

# Financial Section

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## FINANCIAL SECTION OF CONTENTS

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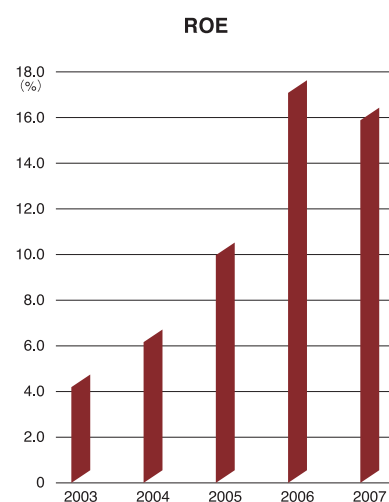
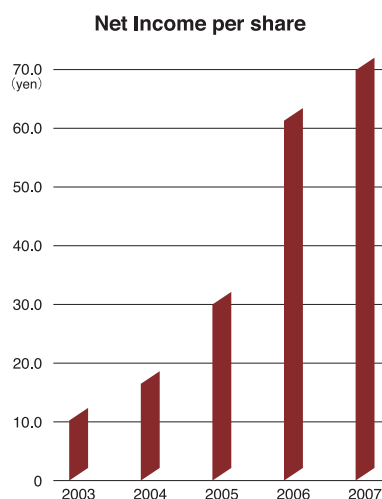
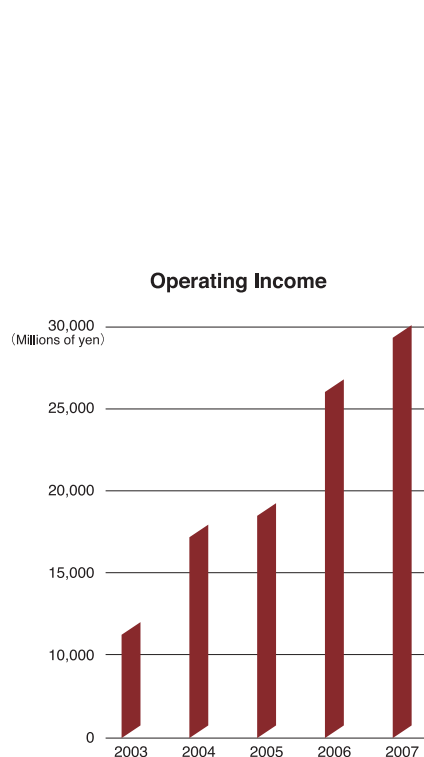
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# Five-year Summary

ZEON Corporation and Consolidated Subsidiaries For the years ended March 31

	Millions of yen (except per share amounts and number of employees)					Thousands of U.S. dollars (except per share amounts)
	2003	2004	2005	2006	2007	2007
Net Sales	¥ 210,889	¥ 213,297	¥ 231,364	¥ 263,074	¥ 281,613	\$2,384,732
Operating Income	12,945	17,897	19,303	26,835	30,175	255,525
Income before income taxes	4,591	6,165	13,524	24,101	28,126	238,174
Net Income	3,050	4,588	7,773	15,249	17,077	144,610
Net Income per share						
Primary	12.41	18.74	32.01	63.23	71.74	0.61
Fully diluted	—	—	—	—	71.72	0.61
Total assets	216,000	222,254	236,861	272,674	315,448	2,671,251
Shareholder's equity	65,170	71,575	76,357	96,528	—	—
Net Assets	—	—	—	—	115,180	975,358
Equity ratio (%)	30.2	32.2	32.3	35.4	35.4	
Shareholder's equity per share	269.38	295.47	317.86	405.10	469.17	3.97
ROE (%)	4.7	6.7	10.5	17.6	16.4	
Number of employees	2,868	2,840	2,784	2,893	2,972	

Note: The U.S. dollar amounts above and elsewhere in this annual report are translated from yen, for convenience only, at the rate of ¥118.09=\$1.00 (As of March 31, 2007)



# Consolidated Balance Sheets

as of March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2007	2006	2007	2006
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents (Note 16)	¥ 6,483	¥ 7,320	\$54,899	\$61,987
Short-term investments (Note 8)	355	345	3,006	2,922
Receivables, trade:				
Notes and accounts	54,691	42,082	463,130	356,355
Unconsolidated subsidiaries and affiliates	6,535	6,256	55,339	52,977
Inventories (Note 5)	52,021	44,666	440,520	378,237
Deferred tax assets (Note 13)	3,311	3,402	28,038	28,808
Other current assets (Note 9)	32,206	22,213	272,724	188,102
Allowance for doubtful accounts	(113)	(117)	(957)	(991)
<b>Total current assets</b>	<b>155,489</b>	<b>126,167</b>	<b>1,316,699</b>	<b>1,068,397</b>
<b>Property, plant and equipment, at cost (Notes 8 and 10) :</b>				
Land	13,915	12,462	117,834	105,530
Buildings and structures	53,498	46,893	453,027	397,095
Machinery and equipment	199,205	183,400	1,686,891	1,553,053
Construction in progress	10,667	8,949	90,330	75,781
	277,285	251,704	2,348,082	2,131,459
Less accumulated depreciation	(175,637)	(163,032)	(1,487,315)	(1,380,574)
<b>Property, plant and equipment, net</b>	<b>101,648</b>	<b>88,672</b>	<b>860,767</b>	<b>750,885</b>
<b>Intangible assets</b>	<b>5,782</b>	<b>6,370</b>	<b>48,963</b>	<b>53,942</b>
<b>Investments and other assets (Note 6) :</b>				
Investment securities (Notes 8 and 16)	45,768	44,605	387,569	377,720
Unconsolidated subsidiaries and affiliates	2,446	2,554	20,713	21,628
Deferred tax assets (Note 13)	384	451	3,252	3,819
Other investments	4,401	4,456	37,268	37,734
Allowance for doubtful accounts	(473)	(606)	(4,005)	(5,132)
<b>Total investments and other assets</b>	<b>52,526</b>	<b>51,460</b>	<b>444,797</b>	<b>435,769</b>
<b>Deferred charges</b>	<b>3</b>	<b>5</b>	<b>25</b>	<b>42</b>
<b>Total assets</b>	<b>¥ 315,448</b>	<b>¥ 272,674</b>	<b>\$2,671,251</b>	<b>\$2,309,035</b>

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S.dollars (Note 3)	
	2007	2006	2007	2006
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities:</b>				
Short-term loans payable (Note 7)	¥ 21,953	¥ 23,198	\$185,901	\$196,443
Current portion of long-term debt (Note 7)	1,278	5,119	10,822	43,348
Commercial paper	4,998	4,000	42,324	33,873
Payables, trade:				
Notes and accounts	74,319	58,592	629,342	496,164
Unconsolidated subsidiaries and affiliates	7,640	5,118	64,696	43,340
Payables, other (Note 9)	11,851	10,406	100,356	88,119
Accrued income taxes	4,754	6,069	40,257	51,393
Accrued expenses (Note 9)	3,491	4,198	29,562	35,549
Other current liabilities (Notes 9 and 13)	7,722	5,332	65,391	45,152
<b>Total current liabilities</b>	<b>138,006</b>	<b>122,032</b>	<b>1,168,651</b>	<b>1,033,381</b>
<b>Long-term liabilities:</b>				
Long-term debt (Note 7)	40,348	24,013	341,672	203,345
Allowance for employees' retirement benefits (Note 12)	10,243	11,695	86,739	99,035
Deferred tax liabilities (Note 13)	7,007	7,139	59,336	60,454
Other long-term liabilities	4,664	8,105	39,495	68,634
<b>Total long-term liabilities</b>	<b>62,262</b>	<b>50,952</b>	<b>527,242</b>	<b>431,468</b>
<b>Minority interests</b>	—	3,162	—	26,776
<b>Contingent liabilities (Note 14)</b>				
<b>Shareholders' equity:</b>				
Common stock				
Authorized — 800,000,000 shares				
Issued — 242,075,556 shares	—	24,211	—	205,022
Capital surplus	—	18,372	—	155,576
Retained earnings (Note 4)	—	44,963	—	380,752
Net unrealized holding gain on available-for-sale securities	—	14,497	—	122,762
Foreign currency translation adjustments	—	(1,080)	—	(9,146)
Treasury stock, at cost:				
2006 — 4,041,007 shares	—	(4,435)	—	(37,556)
<b>Total shareholders' equity</b>	<b>—</b>	<b>96,528</b>	<b>—</b>	<b>817,410</b>
<b>Total liabilities and shareholders' equity</b>	<b>—</b>	<b>¥ 272,674</b>	<b>—</b>	<b>\$2,309,035</b>

	Millions of yen		Thousands of U.S.dollars (Note 3)	
	2007	2006	2007	2006
<b>Net assets:</b>				
Shareholders' equity				
Common stock				
Authorized — 800,000,000 shares				
Issued — 242,075,556 shares	24,211	—	205,022	—
Capital surplus	18,372	—	155,576	—
Retained earnings (Note 4)	60,542	—	512,677	—
Treasury stock, at cost				
2007 — 4,048,429 shares	(4,444)	—	(37,633)	—
Total shareholders' equity	98,681	—	835,642	—
Valuation and translation adjustments				
Net unrealized holding gain on available-for-sale securities	13,872	—	117,470	—
Deferred gain (losses) on hedges	12	—	102	—
Foreign currency translation adjustments	(100)	—	(847)	—
Minimum pension liabilities	(789)	—	(6,681)	—
Total valuation and translation adjustments	12,995	—	110,044	—
Stock acquisition rights	101	—	855	—
Minority interests	3,403	—	28,817	—
Total net assets	115,180	—	975,358	—
Total liabilities and net assets	¥ 315,448	—	\$2,671,251	—

# Consolidated Statements of Income

Years ended March 31,

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2007	2006	2007	2006
<b>Net sales</b>	<b>¥281,613</b>	¥263,074	<b>\$2,384,732</b>	\$2,227,742
<b>Cost of sales (Notes 10 and 12)</b>	<b>203,164</b>	193,218	<b>1,720,417</b>	1,636,193
Gross profit	<b>78,449</b>	69,856	<b>664,315</b>	591,549
<b>Selling, general and administrative expenses (Notes 10, 11 and 12)</b>	<b>48,274</b>	43,021	<b>408,790</b>	364,307
Operating income	<b>30,175</b>	26,835	<b>255,525</b>	227,242
<b>Other income (expenses) :</b>				
Interest and dividend income	<b>1,187</b>	852	<b>10,052</b>	7,215
Interest expenses	<b>(1,083)</b>	(621)	<b>(9,171)</b>	(5,259)
Equity in earnings of unconsolidated subsidiaries and affiliates, net	<b>27</b>	(21)	<b>229</b>	(178)
Other, net (Notes 16 and 18)	<b>(2,180)</b>	(2,944)	<b>(18,461)</b>	(24,930)
	<b>(2,049)</b>	(2,734)	<b>(17,351)</b>	(23,152)
Income before income taxes and minority interests	<b>28,126</b>	24,101	<b>238,174</b>	204,090
<b>Income taxes:</b>				
Current	<b>9,723</b>	8,664	<b>82,335</b>	73,368
Deferred	<b>780</b>	(310)	<b>6,605</b>	(2,625)
Income before minority interests	<b>17,623</b>	15,747	<b>149,234</b>	133,347
<b>Minority interests</b>	<b>(546)</b>	(498)	<b>(4,624)</b>	(4,217)
Net income	<b>¥17,077</b>	¥15,249	<b>\$144,610</b>	\$129,130
<b>Amounts per share:</b>				
Net income	<b>¥71.74</b>	¥63.23	<b>\$0.61</b>	\$0.54
Fully diluted net income	<b>71.72</b>	—	<b>0.61</b>	—
Cash dividends	<b>10.00</b>	9.00	<b>0.08</b>	0.08

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2007 and 2006

	Thousands					Millions of yen					
	Number of shares of common stock	common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gain on available-for-sale securities	Deferred gain(losses) on hedges	Foreign currency translation adjustments	Minimum pension liabilities	Stock acquisition rights	Minority interests
<b>Balance at March 31, 2005</b>	242,076	¥24,211	¥18,372	¥32,078	(¥1,582)	¥5,710	¥—	(¥2,432)	¥—	¥—	¥2,197
Net income for the year	—	—	—	15,249	—	—	—	—	—	—	—
Increase due to change in number of consolidated subsidiaries	—	—	—	236	—	—	—	—	—	—	—
Cash dividends paid	—	—	—	(1,680)	—	—	—	—	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(55)	—	—	—	—	—	—	—
Adjustment in minimum pension liability of consolidated subsidiaries in U.S.A.	—	—	—	(261)	—	—	—	—	—	—	—
Decrease due to change in accounting standard for overseas consolidated subsidiaries	—	—	—	(604)	—	—	—	—	—	—	—
Purchases of treasury stock	—	—	—	—	(2,853)	—	—	—	—	—	—
Net change during the year	—	—	—	—	—	8,787	—	1,352	—	—	965
<b>Balance at March 31, 2006</b>	242,076	24,211	18,372	44,963	(4,435)	14,497	—	(1,080)	—	—	3,162
Net income for the year	—	—	—	17,077	—	—	—	—	—	—	—
Disposition of treasury stock	—	—	0	—	0	—	—	—	—	—	—
Cash dividends paid	—	—	—	(2,380)	—	—	—	—	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(101)	—	—	—	—	—	—	—
Adjustment in minimum pension liability of consolidated subsidiaries in U.S.A.	—	—	—	983	—	—	—	—	—	—	—
Purchases of treasury stock	—	—	—	—	(9)	—	—	—	—	—	—
Net change during the year	—	—	—	—	—	(625)	12	980	(789)	101	241
<b>Balance at March 31, 2007</b>	242,076	¥24,211	¥18,372	¥60,542	(¥4,444)	¥13,872	¥12	(¥100)	(¥789)	¥101	¥3,403
	Thousands of U.S. dollars (Note 3)										
<b>Balance at March 31, 2005</b>	—	\$205,022	\$155,576	\$271,640	(\$13,397)	\$48,353	\$—	(\$20,594)	\$—	\$—	\$18,604
Net income for the year	—	—	—	129,130	—	—	—	—	—	—	—
Increase due to change in number of consolidated subsidiaries	—	—	—	1,999	—	—	—	—	—	—	—
Cash dividends paid	—	—	—	(14,226)	—	—	—	—	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(466)	—	—	—	—	—	—	—
Adjustment in minimum pension liability of consolidated subsidiaries in U.S.A.	—	—	—	(2,210)	—	—	—	—	—	—	—
Decrease due to change in accounting standard for overseas consolidated subsidiaries	—	—	—	(5,115)	—	—	—	—	—	—	—
Purchases of treasury stock	—	—	—	—	(24,159)	—	—	—	—	—	—
Net change during the year	—	—	—	—	—	74,409	—	11,448	—	—	8,172
<b>Balance at March 31, 2006</b>	—	205,022	155,576	380,752	(37,556)	122,762	—	(9,146)	—	—	26,776
Net income for the year	—	—	—	144,610	—	—	—	—	—	—	—
Disposition of treasury stock	—	—	0	—	0	—	—	—	—	—	—
Cash dividends paid	—	—	—	(20,154)	—	—	—	—	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(855)	—	—	—	—	—	—	—
Adjustment in minimum pension liability of consolidated subsidiaries in U.S.A.	—	—	—	8,324	—	—	—	—	—	—	—
Purchases of treasury stock	—	—	—	—	(77)	—	—	—	—	—	—
Net change during the year	—	—	—	—	—	(5,292)	102	8,299	(6,681)	855	2,041
<b>Balance at March 31, 2007</b>	—	\$205,022	\$155,576	\$512,677	(\$37,633)	\$117,470	\$102	(\$847)	(\$6,681)	\$855	\$28,817

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Years ended March 31,

Data &  
Financial Statements

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2007	2006	2007	2006
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests	¥ 28,126	¥ 24,101	\$238,174	\$204,090
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	16,245	13,515	137,565	114,447
Interest and dividend income	(1,187)	(852)	(10,052)	(7,215)
Interest expenses	1,083	621	9,171	5,259
(Increase) decrease in receivables, trade	(12,103)	(1,860)	(102,489)	(15,751)
(Increase) decrease in inventories	(6,861)	(6,486)	(58,100)	(54,924)
Increase (decrease) in payables, trade	17,483	7,577	148,048	64,163
Other, net	(8,116)	(503)	(68,727)	(4,259)
Cash generated from operations	34,670	36,113	293,590	305,810
Interest and dividends received	1,286	852	10,890	7,215
Interest paid	(916)	(686)	(7,757)	(5,809)
Payment of litigation costs	(490)	(3,466)	(4,149)	(29,351)
Income taxes paid	(10,917)	(5,865)	(92,447)	(49,666)
Net cash provided by operating activities	23,633	26,948	200,127	228,199
<b>Cash flows from investing activities:</b>				
Purchases of property, plant and equipment	(26,394)	(25,717)	(223,507)	(217,775)
Purchases of intangible assets	(1,054)	(1,506)	(8,925)	(12,753)
Purchases of investment securities	(3,082)	(1,591)	(26,099)	(13,473)
Proceeds from sales of subsidiary stocks associated with change in the scope of consolidation	—	2,298	—	19,460
Increase in loans receivable	—	(1,273)	—	(10,780)
Other, net	(1,155)	2,778	(9,781)	23,525
Net cash used in investing activities	(31,685)	(25,011)	(268,312)	(211,796)
<b>Cash flows from financing activities:</b>				
Increase (decrease) in short-term borrowings	(1,376)	3,277	(11,652)	27,750
Increase (decrease) in commercial paper	998	(12,500)	8,451	(105,851)
Proceeds from long-term debt	15,031	13,339	127,284	112,956
Repayment of long-term debt	(5,166)	(2,295)	(43,746)	(19,434)
Dividends paid	(2,449)	(1,817)	(20,739)	(15,387)
Repurchase of treasury stock	—	(2,854)	—	(24,168)
Other, net	(10)	(2,803)	(85)	(23,736)
Net cash used in financing activities	7,028	(5,653)	59,513	(47,870)
Effect of exchange rate changes on cash and cash equivalents	187	407	1,584	3,447
Net increase (decrease) in cash and cash equivalents	(837)	(3,309)	(7,088)	(28,020)
Cash and cash equivalents at beginning of year	7,320	10,295	61,987	87,179
Increase in cash due to increase in number of consolidated subsidiaries	—	334	—	2,828
Cash and cash equivalents at end of year	¥ 6,483	¥ 7,320	\$54,899	\$61,987

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

ZEON Corporation and Consolidated Subsidiaries

## 1. Basis of Presentation

ZEON Corporation (the "Company") and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its overseas consolidated subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been compiled from the accounts prepared by the Company in accordance with the provisions set forth in the Securities and Exchange Law of Japan and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In addition, the notes to the consolidated financial statements include information that is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

## 2. Summary of Significant Accounting Policies

### (1) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (21 subsidiaries as of March 31, 2007 and 22 subsidiaries as of March 31, 2006). All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in certain unconsolidated subsidiaries and significant affiliates are accounted for by the equity method.

All significant unrealized intercompany items have been eliminated in consolidation.

Investments in other affiliates and unconsolidated subsidiaries, not significant in amounts, are carried at cost.

### (2) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with a maturity of three months or less when purchased.

### (3) Securities

Securities other than investments in affiliates have been classified as "held-to-maturity securities" and "available-for-sale securities." Available-for-sale securities are securities other than trading securities

and held-to-maturity securities. Held-to-maturity securities are carried at amortized cost or accumulated cost calculated by the straight-line method.

Available-for-sale securities whose fair value is readily determinable are carried at fair value with the corresponding unrealized gain/loss recorded directly as a separate component of net assets, and those whose fair value is not readily determinable are carried at moving average cost.

### (4) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided at an amount considered sufficient to cover estimated future losses.

### (5) Inventories

Inventories, in general, are stated at cost determined principally by the average method.

### (6) Depreciation

Depreciation of property, plant and equipment is computed primarily by the declining-balance method based on the estimated useful lives of the respective assets determined according to their type of construction and use. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

### (7) Leases

Finance leases that are not deemed to transfer ownership of leased property to lessee are accounted for in the same manner as operating leases for the Company and domestic consolidated subsidiaries, and principally as finance leases for foreign consolidated subsidiaries.

### (8) Employees' Retirement Benefits

The allowance for employees' retirement benefits is provided at the amount incurred during the fiscal year based on the present value of the projected benefit obligation less the fair value of pension plan assets at the end of this fiscal year.

The retirement benefit obligation for certain domestic consolidated subsidiaries corresponds to the amount that would be required to be paid for retirement benefits if all eligible employees voluntarily quit their companies as of the balance-sheet dates or the amount of liability reserve in pension financing. Prior service cost for the Company and certain foreign consolidated subsidiaries is amortized as incurred on a straight-line basis over a certain period (9-13 years). Actuarial gain or loss is amortized by the straight-line method over a certain period (9-13 years mainly),

which is not over than the average remaining service years for employees when incurred, from the following fiscal year of the accrual.

#### (9) Income Taxes

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts reported for income tax purposes.

#### (10) Foreign Currency Translation

Both current and noncurrent receivables and payables denominated in foreign currencies have been translated into yen at the exchange rates in effect at the respective balance sheet dates.

The Company translates the asset and liability accounts, except for shareholders' equity, of its foreign consolidated subsidiaries at the exchange rates in effect at the respective balance sheet dates. The components of shareholders' equity are translated at their historical exchange rates. Revenue and expense accounts are translated at the average exchange rate in effect during the year. The resulting translation differences have been recorded as "Foreign currency translation adjustments" except for those corresponding to minority interests.

#### (11) Net Income per Share

The computation of basic net income per share is based on the weighted average number of shares outstanding during the respective years. The computation of fully diluted net income per share reflects the potential dilution that could occur if the stock acquisition rights were exercised.

#### (12) Changes in Accounting Policy

①Presentation of Net Assets in the Balance Sheets  
Effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for the Presentation of Net Assets in the Balance Sheets" (Corporate Accounting Standard No.5 issued on December 9, 2005) and "Implementation Guidance on Accounting Standard for the Presentation of Net Assets in the Balance Sheets" (Implementation Guidance on Corporate Accounting Standard No.8, issued on December 9, 2005). Total Shareholders' Equity under the previous method of presentation for the year ended March 31, 2007 amounted to ¥111,664 million (\$945,584 thousand).

#### ②Stock Option

Effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Share-based Compensation" (Corporate Accounting Standard No.8 issued on December 27, 2005) and "Implementation Guidance on Accounting Standard for Share-based Compensation" (Implementation Guidance on Corporate Accounting Standard No.11, issued on May 31, 2006). The effect of adopting this standard was to decrease income before taxes and minority interests by ¥101million (\$855 thousand) from the amount which would have been reported if the previous treatment had been applied consistently.

### 3. U.S. Dollar Amounts

The Company maintains its accounting records in yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and the notes thereto represent the arithmetic results of translating yen into U.S. dollars at ¥118.09 = US\$1.00, the rate of exchange prevailing on March 31, 2007.

The inclusion of such U.S. dollar amounts is solely for the convenience of the reader and is not intended to imply that assets and liabilities which originated in yen have been or could readily be converted, realized or settled in U.S. dollars at the above or any other rate.

### 4. Shareholders' Equity

The Company Law in Japan (the "Law") provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital, which is included in Capital surplus, equals 25% of the common stock account. The Law provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock upon approval by the Board of Directors. Accordingly, the Law provides that if the total amount of additional paid-in capital and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

The Company's shares of common stock had no par value in accordance with the Law.

The retained earnings account in the accompanying consolidated financial statements at March 31, 2007 and 2006 included the legal reserve of ¥3,287 million (\$27,835 thousand) and ¥3,193 million (\$27,039 thousand).

## 5. Inventories

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
Finished products	¥ 40,063	¥ 33,771	\$339,258	\$285,977
Work in process	4,360	3,903	36,921	33,051
Raw materials and supplies	7,598	6,992	64,341	59,209
	¥ 52,021	¥ 44,666	\$440,520	\$378,237

## 6. Investments and Other Assets

Investments in and long-term loans to unconsolidated subsidiaries and affiliates at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
Capital investments	¥ 1,756	¥ 1,704	\$14,870	\$14,430
Long-term loans	690	850	5,843	7,198
	¥ 2,446	¥ 2,554	\$20,713	\$21,628

Other investments at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
Long-term prepayments	¥ 1,972	¥ 841	\$16,699	\$7,122
Other	2,429	3,615	20,569	30,612
	¥ 4,401	¥ 4,456	\$37,268	\$37,734

## 7. Short-Term Loans Payable and Long-Term Debt

Short-term loans payable at March 31, 2007 and 2006 were unsecured.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
1.02% Japanese yen unsecured bonds due 2010	¥ 10,000	¥ 10,000	\$84,681	\$84,681
2.02% Japanese yen unsecured bonds due 2013	10,000	—	84,681	—
Loans (principally from banks and insurance companies)	21,626	19,132	183,132	162,012
	41,626	29,132	352,494	246,693
Less current portion	(1,278)	(5,119)	(10,822)	(43,348)
	¥ 40,348	¥ 24,013	\$341,672	\$203,345

The aggregate annual maturities of long-term debt subsequent to March 31,2007 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 5,212	\$44,136
2010	9,437	79,914
2011	10,000	84,681
2012	700	5,928
2013 and thereafter	14,999	127,013
	¥ 40,348	\$341,672

### 8. Assets pledged as collateral

Assets pledged as collateral at March 31,2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
Time deposits	¥ 26	¥ 73	\$220	\$618
Land	25	25	212	212
Investment securities	5,075	1,130	42,976	9,569

### 9. Supplementary Information to the Consolidated Balance Sheets

Balances with unconsolidated subsidiaries and affiliates at March 31,2007 and 2006 were principally as follows:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
Other current assets	¥ 7,295	¥ 4,812	\$61,775	\$40,749
Accounts payable-other	13	34	110	288
Accrued expenses	1,112	425	9,417	3,599
Other current liabilities	126	352	1,067	2,981

### 10. Depreciation and Amortization

Depreciation and amortization charges for the years ended March 31,2007 and 2006 were ¥ 16,245million (\$137,565thousand) and ¥ 13,515million (\$114,447thousand), respectively.

### 11. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31,2007 and 2006 were ¥ 11,745million (\$99,458thousand) and ¥ 9,148million (\$77,466thousand), respectively.

### 12. Retirement Benefits

The Company and certain domestic consolidated subsidiaries have defined contribution pension plans, advanced retirement allowance plans and lump-sum severance indemnity plans. Certain foreign consolidated subsidiaries have defined benefit pension plans covering substantially all their employees.

The table below sets forth funded status of the plans and the amounts recognized in the balance sheets at March 31, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
Projected benefit obligation	(¥ 24,758)	(¥ 25,230)	(\$209,654)	(\$213,651)
Plan assets at fair value	10,254	8,701	86,832	73,681
Projected benefit obligation in excess of plan assets	(14,504)	(16,529)	(122,822)	(139,970)
Unrecognized net retirement benefit obligation at transition	¥ —	¥ —	\$ —	\$ —
Unrecognized net actuarial loss	5,209	5,633	44,110	47,701
Unrecognized prior service cost	(317)	(342)	(2,684)	(2,896)
Prepaid pension cost	(631)	(457)	(5,343)	(3,870)
Allowance for employees' retirement benefits	(¥ 10,243)	(¥ 11,695)	(\$86,739)	(\$99,035)

Retirement benefit expenses related to the plans, including amortization of the unfunded projected benefit obligation for the years ended March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
(a) Service cost	¥ 766	¥ 731	\$6,487	\$6,190
(b) Interest cost	892	837	7,553	7,088
(c) Expected return on plan assets	(601)	(438)	(5,089)	(3,709)
(d) Allocation of actuarial loss	177	564	1,499	4,776
(e) Amortization of prior service cost	(24)	(28)	(203)	(237)
(f) Net retirement benefit expenses [(a)+(b)+(c)+(d)+(e)]	1,210	1,666	10,247	14,108
(g) Employer match contribution to defined contribution pension plans	432	379	3,658	3,209
(h) Total [(f)+(g)]	¥ 1,642	¥ 2,045	\$13,905	\$17,317

The assumptions at March 31, 2007 and 2006, which were used in determining retirement benefit expenses and the allowance for employees' retirement benefits shown above were as follows:

	2007	2006
Allocation of retirement benefit expenses	Flat allocation	Flat allocation
Discount rates	2.5%~5.8%	2.5%~5.5%
Expected rates of return on plan assets	4.7%~8.0%	0.1%~8.5%
Period of amortization of past service cost	9~13 years	13~15 years
Period of allocation of actuarial loss	9~13 years mainly	9~13 years mainly

### 13. Income Taxes

The significant components of deferred tax assets and liabilities are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
Deferred tax assets:				
Inventories	¥ 747	¥ 700	\$6,326	\$5,927
Investment securities	551	534	4,666	4,522
Net unrealized gain	1,110	956	9,400	8,095
Allowance for doubtful accounts	142	173	1,202	1,465
Accrued enterprise tax	440	518	3,726	4,386
Payables, other	656	888	5,555	7,520
Accrued expenses	730	683	6,182	5,784
Allowance for employees' retirement benefits	4,597	5,201	38,928	44,043
Retirement allowances for directors and statutory auditors	56	292	474	2,473
Operating losses carried forward	1,000	594	8,468	5,030
Foreign exchange loss	12	23	102	195
Allowance for environmental remediation	207	207	1,753	1,753
Other	759	651	6,427	5,513
Gross deferred tax assets	11,007	11,420	93,209	96,706
Valuation allowance	(1,480)	(1,057)	(12,533)	(8,951)
Total deferred tax assets	9,527	10,363	80,676	87,755
Deferred tax liabilities:				
Depreciation and amortization	(1,258)	(1,335)	(10,653)	(11,305)
Land	(311)	(311)	(2,634)	(2,634)
Investment securities	(411)	(411)	(3,480)	(3,480)
Reserve for deferred gain on fixed assets for tax purposes	(798)	(892)	(6,758)	(7,554)
Retained earnings	(612)	(426)	(5,183)	(3,607)
Foreign exchange gain	(36)	(11)	(305)	(93)
Net unrealized holding gain on available-for-sale securities	(9,069)	(9,959)	(76,797)	(84,334)
Other	(347)	(318)	(2,938)	(2,693)
Total deferred tax liabilities	(12,842)	(13,663)	(108,748)	(115,700)
Net deferred tax assets	(¥ 3,315)	(¥ 3,300)	(\$28,072)	(\$27,945)

A reconciliation of the differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2007 and 2006 is as follows:

	2007	2006
Statutory tax rate	40.0%	40.0%
Increase (reduction) in taxes resulting from:		
Tax credit	(4.4)	(5.2)
Other	1.7	(0.1)
Effective tax rates	37.3	34.7

## 14. Contingent Liabilities

Contingent liabilities at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
Notes discounted and endorsed	¥ 5	¥ 71	\$42	\$601
Guarantees	4,377	1,982	37,065	16,784

The Company and its wholly owned U.S. subsidiary, ZEON Chemicals L.P. ("ZCLP", located in Kentucky, U.S.), had been sued for damages by indirect purchasers of NBR (acrylonitrile butadiene rubber), alleging price fixing regarding NBR in the U.S. Other corporate groups had also been sued.

As to one of those class actions filed in April 2004 in the State of California in the U.S, in May 2006, ZCLP reached a settlement agreement under which ZCLP agreed to pay \$1.53 million (approximately 180 million Yen) to the plaintiffs. The settlement was formally approved by the Superior Court of California in December 2006. As to the other class actions filed under the state laws from January 2005 onward, ZCLP reached a settlement agreement in November 2006, under which ZCLP agreed to pay \$1.67 million (approximately 200 million Yen) to the plaintiffs. This settlement was approved by the Circuit Court of Tennessee in April 2007 and it resolved the cause of action in the 31 States in the U.S. Therefore, all

the lawsuits sued by indirect purchasers of NBR in the U.S. have been resolved.

On May 7, 2007, the Company and its European subsidiaries received a Statement of Objections from the European Commission with respect to an investigation into the NBR market in Europe. This Statement of Objections was issued in the course of the European Commission's ongoing investigation. The Company will study the Statement of Objections in detail and will take the appropriate response in due course.

The Company and ZCLP (in addition to other corporate groups) were sued for damages by direct purchasers of SBR (styrene butadiene rubber) and BR (butadiene rubber), who alleged price fixing regarding SBR and BR in the U.S. From November 2006 onward, several lawsuits were filed, however, by April 2007, all plaintiffs voluntarily dismissed the Company and ZCLP. Thus, all the SBR and BR lawsuits in the U.S. have been resolved.

## 15. Leases

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥564million (\$4,776thousand) and ¥626million (\$5,301thousand) for the years ended March 31, 2007 and 2006, respectively. Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2007 and 2006 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
Due within one year	¥ 400	¥ 495	\$3,387	\$4,192
Due after one year	588	523	4,979	4,429
Total	¥ 988	¥ 1,018	\$8,366	\$8,621

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2007 and 2006 for operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
Due within one year	¥ 172	¥ 179	\$1,457	\$1,516
Due after one year	123	254	1,042	2,151
Total	¥ 295	¥ 433	\$2,499	\$3,667

## 16. Securities

The fair value at March 31, 2007 and 2006 of available-for-sale securities is summarized as follows:

	Current fiscal year (As of March 31, 2007)					
	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Fair value	Unrealized gain(loss)	Acquisition cost	Fair value	Unrealized gain(loss)
Securities whose fair value exceeds their acquisition cost:						
Equity securities	¥ 18,916	¥ 42,198	¥ 23,282	\$160,183	\$357,338	\$197,155
Bonds and debentures	—	—	—	—	—	—
Subtotal	¥ 18,916	¥ 42,198	¥ 23,282	\$160,183	\$357,338	\$197,155
Securities whose acquisition cost exceeds their fair value:						
Equity securities	¥ 106	¥ 100	(¥ 6)	\$897	\$846	(\$51)
Bonds and debentures	2	2	—	17	17	—
Subtotal	¥ 108	¥ 102	(¥ 6)	\$914	\$863	(\$51)
Total	¥ 19,024	¥ 42,300	¥ 23,276	\$161,097	\$358,201	\$197,104

	Previous fiscal year (As of March 31, 2006)					
	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Fair value	Unrealized gain(loss)	Acquisition cost	Fair value	Unrealized gain(loss)
Securities whose fair value exceeds their acquisition cost:						
Equity securities	¥ 15,468	¥ 40,366	¥ 24,898	\$130,985	\$341,824	\$210,839
Bonds and debentures	—	—	—	—	—	—
Subtotal	¥ 15,468	¥ 40,366	¥ 24,898	\$130,985	\$341,824	\$210,839
Securities whose acquisition cost exceeds their fair value:						
Equity securities	¥ 256	¥ 252	(¥ 4)	\$2,168	\$2,134	(\$34)
Bonds and debentures	2	2	—	17	17	—
Subtotal	¥ 258	¥ 254	(¥ 4)	\$2,185	\$2,151	(\$34)
Total	¥ 15,726	¥ 40,620	¥ 24,894	\$133,170	\$343,975	\$210,805

Total sales of available-for-sale securities and the related net realized gain for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
Total sales	¥ 12	¥ 8	\$102	\$68
Net realized gain	1	5	8	42

Securities whose fair value was not known as of March 31, 2007 and 2006 principally consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
Held-to-maturity securities:				
Corporate bonds	¥ 4	¥ 4	\$34	\$34
Municipal bonds	—	3	—	25
Available-for-sale securities:				
Unlisted equity securities	3,464	3,981	29,334	33,712
Unlisted foreign bond	—	—	—	—
Money management fund	—	—	—	—

The carrying amounts of held-to-maturity securities and available-for-sale securities which had maturities as of March 31, 2007 and 2006 were as follows:

	Current fiscal year (As of March 31, 2007)							
	Millions of yen				Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Bonds	¥4	¥2	¥—	¥—	\$34	\$17	\$—	\$—
Total	¥4	¥2	¥—	¥—	\$34	\$17	\$—	\$—

	Previous fiscal year (As of March 31, 2006)							
	Millions of yen				Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Bonds	¥4	¥4	¥—	¥—	\$34	\$34	\$—	\$—
Total	¥4	¥4	¥—	¥—	\$34	\$34	\$—	\$—

## 17. Fair value of derivatives positions

The fair value of derivatives positions at March 31, 2007 and 2006 is summarized as follows:

	Current fiscal year (As of March 31, 2007)					
	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
To sell foreign currencies	¥5,349	¥5,284	¥65	\$45,296	\$44,746	\$550
To buy foreign currencies	678	665	(13)	5,741	5,631	(110)
Coupon swaps	456	(17)	(17)	3,861	(144)	(144)
	¥6,483	¥5,932	¥35	\$54,898	\$50,233	\$296

	Previous fiscal year (As of March 31, 2006)					
	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
To sell foreign currencies	¥5,190	¥5,196	(¥6)	\$43,949	\$44,000	(\$51)
To buy foreign currencies	2,286	2,279	(7)	19,358	19,298	(60)
Coupon swaps	422	1	1	3,574	9	9
Interest rate swaps	1,000	(9)	(9)	8,468	(76)	(76)
	¥8,898	¥7,467	(¥21)	\$75,349	\$63,231	(\$178)

## 18. Other Income (Expenses) - Other, Net

Other income (expenses) - other, net for the years ended March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
Rental income	¥ 102	¥ 120	\$864	\$1,016
Gain on sales of property, plant and equipment	1	2	8	17
Gain on sales of consolidated subsidiary stocks	—	1,947	—	16,487
Foreign exchange gain, net	125	349	1,059	2,955
Loss on disposal of inventories	(1,488)	(1,459)	(12,601)	(12,355)
Loss on disposal of property, plant and equipment	(811)	(1,507)	(6,868)	(12,761)
Litigation costs	(489)	(2,002)	(4,141)	(16,953)
Loss on allowance for environmental remediation	—	(517)	—	(4,378)
Other, net	380	123	3,218	1,042
	(¥ 2,180)	(¥ 2,944)	(\$18,461)	(\$24,930)

## 19. Segment Information

The business and geographical segments of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 are outlined as follows:

### Business Segments

Current fiscal year (From April 1, 2006, to March 31, 2007)

	Millions of yen					
	Elastomer	Specialty materials	Others	Total	Eliminations/ Corporate	Consolidated
I. Sales and operating income:						
Sales to third parties	¥ 176,222	¥ 47,197	¥ 58,194	¥ 281,613	—	¥ 281,613
Inter-group sales and transfers	1,481	—	1,030	2,511	(2,511)	—
Total	177,703	47,197	59,224	284,124	(2,511)	281,613
Operating expenses	158,176	37,451	58,352	253,979	(2,541)	251,438
Operating income	¥ 19,527	¥ 9,746	¥ 872	¥ 30,145	¥ 30	¥ 30,175
II. Assets, depreciation and capital expenditures:						
Total assets	¥ 156,601	¥ 68,209	¥ 29,910	¥ 254,720	¥ 60,728	¥ 315,448
Depreciation	6,829	7,377	730	14,936	1,309	16,245
Capital expenditures	9,284	16,307	1,305	26,896	1,984	28,880

Previous fiscal year (From April 1, 2005, to March 31, 2006)

	Millions of yen					Consolidated
	Elastomer	Specialty materials	Others	Total	Eliminations/Corporate	
<b>I . Sales and operating income:</b>						
Sales to third parties	¥ 156,132	¥ 41,762	¥ 65,180	¥ 263,074	—	¥ 263,074
Inter-group sales and transfers	4	—	619	623	(623)	—
<b>Total</b>	<b>156,136</b>	<b>41,762</b>	<b>65,799</b>	<b>263,697</b>	<b>(623)</b>	<b>263,074</b>
Operating expenses	140,899	31,560	64,383	236,842	(603)	236,239
Operating income	¥ 15,237	¥ 10,202	¥ 1,416	¥ 26,855	(¥ 20)	¥ 26,835
<b>II . Assets, depreciation and capital expenditures:</b>						
Total assets	¥ 128,825	¥ 50,758	¥ 31,965	¥ 211,548	¥ 61,126	¥ 272,674
Depreciation	6,080	5,137	629	11,846	1,669	13,515
Capital expenditures	8,082	10,199	1,155	19,436	2,024	21,460

Current fiscal year (From April 1, 2006, to March 31, 2007)

	Thousands of U.S. dollars					Consolidated
	Elastomer	Specialty materials	Others	Total	Eliminations/Corporate	
<b>I . Sales and operating income:</b>						
Sales to third parties	\$1,492,269	\$399,670	\$492,793	\$2,384,732	—	\$2,384,732
Inter-group sales and transfers	12,541	—	8,722	21,263	(21,263)	—
<b>Total</b>	<b>1,504,810</b>	<b>399,670</b>	<b>501,515</b>	<b>2,405,995</b>	<b>(21,263)</b>	<b>2,384,732</b>
Operating expenses	1,339,453	317,139	494,132	2,150,724	(21,517)	2,129,207
Operating income	\$165,357	\$82,531	\$7,383	\$255,271	\$254	\$255,525
<b>II . Assets, depreciation and capital expenditures:</b>						
Total assets	\$1,326,116	\$577,602	\$253,281	\$2,156,999	\$514,252	\$2,671,251
Depreciation	57,829	62,469	6,182	126,480	11,085	137,565
Capital expenditures	78,618	138,090	11,051	227,759	16,801	244,560

Previous fiscal year (From April 1, 2005, to March 31, 2006)

	Thousands of U.S. dollars					Consolidated
	Elastomer	Specialty materials	Others	Total	Eliminations/Corporate	
<b>I . Sales and operating income:</b>						
Sales to third parties	\$1,322,144	\$353,646	\$551,952	\$2,227,742	—	\$2,227,742
Inter-group sales and transfers	34	—	5,242	5,276	(5,276)	—
<b>Total</b>	<b>1,322,178</b>	<b>353,646</b>	<b>557,194</b>	<b>2,233,018</b>	<b>(5,276)</b>	<b>2,227,742</b>
Operating expenses	1,193,149	267,254	545,203	2,005,606	(5,106)	2,000,500
Operating income	\$129,029	\$86,392	\$11,991	\$227,412	(\$170)	\$227,242
<b>II . Assets, depreciation and capital expenditures:</b>						
Total assets	\$1,090,905	\$429,825	\$270,683	\$1,791,413	\$517,622	\$2,309,035
Depreciation	51,486	43,501	5,327	100,314	14,133	114,447
Capital expenditures	68,439	86,366	9,781	164,586	17,139	181,725

Notes:

1. According to the ZEON Group's segmentation categories for business management purposes
2. Major products by business segment are as follows:

Business segment	Major business line and products
Elastomer	Synthetic rubbers, Synthetic latices, Chemicals (e.g., C5 Petroleum resins, Thermoplastic elastomers)
Specialty materials	Specialty Chemicals (e.g., Synthetic aroma, Synthetic organic pharmaceuticals), Information materials (e.g., Electronic materials, Polymerized toners), Specialty plastics (Cyclo-olefin polymer and fine processed products with Cyclo-olefin polymer)
Others	RIM blending liquid, RIM molding products, Medical equipment, Butadiene extraction technology, Outsourced production of vinyl chloride resins, Vinyl chloride compounds, Packaging and distribution materials, Housing materials, etc.

### Geographical Segments

Current fiscal year (From April 1, 2006, to March 31, 2007)

	Millions of yen						
	Japan	North America	Europe	Asia	Total	Eliminations/ Corporate	Consolidated
<b>I . Sales and operating income:</b>							
Sales to third parties	¥ 226,514	¥ 23,284	¥ 18,080	¥ 13,735	¥ 281,613	—	¥ 281,613
Inter-group sales and transfers	24,423	8,212	462	1,526	34,623	(34,623)	—
<b>Total</b>	<b>250,937</b>	<b>31,496</b>	<b>18,542</b>	<b>15,261</b>	<b>316,236</b>	<b>(34,623)</b>	<b>281,613</b>
Operating expenses	224,971	28,233	18,023	14,863	286,090	(34,652)	251,438
<b>Operating income</b>	<b>¥ 25,966</b>	<b>¥ 3,263</b>	<b>¥ 519</b>	<b>¥ 398</b>	<b>¥ 30,146</b>	<b>¥ 29</b>	<b>¥ 30,175</b>
<b>II . Assets at end of year:</b>							
Total assets	¥ 231,297	¥ 30,079	¥ 10,388	¥ 5,813	¥ 277,577	¥ 37,871	¥ 315,448

Previous fiscal year (From April 1, 2005, to March 31, 2006)

	Millions of yen						
	Japan	North America	Europe	Asia	Total	Eliminations/ Corporate	Consolidated
<b>I . Sales and operating income:</b>							
Sales to third parties	¥ 216,164	¥ 20,373	¥ 15,041	¥ 11,496	¥ 263,074	—	¥ 263,074
Inter-group sales and transfers	21,654	7,605	181	1,192	30,632	(30,632)	—
<b>Total</b>	<b>237,818</b>	<b>27,978</b>	<b>15,222</b>	<b>12,688</b>	<b>293,706</b>	<b>(30,632)</b>	<b>263,074</b>
Operating expenses	213,892	25,156	15,507	12,045	266,600	(30,361)	236,239
<b>Operating income</b>	<b>¥ 23,926</b>	<b>¥ 2,822</b>	<b>(¥ 285)</b>	<b>¥ 643</b>	<b>¥ 27,106</b>	<b>(¥ 271)</b>	<b>¥ 26,835</b>
<b>II . Assets at end of year:</b>							
Total assets	¥ 189,535	¥ 29,392	¥ 9,932	¥ 5,514	¥ 234,373	¥ 38,301	¥ 272,674

Current fiscal year (From April 1, 2006, to March 31, 2007)

	Thousands of U.S. dollars						Consolidated
	Japan	North America	Europe	Asia	Total	Eliminations/ Corporate	
I. Sales and operating income:							
Sales to third parties	\$1,918,146	\$197,172	\$153,104	\$116,310	\$2,384,732	—	\$2,384,732
Inter-group sales and transfers	206,817	69,540	3,912	12,922	293,191	(293,191)	—
Total	2,124,963	266,712	157,016	129,232	2,677,923	(293,191)	2,384,732
Operating expenses	1,905,081	239,080	152,621	125,862	2,422,644	(293,437)	2,129,207
Operating income	\$219,882	\$27,632	\$4,395	\$3,370	\$255,279	\$246	\$255,525
II. Assets at end of year:							
Total assets	\$1,958,650	\$254,713	\$87,967	\$49,225	\$2,350,555	\$320,696	\$2,671,251

Previous fiscal year (From April 1, 2005, to March 31, 2006)

	Thousands of U.S. dollars						Consolidated
	Japan	North America	Europe	Asia	Total	Eliminations/ Corporate	
I. Sales and operating income:							
Sales to third parties	\$1,830,503	\$172,521	\$127,369	\$97,349	\$2,227,742	—	\$2,227,742
Inter-group sales and transfers	183,369	64,400	1,533	10,094	259,396	(259,396)	—
Total	2,013,872	236,921	128,902	107,443	2,487,138	(259,396)	2,227,742
Operating expenses	1,811,264	213,024	131,315	101,998	2,257,601	(257,101)	2,000,500
Operating income	\$202,608	\$23,897	(\$2,413)	\$5,445	\$229,537	(\$2,295)	\$227,242
II. Assets at end of year:							
Total assets	\$1,605,005	\$248,895	\$84,105	\$46,693	\$1,984,698	\$324,337	\$2,309,035

## Overseas Sales

Sales are analyzed geographically as follows:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
Sales designated for:				
Japan	¥ 157,267	¥ 148,361	\$1,331,756	\$1,256,339
North America	29,647	24,552	251,054	207,909
Europe	29,285	23,221	247,989	196,638
Asia	62,064	64,150	525,565	543,230
Other	3,350	2,790	28,368	23,626
Total	¥ 281,613	¥ 263,074	\$2,384,732	\$2,227,742

## 20. Subsequent Events

Appropriations of retained earnings

The following appropriations of retained earnings of the Company were approved at shareholders' meeting held on June 28, 2007:

	Millions of yen	Thousands of U.S. dollars
Cash dividends ( ¥ 6.00 = \$0.05 per share)	¥ 1,428	\$12,093

## Report of Independent Auditors

The Board of Directors  
ZEON CORPORATION

We have audited the accompanying consolidated balance sheets of ZEON CORPORATION and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ZEON CORPORATION and consolidated subsidiaries at March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the years ended March 31, 2007 and 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

*Ernst & Young ShinNihon*

June 28, 2007