

Establishing a new mid-term management plan, PZ-3, to make great advances and improve corporate value

Basic Policy of PZ-3

1. Reaffirming our role as a public institution, and in line with our management principles — speed, communication and contribution to society — we are building a company that can receive the trust of society and that every employee can be proud of.
 2. By ensuring consistency between our management strategies and our research and development strategies, we will create and continue to develop new areas of business using our world-leading, original technologies — which are not copied from others and cannot be copied by others.

Progress of PZ-3

In 2005, we established our PZ-3 mid-term management plan for the period from fiscal 2005 through 2007 in line with our basic strategies: "to secure steady profits from core materials operations and to constantly create new lines of business." As we look ahead to 2010, we set interim targets for 2007 in the three-year plan.

The objectives of PZ-3 are to improve corporate value and make great advances. In order to achieve these objectives, under our motto — speed, communication and contribution to society — we will take on all

challenges. To this end, we will review the basics of production and work to achieve major reforms in order to bring about safe and stable production sites and to further strengthen our research and development capability.

Overview of Fiscal 2005

During the fiscal year under review there was concern about surging prices of crude oil and other raw materials. But the Japanese economy, which began to grow in the second half of the previous year, continued to make a mild recovery, driven by domestic demand, as firm corporate performance helped boost personal consumption, increase capital investment and improve the employment environment.

In the petrochemical industry, our field of business, prices of naphtha and other raw materials continued to rise rapidly. This trend may continue in the period ahead and cause costs to significantly increase. Meanwhile, demand remained strong due to, among other factors, the rebounding domestic economy and brisk exports, particularly shipments to China. The ZEON Group enjoyed firm demand from areas related to automobiles, tires and liquid crystal panels, as well as strong overseas demand.

In this business environment, although we continued cost-cutting activities, we experienced considerable downward pressure on profits because of the rising prices of crude oil, naphtha and other raw materials. Therefore, to improve profitability, we were forced to revise sales pricing, mainly for elastomer products. At the same time, we implemented a sales policy that emphasizes profitability, mainly in overseas markets. And in specialty materials operations, we continued our efforts to develop new products and increase sales.

Achievement of PZ-3 targets

	FY2004 result	FY2005 target	FY2005 result	FY2005 difference
Net sales	¥ 231,400 million	¥ 241,500 million	¥ 263,100 million	¥ 21,600 million
Operating income	¥ 19,300 million	¥ 23,000 million	¥ 26,800 million	¥ 3,800 million
Percentage of specialty materials operating incomeD/E ratio	45%	49%	38%	-11%
ROE	10.5%	13.0%	17.6%	4.6%

Achievement of PZ-3 targets

(assumed exchange rates: ¥100/USD and ¥135/EUR; assumed naphtha price: ¥35,000/kl)

	FY2005 result	FY2006 plan
Net sales	¥ 263,100 million	¥ 287,000 million
Operating income	¥ 26,800 million	¥ 29,000 million
Percentage of specialty materials operating incomeD/E ratio	38%	51%
ROE	17.6%	15.6%

FY2007 PZ-3 plan
¥270,000 million
¥ 33,000 million
5.5 %
1.6 %

The above performance targets are based on the business conditions assumed by ZEON. Possible future business condition fluctuations could cause ZEON's actual performance to differ from these targets.

Important Policies to Attain PZ-3 Targets

Elastomer Operations

We determined three important policies in order to meet the PZ-3 targets in our elastomer operations:

- 1) production innovation,
- 2) production at optimum locations in the world, and
- 3) specialization.

Under these policies, we will work hard to stabilize our production processes, optimize global operations, develop high-value-added products and new applications, and convert and streamline our production facilities.

Synthetic Rubbers

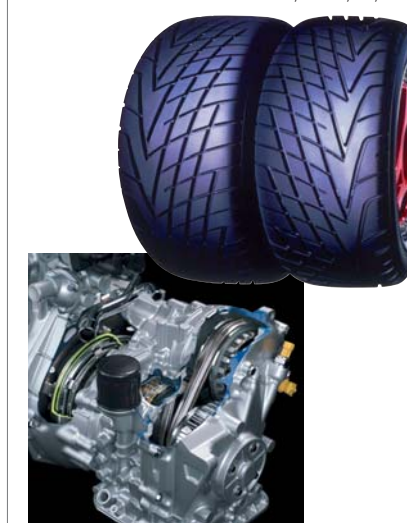
As a leading producer in this area, we hold the top shares of the world markets for many specialty rubber products primarily used in automobile engine parts. We also produce general-purpose rubbers, but we pursue specialization in this sector according to our business strategy.

We have synthetic rubber production bases in Japan, Europe and the United States. In addition, we have carbon master-batch production subsidiaries in Japan and three other countries in Asia. Thus, the globalization of production

and sales activities of our synthetic rubber operations is making steady progress.

In the period ahead, we will further promote specialization, our strong point, and continue to develop high-quality and advanced synthetic rubber products. At the same time, we will strive to secure stable supply of reasonably priced products by further improving the efficiency of our global production and supply systems.

Automobile tires using SBR, S-SBR, BR, and IR



Synchronous belt using hydrogenated nitril rubber

Synthetic Latices

Synthetic latices are used in a wide variety of applications, including paper processing, adhesives for carpets and tire cords, products for ABS resins, cosmetic puffs and work gloves.

We have focused on NBR latex for work gloves in recent years. Demand has grown for our products for the replacement of natural rubber latex as it has become evident that a certain protein in natural rubber may cause some people to experience an allergic reaction. Our products have gained a good reputation for their soft texture and a close fit. Making the best of our polymer technology, we have quickly responded to the needs of users, increasing sales at a steady pace.



Gloves made of NBR latex

• Chemicals

Main products in the chemicals sector, which are produced from various C5 fractions by the GPI process (ZEON Process of Isoprene), include adhesive compounds for adhesive tapes, petroleum resins for road-marking paints, thermoplastic elastomer used as base polymer for nonsolvent adhesive tapes and styrene-isoprene copolymer (SIS). During the year under review, we developed and introduced four new types of SIS, which offer light adhesion and improved transparency, an example of our new proposals.



Adhesives



Aliphatic hydrocarbon resin for use in traffic paints

■ Specialty Materials Operations

Important policies in our drive to attain PZ-3 targets in specialty materials operations are:

- 1) customer-oriented operations,
 - 2) development of de facto standard technologies, and
 - 3) continuing flow of new products.
- Under these policies, we will carry out the following measures: sharing of a development road map, promotion of proposal-type sales and development activities, establishment of a system to supply products that can be made only by us, investment focusing on production facilities, strengthening of our technological base, and appointment of research personnel to priority areas.

In the specialty materials sector, as our investment strategy targeted for 2010, we will invest mainly in the following five priority areas: 1) displays (flat-panel displays), 2) computers (semiconductors), 3) recording (DVD and other storage media), 4) communications (optical fibers, insulating materials), and 5) energy (battery materials).

• Specialty Chemicals

In mainstay synthetic aroma chemicals, we hold the top global market share in leaf alcohol, a green-note aroma chemical, and the second-largest market share in jasmine-note methyl dihydrojasmonate. Our special solvents and medical and pesticide intermediates are the result of unique synthesizing technology. We are the world's only company to use C5 fractions in a comprehensive manner. During the year under review, we completed a chemicals laboratory designed to improve research and accelerate product development. For increased security, we will return to in-house prototype production.

• Information Equipment-Related Materials



Perfumes using synthetic aroma chemicals

We completed a pilot plant for the purpose of developing polymerized color toners. At present, we have the capacity to produce 2,500 tons of monochrome toners annually. The new pilot plant was constructed to accommodate the growing demand for toners for color laser printers and copiers.

Featuring high selectivity and high etching rates, ZEORORA® ZFL-58 is being used worldwide as a dry etching gas for the manufacturing of next-generation semiconductors. Demand for the product is steadily growing. ZEORORA® has been rated highly for its ozone-safe property and minimal global warming potential, winning various environment-related awards.

We also developed ZEOMAC®, a low dielectric material for interlayer insulation films (low-k material) used for semiconductor manufacturing. The results of the development were announced in October 2004. ZEOMAC® enables processing of ultra-fine line widths of 65nm, 45nm and 32nm, which previously was believed to be difficult, if not impossible, to do. ZEOMAC® is a promising material for manufacturing semiconductors, which are expected to have a further increased degree of integration in the future.



Laser printer using polymerized toner

• Specialty Plastics

Of our specialty plastic products, ZEONEX® features excellent optical properties, high transparency, low absorbency and high heat resistance, making possible the production of parts with great optical reliability that can replace glass. Demand for ZEONEX® is growing for applications in camera-equipped mobile phones, digital cameras, optical lenses for DVD recorders and players and prisms.

We also developed ZEONEX® 340R as a material for optical pickup lenses conforming to both the Blu-ray disc and HD DVD formats, both of which are promising candidates for next-generation blue-laser optical disks. This product was put on the market in late 2004.



Lenses for camera-equipped mobile phone



ZEONEX

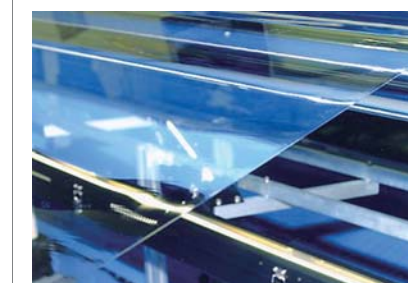
For the ZEONOR® series, in addition to the existing ZEONOR® films, in October 2004, we succeeded in developing new ZEONOR® films for next-generation, large LCD televisions. Four types of new ZEONOR® films were developed and have been put on the market.

The benefits of these new films include: 1) having both polarizing performance and polarizing plant protection performance, 2) being capable of producing polarizing plates using roll-to-roll pasting technology, and 3) contributing to the improvement of screen stability. Accordingly, the new ZEONOR® films satisfy requirements for next-generation, large flat panel displays and are enjoying steadily increasing sales. To satisfy brisk demand for use in large liquid crystal display televisions, we decided to increase our annual production capacity of optical film rolls to 40 million square meters and of new ZEONOR film® (stretched film) to 30 million square meters by autumn 2006, one year earlier than initially planned for fiscal 2007. This plan has been put into action and some added production lines have already started operations.

With greater demand for these products expected in the future, we have begun considering a plan to construct a second plant for ZEONOR films®.

Demand for ZEONEX® and ZEONOR® products has been very brisk, as

described above. In response, in July 2005, the Mizushima Plant expanded its capacity to produce high-quality, thermoplastic transparent resin cycloolefin polymer (COP), a material for these products, from 10,000 tons to 15,000 tons annually.



ZEONOR Film