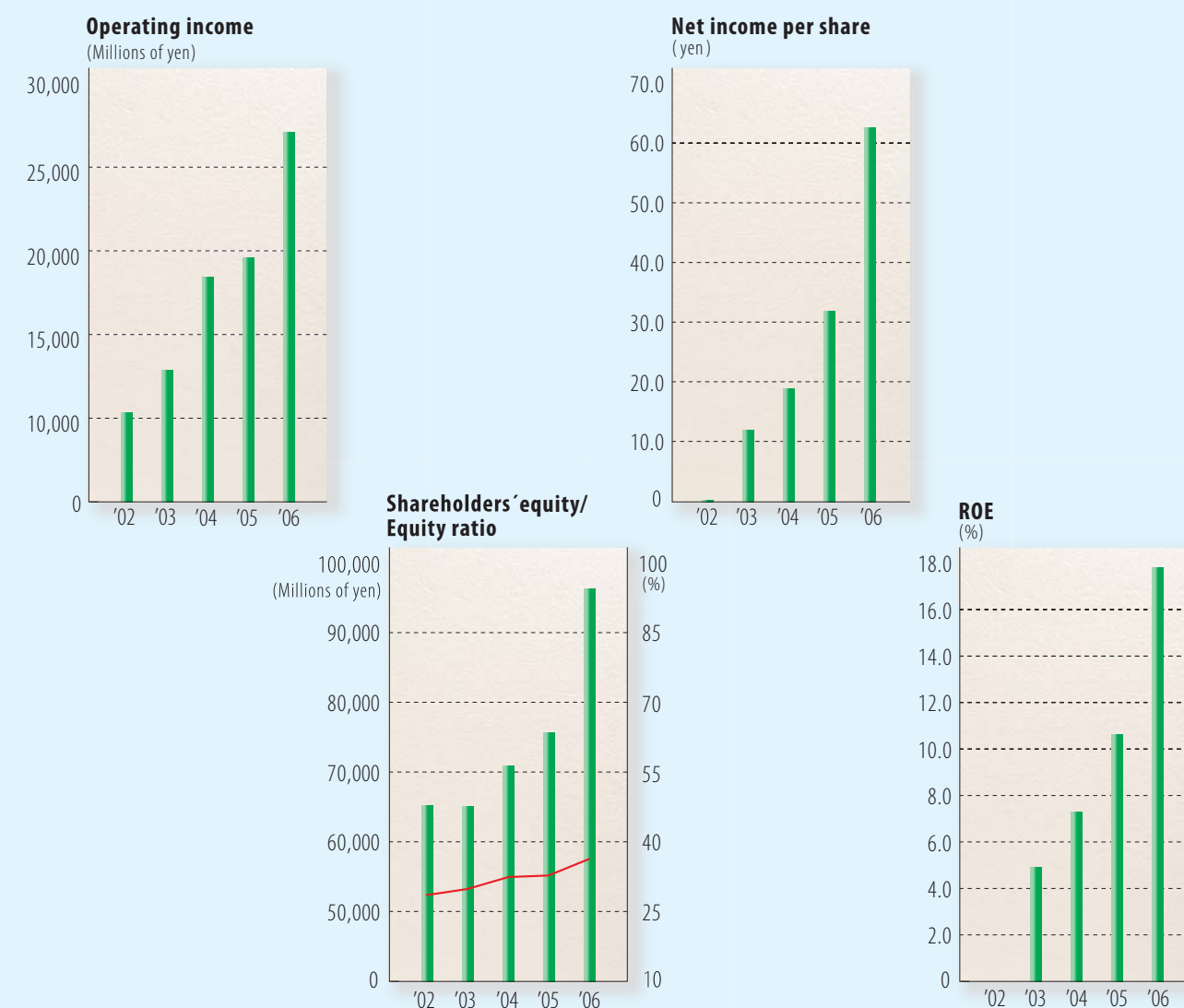


ZEON Corporation and Consolidated Subsidiaries  
For the years ended March 31

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	Millions of yen (except per share amounts and number of employees)					Thousands of U.S. dollars (except per share amounts)
	2002	2003	2004	2005	2006	2006
Net sales	¥ 191,168	¥ 210,889	¥ 213,297	¥ 231,364	<b>¥ 263,074</b>	<b>\$ 2,239,499</b>
Operating income	10,323	12,945	17,897	19,303	<b>26,835</b>	<b>228,441</b>
Income before income taxes	1,472	4,591	6,165	13,524	<b>24,101</b>	<b>205,167</b>
Net income	28	3,050	4,588	7,773	<b>15,249</b>	<b>129,812</b>
Net income per share	0.11	12.41	18.74	32.01	<b>63.23</b>	<b>0.54</b>
Total assets	232,728	216,000	222,254	236,861	<b>272,674</b>	<b>2,321,222</b>
Shareholders' equity	65,487	65,170	71,575	76,357	<b>96,528</b>	<b>821,725</b>
Equity ratio (%)	28.1	30.2	32.2	32.3	<b>35.4</b>	
Shareholders' equity per share	271.18	269.38	295.47	317.86	<b>405.10</b>	<b>3.45</b>
ROE (%)	0.0	4.7	6.7	10.5	<b>17.6</b>	
Number of employees	2,782	2,868	2,840	2,784	2,893	

Note: The U.S. dollar amounts above and elsewhere in this annual report are translated from yen, for convenience only, at the rate of ¥117.47=\$1.00 (As of March 31, 2006)



## Overview of Business Results

### Net Sales and Operating Income

Net sales for the year under review rose 13.7% from the previous year, to ¥263,074 million. Sales by the Elastomer Operations were up 12.8% as prices of synthetic rubbers and other products were revised in response to surging raw materials prices, among other factors. Our Specialty Materials Operations' sales increased 13.2% for the reasons described below. In specialty plastics (cyclo-olefin polymers), sales of ZEONOR optical films for liquid crystal panels increased considerably, and ZEONEX products for optical lenses and medical equipment also marked steady growth. In addition, in information materials, a South Korean subsidiary was included in our consolidated financial statements. Meanwhile, in Other Operations, sales rose a sharp 16.6%, lifted by a substantial year-to-year gain in the trading division's sales.

Operating income soared 39.0% from the year before, to ¥26,835 million. Although surging raw materials prices put considerable downward pressure on earnings, this was offset by various measures. These included price revisions aimed at improving profitability mainly in Elastomer Operations, adoption of profit-focused sales policies primarily in overseas markets, and continued efforts to develop new products and increase sales in Specialty Materials Operations.

### Other Income (Expenses) and Income before Income Taxes and Minority Interests

Other expenses totaled ¥2,734 million, improving ¥3,045 million from the previous year. One major factor behind this improvement was that ¥1,947 million in gains on sale of shares in a consolidated subsidiary was posted as a

result of the sale of our stake in U.S.-based ZEON Biomune Inc. Another factor was that amortization of net retirement benefit obligation at transition had been completed in the previous year. As a consequence, income before income taxes and minority interests rose 78.2% from the previous year, to ¥24,101 million.

### Net Income

Income taxes, local taxes, business taxes and income taxes deferred totaled ¥8,355 million. As a result, income taxes as a percentage of income before income taxes and minority interests (the effective tax rate) came to 34.7%. The difference from the statutory effective tax rate was due mainly to tax deductions.

Minority interests, which were mainly those attributable to minority shareholders in Tokyo Zairyo Co., Ltd., RIMTEC Corporation, ZEON Chemicals (Thailand) Co., Ltd. and ZEON Shinhwa Inc., amounted to ¥498 million, increasing by ¥218 million from the previous year's ¥280 million.

Overall, net income rose 96.2% from the previous year, to ¥15,249 million, while net income per share improved to ¥63.23 from the previous year's ¥32.01.

## Liquidity and Capital Resources

### Cash Flows

Cash and cash equivalents at the end of the year under review stood at ¥7,320 million, down ¥2,974 million (28.9%) from a year earlier.

Net cash provided by operating activities totaled ¥26,948 million, increasing ¥6,392 million (31.1%) from the previous year. The difference from the previous year was due mainly to significant growth of income before income taxes and minority interests, though litigation-related expenses were incurred.

Net cash used in investing activities came to ¥25,011 million, rising ¥7,344 million (41.6%) from the previous year. The difference mainly reflected increased expenditures to purchase property, plants and equipment, especially in Specialty Materials Operations.

Net cash used in financing activities amounted to ¥5,653 million, a ¥164 million (3.0%) increase from the previous year. The amount of repayment of cash collateral associated with contract to loan securities for consumption exceeded the amount of received cash collateral associated with contract to loan securities for consumption, while interest-bearing debt increased in comparison with the previous year. In addition, dividends paid and repurchase of treasury stock rose from the previous year.

As a result, net cash used in financing activities was at about the same level as in the previous year.

### Contractual Obligations

Payments due, by period (¥ million)  
Contractual obligations as of March 31, 2006, were as follows.

	Total	Within 1 year	1 year to 3 years	3 years to 5 years	5 years or after
Contractual obligations	56,329	32,317	3,965	17,047	3,000
Short-term borrowings	23,198	23,198	-	-	-
Commercial paper	4,000	4,000	-	-	-
Corporate bonds	10,000	-	-	10,000	-
Long-term debts	19,131	5,119	3,965	7,047	3,000

within one year are included in long-term debts, though such debts are included in the category of short-term borrowings in our consolidated balance sheet.

Guarantees that have been granted to third parties are guarantees of loans and other obligations owed by affiliated companies and employees. In the event a debtor defaults on payment during the guarantee period, a repayment must be made on behalf of the debtor. The amount of guarantees of obligations as of March 31, 2006 totaled ¥1,982 million.

### Financial Policy

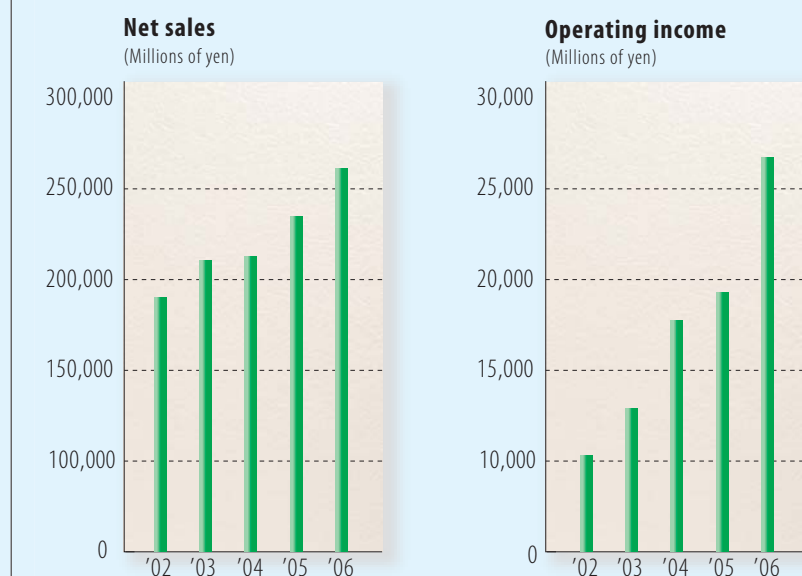
Necessary funds for working capital and capital investment are procured by borrowing from financial institutions and through capital markets, as well as by using internal reserves and through the liquidation of receivables.

Given our sound financial conditions, ability to produce cash flows from operating activities and the unused portion of a commitment line amounting to ¥17,000 million, we believe that we can continue to procure the working capital and capital investment funds that are essential for our sustainable growth in the future.

### Sales by category of operations

Category	Year ended March 31, 2006		Year ended March 31, 2005		Change	
	Amount (millions of yen)	Percentage (%)	Amount (millions of yen)	Percentage (%)	Amount (millions of yen)	Percentage (%)
Net Sales	263,074	100	231,364	100	31,710	13.7
Elastomer Operations	156,136	59.3	138,417	59.8	17,719	12.8
Specialty Materials Operations	41,762	15.9	36,897	15.9	4,865	13.2
Other Operations	65,799	25.0	56,409	24.4	9,390	16.6
Elimination or the whole Company	(623)	(0.2)	(359)	(0.1)	(264)	(73.5)

Note: Figures in parentheses represent negative values.



## Consolidated Balance Sheets

as of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2006	2005	2006	2005
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents (Note 16)	¥ 7,320	¥ 10,295	\$ 62,314	\$ 87,639
Short-term investments (Note 7)	345	109	2,937	928
Receivables, trade:				
Notes and accounts	42,082	40,831	358,236	347,587
Unconsolidated subsidiaries and affiliates	6,256	4,945	53,256	42,096
Inventories (Note 5)	44,666	37,702	380,233	320,950
Deferred tax assets (Note 13)	3,402	2,641	28,961	22,482
Other current assets (Note 9)	22,213	18,377	189,094	156,440
Allowance for doubtful accounts	(117)	(89)	(996)	(758)
<b>Total current assets</b>	<b>126,167</b>	<b>114,811</b>	<b>1,074,035</b>	<b>977,364</b>
<b>Property, plant and equipment, at cost (Notes 7 and 10):</b>				
Land	12,462	12,435	106,087	105,857
Buildings and structures	46,893	44,191	399,191	376,190
Machinery and equipment	183,400	171,064	1,561,250	1,456,236
Construction in progress	8,949	7,020	76,181	59,760
	251,704	234,710	2,142,709	1,998,043
Less accumulated depreciation	(163,032)	(153,081)	(1,387,861)	(1,303,150)
<b>Property, plant and equipment, net</b>	<b>88,672</b>	<b>81,629</b>	<b>754,848</b>	<b>694,893</b>
<b>Intangible assets</b>	<b>6,370</b>	<b>6,227</b>	<b>54,227</b>	<b>53,009</b>
<b>Investments and other assets (Note 6):</b>				
Investment securities (Notes 7 and 16)	44,605	28,194	379,714	240,010
Unconsolidated subsidiaries and affiliates	2,554	1,906	21,742	16,225
Deferred tax assets (Note 13)	451	437	3,839	3,720
Other investments	4,456	4,740	37,933	40,351
Allowance for doubtful accounts	(606)	(1,089)	(5,159)	(9,270)
<b>Total investments and other assets</b>	<b>51,460</b>	<b>34,188</b>	<b>438,069</b>	<b>291,036</b>
<b>Deferred charges</b>	<b>5</b>	<b>6</b>	<b>43</b>	<b>51</b>
<b>Total assets</b>	<b>¥ 272,674</b>	<b>¥ 236,861</b>	<b>\$ 2,321,222</b>	<b>\$ 2,016,353</b>

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2006	2005	2006	2005
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities:</b>				
Short-term loans payable (Note 7)	¥ 23,198	¥ 19,108	\$ 197,480	\$ 162,663
Current portion of long-term debt (Note 7)	5,119	2,450	43,577	20,856
Commercial paper	4,000	16,500	34,051	140,461
Payables, trade:				
Notes and accounts	58,592	50,897	498,783	433,277
Unconsolidated subsidiaries and affiliates	5,118	4,589	43,569	39,065
Payables, other (Note 9)	10,406	10,803	88,584	91,964
Accrued income taxes	6,069	3,121	51,664	26,568
Accrued expenses (Note 9)	4,198	4,995	35,737	42,521
Other current liabilities (Notes 9 and 13)	5,332	12,508	45,390	106,479
<b>Total current liabilities</b>	<b>122,032</b>	<b>124,971</b>	<b>1,038,835</b>	<b>1,063,854</b>
<b>Long-term liabilities:</b>				
Long-term debt (Note 7)	24,013	15,580	204,418	132,630
Allowance for employees' retirement benefits (Note 12)	11,695	11,749	99,557	100,017
Deferred tax liabilities (Note 13)	7,139	750	60,773	6,385
Other long-term liabilities	8,105	5,257	68,996	44,751
<b>Total long-term liabilities</b>	<b>50,952</b>	<b>33,336</b>	<b>433,744</b>	<b>283,783</b>
<b>Minority interests</b>	<b>3,162</b>	<b>2,197</b>	<b>26,918</b>	<b>18,703</b>
<b>Contingent liabilities (Note 14)</b>				
<b>Shareholders' equity:</b>				
Common stock				
Authorized — 800,000,000 shares				
Issued — 242,075,556 shares	24,211	24,211	206,104	206,104
Capital surplus	18,372	18,372	156,397	156,397
Retained earnings (Note 4)	44,963	32,078	382,762	273,074
Net unrealized holding gain on available-for-sale securities	14,497	5,710	123,410	48,608
Foreign currency translation adjustments	(1,080)	(2,432)	(9,194)	(20,703)
Treasury stock, at cost:				
2006 — 4,041,007 shares	(4,435)	—	(37,754)	—
2005 — 2,031,277 shares	—	(1,582)	—	(13,467)
<b>Total shareholders' equity</b>	<b>96,528</b>	<b>76,357</b>	<b>821,725</b>	<b>650,013</b>
<b>Total liabilities and shareholders' equity</b>	<b>¥ 272,674</b>	<b>¥ 236,861</b>	<b>\$ 2,321,222</b>	<b>\$ 2,016,353</b>

## Consolidated Statements of Income

For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2006	2005	2006	2005
<b>Net sales</b>	¥ 263,074	¥ 231,364	\$ 2,239,499	\$ 1,969,558
<b>Cost of sales (Notes 10 and 12)</b>	193,218	170,694	1,644,828	1,453,086
Gross profit	69,856	60,670	594,671	516,472
<b>Selling, general and administrative expenses (Notes 10, 11 and 12)</b>	43,021	41,367	366,230	352,149
Operating income	26,835	19,303	228,441	164,323
<b>Other income (expenses):</b>				
Interest and dividend income	852	968	7,253	8,240
Interest expenses	(621)	(642)	(5,286)	(5,465)
Equity in earnings of unconsolidated subsidiaries and affiliates, net	(21)	32	(179)	272
Other, net (Notes 16 and 18)	(2,944)	(6,137)	(25,062)	(52,243)
	(2,734)	(5,779)	(23,274)	(49,196)
Income before income taxes and minority interests	24,101	13,524	205,167	115,127
<b>Income taxes:</b>				
Current	8,664	5,587	73,755	47,561
Deferred	(310)	(116)	(2,639)	(988)
Income before minority interests	15,747	8,053	134,051	68,554
<b>Minority interests</b>	(498)	(280)	(4,239)	(2,384)
Net income	¥ 15,249	¥ 7,773	\$ 129,812	\$ 66,170
Amounts per share:				
Net income	¥ 63.23	¥ 32.01	\$ 0.54	\$ 0.27
Cash dividends	9.00	7.00	0.08	0.06

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2006 and 2005

	Thousands	Millions of yen					Treasury stock
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding gain on available-for-sale securities	Foreign currency translation adjustments	
<b>Balance at March 31, 2004</b>	242,076	¥ 24,211	¥ 18,372	¥ 26,413	¥ 4,920	(¥ 2,329)	(¥ 12)
Net income for the year	—	—	—	7,773	—	—	—
Decrease due to change in number of consolidated subsidiaries	—	—	—	(221)	—	—	—
Cash dividends paid	—	—	—	(1,449)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(55)	—	—	—
Adjustment in minimum pension liability of consolidated subsidiaries in U.S.A.	—	—	—	(383)	—	—	—
Net change during the year	—	—	—	—	790	(103)	(1,570)
<b>Balance at March 31, 2005</b>	242,076	24,211	18,372	32,078	5,710	(2,432)	(1,582)
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)	—	—	—
Net change during the year	—	—	—	—	8,787	1,352	(2,853)
<b>Balance at March 31, 2006</b>	242,076	¥ 24,211	¥ 18,372	¥ 44,963	¥ 14,497	(¥ 1,080)	(¥ 4,435)

	Thousands of U.S. dollars (Note 3)						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
<b>Balance at March 31, 2004</b>	—	\$206,104	\$156,397	\$224,849	\$41,883	(\$19,826)	(\$102)
Net income for the year	—	—	—	66,170	—	—	—
Decrease due to change in number of consolidated subsidiaries	—	—	—	(1,881)	—	—	—
Cash dividends paid	—	—	—	(12,335)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(468)	—	—	—
Adjustment in minimum pension liability of consolidated subsidiaries in U.S.A.	—	—	—	(3,261)	—	—	—
Net change during the year	—	—	—	—	6,725	(877)	(13,365)
<b>Balance at March 31, 2005</b>	—	206,104	156,397	273,074	48,608	(20,703)	(13,467)
Net income for the year	—	—	—	129,812	—	—	—
Increase due to change in number of consolidated subsidiaries	—	—	—	2,009	—	—	—
Cash dividends paid	—	—	—	(14,301)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(468)	—	—	—
Adjustment in minimum pension liability of consolidated subsidiaries in U.S.A.	—	—	—	(2,222)	—	—	—
Decrease due to change in accounting standard for overseas consolidated subsidiaries	—	—	—	(5,142)	—	—	—
Net change during the year	—	—	—	—	74,802	11,509	(24,287)
<b>Balance at March 31, 2006</b>	—	\$206,104	\$156,397	\$382,762	\$123,410	(\$9,194)	(\$37,754)

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2006	2005	2006	2005
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests	¥ 24,101	¥ 13,524	\$ 205,167	\$ 115,127
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	13,515	12,881	115,051	109,654
Interest and dividend income	(852)	(968)	(7,253)	(8,240)
Interest expenses	621	642	5,286	5,465
(Increase) decrease in receivables, trade	(1,860)	(3,042)	(15,834)	(25,896)
(Increase) decrease in inventories	(6,486)	(6,041)	(55,214)	(51,426)
Increase (decrease) in payables, trade	7,577	8,649	64,502	73,627
Other, net	(503)	1,074	(4,282)	9,143
Cash generated from operations	36,113	26,719	307,423	227,454
Interest and dividends received	852	958	7,253	8,155
Interest paid	(686)	(696)	(5,840)	(5,925)
Payment of litigation costs	(3,466)	—	(29,505)	—
Income taxes paid	(5,865)	(6,425)	(49,928)	(54,695)
Net cash provided by operating activities	26,948	20,556	229,403	174,989
<b>Cash flows from investing activities:</b>				
Purchases of property, plant and equipment	(25,717)	(15,720)	(218,924)	(133,821)
Purchases of intangible assets	(1,506)	(989)	(12,820)	(8,419)
Purchases of investment securities	(1,591)	(564)	(13,544)	(4,801)
Proceeds from sales of subsidiary stocks associated with change in the scope of consolidation	2,298	—	19,562	—
Increase in loans receivable	(1,273)	(1,207)	(10,837)	(10,275)
Other, net	2,778	814	23,649	6,929
Net cash used in investing activities	(25,011)	(17,666)	(212,914)	(150,387)
<b>Cash flows from financing activities:</b>				
Increase(decrease) in short-term borrowings	3,277	(6,508)	27,896	(55,401)
Increase(decrease) in commercial paper	(12,500)	16,500	(106,410)	140,461
Proceeds from long-term debt	13,339	7,154	113,552	60,901
Repayment of long-term debt	(2,295)	(19,598)	(19,537)	(166,834)
Dividends paid	(1,817)	(1,467)	(15,468)	(12,488)
Repurchase of treasury stock	(2,854)	(1,570)	(24,296)	(13,365)
Other, net	(2,803)	—	(23,860)	—
Net cash used in financing activities	(5,653)	(5,489)	(48,123)	(46,726)
Effect of exchange rate changes on cash and cash equivalents	407	(88)	3,465	(750)
Net increase (decrease) in cash and cash equivalents	(3,309)	(2,687)	(28,169)	(22,874)
Cash and cash equivalents at beginning of year	10,295	12,920	87,639	109,986
Increase in cash due to increase in number of consolidated subsidiaries	334	85	2,844	723
Decrease in cash due to decrease in number of consolidated subsidiaries	—	(23)	—	(196)
Cash and cash equivalents at end of year	¥ 7,320	¥ 10,295	\$ 62,314	\$ 87,639

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 (22 subsidiaries as of March 31, 2006 and 23 subsidiaries as of March 31, 2005). 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 shareholders' equity, 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 (13-15 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) Appropriation of Retained Earnings

Cash dividends, transfers to the legal reserve and bonuses to directors and statutory auditors are recorded in the financial year in which such proposed appropriations of retained earnings are approved by the shareholders.

#### (12) 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. Presentation of fully diluted net income per share is not applicable as there were no potentially dilutive convertible bonds or warrants outstanding in either year.

#### (13) Change in Accounting Policy

Effective April 1, 2005, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for impairment of fixed assets, "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Council on August 9, 2002 and the "Implementation Guidance on the Accounting Standard for Impairment of Fixed Assets" (Accounting Standard Implementation Guidance No.6, issued on October 31, 2003). The effect of adopting this standard was to decrease income before taxes and minority interests by ¥193 million (\$1,643 thousand) from the amount which would have been reported if the previous treatment had been applied consistently. The accumulated impairment loss has been deducted

from carrying amount of the respective assets.

#### 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 ¥117.47 = US\$1.00, the rate of exchange prevailing on March 31, 2006. 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 Commercial Code of Japan (the "Code") 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 Code provides that neither additional paid-in capital nor the legal reserve in 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 Code 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 Code. The retained earnings account in the accompanying consolidated financial

statements at March 31, 2006 and 2005 included the legal reserve of ¥3,193 million (\$27,181 thousand) and ¥3,162 million (\$26,918 thousand).

#### 5. Inventories

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Finished products	¥ 33,771	¥ 27,332	\$ 287,486	\$ 232,672
Work in process	3,903	3,600	33,226	30,646
Raw materials and supplies	6,992	6,770	59,521	57,632
	¥ 44,666	¥ 37,702	\$ 380,233	\$ 320,950

#### 6. Investments and Other Assets

Investments in and long-term loans to unconsolidated subsidiaries and affiliates at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Capital investments	¥ 1,704	¥ 1,540	\$ 14,506	\$ 13,110
Long-term loans	850	366	7,236	3,115
	¥ 2,554	¥ 1,906	\$ 21,742	\$ 16,225

Other investments at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Long-term prepayments	¥ 841	¥ 1,201	\$ 7,159	\$ 10,224
Other	3,615	3,539	30,774	30,127
	¥ 4,456	¥ 4,740	\$ 37,933	\$ 40,351

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

Short-term loans payable at March 31, 2006 and 2005 were unsecured.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
1.02% Japanese yen unsecured bonds due 2010	¥ 10,000	\$ —	\$ 85,128	\$ —
Loans (principally from banks and insurance companies)	19,132	18,030	162,867	153,486
	29,132	18,030	247,995	153,486
Less current portion	(5,119)	(2,450)	(43,577)	(20,856)
	¥ 24,013	¥ 15,580	\$ 204,418	\$ 132,630

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
2008	¥ 1,264		\$ 10,760	
2009	2,702		23,002	
2010	7,047		59,990	
2011	10,000		85,128	
2012 and thereafter	3,000		25,538	
	¥ 24,013		\$ 204,418	

### 8. Assets pledged as collateral

Assets pledged as collateral at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Time deposits	¥ 73	¥ 100	\$ 621	\$ 851
Land	25	25	213	213
Investment securities	1,130	1,003	9,619	8,538

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

Balances with unconsolidated subsidiaries and affiliates at March 31, 2006 and 2005 were principally as follows:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Other current assets	¥ 4,812	¥ 5,008	\$ 40,964	\$ 42,632
Accounts payable-other	34	73	289	621
Accrued expenses	425	419	3,618	3,567
Other current liabilities	352	296	2,997	2,520

### 10. Depreciation and Amortization

Depreciation and amortization charges for the years ended March 31, 2006 and 2005 were ¥13,515million (\$115,051 thousand) and ¥12,881million (\$109,654 thousand), respectively.

### 11. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2006 and 2005 were ¥9,148million (\$77,875thousand) and ¥8,962million (\$76,292thousand), 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, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Projected benefit obligation	(¥ 25,230)	(¥ 20,281)	(\$ 214,779)	(\$ 172,648)
Plan assets at fair value	8,701	4,604	74,070	39,193
Projected benefit obligation in excess of plan assets	(16,529)	(15,677)	(140,709)	(133,455)
Unrecognized net retirement benefit obligation at transition	—	—	—	—
Unrecognized net actuarial loss	5,633	4,915	47,953	41,840
Unrecognized prior service cost	(342)	(422)	(2,911)	(3,592)
Prepaid pension cost	(457)	(565)	(3,890)	(4,810)
Allowance for employees' retirement benefits	(¥ 11,695)	(¥ 11,749)	(\$ 99,557)	(\$ 100,017)

Retirement benefit expenses related to the plans, including amortization of the unfunded projected benefit obligation for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
(a) Service cost	¥ 731	¥ 633	\$ 6,223	\$ 5,389
(b) Interest cost	837	602	7,125	5,124
(c) Expected return on plan assets	(438)	(191)	(3,729)	(1,626)
(d) Amortization of net retirement benefit obligation at transition	—	1,985	—	16,898
(e) Allocation of actuarial loss	564	353	4,801	3,005
(f) Amortization of prior service cost	(28)	(28)	(238)	(238)
(g) Net retirement benefit expenses [(a)+(b)+(c)+(d)+(e)+(f)]	1,666	3,354	14,182	28,552
(h) Employer match contribution to defined contribution pension plans	379	291	3,227	2,477
(i) Total [(g)+(h)]	¥ 2,045	¥ 3,645	\$ 17,409	\$ 31,029

The assumptions at March 31, 2006 and 2005, which were used in determining retirement benefit expenses and the allowance for employees' retirement benefits shown above were as follows:

	2006	2005
Allocation of retirement benefit expenses	Flat allocation	Flat allocation
Discount rates	2.5% - 5.5%	2.5% - 6.0%
Expected rates of return on plan assets	0.1% - 8.5%	1.0% - 8.25%
Period of amortization of past service cost	13 - 15 years	13 - 15 years
Period of allocation of actuarial loss	9 - 13 years mainly	9 - 13 years
Period of amortization of net retirement benefit obligation at transition	—	5 years

### 13. Income Taxes

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

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Deferred tax assets:				
Inventories	¥ 700	¥ 286	\$ 5,959	\$ 2,435
Investment securities	534	486	4,546	4,137
Net unrealized gain	956	742	8,138	6,317
Allowance for doubtful accounts	173	82	1,473	698
Accrued enterprise tax	518	324	4,410	2,758
Payables, other	888	1,397	7,559	11,892
Accrued expenses	683	630	5,814	5,363
Allowance for employees' retirement benefits	5,201	4,888	44,275	41,611
Retirement allowances for directors and statutory auditors	292	311	2,486	2,647
Operating losses carried forward	594	873	5,057	7,432
Foreign exchange loss	23	647	196	5,508
Allowance for environmental remediation	207	—	1,762	—
Other	651	479	5,542	4,077
Gross deferred tax assets	11,420	11,145	97,217	94,875
Valuation allowance	(1,057)	(1,110)	(8,998)	(9,449)
Total deferred tax assets	10,363	10,035	88,219	85,426
Deferred tax liabilities:				
Depreciation and amortization	(1,335)	(1,447)	(11,365)	(12,318)
Land	(311)	(311)	(2,647)	(2,647)
Investment securities	(411)	(411)	(3,500)	(3,500)
Reserve for deferred gain on fixed assets for tax purposes	(892)	(1,017)	(7,593)	(8,657)
Retained earnings	(426)	(321)	(3,626)	(2,733)
Foreign exchange gain	(11)	(201)	(94)	(1,711)
Net unrealized holding gain on available-for-sale securities	(9,959)	(3,931)	(84,779)	(33,464)
Other	(318)	(68)	(2,707)	(578)
Total deferred tax liabilities	(13,663)	(7,707)	(116,311)	(65,608)
Net deferred tax assets	(¥ 3,300)	¥ 2,328	(\$ 28,092)	\$ 19,818

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

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

The differences between the statutory tax rate and the effective tax rate reflected in the accompanying consolidated statement of operations for the year ended March 31, 2005 was less than 5% of the statutory tax rate and, therefore, no reconciliation has been disclosed.

### 14. Contingent Liabilities

Contingent liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Notes discounted and endorsed	¥ 71	¥ 248	\$ 604	\$ 2,111
Guarantees	1,982	2,228	16,872	18,967

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 direct and indirect purchasers of NBR (acrylonitrile butadiene rubber), alleging price fixing regarding NBR in the U.S. Other corporate groups had also been sued.

In September 2005, ZCLP reached a settlement agreement with respect to the direct purchaser lawsuit (class action). The settlement was formally approved by the Federal Court in December 2005, and as a part of the agreement required ZCLP to make a payment of \$16 million (approximately 1.7 billion yen). Although some of the plaintiffs opted out of the class action

lawsuit, because ZCLP had already reached an individual settlement agreement with them, the direct purchaser lawsuit in the U.S. was finally resolved.

As to class actions filed under state laws, an indirect purchaser lawsuit (class action) was 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. With the approval of the agreement by the Superior Court of California, County of San Francisco, the indirect purchaser lawsuit in the State of California will be resolved in regard to all plaintiffs who

did not opt out of the lawsuit. The Company and ZCLP are cooperating in dealing with the remaining litigation filed in other states.

In addition, the Company and its European subsidiaries are being investigated by the European Commission regarding an allegation of restraint of trade regarding NBR, and are cooperating with the investigation.

### 15. Leases

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥626million (\$5,329 thousand) and ¥965million (\$8,215 thousand) for the years ended March 31, 2006 and 2005, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 and 2005 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Due within one year	¥ 495	¥ 684	\$ 4,214	\$ 5,823
Due after one year	523	726	4,452	6,180
Total	¥ 1,018	¥ 1,410	\$ 8,666	\$ 12,003

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 and 2005 for operating leases are summarized as follows:

	2006	2005	2006	2005
Due within one year	¥ 179	¥ 190	\$ 1,524	\$ 1,617
Due after one year	254	341	2,162	2,903
Total	¥ 433	¥ 531	\$ 3,686	\$ 4,520

## 16. Securities

The fair value at March 31, 2006 and 2005 of available-for-sale securities is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Fair value	Unrealized gain (loss)	Acquisition cost	Fair value	Unrealized gain (loss)
Current fiscal year (As of March 31, 2006)						
Securities whose fair value exceeds their acquisition cost:						
Equity securities	¥ 15,468	¥ 40,366	¥ 24,898	\$ 131,676	\$ 343,628	\$ 211,952
Bonds and debentures	—	—	—	—	—	—
Subtotal	¥ 15,468	¥ 40,366	¥ 24,898	\$ 131,676	\$ 343,628	\$ 211,952
Securities whose acquisition cost exceeds their fair value:						
Equity securities	¥ 256	¥ 252	(¥ 4)	\$ 2,179	\$ 2,145	(\$34)
Bonds and debentures	2	2	—	17	17	—
Subtotal	¥ 258	¥ 254	(¥ 4)	\$ 2,196	\$ 2,162	(\$34)
Total	¥ 15,726	¥ 40,620	¥ 24,894	\$ 133,872	\$ 345,790	\$ 211,918

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Fair value	Unrealized gain (loss)	Acquisition cost	Fair value	Unrealized gain (loss)
Previous fiscal year (As of March 31, 2005)						
Securities whose fair value exceeds their acquisition cost:						
Equity securities	¥ 14,527	¥ 24,421	¥ 9,894	\$ 123,666	\$ 207,891	\$ 84,225
Bonds and debentures	—	—	—	—	—	—
Subtotal	¥ 14,527	¥ 24,421	¥ 9,894	\$ 123,666	\$ 207,891	\$ 84,225
Securities whose acquisition cost exceeds their fair value:						
Equity securities	¥ 317	¥ 252	(¥ 65)	\$ 2,699	\$ 2,145	(\$ 554)
Bonds and debentures	1	1	—	9	9	—
Subtotal	¥ 318	¥ 253	(¥ 65)	\$ 2,708	\$ 2,154	(\$ 554)
Total	¥ 14,845	¥ 24,674	¥ 9,829	\$ 126,374	\$ 210,045	\$ 83,671

Total sales of available-for-sale securities and the related net realized gain for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Total sales	¥ 8	¥ 14	\$ 68	\$ 119
Net realized gain	5	12	43	102

Securities whose fair value was not known as of March 31, 2006 and 2005 principally consisted of the following:

	2006	2005	2006	2005
Held-to-maturity securities:				
Corporate bonds	¥ 4	¥ 6	\$ 34	\$ 51
Municipal bonds	3	5	26	43
Available-for-sale securities:				
Unlisted equity securities	3,981	3,509	33,890	29,871
Unlisted foreign bond	—	—	—	—
Money management fund	—	25	—	213

The carrying amounts of held-to-maturity securities and available-for-sale securities which had maturities as of March 31, 2006 and 2005 were as follows:

	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
Current fiscal year (As of March 31, 2006)								
Bonds	¥ 4	¥ 4	¥ —	¥ —	\$ 34	\$ 34	\$ —	\$ —
Total	¥ 4	¥ 4	¥ —	¥ —	\$ 34	\$ 34	\$ —	\$ —
Previous fiscal year (As of March 31, 2005)								
Bonds	¥ 9	¥ 3	¥ —	¥ —	\$ 77	\$ 26	\$ —	\$ —
Total	¥ 9	¥ 3	¥ —	¥ —	\$ 77	\$ 26	\$ —	\$ —

## 17. Fair value of derivatives positions

The fair value of derivatives positions at March 31, 2006 and 2005 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Current fiscal year (As of March 31, 2006)						
Forward foreign exchange contracts:						
To sell foreign currencies	¥ 5,190	¥ 5,196	(¥ 6)	\$ 44,181	\$ 44,233	(\$52)
To buy foreign currencies	2,286	2,279	(7)	19,460	19,401	(59)
Coupon swaps	422	1	1	3,592	9	9
Interest rate swaps	1,000	(9)	(9)	8,513	(77)	(77)
	¥ 8,898	¥ 7,467	(¥ 21)	\$ 75,746	\$ 63,566	(\$179)
Previous fiscal year (As of March 31, 2005)						
Forward foreign exchange contracts:						
To sell foreign currencies	¥ 6,145	¥ 7,958	(¥ 1,813)	\$ 52,311	\$ 67,745	(\$15,434)
To buy foreign currencies	230	219	(11)	1,958	1,864	(94)
	¥ 6,375	¥ 8,177	(¥ 1,824)	\$ 54,269	\$ 69,609	(\$15,528)

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

Other income (expenses) - other, net for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Rental income	¥ 120	¥ 189	\$ 1,022	\$ 1,609
Gain on sales of property, plant and equipment	2	1	17	9
Gain on sales of consolidated subsidiary stocks	1,947	-	16,574	-
Foreign exchange gain, net	349	(111)	2,971	(945)
Loss on disposal of inventories	(1,459)	(715)	(12,420)	(6,087)
Loss on disposal of property, plant and equipment	(1,507)	(1,084)	(12,829)	(9,228)
Amortization of net retirement benefit obligation at transition	-	(1,985)	-	(16,898)
Head office moving expense	-	(491)	-	(4,180)
Litigation costs	(2,002)	(1,615)	(17,043)	(13,748)
Loss on allowance for environmental remediation	(517)	-	(4,401)	-
Other, net	123	(326)	1,047	(2,775)
	(¥ 2,944)	(¥6,137)	(\$25,062)	(\$52,243)

## 19. Segment Information

The business and geographical segments of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 are outlined as follows:

### Business Segments

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

	Millions of yen					Eliminations / corporate assets	Consolidated
	Elastomer	Specialty materials	Others	Total			
I. Sales and operating income:							
Sales to third parties	¥ 156,132	¥ 41,762	¥ 65,180	¥ 263,074	-	¥ 263,074	
Inter-group sales and transfers	4	-	619	623	(623)	-	
Total	156,136	41,762	65,799	263,697	(623)	263,074	
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	
II. Assets, depreciation and capital expenditures:							
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	

Previous fiscal year (From April 1, 2004, to March 31, 2005)

	Millions of yen					Eliminations and corporate assets	Consolidated
	Elastomer	Specialty materials	Others	Total			
I. Sales and operating income:							
Sales to third parties	¥ 138,408	¥ 36,897	¥ 56,059	¥ 231,364	¥ -	¥ 231,364	
Inter-group sales and transfers	9	-	350	359	(359)	-	
Total	138,417	36,897	56,409	231,723	(359)	231,364	
Operating expenses	128,255	28,294	55,842	212,391	(330)	212,061	
Operating income	¥ 10,162	¥ 8,603	¥ 567	¥ 19,332	(¥ 29)	¥ 19,303	
II. Assets, depreciation and capital expenditures:							
Total assets	¥ 116,065	¥ 41,429	¥ 30,899	¥ 188,393	¥ 48,468	¥ 236,861	
Depreciation	6,080	4,422	754	11,256	1,625	12,881	
Capital expenditures	5,201	10,914	1,041	17,156	1,795	18,951	

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

	Thousands of U.S. dollars					
	Elastomer	Specialty materials	Others	Total	Eliminations / corporate assets	Consolidated
I. Sales and operating income:						
Sales to third parties	\$ 1,329,122	\$ 355,512	\$ 554,865	\$ 2,239,499	\$ -	\$ 2,239,499
Inter-group sales and transfers	34	-	5,269	5,303	(5,303)	-
Total	1,329,156	355,512	560,134	2,244,802	(5,303)	2,239,499
Operating expenses	1,199,447	268,664	548,080	2,016,191	(5,133)	2,011,058
Operating income	\$ 129,709	\$ 86,848	\$ 12,054	\$ 228,611	(\$ 170)	\$ 228,441
II. Assets, depreciation and capital expenditures:						
Total assets	\$ 1,096,663	\$ 432,093	\$ 272,112	\$ 1,800,868	\$ 520,354	\$ 2,321,222
Depreciation	51,758	43,730	5,355	100,843	14,208	115,051
Capital expenditures	68,801	86,822	9,832	165,455	17,230	182,685

Previous fiscal year (From April 1, 2004, to March 31, 2005)

	Thousands of U.S. dollars					
	Elastomer	Specialty materials	Others	Total	Eliminations / corporate assets	Consolidated
I. Sales and operating income:						
Sales to third parties	\$ 1,178,241	\$ 314,097	\$ 477,220	\$ 1,969,558	\$ -	\$ 1,969,558
Inter-group sales and transfers	77	-	2,979	3,056	(3,056)	-
Total	1,178,318	314,097	480,199	1,972,614	(3,056)	1,969,558
Operating expenses	1,091,811	240,861	475,372	1,808,044	(2,809)	1,805,235
Operating income	\$ 86,507	\$ 73,236	\$ 4,827	\$ 164,570	(\$ 247)	\$ 164,323
II. Assets, depreciation and capital expenditures:						
Total assets	\$ 988,039	\$ 352,677	\$ 263,038	\$ 1,603,754	\$ 412,599	\$ 2,016,353
Depreciation	51,758	37,644	6,419	95,821	13,833	109,654
Capital expenditures	44,275	92,909	8,862	146,046	15,280	161,326

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, Gene recombination vaccines, 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, 2005, to March 31, 2006)

	Millions of yen						
	Japan	North America	Europe	Asia	Total	Eliminations/ corporate assets	Consolidated
I. Sales and operating income:							
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)	-
Total	237,818	27,978	15,222	12,688	293,706	(30,632)	263,074
Operating expenses	213,892	25,156	15,507	12,045	266,600	(30,361)	236,239
Operating income	¥ 23,926	¥ 2,822	(¥ 285)	¥ 643	¥ 27,106	(¥ 271)	¥ 26,835
II. Assets at end of year:							
Total assets	¥ 189,535	¥ 29,392	¥ 9,932	¥ 5,514	¥ 234,373	¥ 38,301	¥ 272,674

Previous fiscal year (From April 1, 2004, to March 31, 2005)

	Millions of yen						
	Japan	North America	Europe	Asia	Total	Eliminations/ corporate assets	Consolidated
I. Sales and operating income:							
Sales to third parties	¥ 189,155	¥ 19,381	¥ 15,223	¥ 7,605	¥ 231,364	¥ -	¥ 231,364
Inter-group sales and transfers	16,430	7,863	181	828	25,302	(25,302)	-
Total	205,585	27,244	15,404	8,433	256,666	(25,302)	231,364
Operating expenses	189,566	24,368	15,434	8,268	237,636	(25,575)	212,061
Operating income	¥ 16,019	¥ 2,876	(¥ 30)	¥ 165	¥ 19,030	¥ 273	¥ 19,303
II. Assets at end of year:							
Total assets	¥ 168,755	¥ 29,175	¥ 8,705	¥ 3,468	¥ 210,103	¥ 26,758	¥ 236,861

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

	Thousands of U.S. dollars						
	Japan	North America	Europe	Asia	Total	Eliminations and corporate assets	Consolidated
I. Sales and operating income:							
Sales to third parties	\$ 1,840,163	\$ 173,432	\$ 128,041	\$ 97,863	\$ 2,239,499	-	\$ 2,239,499
Inter-group sales and transfers	184,336	64,740	1,541	10,147	260,764	(260,764)	-
Total	2,024,499	238,172	129,582	108,010	2,500,263	(260,764)	2,239,499
Operating expenses	1,820,822	214,148	132,008	102,537	2,269,515	(258,457)	2,011,058
Operating income	\$ 203,677	\$ 24,024	(\$ 2,426)	\$ 5,473	\$ 230,748	(\$ 2,307)	\$ 228,441
II. Assets at end of year:							
Total assets	\$ 1,613,475	\$ 250,209	\$ 84,549	\$ 46,940	\$ 1,995,173	\$ 326,049	\$ 2,321,222

Previous fiscal year (From April 1, 2004, to March 31, 2005)

I. Sales and operating income:							
Sales to third parties	\$ 1,610,240	\$ 164,987	\$ 129,591	\$ 64,740	1,969,558	-	\$ 1,969,558
Inter-group sales and transfers	139,865	66,936	1,541	7,049	215,391	(215,391)	-
Total	1,750,105	231,923	131,132	71,789	2,184,949	(215,391)	1,969,558
Operating expenses	1,613,739	207,440	131,387	70,384	2,022,950	(217,715)	1,805,235
Operating income	\$ 136,366	\$ 24,483	(\$ 255)	\$ 1,405	\$ 161,999	\$ 2,324	\$ 164,323
II. Assets at end of year:							
Total assets	\$ 1,436,580	\$ 248,361	\$ 74,104	\$ 29,522	\$ 1,788,567	\$ 227,786	\$ 2,016,353

### Overseas Sales

Sales are analyzed geographically as follows:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Sales designated for:				
Japan	¥ 148,361	¥ 133,424	\$ 1,262,968	\$ 1,135,813
North America	24,552	24,317	209,007	207,006
Europe	23,221	24,182	197,676	205,857
Asia	64,150	47,359	546,097	403,158
Other	2,790	2,082	23,751	17,724
Total	¥ 263,074	¥ 231,364	\$ 2,239,499	\$ 1,969,558

## 20. Subsequent Event

### I. Issue of ZEON Corporation Unsecured Bond No. 5

The Company issued unsecured bond No. 5 in the domestic market through public offering on May 1, 2006, further to the resolution of the Board of Directors at their meeting held on March 9, 2006. The details of the issue are as follows.

#### (1) Security Name

ZEON Corporation Unsecured Bond No. 5 (with a pari passu clause limited to bonds and notes)

#### (2) Issue Amount

10 billion yen

#### (3) Issue Price

100 yen per 100 yen face-value

#### (4) Issue Date

May 1, 2006

#### (5) Coupon Rate

2.02% per annum

#### (6) Maturity Date

May 1, 2013

#### (7) Method of Redemption

The Company shall redeem the aggregate principal amount of the Bonds on May 1, 2013.

#### (8) Security or Guarantee

No security or guarantee is created for the benefit of the Bonds and no specific asset is reserved therefor.

#### (9) Special Financial Covenant

##### [1] Limited Pledge of Collateral

The Company will, as long as there is unredeemed portion of the Bonds, create a pari passu security for the Bonds as specified by the Secured Debenture Trust Law in case where the Company offers a security (in cases where the Company creates a security on the Company's assets, the Company reserves a security on certain assets of the Company or the Company promises not to offer certain assets as a collateral for debts other than specified as so) for other unsecured bonds that the Company already issued or will issue in the future (excluding unsecured bonds with security convertible clause as defined in "[2] Other Clauses" later) in the domestic market. Consequently the Bonds can be inferior to debts other than the unsecured bonds which the Company already issued or will issue in the future in the domestic market (excluding

unsecured bonds with security convertible clause as defined in "[2] Other Clauses" later).

##### [2] Other Clauses

No special financial covenants such as security convertible clause are attached to the Bonds. Security convertible clause refers to a special agreement that allows the Company to create a security any time or to create a security in order to cancel a special agreement such as net asset value maintenance clause that the Company forfeits the benefit of term in case a certain event occurs to the Company's financial indicators.

#### (10) Use of net proceeds

The Company intends to use the proceeds of this issue for repayment of borrowings (including commercial papers) and for loans and investments.

### II . Appropriations of retained earnings

The following appropriations of retained earnings of the Company were approved at a shareholders' meeting held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥ 6.00 = \$0.05 per share)	¥ 1,428	\$12,156
Bonuses to directors and statutory auditors	90	766

## 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, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, 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, 2006 and 2005, 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.

#### Supplemental Information

As described in Note 20. I , the Company issued unsecured bond NO.5 on May 1, 2006, further to the resolution of the Board of Directors at their meeting held on March 9, 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the years ended March 31, 2006 and 2005 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 29, 2006