

Review of Operations

Overview by Business Segment

• Elastomer

Domestic sales of synthetic rubber exceeded the previous year's volume, as demand from its major users, the automobile and tire industries, remained high, as in the previous year. Export sales of synthetic rubber, which also enjoyed steady demand, mainly in the Chinese and other Asian markets, fell slightly in volume from the previous year. This fall occurred because the Group partially suspended shipments due to low inventory levels from continuous high demand. However, net sales in the domestic market and exports were both higher than the previous year, owing to a price revision corresponding to the continuous hike in material prices and a shift to a profit-oriented sales strategy.

As for overseas subsidiaries, sales of U.S. subsidiaries grew steadily. Although sales of the U.K. subsidiary were sluggish, being affected by the price hike in raw materials, the subsidiary largely improved its profitability by introducing new products. As a result, the overall synthetic rubber figures surpassed the previous year's figures in both net sales and operating income.

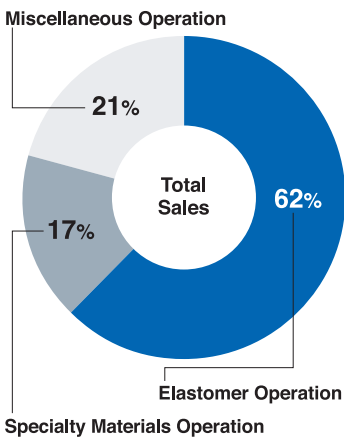
Domestic sales of synthetic latices were lower in volume

than the previous year due to the decreased demand for paper, but exceeded the previous year both in net sales and in operating income, being helped by an increase in specialty products. On the other hand, export sales surpassed the previous year's level in volume and net sales with strong demand for gloves and other materials. As a result, overall net-sales and operating income of synthetic latices increased year-on-year.

In chemicals, the sales volume of core products, petrochemical resins and the thermoplastic elastomer SIS, grew from the previous year, not only by expanding the existing markets, but also by exploring new markets and developing new applications for use. In addition, as a result of revising sales prices in response to price hikes in raw materials, net sales also increased year-on-year. The Thai subsidiary for petrochemical resins increased its net sales, but operating income dropped from the previous year, being affected by an increase in raw material prices. Consequently, overall net sales and operating income of chemicals were higher than the previous year.

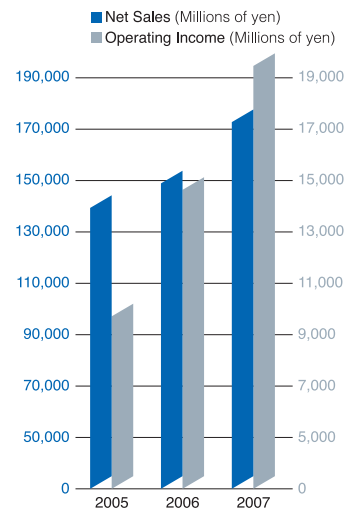
As a result of these factors, segmental net sales for the year ended March 31, 2007 were 177,703 million yen (a 13.8% increase on the previous year) and operating income was 19,527 million yen (a 28.2% increase).

Sales Composition
(for the year ended March 31, 2007)



Automobile parts

Elastomer Operations



• **Specialty materials**

In the specialty plastics (cyclo-olefin polymer) business, performance of ZeonorFilm®, an optical film for LC panels, continued to be favorable and net sales rose significantly. Additionally, net sales of ZEONEX® series plastics for optical lenses and medical uses increased steadily as well. Consequently, overall net sales of specialty plastics increased year-on-year, while operating income dropped from the previous year, due to a decline in sales prices and rise in selling, general and administrative expenses and R&D costs.

In information materials, sales of battery materials and toner rose steadily, but sales of resist and etching gas decreased. As a result, overall net sales dropped and operating income also fell year-on-year due to increased selling, general and administrative expenses. In chemicals, the sales volume of synthetic aroma chemicals expanded and net sales increased from the previous year. In specialty chemicals, despite the decline in sales volume, net sales stayed at the previous year's level owing to a revision of sales prices.

As a result, segmental net sales of specialty materials was 47,197 million yen (a 13.0% increase on the previous year) and operating income was 9,746 million yen (a 4.5% decrease).

• **Other**

In other business segments, sales of environmental materials increased year-on-year, while sales of health materials and trading operations of subsidiaries dropped from the previous year. As a result, overall segmental net sales were 59,225 million yen (a 10.0% decrease on the previous year) and operating income was 873 million yen (a 38.4% decrease).

TOPICS

Construction of a new plant to respond to rising demand

In July 2006, ZEON Corporation announced its decision to construct a new ZeonorFilm® plant for Optes Inc., its wholly owned subsidiary, in response to the rapidly growing adoption of the ZeonorFilm® (stretched film) as a result of expanding demand for LCD TVs, particularly those with larger displays. ZEON plans to increase capital investment in the new plant in phases to deal with an increase in future demand and to enhance its production capacity for optical film rolls to approximately 100 million m² per year, combined with the existing Takaoka Plant.

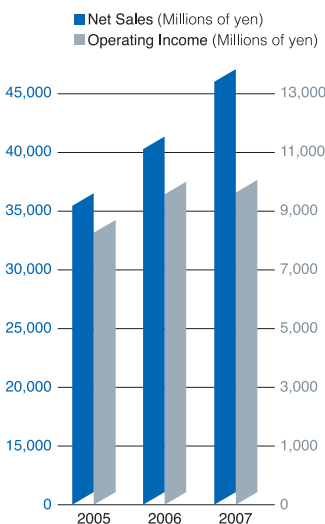


Himi Plant



Automobile headlight extension

Specialty Materials Operations

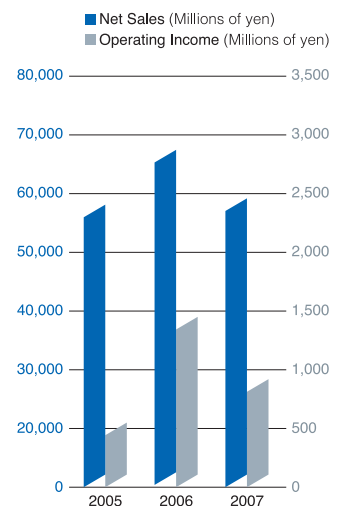


Printed-circuit boards



ZEON Medical Inc.

Other Operations



Combined septic tanks