can then be reflected in employees' terms of employment. The end result of each employee achieving innovation and improvement through specific daily activities is to build up workplace strength and the company as a whole.

Education and training at ZEON is broadly divided into core education, which is targeted at all employees and focuses primarily on raising awareness and acquisition of common knowledge, specialized education for specific jobs, and on-the-job training conducted in the workplace.

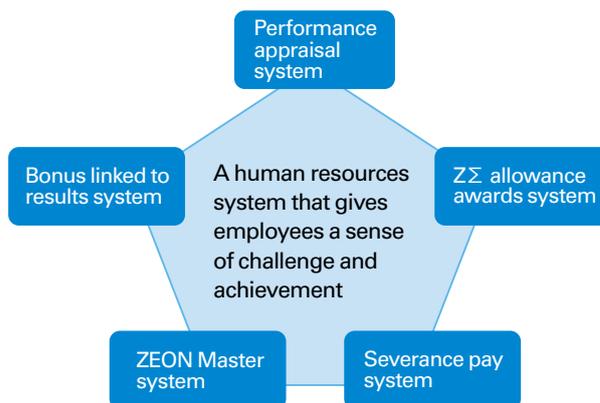


Upon completion of the training program in June, these new recruits are assigned to their respective departments and are ready to take on their roles.

Personnel System

Human Resources System That Gives Employees a Sense of Challenge and Achievement

The ZEON Group believes that a truly competitive company is the sum of the abilities of its employees, and we aim to create a human resources system that provides employees with a sense of achievement by giving each one of them the opportunities to meet the challenges of their lofty goals, to act on these goals, and to have the outcomes reflected fairly in their employment terms, with the entire organization moving in the same direction.



Workplace Environment

A Comfortable Working Environment that Values Dialogue

Building on foundational prerequisites emphasizing CSR and regulatory compliance, ZEON implements flexible work practices guided by corporate principles of motivation, reliability, achievement, stability and safety, and security. In terms of health and welfare programs, the company maintains an ongoing commitment to creating a comfortable working environment from the four perspectives of enhancing workplace environments, encouraging dialogue, improving health, and supporting self-reliance based on a life plan.



Health Management Initiatives

We are working to maintain and improve mental and physical healthcare management for employees. At the same time, we are promoting the physical health of employees through healthcare guidance provided by nurses and other professionals.

In terms of employee mental health, several worksites have implemented stress assessment to assist employees in better understanding the physical and mental influence of stress. In addition, ZEON conducts mental health training and assigns psychiatrists and psychotherapists to support its industrial physicians.



Mental Health Training (Kawasaki Plant)

Environmental Activities

Environmentally Conscious Product Development

We develop products that contribute to the environment, drawing upon our innovative, revolutionary technologies.

Products that Promote Energy Saving

Synthetic rubber for fuel-efficient tires: Nipol® S-SBR

ZEON's S-SBR is attracting attention as a tire material that contributes to vehicle safety and saves energy. The use of fuel-efficient tires has been expanding, as evidenced by the spare tire labeling system that was introduced in Japan in 2010, and will be implemented in Europe and North America. Tire manufacturers in Japan and overseas are expected to increasingly adopt ZEON's S-SBR as an advanced material that balances a tire's fuel efficiency and grip.

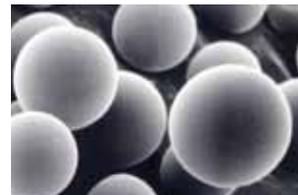


Automobile tires made of fuel-efficient synthetic rubber

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 spherical 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

ZEON markets a binder for aqueous lithium-ion rechargeable batteries that does not use organic solvents and therefore requires less solvent recovery and reprocessing. The binder also maintains working condition standards at battery production plants, which lowers capital investment and operating costs. In addition, growing interest in improved battery performance has led to the adoption of this product for eco-friendly vehicles equipped with lithium-ion rechargeable batteries.



Environmentally Friendly Products that Conserve Energy

QUINTIER™ SV

The newly developed QUINTIER™ SV series of oxygen-absorbent resins absorb oxygen when heated and are transparent as well as easy to mold and process.

Applying the QUINTIER™ SV series to packaging materials leads to maintaining the flavor of food and reducing waste by extending the shelf life of food products, since these resins absorb oxygen inside the packaging during the processes of sterilization, boiling, and retort.

Moreover, QUINTIER™ SV combined with transparent deposition film can completely replace metal packaging materials such as conventional retort aluminum pouches and cans. Because packaging made entirely of plastic is easy to dispose of, environmental impact is reduced. In addition, its light weight lowers transportation-related energy consumption.



ZEON booth at TOKYO PACK

Products that Help Protect the Ozone Layer and Prevent Global Warming

Next-generation fluorocarbon detergent Zeorora® H, Etching gas 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.



Ozone Layer Protection and Global Warming Prevention Award

Products with Low Environmental Risks

New ether solvent Cyclopentyl methyl ether (CPME)

The world's first eco-friendly ether solvent, CPME, was made in Japan. Because of its high performance in reducing environmental impact (less waste water, effluents, and CO₂ emissions) and its contribution to eliminating hazardous processes and shortening processing times, CPME is used across a wide range of fields such as pharmaceuticals, agrichemicals, aroma chemicals, and electronic materials. CPME was awarded the bronze prize at the CPhI Innovation Awards at CPhI Worldwide 2010 in Paris, the world's largest fine chemical trade show, and a product award for Profiles in Sustainability, in recognition of its contribution to green chemistry, at Informex 2011, the largest fine chemical trade show in the United States.



CPhI Innovation Award

Plant growth regulator (active ingredient: Prohydrojasmon)

This plant growth regulator (agrichemical agent) is the result of research into jasmonic acid (a flower aroma compound) and helps prevent problems such as discoloration in apples and skin damage in citrus fruit, which have become more common in recent years due to global warming. It has been used in combination with gibberellin for practical use in the prevention of peel puffing in mandarin oranges since 2010. In addition, it has earned high marks in the agriculture industry for showing outstanding results after a single application and has low impact on the environment due to its excellent biodegradability and eco-friendly ingredients.



Jasmomate

Products with Low Environmental Risks that Promote Energy Saving

Urethane blowing agent Cyclopentanone

ZEON released a cyclopentanone blowing agent for thermal insulation in refrigerators nearly 20 years ago, before depletion of the ozone layer and global warming became serious issues. Today, cyclopentanone is a standard urethane blowing agent used for thermal insulation in a range of products. With zero ozone depletion potential and extremely low impact on global warming, cyclopentanone is recently being widely used for building materials such as thermal insulation boards and panels and for improving the energy-saving performance of houses and other buildings as well as the environmentally sound properties of materials.

Optical film: ZEONOR Film®

ZEON was the first company in the world to successfully manufacture optical film using a sheet extrusion process. This cutting-edge process is solvent-free and therefore no toxic substances are released into the atmosphere. In addition, ZEONOR Film® can be used as retardation film and has become an indispensable material for LCD TVs that consume less power. For small and medium-sized LCDs, such as on smartphones, ZEONOR Film® allows for a clear display, even in bright surroundings, while also consuming less energy by incorporating solar power.



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

ZEON'S GPU-type johkaso (septic tank) is tailored for the needs of a low carbon society, as it consumes far less energy to transport, install, and operate than conventional products because its outer case is made of PENTAM®, a dicyclopentadiene resin with outstanding shock resistance. This highly regarded combined unit septic tank can be installed in nearly the same space as existing stand-alone septic tanks, making conversion easy. Its sophisticated processing unit also removes nitrogen, contributing to the protection of our waterways.



Combined septic tanks: conventional GPH (left) and ZEON Johkaso GPU (right)

Special Topic Development of Synthetic Rubber that Contributes to the Fuel Efficiency of Tires

Synthetic rubber is one of our main products, and Nipol® S-SBR*, in particular, has been used to manufacture tires. Recently, energy conservation properties have become a high priority for tires in the wake of the growing environmental awareness of tire manufacturers. ZEON conducts R&D, production, and sales of synthetic rubber for tires to improve their fuel efficiency as much as possible.

Life Cycle Assessment (LCA) is a method of environment assessment of a company's products and services. It is used to evaluate the environmental impact of products from procurement of raw materials, production, and use to disposal, as well as transportation between each stage. The evaluation is conducted for the purpose of selecting the production methods, alternative materials, and alternative products that have the least impact. We launched our LCA efforts after recognizing the importance of the environmental impact of our products at every stage of their life cycle.

Tire manufacturers have already posted LCA results for tires on their websites for public review.

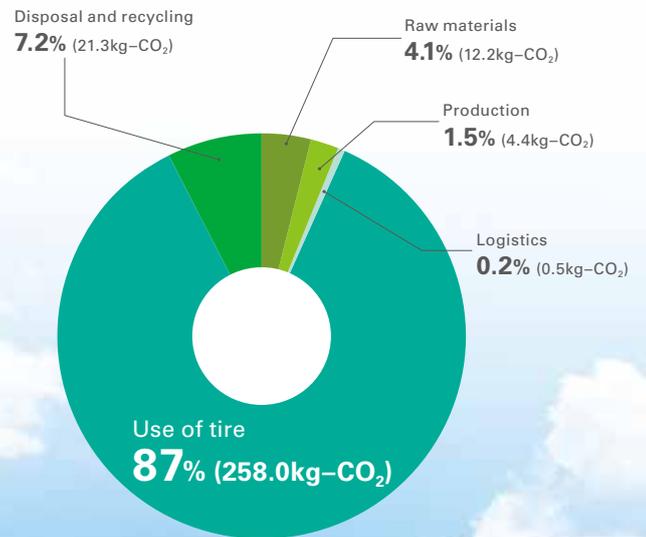
LCA results for tires provided by the Japan Rubber Manufacturers Association show that CO₂ released during the period a tire is used accounts for approximately 90% of the emissions across the entire life cycle of a tire. In addition, according to data from estimates on the impact that tires have on fuel efficiency, conducted by the Japan Automobile Tire Manufacturer Association, a tire's contribution to fuel efficiency can be up to 25%, depending on operating conditions. If a tire's contribution to fuel efficiency is 10% and rolling resistance between the tire and ground is improved by 20%, overall fuel efficiency can be improved by 2%.

We view this 2% improvement in fuel efficiency as very significant for the future of the human race, and therefore ZEON is doing everything it can to improve fuel efficiency through R&D, production, and sales of rubber for tires.

*S-SBR: Solution-polymerized Styrene-Butadiene Rubber



CO₂ Emissions During the Life Cycle of a Tire



Source: The Japan Rubber Manufacturers Association

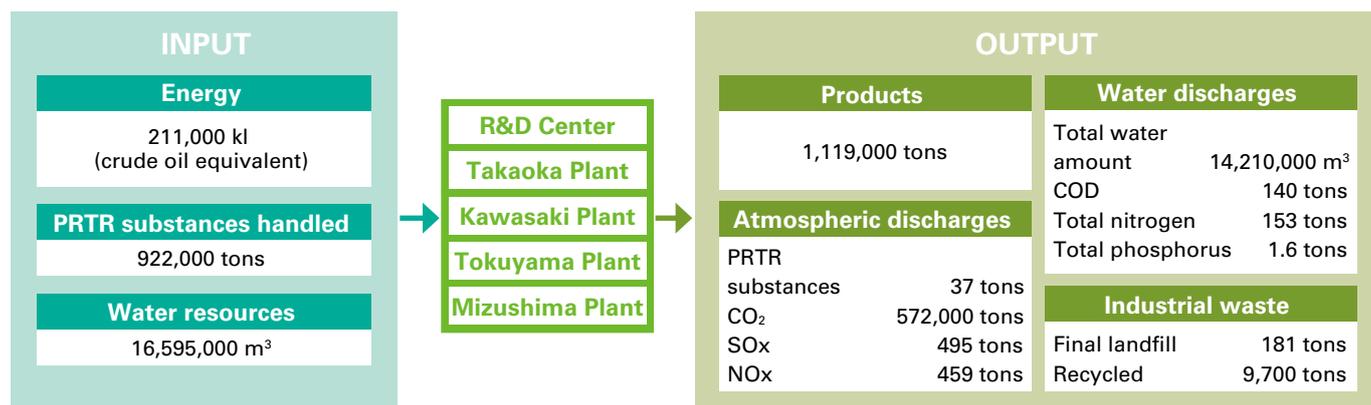
Targets and Results

Overview of 2010 Targets and Results

Item	2010 Targets	2010 Results	Evaluation	2011 Targets
1. Eliminate environmental and safety incidents	(1) Full implementation of plant safety evaluation	17 investigations performed	★★★	(1) Full implementation of plant safety evaluation
	(2) Implementation of voluntary safety audit (at least 1 per year at all 4 plants)	Implemented at all 4 plants	★★★	(2) Implementation of voluntary safety audit (at least 1 per year at all 4 plants)
	(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)	★★★	(3) Training to raise awareness of accident prevention (at 4 plants and 1 affiliated group company)
	(4) Zero environmental and safety incidents	No environmental incidents, 1 safety incident	★	(4) Zero environmental and safety incidents
2. Eliminate workplace accidents	No lost-time accidents, no serious non-lost-time accidents (including cooperating firms)	3 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 2009 level of 5.4 tons to 3.9 tons	Butadiene: 5.5 tons (edge up slightly from previous year)	★	Reduce butadiene emissions from 2010 level of 5.5 tons to 3.0 tons
	Reduce acrylonitrile emissions from 2009 level of 14.1 tons to 9.9 tons	Acrylonitrile: 15.2 tons (8% increase from previous year)	★	Reduce acrylonitrile emissions from 2010 level of 15.2 tons to 9.0 tons
	(2) Implement zero emissions plan for industrial waste			
	Reduce volume of waste sent to landfill to 211 tons in 2010	Final landfill amount: 181 tons	★★★	Reduce volume of waste sent to landfill to 140 tons
	(3) Strengthen company-wide energy conservation project			
	Reduce unit energy consumption to 87.0% of 1990 level	Unit energy consumption was 67.8% of the 1990 level	★★★	Reduce unit energy consumption from 2010 level of 67.8% to 67%
4. Promote chemical safety and product safety	(1) Implement product safety reviews for new products and new applications	31 reviews performed	★★★	(1) Implement product safety reviews for new products and new applications
	(2) Provide customers with environmental and safety information (MSDS)	Issued MSDSs for all products and implemented revisions (implementation rate: 100%)	★★★	(2) Provide customers with environmental and safety information (MSDS)
	(3) Report new substances (laws related to chemical substance investigation and production regulations, Occupational Health and Safety Law)	Performed fully	★★★	(3) Report new substances (laws related to chemical substance investigation and production regulations, Occupational Health and Safety Law)
	(4) Zero violations of law	No violations of law	★★★	(4) Zero violations of law
5. Promote safety in logistics	Training performed through logistics council to promote understanding of yellow cards	Training performed through logistics council and confirmed carrying status of yellow cards	★★★	
	(2) Zero logistics accidents	No logistics accidents	★★★	Zero logistics accidents

★★★ Target reached ★★ Target was almost reached ★ Requires improvement

Overview of Environmental Loads

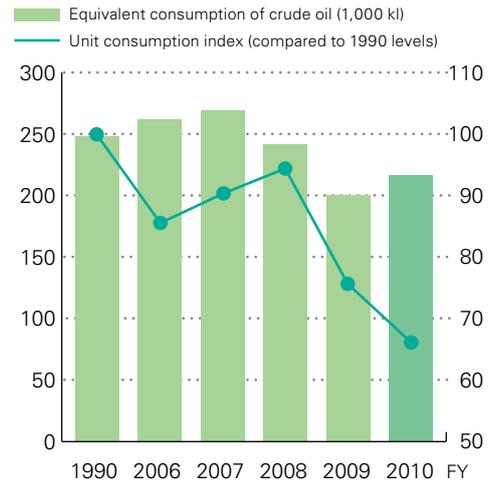


Resource and Energy Conservation and Reduction of Greenhouse Gas Emissions

Resource and Energy Conservation

In fiscal 2010, although production increased, energy use in terms of the equivalent consumption of crude oil rose only slightly due to energy savings initiatives at the Mizushima industrial complex and progress in companywide improvements. The energy consumption rate index (against 1990 levels) has improved to 67.8. The Energy Conservation Project at the Mizushima industrial complex is intended to conserve energy by reusing petroleum residue (or pitch) that is generated when extracting light oil distillates from heavy oil distillates (such as asphalt) as fuel for boilers, while reducing the use of heavy oil that had previously been used for fuel.

Amount of Energy Consumed and Consumption Rate Index



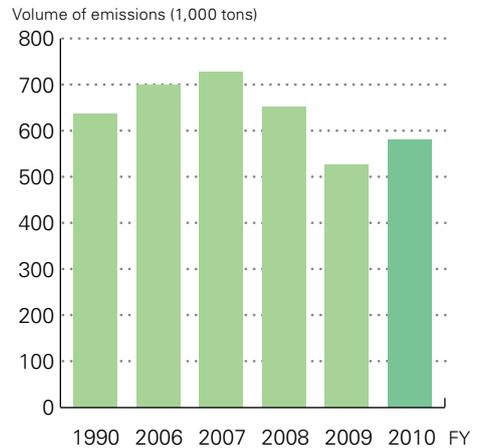
Reduction of Greenhouse Gas Emissions (CO₂ Reduction)

To achieve our ambitious goal of reducing CO₂ emissions derived from fuel to 80% of 1990 levels by fiscal 2020, as specified by the Energy Conservation Law, we are taking aggressive steps to slash CO₂ emissions. We have put into place an overall framework for reducing CO₂ emissions by adding the impact of CO₂ reduction to assessment items in ZΣ Activities for fiscal 2010.

CO₂ emissions for fiscal 2010 were approximately 580,000 tons per year and 91% of 1990 levels. Looking ahead, we intend to further reduce this percentage by an average of 1% annually.

Due to amendments to the Energy Conservation Law, CSR Reports after fiscal 2009 have been changed from a business site basis to a business entity basis, and therefore the entity covered for calculation is limited to the ZEON CORPORATION; Okayama Butadiene Co., Ltd., an affiliated company, was excluded from calculation. Consequently, the consumption amount in fiscal 1990 was also revised.

Amount of CO₂ Emitted



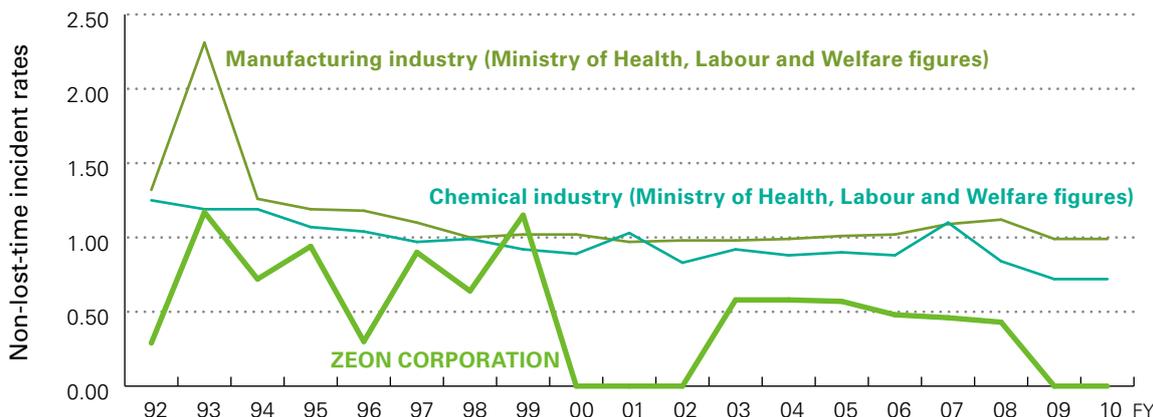
Note: Our website has detailed information on other environmental activities including PRTR, safety training, air and water, safety and accident prevention, toxic chemicals and waste, the environment, and safety in logistics.

Occupational Health and Safety

Moving Ahead with Measures to Eliminate Workplace Accidents and Promote Employee Health

To achieve a safe and secure production system that increases workplace strength, ZEON puts considerable effort into "5Ss" (organization (Seiri), orderliness (Seiton), standardized cleanup (Seiso), cleanliness (Seiketsu) and discipline (Shitsuke)) safety audits, risk assessments and identification of near-miss incidents, as well as the provision of hands-on training.

Trend in Lost-time Accident Rates*



*Frequency of lost-time accidents
An indicator of the frequency of workplace accidents, calculated using the following formula.
Frequency of lost-time accidents = number of workers who experienced a lost-time accident / total actual working time × 1,000,000 hours.

Risk Assessment (Kiken Yochi)

To prevent workplace accidents and manage the risk of human error, ZEON has adopted the 4RKY (four-round risk assessment) practice, whereby employees check for any unsafe situations before starting a task to avoid placing themselves in danger. In fiscal 2010, we continued to engage in this activity, centering around KY trainers deployed at each workplace.

Environmental Policy Based on Economic Perspective

Environmental Protection Costs

Capital Investment for Environmental Protection

In fiscal 2010, we invested capital in reducing air pollution emissions at the Mizushima and Tokuyama plants and replaced a facility so that we can monitor water pollution at the Takaoka Plant. We also invested in a facility that will improve wastewater treatment capacity and monitor water pollution at the Tokuyama Plant.

With regard to energy conservation, we invested in a waste-heat recovery system for the Tokuyama Plant.

Environmental Accounting Summary for Fiscal 2010

Environment protection costs (million yen)		2010	
Classification		Investment amount	Expenses
(1) Costs within the business area		239	2,457
Breakdown	Pollution prevention costs	215	1,761
	Global environmental protection costs	11	162
	Resource recycling costs	12	534
(2) Upstream and downstream costs		0	0
(3) Management activity costs		0	90
(4) Research and development costs		36	1,802
(5) Social activity costs		0	141
(6) Environmental damage handling costs		0	113
Total		275	4,603

(Million Yen)

Item	ZEON CORPORATION
Total investment amount within applicable period	9,214
Total research and development costs within applicable period	8,970

Scope of accounts: ZEON CORPORATION; ZEON Head Office, R&D Center, Takaoka Plant, Kawasaki Plant, Tokuyama Plant, Mizushima Plant
Period covered: April 1, 2010 to March 31, 2011

Environmental Protection Costs

We are developing technologies to minimize wastewater and reduce the level of volatile substances that remain in products. We are particularly focusing on reducing emissions of butadiene and acrylonitrile, both toxic air pollutants, and on developing technology, designing equipment, and prototyping operating procedures to reduce levels of contaminants such as TN (total nitrogen) and COD (chemical oxygen demand) in wastewater. In addition, we are also developing eco-friendly products and innovative energy conservation processes.

Environmental Protection Effects

Physical Results

Following our low operational rate in fiscal 2008 and 2009 caused by the global financial crisis, we maintained a high operational rate in fiscal 2010. All items in our environmental impact index increased from fiscal 2009. Except for NOx, we have also reduced all of our emissions compared to 2007 levels immediately preceding the global financial crisis, and we will continue efforts to reduce our environmental impact.

Environmental Protection Effects (Physical Results)

Environmental impact index	Fiscal 2010	Compared to fiscal 2009	Compared to fiscal 2007
SOx emissions (tons)	495	+34	-206
NOx emissions (tons)	459	+39	+43
COD emissions (tons)	140	+14	-54
CO ₂ emissions (tons)	571,798	+48,655	-144,617
Industrial waste sent to landfill (tons)	181	+15	-1,323
Total emission of substances subject to PRTR (tons)	37	+9	-19

Scope of accounts: ZEON CORPORATION; ZEON Head Office, R&D Center, Takaoka Plant, Kawasaki Plant, Tokuyama Plant, Mizushima Plant
 Period covered: April 1, 2010 to March 31, 2011

Economic Effects

ZEON intends to beneficially repurpose the waste from oil by-product production and similar operations through such measures as recycling or burning. Efforts are also being made to recycle metal products such as empty drums and metal sticks. Also toward further energy savings, ZEON is devoting particular attention to thermal recovery in its energy-intensive distillation processes.

Economic Effects Associated with Environmental Preservation Measures (Million Yen)

Description of effects	
Benefits of reclaiming material and utilization as fuel	37
Cost reduction through energy savings	1,119
Cost reduction through waste-elimination and recovery and reuse of solvents and catalysts	1,234
Total	2,390

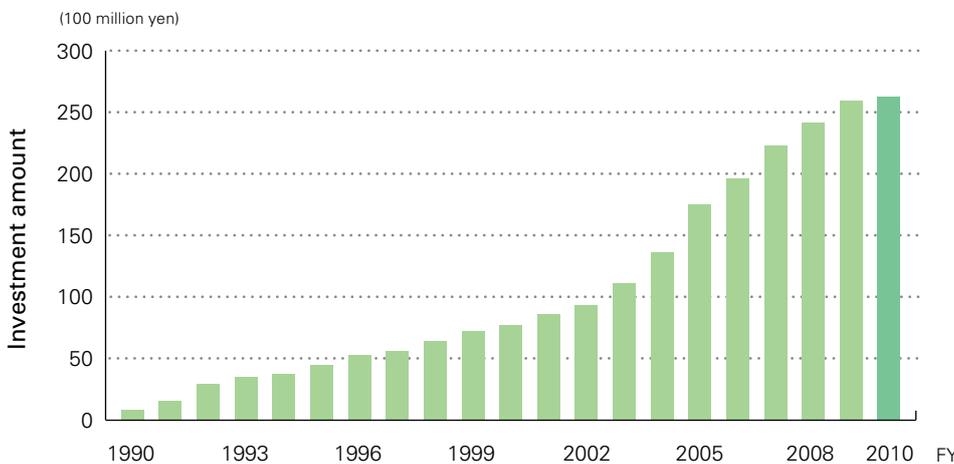
Scope of accounts: ZEON CORPORATION; ZEON Head Office, R&D Center, Takaoka Plant, Kawasaki Plant, Tokuyama Plant, Mizushima Plant
 Period covered: April 1, 2010 to March 31, 2011

Environmental and Safety Investment

Beyond investing in pollution prevention equipment as well as resource and energy conservation equipment, which appear in the environmental accounts, we are also increasing safety through ongoing investments in safety improvement and eliminating risks (safety investment).

The graph below shows the cumulative trend in total environmental and safety investment (environmental investment + safety investment).

Environment and Safety Investment Amount (ZEON CORPORATION)



2010 investment amount (100 million yen)

Environmental conservation-related	2.8
Safety-related	1.9
Total	4.7

Scope of accounts: ZEON CORPORATION; ZEON Head Office, R&D Center, Takaoka Plant, Kawasaki Plant, Tokuyama Plant, Mizushima Plant
 Period Covered: April 1, 2010 to March 31, 2011

Third-Party Opinion

Review of the ZEON CORPORATION CSR Report 2011

Hitoshi Okada (Dr. of Engineering/Professional Engineer)
Senior Researcher,
Institute for Environmental Management Accounting



■ Establishing a Foundation that Embodies CSR-Oriented Management

President Furukawa has advocated for making CSR a priority for management. In response to his views, ZEON has focused on promoting CSR. I have commented on ZEON's activities since fiscal 2008, and during this time, ZEON has strived to establish a structure for moving forward with management that places priority on CSR, including the development of a CSR policy and code of conduct as well as the establishment of the CSR Conference, in a form that concretely displays Mr. Furukawa's leadership. Meanwhile, the company is constantly putting these efforts into practice through consistent CSR education and dissemination activities, such as reciting the CSR Policy, holding CSR explanatory meetings, and conducting CSR training at each plant and business site. As a result, ZEON CORPORATION established a foundation for achieving progress in CSR-oriented management in fiscal 2010.

■ ISO26000 and Performance Evaluation for CSR-Oriented Management

It is important for ZEON CORPORATION, which does business around the world, to prepare for ISO26000. It would be good for the company to review internal activities in the context of ISO26000 as well as to improve CSR-oriented management performance and disclose the results. ZEON CORPORATION plans to work on activities using CSR promotion tools, such as the CSR Matrix, and CSR core projects that engage all employees. While these efforts are certainly praise worthy, KPI (Key Performance Indicator) based CSR management should be put into place first. This would clearly present the significance of public expectations for CSR as clarified through stakeholder dialogues, establish targets in the form of indices for achieving these expectations, and also facilitate progress through PDCA cycles. ISO26000 places greater priority on these items along with stakeholder communications mentioned in the next item. I would like to see vigorous efforts to embody the CSR-oriented management envisioned by President Furukawa.

■ Interactive Communications with Stakeholders

Following the stakeholder dialogue with employees in fiscal 2009,

ZEON CORPORATION convened a stakeholder dialogue with external experts in fiscal 2010. This special project is well worth reading. It shares an important message from ZEON and is expected to be more widely disseminated, enabling all employees to understand ZEON's CSR. I would encourage the company to continue working on a broader range of interactive stakeholder communications.

■ Contribution to the Conservation of the Global Environment

ZEON has unveiled its enterprise blueprint for 2020 as "ZEON creates the future today through the power of chemistry—ZEON will continue to contribute to the realization of customer dreams and a prosperous society." In addition, the ZEON Group has developed an impressive range of environmentally conscious products through its original technology that does not imitate others and cannot itself be imitated. ZEON's contribution to the environment with regard to CSR and through its core businesses is both significant and praise-worthy, even though it may not be readily apparent to general consumers. Also, in terms of efforts to reduce global warming gases and industrial waste, ZEON has for the most part achieved its goals, despite falling short of its targets in some areas. ZEON's contribution to the conservation of the global environment through these efforts certainly merits high marks.

I look forward to seeing the further development of ZEON's CSR-oriented management with even greater results.

Hitoshi Okada
Senior Researcher, Institute for 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

Hiroshi Takegami CSR Director

We created a structure for ZEON's CSR in fiscal 2010, the final year of IZ-60, through the establishment of the CSR Policy and Code of Conduct in April and a new CSR promotion system in January 2011, with the CSR Conference as the highest decision-making body.

Senior Researcher Hitoshi Okada from the Institute of Environmental Management Accounting has shared his comments on IZ-60 with us over the past three years. In generally reviewing the progress of ZEON's CSR during that period as well as this fiscal year and in light of future efforts, Mr. Okada has pointed out the necessity of using KPIs to guide CSR activities and the significance of ongoing interactive communication through stakeholder dialogues, which were launched in fiscal 2009. ISO26000, the international standard for corporate social responsibility, which took effect in November 2011, likewise recommends implementing these items. We therefore intend to visualize our CSR efforts through the collective initiative of the newly established CSR Promotion Committee in the CSR Basic Policy Committee, the head office, business sites, and Group companies using our CSR Matrix (CSR activities chart categorized by business, job type and stakeholder).

We hope to make even greater contributions to society by raising the level of our CSR efforts.

ZEON

Inquiry: ZEON CORPORATION CSR Promotion Department

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