

ANNUAL REPORT
2004



Corporate Profile

ZEON Corporation was established in April 1950 by three Japanese companies in the Furukawa Group — Furukawa Electric Co., Ltd., Yokohama Rubber Co., Ltd. and Nippon Light Metal Co., Ltd. — with equity participation by and technical assistance from BF Goodrich Chemical Co. of the United States. Starting as a producer of polyvinyl chloride resins, ZEON became the first Japanese enterprise to produce synthetic rubbers, and the company has continued to develop as a leading petrochemical manufacturer. ZEON is a world-class producer of synthetic rubbers based on its system to produce this type of product in Japan, the United States and Europe. It is also the world's top company in terms of comprehensive use of C5 fractions.

In addition to its core elastomer operations, ZEON is actively engaged in business associated with specialty materials, including specialty resins and information materials.

ZEON has established a medium-term management plan, Proud ZEON (PZ)-2, covering the period between fiscal 2003 and 2005, with the aim of sustaining the profit uptrend in place since fiscal 2000. To earn steady profits from elastomer operations, specialization will be pursued with great thoroughness, and the resultant cash flow will be used for specialty materials operations and new business areas to further increase corporate profits.

The origin of the corporate name, "ZEON"

The Company initially adopted BF Goodrich Chemical's "Geon" trademark for polyvinyl chloride resin as its corporate name.

"Geon" is a compound of two Greek words: "geo," which refers to the Earth, and "eon," which means an immeasurably long period of time. The word represents "eternal prosperity with materials supplied by the Earth."

"ZEON" has been the company name since 1971, when BF Goodrich Chemicals withdrew its equity participation in the Company.

ANNUAL REPORT 2004

TABLE OF CONTENTS

Financial Highlights	1
A Corporate Message to Our Shareholders	2-3
3-Year Mid-Term Management Plan PZ-2	4-8
Review of Operations.....	9-11
R&D.....	12
Environment and Safety.....	13
International Operations and Overseas Network	14-15
Financial Section	16
Five-Year Summary	17
Consolidated Financial Statements	18-35
Corporate History.....	36
Corporate Data	37

Cautionary Statement

Statements contained in this annual report with respect to ZEON Corporation's earnings plans, strategies, principles and earnings forecasts that are not historic facts are forward-looking statements about the future performance of the Company. They are based on ZEON's expectations, estimates, forecasts and plans that are currently available, and on management's judgment. These expectations, estimates, forecasts and plans involve various potential risks, uncertainties and assumptions. Possible fluctuations in these important factors could cause ZEON's actual performance to differ materially from any future results expressed or implied by the forward-looking statements. Therefore, undue reliance should not be placed on these forward-looking statements. Also, please note that ZEON assumes no responsibility for updating its cautionary statement about the forward-looking statements with respect to new information, future events or any other developments.

Risks, uncertainties and assumptions that may affect ZEON's actual performance include but are not limited to: commodity prices and currency exchange rates, the global economic environment in which ZEON operates, the outcome of ongoing and future litigation, and ZEON's continued ability to procure funds and use financial products and resources.

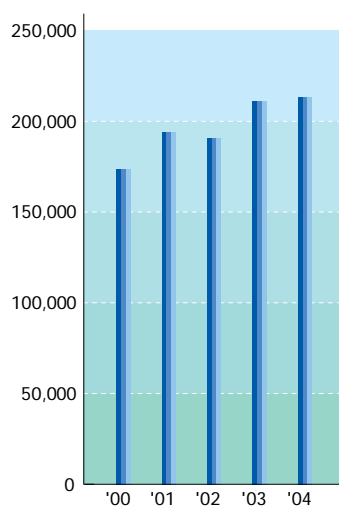
FINANCIAL HIGHLIGHTS

ZEON Corporation and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

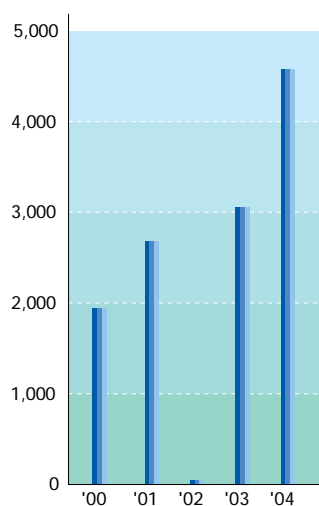
	Millions of yen					Thousands of U.S. dollars
	2000	2001	2002	2003	2004	2004
Net sales	¥173,262	¥194,201	¥191,168	¥210,889	¥213,297	\$2,019,284
Operating income	9,364	9,194	10,323	12,945	17,897	169,431
Net income	1,934	2,693	28	3,050	4,588	43,434
Total assets	222,701	235,058	232,728	216,000	222,254	2,104,080
Shareholders' equity	63,984	63,357	65,487	65,170	71,575	677,601
<hr/>						
Number of employees	2,712	2,806	2,782	2,868	2,840	

Note: The U.S. dollar amounts above and elsewhere in this annual report are translated from yen, for convenience only, at the rate of ¥105.63=US\$1.00 (As of March 31, 2004)

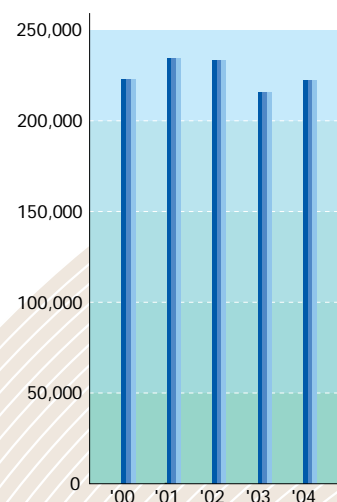
Net sales
(Millions of yen)



Net income
(Millions of yen)



Total assets
(Millions of yen)



A Corporate Message to Our Shareholders

It is a great pleasure for me to announce that, in the fiscal year ended March 31, 2004, ZEON Corporation and its consolidated subsidiaries achieved record-high net sales and operating income. Before reporting on our activities during the year, I would like to express my deep appreciation for the support and cooperation you have extended to us, and I want to share our pleasure with you.

During the year under review, the Japanese economy followed a mild recovery path. In the petrochemical industry, exports trended upward, led by shipments to China, while business conditions remained unstable due to such factors as crude oil and naphtha prices trending at high levels.

Under these circumstances, the ZEON group worked hard to accelerate the timetable set in its medium-term management plan, PZ-2, covering the period between 2003 and 2005. To survive amid intensifying global competition, we focused our efforts on developing new product applications based on our original technologies. We also strive to further cut costs through the promotion of ZΣ activities throughout the group.

As a result of these efforts, net sales reached ¥213,297 million, up 1.1% from the previous year. Despite soaring raw material prices due to surging naphtha prices, operating income rose a sharp 38.3%, to ¥17,897 million. This was the result of strong sales in elastomer operations and steady growth in specialty materials operations. Also contributing were thorough cost and expense cutting programs. Despite extraordinary losses, including ¥3,534 million in unrecognized liabilities due to a change in our retirement allowance system, net sales jumped 50.4% from the previous year, to ¥4,588 million.

As for dividends, we paid year-end dividends of ¥3 per share. On a full-year basis, therefore, dividends including interim dividends came to ¥6 per share, increasing ¥1 from the prior year.

Upon completing the first year of PZ-2, the goal of which is to increase corporate value and meet all stakeholders' expectations, the ZEON group has accomplished unexpectedly good results, getting the plan off to an auspicious start. In the period ahead, we will continue to increase sales and profits through various programs, including creating new markets based on our unique technologies, strengthening our capability to sell existing products and thoroughly cutting costs. Moreover, we will strive to further improve the quality of products and redouble our efforts to protect the global environment and ensure safety.

It should be mentioned that the U.S. Justice Department and the European Commission investigated our subsidiaries in the United States and the United Kingdom on suspicion of restricting competition associated with transactions of acrylonitrile-butadiene rubber (NBR). In this connection, a damage suit (civil class action) has been filed in the United States, though the specific amount of the claim has not been presented yet. ZEON Corporation and the U.S. subsidiary concerned are jointly dealing with this case.

On November 21, 2003, the Ministry of Economy, Trade and Industry, pursuant to the High-Pressure Gas Safety Law, revoked the authorization for our Mizushima Plant and Tokuyama Plant to carry out safety inspections.

Regarding these incidents with the utmost seriousness, we are making all-out efforts to improve awareness and strict observance of laws and regulation and to establish a system to ensure compliance.

We will tackle these challenges through all ZEON group activities in line with our management principles — speed, communication and contribution to society — with the aim of achieving our goal, that every employee can be proud of ZEON.

We sincerely request the continuing support and cooperation of our shareholders.

June 2004



A handwritten signature in black ink, which appears to read "Naozumi Furukawa".

Naozumi Furukawa
President & CEO

Achieving steady progress toward meeting next-generation needs, ZEON envisions its future through its medium-term management plan – PZ-2

ZEON recently established its medium-term management plan, Proud ZEON-2 (PZ-2), covering the three years from fiscal 2003. The plan aims for steady profits from operations handling synthetic rubbers and other elastomer materials and for a rapid expansion of specialty materials operations, a growth area. At the same time, the company has adopted business strategies that focus on areas to satisfy the needs of the next generation.

■ Aiming to exceed ¥230 billion in net sales, ¥26 billion in operating income and ¥3 billion in ZVA in fiscal 2005

PZ-2 aims to attain in fiscal 2005 over ¥230 billion in net sales (up from ¥213.2 billion in fiscal 2003) and over ¥26 billion in operating income (from ¥17.9 billion in fiscal 2003).

Meanwhile, there is a management index called economic value added (EVA = [after-tax operating income] – [(net working capital = total asset – non-interest-bearing debt) x capital cost rate]). ZEON has adopted this idea as a numerical target and named it ZVA, setting the capital cost rate at 7%. The company has set a target of more than ¥3 billion in ZVA in fiscal 2005. To achieve the target, the company has worked to maximize profits and minimize costs. Specifically, it has carried out what are called ZΣ activities – company-wide cost-cutting

efforts – putting in place a basic strategy to sustain the income uptrend that began in fiscal 2000. The company plans to reduce costs by ¥12 billion in the three years from 2003 through 2005.

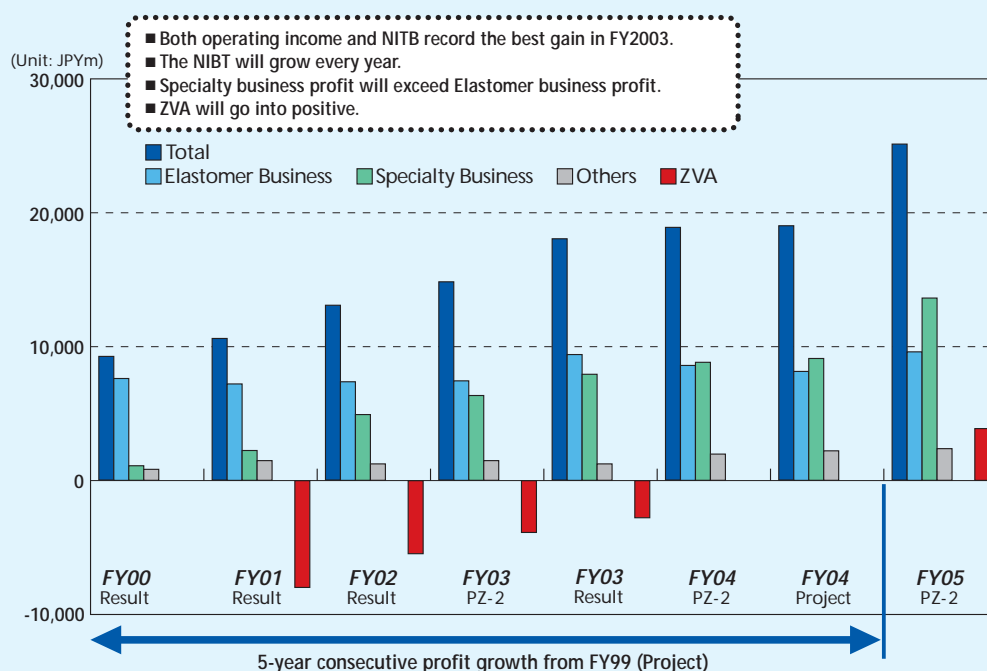
As a result of these efforts, as stated elsewhere in this report, both net sales and operating income for the year under review reached a record high, and net income rose for the second consecutive year.

■ Specific business strategies

1. Aiming to achieve the sixth straight year of ordinary income growth by securing steady income from materials operations and dramatically extending new business areas

Using cash flows resulting from elastomer operations, which are expected to bring steady profits through specialization, ZEON will promote

PZ-2 (New 3 years Plan) Operating Income and ZVA





research and development and capital investment in new business areas to create various high-value-added products on the basis of its unique technologies. To this end, specialty materials operations have been designated as the key to a great leap forward. Furthermore, in its two core sectors, elastomer and specialty materials operations, the company will do its utmost to improve ZVA and reduce interest-bearing debt to create a highly profitable corporate structure.

2. Completion of C5 comprehensive utilization plan

ZEON's main products are primarily made from C4 and C5 fractions, which are derived from naphtha. Noticeably, ZEON is the only company in the world that makes comprehensive use of C5 fractions, thus receiving maximum benefit from them. Under PZ-2, the company will continue its efforts to cut costs by optimizing the balance of C5-based product output with the aim of completing the comprehensive utilization plan.

Steadily improving ZEON's financial structure

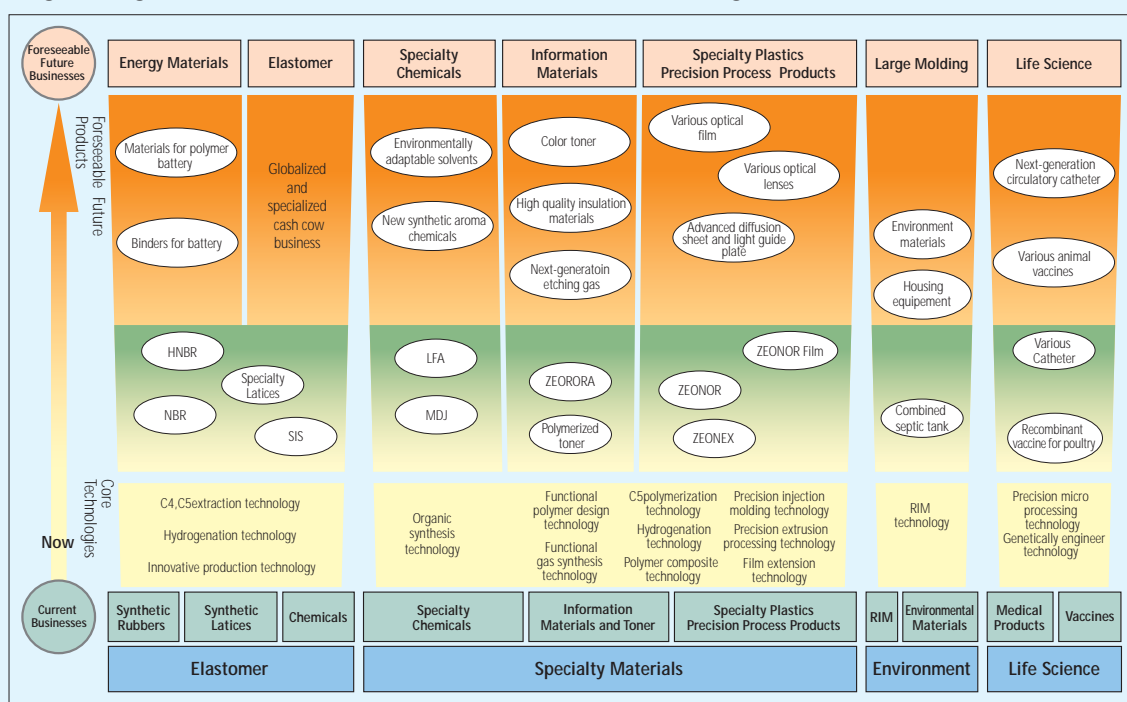
To improve its financial health, ZEON plans to reduce interest-bearing debt to less than ¥60 billion at the end of fiscal 2005 (down from ¥68.7 billion as of fiscal 2002 end). Indeed, it dropped to ¥56.3 billion at the end of the year under review. Meanwhile, the shareholders' equity ratio rose from 30% in fiscal 2002 to 32% for the year under review. The company plans to raise the ratio to 37% in fiscal 2005, the final year of PZ-2.

Moreover, the debt-equity ratio (D/E) (debt/shareholders' equity) is planned to be lowered to less than 0.7. The ratio fell sharply from the previous year, from 1.1 to 0.79.

Targets for financial structure improvement

	FY2002 Result	FY2003 Result	FY2005
Interest-bearing debt	¥68.7B	¥56.3B	¥60.0B
Equity	¥65.2B	¥71.6B	¥85.5B
Total assets	¥216B	¥222B	¥230B
Equity to total assets	30%	32%	37%
D/E ratio	1.1	0.79	0.7

Target Image of ZEON's Near Future(2005) and Core Technologies



*HNBR (hydrogenated nitrile rubber), NBR (acrylonitrile-butadiene rubber), SIS (styrene-isoprene copolymer), LFA (leaf alcohol), MDJ (methyl dihydrojasmonate)

Operations and core technologies to be soon realized by PZ-2 medium-term management plan

Using and developing its core technologies, ZEON is striving to create new products and new areas of business based on PZ-2 strategies.

● Synthetic Rubbers

Synthetic rubbers, which account for about 40% of ZEON's total sales, are currently in full production, thanks to brisk shipments of general-purpose rubbers for automobile tires and specialty rubbers for automobile engine parts. Notably, ZEON holds the largest share worldwide of specialty rubber production, producing these products in its plants in Japan, the United States and Europe. The company plans to further enhance the specialization of its general-purpose rubber and specialty rubber products. At the same time, it is working to develop new products for the future, including polymer battery materials and battery binders.



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

Synchronous belt using hydrogenated nitril rubber

● Synthetic Latices

ZEON is focused on specialty latices, and shipments of latex for work gloves are steadily rising, among other products. Natural rubber has traditionally been used for rubber gloves. Since it became evident that a certain protein contained in natural rubber may cause some people to experience an allergic reaction, however, demand is growing for the company's latex gloves. Other distinctive products in this area include specialty latex for cosmetic puffs.



Gloves made of NBR latex

● Chemicals

Chemicals operations are more closely involved in the comprehensive use of C5 fractions than any other sector. Main products include petroleum resins for adhesive compounds for adhesive tapes and road marking paints, and thermoplastic elastomer SIS as material for adhesive tapes. In these areas, the company has developed sophisticated products anticipating users' future needs.



Adhesives



Aliphatic hydrocarbon resin for use in traffic paints



Diaper

● Specialty Chemicals

Most specialty chemical sales are of synthetic aroma chemicals. Mainstays include green notes and jasmine notes and sales of these products are steadily growing. Specifically, ZEON has the top global share of leaf alcohol, a green-note aroma chemical. In the period ahead, the company intends to work energetically to develop new products, including synthetic aroma chemicals and solvents that are



environment-friendly. As the first step in that plan, the company is constructing a plant for producing cyclopentanone and a pilot plant for optically-active intermediates.



Perfumes using synthetic aroma chemicals

● Information Materials

In the information materials area, there are high expectations for ZEORORA (C5F8), an advanced etching gas for manufacturing semiconductors that is ready for 300 mm wafers and line width of 0.13 μ m. Sales of the product have rapidly been growing in recent years.

ZEON introduced to the world the commercial production of polymerized toner for monochrome laser printers and copiers. At present, the company has the capacity to produce 2,500 tons of this type of toner annually. Pearly fine particles can easily be produced in a chemical reaction by the polymerization method. Polymerized toner produces finer printing than conventional pulverized toner. Furthermore, polymerized toner contributes to energy saving and environmental protection.

Nowadays, monochrome laser printers and copiers are being replaced by color equipment at a fast pace. ZEON is currently constructing a color



Laser printer using polymerized toner

toner pilot plant with a view to further expanding its toner operations.

● Specialty plastics

Among specialty plastics, ZEONEX[®], a high-quality, thermoplastic transparent resin cyclo-olefin polymer (COP), has a dominant share in applications for lenses for camera-equipped mobile phones. In addition, applications of the product are increasing in such promising areas as prisms for digital cameras, optical pickup lenses for CD and MD players, and F θ lenses for laser-beam printers. ZEONEX[®] is a superior material for plastic lenses due to its excellent optical properties and high heat resistance, as well as low moisture permeability. The surging sales of digital consumer goods are expected to help further increase demand for the product.



Lenses for camera-equipped mobile phone



ZEONEX

ZEONOR[®], a general-purpose grade COP product, has found use in diverse areas, including light guide plates for liquid crystal displays (LCDs), LCD optical films, automobile headlight extensions, food containers and containers and packaging materials for medical items. Particularly, ZEONOR Film[®], optical film for LCDs, is enjoying rapidly growing demand.

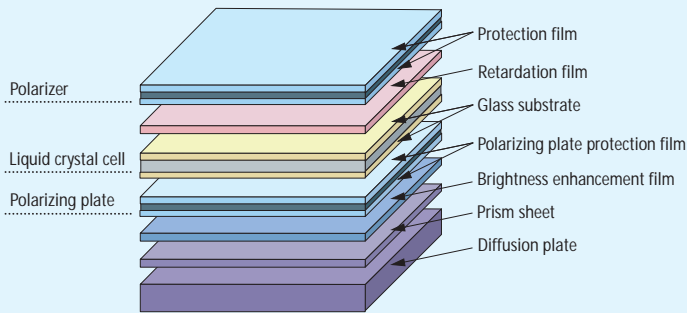


ZEONOR Film



RIMTEC Corporation

ZEONOR Optical Components Used for Liquid Crystal Display



ZEONOR diffusion plate

Against this backdrop, in August 2003 the company completed its second ZEONOR Film plant within the Takaoka Plant of OPTES Inc., the company's optical parts manufacturing subsidiary. The new plant has an annual production capacity of 5 million square meters. This increased total ZEONOR Film production capacity to 10 million square meters. Meanwhile, sales of LCD diffusion plates were begun in earnest during the year under review.

The company's COP production capacity has been 5,000 tons a year. To fulfill growing COP demand, a second plant is being constructed that will produce another 5,000 tons.

● RIM

Reaction injection molding (RIM) is a method by which material monomer is poured into a mold and is changed into a polymer in a chemical reaction and molded at the same time. Unlike FRP (fiber-reinforced plastics), strength can be gained without using fiberglass, and products can be molded at normal temperature and pressure and in a short time. Applications include combined septic tanks, such

housing equipment as sinks and waterproof pans for bathtubs, exterior equipment for construction and agricultural machinery, and truck and bus bumpers.

ZEON and Teijin Metton, which has also adopted the RIM method, established a joint venture, RIMTEC Corporation, in September 2003. ZEON holds a 60% share in the new company. RIMTEC will make the most of the advantages brought by an integrated production system covering all elements including raw materials and compounding agents. In addition, the new company will actively develop new applications by fusing its unique molding and design technologies.

● Environmental operations

In December 2003, ZEON, to withdraw from this area of business, transferred to a third party all environmental operations other than the sales of combined septic tanks. This was done because no significant growth could be expected in these operations.

● Other areas

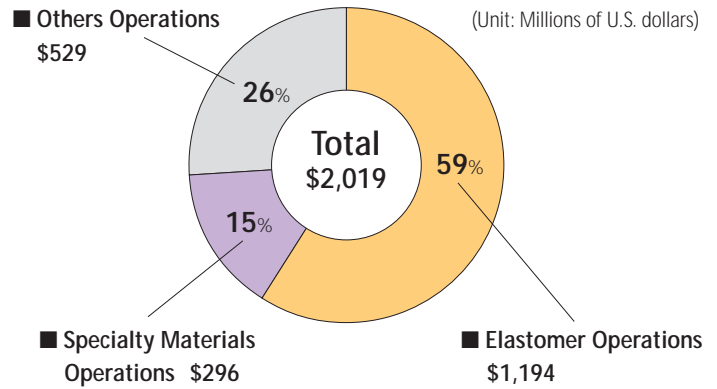
Among other areas, ZEON Medical Inc. handles circulatory catheters and other medical equipment and plans to extend its product line in this area. Meanwhile, ZEON was the first in the world to market recombinant vaccine for poultry . It produces and sells the vaccine in the United States.



IABP balloon

Review of Operations

Sales Composition (for the year ended March 31, 2004)



As of the year under review, our business segments are reorganized. The previous year's data have been reclassified in the new segments to indicate the changes from that year.

Three business segments — Elastomer Operations, Specialty Materials Operations and Other Operations — are new. Prior to fiscal 2004, we had classified our activities in five segments. Petrochemical-based operations, our mainstay business, had been divided into three segments by product (Synthetic Rubbers, Synthetic Latices and Chemicals) using the method of classification prevalent in the chemical industries. In addition, there was a segment for technologies derived from those products — the Information, Environment and Health segment — as well as a segment for Other Operations.

Effective from the year under review, operations handling synthetic rubbers, synthetic latices and chemicals have been integrated as Elastomer Operations.

Operations handling specialty chemicals, which had been included in the Chemicals segment until the previous year, have

been classified as Specialty Materials Operations. Also, operations handling information-related materials, which had previously been included in the Information, Environment and Health segment, have been included in Specialty Materials Operations.

The segment of Other Operations includes environment- and health-related operations and others.

We implemented these changes to better present the position of each area of operations within the ZEON Group and to indicate the status of our organization as our three-year management plan progresses.

Elastomer Operations

■ Synthetic rubbers

Domestic sales of general-purpose rubber rose sharply from the previous year, supported by tire manufacturers' brisk production and shipments. Exports of specialty rubbers increased as a result of our market development efforts, while exports of general-purpose rubber in volume terms diminished as greater emphasis was placed on domestic sales.

Affected by the yen's appreciation, sales on a yen basis at our synthetic rubber subsidiaries in Europe and the United States fell below the previous year's levels.

Overall, synthetic rubber sales posted a year-to-year gain.

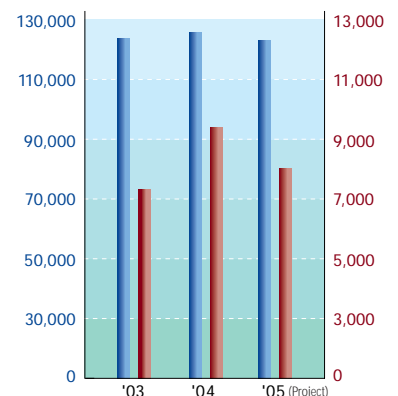
■ Synthetic latices

Both domestic sales and exports increased for products for ABS resins and gloves. On the other hand, sales of products for paper coating were sluggish. However, synthetic latices sales overall exceeded the previous year's level.

■ Chemicals

Sales of petroleum resins stayed at the previous year's level, while domestic sales and exports of thermoplastic elastomer SIS continued firm. Meanwhile, sales grew in the second half at our petroleum resin subsidiary in Thailand.

As a result, sales in our Elastomer Operations rose 1.9% from the prior year, to ¥126,148 million, and operating income amounted jumped 28.7% to 9,367 million.



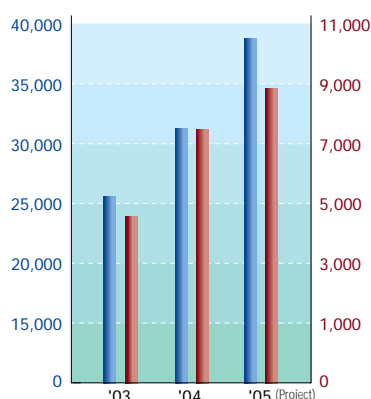
Erastomer Operations

■ Net Sales (Millions of yen)
■ Operating Income (Millions of yen)



Automobile parts

Specialty Materials Operations



Specialty Materials Operations

■ Net Sales (Millions of yen)
■ Operating Income (Millions of yen)



ZEONOR light guide plate

■ Specialty plastics

Surging demand for applications for digital equipment significantly boosted sales of the ZEONEX series products. These products included plastic lenses and prisms for digital cameras and camera-equipped mobile phones, and pickup lenses for DVD players.

Likewise, sales of the ZEONOR series products increased considerably on the strength of the steady expansion of conventional applications for LDC backlight and frontlight guide plates, and of rising ZEONOR film sales.

As a consequence, sales of specialty plastics overall substantially exceeded the previous year's level.

■ Information materials

In the area of electronics materials, which are core products, sales of ZEORORA ZFL-58 etching gas increased at a steady pace. Sales of semiconductor-related chemicals and other products were also brisk. Thus, sales of these products topped the previous year's levels.

Regarding imaging materials, sales of polymerized toner rose from the previous year.

Consequently, sales of information materials overall surpassed the previous year's level.

■ Specialty chemicals

Sales of synthetic aroma chemicals, also core products, increased slightly from the previous year as a result of our sales efforts, though the rising yen's value affected them somewhat.

Sales of other specialty chemicals also were up from the previous year due to steady sales efforts.

Accordingly, sales of specialty chemicals overall exceeded the previous year's level.

As a result, sales in the Specialty Materials segment totaled ¥31,331 million, rising 22.7% from the year before, while operating income soared 65.3%, to ¥7,518 million.



Printed-circuit boards



Automobile headlight extension

Other Operations

■ Reaction injection molding (RIM)

ZEON worked to increase sales of reaction injection molding (RIM) products. To further promote technological innovation and expand this area of business, ZEON and Teijin Metton Co., Ltd., which had also been engaged in Dicyclopentadiene (DCPD) RIM operations, jointly set up RIMTEC Corporation (during the year under review). The new company aims to further increase demand for DCPD RIM products.

■ Environment-related operations

ZEON transferred to a third party its environmental materials operations, one of the pillars of its environment-related operations, in order to focus on sales activities for septic tanks produced by the joint venture mentioned above.

Thus, sales for environmental-related operations overall fell from the previous year.

■ Health-related operations

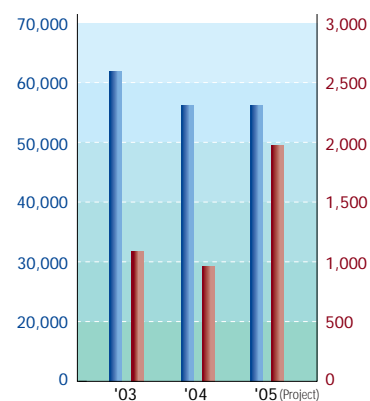
Sales in this area were down from the previous year due to sluggish sales of medical equipment. Meanwhile, ZEON Bioscience Co., Ltd. was dissolved, and its operations related to recombinant vaccines were transferred to ZEON in a bid to further promote the business.

■ Polyvinyl chloride manufacturing and other operations

Affected by a slump in the polyvinyl chloride industry, sales in this category of operations were down from the previous year. Although licensing income exceeded that year's level, equipment sales were down.

As for subsidiary-related business, sales on a parent-only basis rose from the previous year, while sales on a consolidated basis diminished as sales in intra-group transactions increased.

As a consequence, sales in Other Operations overall fell 9.1% from the previous year, to ¥56,238 million, while operating income totaled ¥967 million, down 11.1%.



Other Operations

■ Net Sales (Millions of yen)
■ Operating Income (Millions of yen)



Combined septic tanks



ZEON Medical Inc.

Interview with Mr. Tadao Natsuume, Director, R&D Center, about research and development activities under the new three-year plan



Incubation Center

Specifying promising technology platforms

Q What themes have you set for your research and development activities under the new three-year plan?

A We plan to promote operations in niche areas on the basis of our unique technologies. In this way we will contribute to society and attain our goal of becoming an excellent, highly-profitable company. To realize this management objective, we began our new three-year plan in the fiscal year ended March 31, 2004. Under the plan, core technologies for polymers, C5 chemicals, high-precision processing and cyclo-olefin polymer (COP) specialty resins have been specified as technology platforms. We selected these because our unique technologies in these areas give us an advantage over others, and these technologies have general versatility and expandability from which new areas of business can be generated.

Promoting core operations on the basis of polymer technology

Q How do you plan to promote your core operations and pursue new development themes?

A Our operations consist of core operations, including those involving synthetic rubber and latex, and new specialty materials operations, such as synthetic aroma chemicals, polymerized toners and COP products. In our core operations, we will work hard to establish production technology that can compete in the global market, and we will carry out our specialization strategy at an accelerated pace based on our polymer technology platform. We have already gained advantages in some areas. For instance, we lead the world in specialty rubber production. We will do our utmost to further intensify these areas of strength.

Focusing on new specialty materials

Q How are you going to develop your new themes?

A We are now focusing on new specialty materials from the perspective of resource allocation. Of our C5 and COP technology platforms products, some have already become de facto standards in the industry, including lenses for camera-equipped mobile phones, composite toners, polymerized toner, fluorine etching gas and medical syringes. We believe the most important task for us is to develop this trend to the fullest extent.

Developing a wide variety of optical films as the next-generation mainstay

Q Looking further into the future, what themes do you plan to pursue?

A We have already started development activities in the display, communications and energy fields as future-oriented operations. Our development targets in the energy field include battery-related materials and, in communications, materials satisfying the requirements of the gigahertz era. Meanwhile, in the display field, film-related operations will be promoted. Specifically, COP-based optical films are expected to provide various solutions for large liquid crystal displays. Therefore, we have devoted a substantial portion of our energy to this area to make it a next-generation core operation. In these future-oriented operations, our goal is to carry out component-focused operations rather than materials-based ones. To this end, we are striving to strengthen our high-precision processing technology and use it as relevant platforms.

Environment and Safety

ZEON's corporate philosophy is to contribute to the preservation of the Earth and the prosperity of mankind. The company has a code of conduct consisting of seven articles that are based on three key concepts — social contribution, unique technologies and involvement of all employees.

ZEON continuously works to familiarize all employees with environmental and safety policies.

ZEON's Code of Conduct

- Social contribution
- Unique technologies
- Involvement of all employees

Article 1: ZEON respects corporate ethics and acts as a good corporate citizen.

Article 2: ZEON always places importance on environmental and safety issues.

Article 3: ZEON employs its unique technologies to contribute to society.

Article 4: ZEON provides products and services of excellent quality to assure customer satisfaction.

Article 5: ZEON cultivates the capability of each employee, while emphasizing its organizational power.

Article 6: ZEON takes on the challenge of achieving corporate targets by involving all employees, and distributes the rewards of their efforts in a fair manner.

Article 7: ZEON highly values speed in decision-making and responses to daily requirements.

Environmental and Safety Policies

● Environmental Policies

1. As a corporate citizen, ZEON considers environmental protection an important mission.
2. ZEON believes that its unique technologies can contribute to environmental protection.
3. Environmental protection will be achieved through responsibility and challenging spirit of all employees.

● Safety Policies

1. Safety is a fundamental aspect of corporate activity and a matter of top priority.
2. ZEON believes that all accidents could be prevented.
3. Safety will be ensured through the 5 Ss* and each employee's firm commitment.

* The 5 Ss represent *seiri*, *seiton*, *seiketsu*, *soji* and *shitsuke*, meaning good order, neat arrangement, cleanliness, cleaning and discipline.

Responsible Care Action Guidelines

1. Placing top priority on the environment and safety

Protecting the environment and maintaining safety are vital prerequisites for all corporate activities and have top priority over all other interests. Accordingly, ZEON continuously and thoroughly implements measures to prevent accidents and to educate and train all company employees in order to prevent accidents that might threaten safety or the environment.

2. Collecting and providing the latest information on chemical products

ZEON collects, compiles and disseminates to employees and users the latest information on chemical products necessary for the proper handling, usage and appropriate disposal of such products.

3. Minimizing discharge of all toxic chemical substances and waste

ZEON actively develops new technologies to minimize the generation of toxic chemical substances, as well as to reduce and recycle waste.

4. Promoting activities to save resources and energy consumption

To help prevent global warming, ZEON actively works to reduce resource and energy consumption through the commitment and action of all employees. At the same time, the company develops unique technologies to dramatically reduce energy consumption.

5. Developing new processes and products with special consideration to the environment and safety and assuring the quality of these products

ZEON carries out environmental and safety assessments from the initial phase of research through the development of technologies and products with careful consideration for the environment and safety, while working constantly to maintain and improve quality.

6. Ensuring harmonious coexistence with society

ZEON strictly complies with environmental and safety regulations established by local, Japanese and overseas authorities, as well as organizations with which the company is associated. ZEON, at the same time, actively supports those organizations in cooperative activities. ZEON also maintains open channels of communication to secure understanding and support from specialist communities and the general public, and to further improve public confidence in company activities.

7. Pursuing continuous improvement

ZEON pursues a policy of continuous improvement in management and technologies related to the environment and safety, using its Responsible Care Audits, Environment Management System Based on ISO 14001, and Occupational Safety and Health Management System.

Topics

Tokuyama Plant boiler system renovation dramatically reduces air pollution from the plant.

In fiscal 2002, the Tokuyama Plant began the renovation of its boiler system, which generates steam and electricity for the plant's operations. It succeeded in considerably reducing air pollution associated with the system (during the year under review). This project was authorized as a support projects for companies rationalizing their energy use. The details are as follows.

- (1) The preheating system of air was changed from the gas/air heater system to the economizer system.
- (2) The ordinary type of burner was replaced by a low-NOx emission burner.
- (3) A deionizer for boiler water was installed.

Effects of renovation

- (1) The switch to the economizer system and the installation of the deionizer significantly reduced fuel consumption.
- (2) The installation of the low-NOx emission burner and the economizer system contributed to decreased NOx generation.
- (3) The economizer system enables the boiler to completely burn gas that contains volatile organic compounds emitted during the rubber drying process, thereby significantly reducing the emission of volatile organic compounds into the atmosphere.

Renovation Effects in Figures

- (1) Energy consumption saved: 3,775 kl/y
Energy saving rate: 4.1% (down from fiscal 2001)
- (2) NOx reduction: 180 ppm ⇒ 130 ppm
- (3) Reduced emission of first-category chemical substances specified in the Pollutant Release and Transfer Register (PRTR) Law: 577 t/y ⇒ 72 t/y

*Support projects for companies engaging in rationalization of energy use are projects authorized by the New Energy and Industrial Technology Development Organization (NEDO) as those expected to achieve such effects as considerable savings of energy consumption and reduction of pollution according to the provisions in Paragraph 1, Article 5, Rules on Granting Subsidies to Companies Engaging in Energy Use Rationalization.

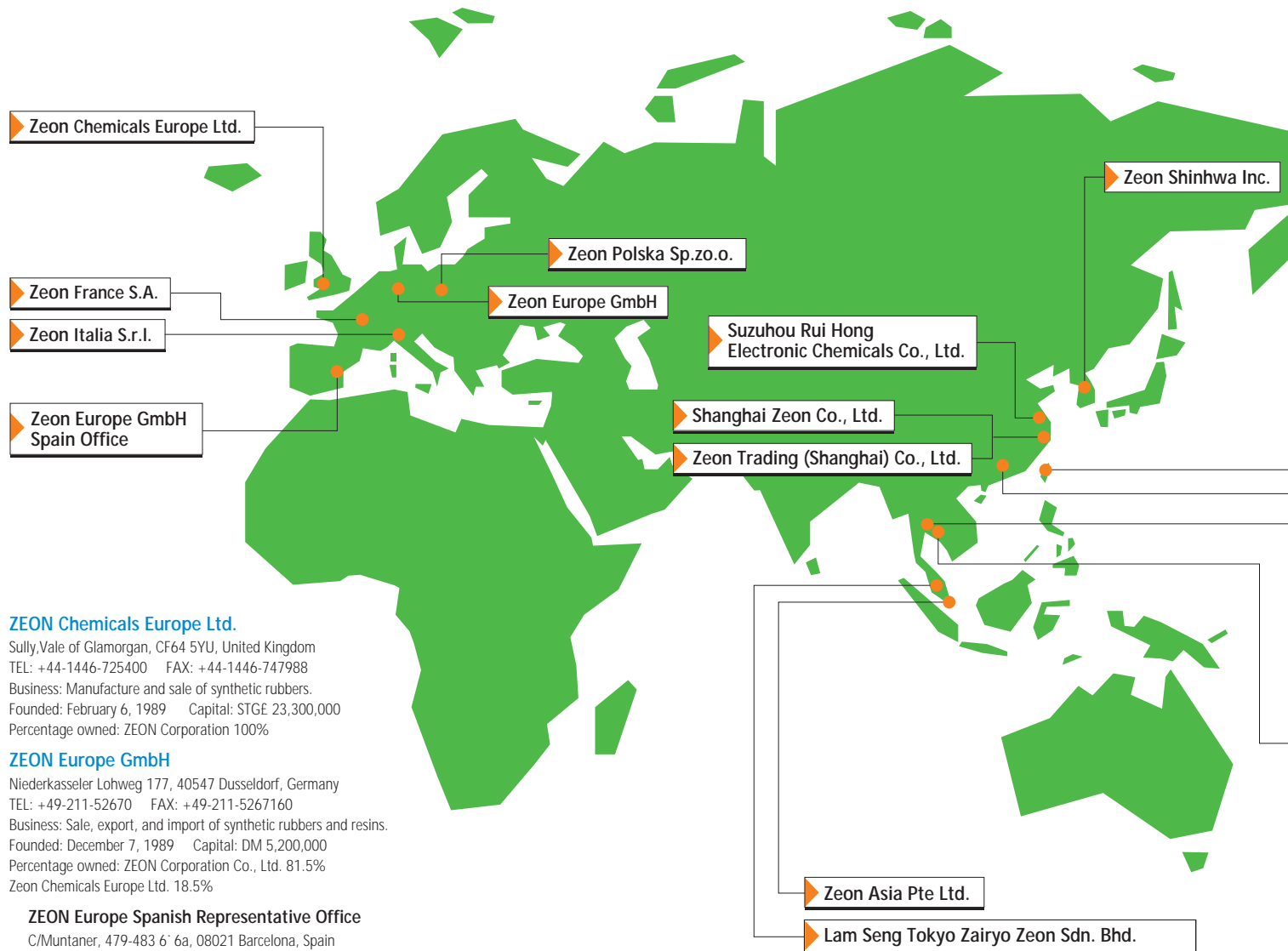
International Operations and Overseas Network

Suzhou Rui Hong Electronic Chemicals Co., Ltd.

81, Su Li Road, Wuzhong, Suzhou, P.R. China
 TEL: +86-512-5284759 FAX: +86-512-5279926
 Business: Manufacture and sale of photo resist.
 Founded: September 24, 1993 Capital: RMB 15,340,000
 Percentage owned: ZEON Corporation 25.6%

Shanghai Zeon Co., Ltd.

No.380, Shennan Road, Zinzhuang Industry District, Minhang, Shanghai, 201108, CHINA
 TEL: +86-21-64896160 FAX: +86-21-64420569 (Push "0" after announcements)
 Business: Manufacture and sale of rubber compounds.
 Founded: January 27, 2002 Capital: US\$ 400,000
 Percentage owned: ZEON Corporation 100%



ZEON Chemicals Europe Ltd.

Sully,Vale of Glamorgan, CF64 5YU, United Kingdom
 TEL: +44-1446-725400 FAX: +44-1446-747988
 Business: Manufacture and sale of synthetic rubbers.
 Founded: February 6, 1989 Capital: STGE 23,300,000
 Percentage owned: ZEON Corporation 100%

ZEON Europe GmbH

Niederlasser Lohweg 177, 40547 Dusseldorf, Germany
 TEL: +49-211-52670 FAX: +49-211-5267160
 Business: Sale, export, and import of synthetic rubbers and resins.
 Founded: December 7, 1989 Capital: DM 5,200,000
 Percentage owned: ZEON Corporation Co., Ltd. 81.5%
 Zeon Chemicals Europe Ltd. 18.5%

ZEON Europe Spanish Representative Office

C/Muntaner, 479-483 6^a, 08021 Barcelona, Spain
 TEL: +34-93-417-6900 FAX: +34-93-254-0248
 Founded: December 11, 1996

ZEON France S.A.

Citicenter 19 Le Parvis 92073 Paris La Defense
 TEL: +33-1-55-23-0040 FAX: +33-1-55-23-0045
 Business: Sale of synthetic rubbers and resins in France.
 Founded: February 15, 1990 Capital: EUR 480,000
 Percentage owned: Zeon Europe GmbH 100%

ZEON Italia S.r.l.

Via G.B. Pirelli, 11, 20124 Milano, Italy
 TEL: +39-2-671-417-03 FAX: +39-2-671-417-20
 Business: Sale of synthetic rubbers and resins in Italy.
 Founded: June 29, 1990 Capital: EUR 26,000
 Percentage owned: Zeon Europe GmbH 100%

Zeon Asia Pte Ltd.

Lam Seng Tokyo Zairyo Zeon Sdn. Bhd.

Zeon Asia Pte Ltd.

331 North Bridge Road, #20-01/02, Odeon Towers, Singapore 188720
 TEL: +65-6332-2338 FAX: +65-6332-2339
 Business: Sale, export, and import of synthetic rubbers, synthetic latex and hydrocarbon resins.
 Founded: December 4, 1997 Capital: S\$ 500,000
 Percentage owned: ZEON Corporation 100%

Malaysia Branch

Unit 208, Block B, Phileo Damansara 2, No15, Jalan16/11, Off Jalan Damansara, 46350 Petaling Jaya Selangor Malaysia
 TEL: +603-7955-2032 FAX: +603-7955-2032

Lam Seng Tokyo Zairyo Zeon Sdn Bhd.

5 1/4 Miles Jalan Jelebu 70100 Seremban Negeri Sembilan Malaysia
 TEL: +60-6-7620117 FAX: +60-6-7635081
 Business: Manufacture and sale of rubber compounds.
 Founded: October 14, 1994 Capital: M\$ 2,450,000
 Percentage owned: ZEON Corporation 10%

Zeon Trading (Shanghai) Co., Ltd.

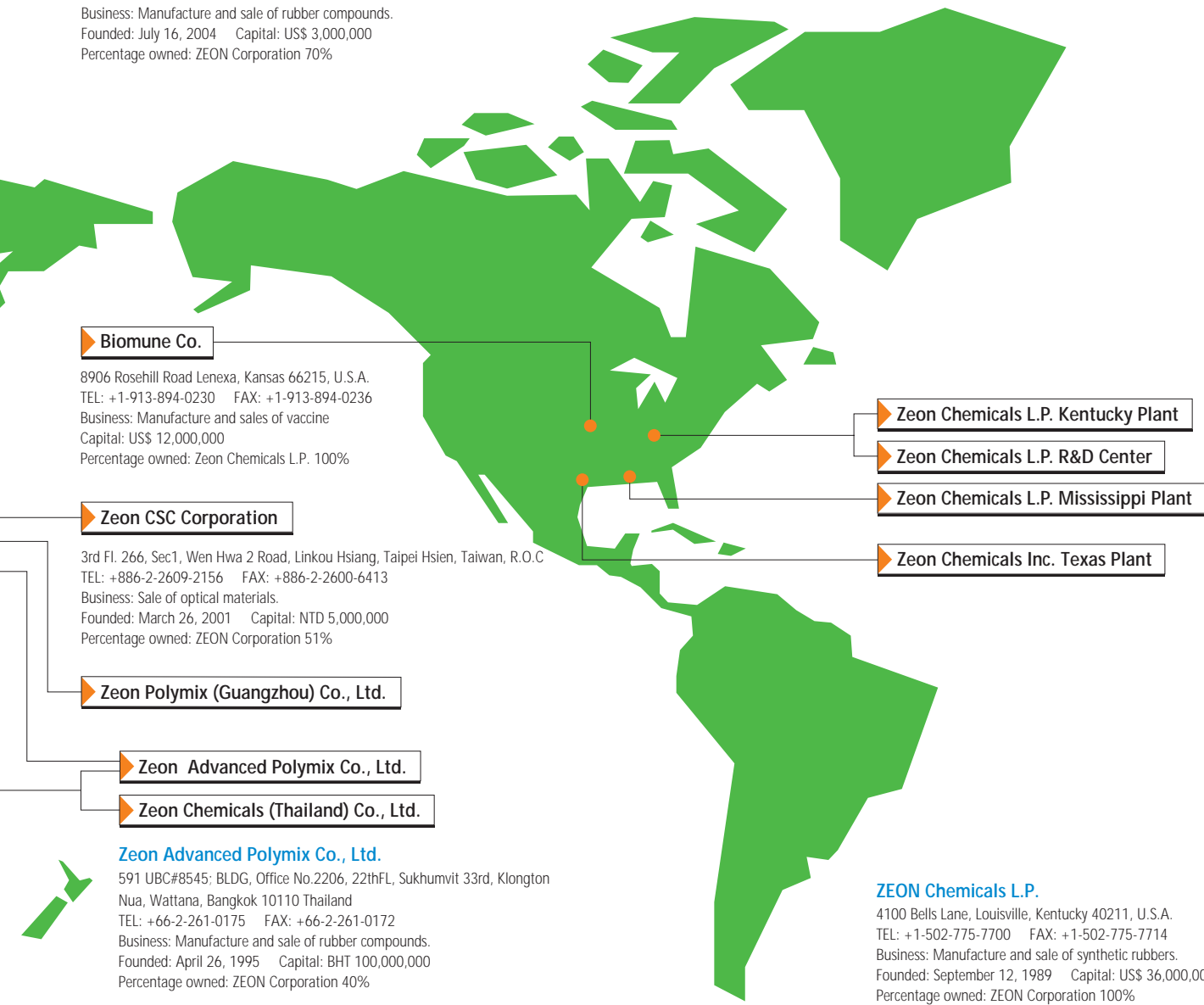
Room.319, No.500, Bingke Road, Wai Gao Qiao Free Trade Zone, Shanghai, 200131, CHINA
TEL: +86-21-64893343 FAX: +86-21-64420569 (Push "0" after announcements)
Business: Sale export and import of synthetic rubbers and chemicals and related products
Founded: March 19, 2002 Capital: US\$ 200,000
Percentage owned: ZEON Corporation 100%

Zeon Polymix (Guangzhou) Co., Ltd.

Jing Quan 1st Road, Yong He Economic Zone, Guangzhou China Post Code: 511356
TEL: +86-020-32221173 FAX: +86-020-32221820
Business: Manufacture and sale of rubber compounds.
Founded: July 16, 2004 Capital: US\$ 3,000,000
Percentage owned: ZEON Corporation 70%

Zeon Shinhwa Inc.

930, Sambohojeong Bldg., 14-24, Yeoido-Dong, Youngdungpo-Gu, Seoul 150-871, Korea
TEL: +82-2-761-7030 FAX: +82-2-786-7221
Business: Sale of electronic materials.
Founded: June 17, 1997 Capital: WON 100,000,000
Percentage owned: ZEON Corporation 51%



Biomune Co.

8906 Rosehill Road Lenexa, Kansas 66215, U.S.A.
TEL: +1-913-894-0230 FAX: +1-913-894-0236
Business: Manufacture and sales of vaccine
Capital: US\$ 12,000,000
Percentage owned: Zeon Chemicals L.P. 100%

Zeon CSC Corporation

3rd Fl. 266, Sec1, Wen Hwa 2 Road, Linkou Hsiang, Taipei Hsien, Taiwan, R.O.C
TEL: +886-2-2609-2156 FAX: +886-2-2600-6413
Business: Sale of optical materials.
Founded: March 26, 2001 Capital: NTD 5,000,000
Percentage owned: ZEON Corporation 51%

Zeon Polymix (Guangzhou) Co., Ltd.

Zeon Advanced Polymix Co., Ltd.

Zeon Chemicals (Thailand) Co., Ltd.

Zeon Advanced Polymix Co., Ltd.

591 UBC#8545; BLDG, Office No.2206, 22thFL, Sukhumvit 33rd, Klongton Nua, Wattana, Bangkok 10110 Thailand
TEL: +66-2-261-0175 FAX: +66-2-261-0172
Business: Manufacture and sale of rubber compounds.
Founded: April 26, 1995 Capital: BHT 100,000,000
Percentage owned: ZEON Corporation 40%

Plant

International Polymer Park, No.112/2 Mu2 Soi Nikom 13, Tmbol Makham Ging, Amphur Nikompattana, Rayong Province 21180 Thailand
TEL: +66-38-893-565 FAX: +66-38-893-569

Zeon Chemicals (Thailand) Co., Ltd.

3 Tambol Huaypong, Soi G-14 Pakorn-Songkhororat Road, Amphur Muang, Rayong 21150, Thailand
TEL: +66-3-868-5973-5 FAX: +66-3-868-5972
Business: Manufacture and sale of hydrocarbon resins.
Founded: May 9, 1996 Capital: BHT 350,000,000
Percentage owned: ZEON Corporation 73.9%

BST Elastomers Co., Ltd.

22nd Fl., Sathorn City Tower, 175 South Sathorn Road, Sathorn, 10120 Bangkok, Thailand
TEL: +66-2-679-5120 FAX: +66-2-679-5119
Business: Manufacture and sale of synthetic rubbers
Founded: February 23, 1996 Capital: BHT 2,100,000,000
Percentage owned: ZEON Corporation 12%

Zeon Chemicals L.P. Kentucky Plant

Zeon Chemicals L.P. R&D Center

Zeon Chemicals L.P. Mississippi Plant

Zeon Chemicals Inc. Texas Plant

ZEON Chemicals L.P.

4100 Bells Lane, Louisville, Kentucky 40211, U.S.A.
TEL: +1-502-775-7700 FAX: +1-502-775-7714
Business: Manufacture and sale of synthetic rubbers.
Founded: September 12, 1989 Capital: US\$ 36,000,000
Percentage owned: ZEON Corporation 100%

Sales & Marketing Office

4111 Bells Lane, Louisville, Kentucky 40211, U.S.A.
TEL: +1-800-735-3388 FAX: +1-502-775-2055
TEL: +1-502-775-2000

R&D Center

4111 Bells Lane, Louisville, Kentucky 40211, U.S.A.
TEL: +1-502-775-7765 FAX: +1-502-775-7783

Kentucky Plant

4100 Bells Lane, Louisville, Kentucky 40211, U.S.A.
TEL: +1-502-775-7600 FAX: +1-502-775-7614

Mississippi Plant

1301 West Seventh Street, Hattiesburg, Mississippi 39401, U.S.A.
TEL: +1-601-583-6020 FAX: +1-601-583-6032

Texas Plant

11235 Choate Road, Pasadena, Texas 77507, U.S.A.
TEL: +1-281-474-9693 FAX: +1-281-474-0966

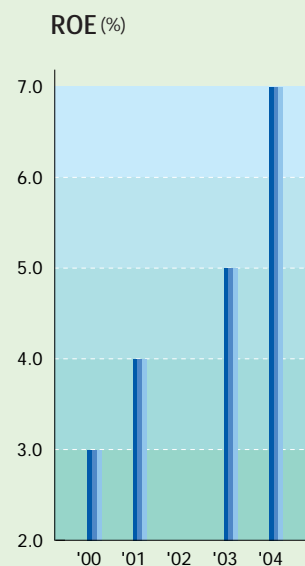
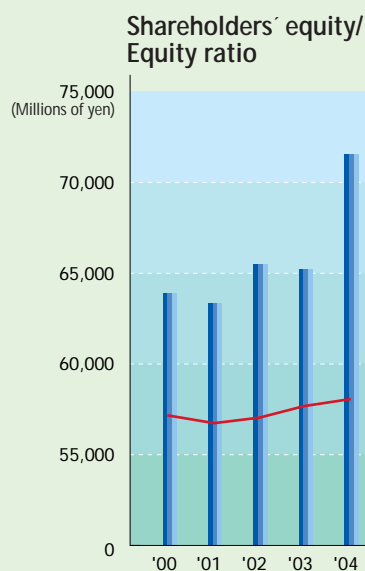
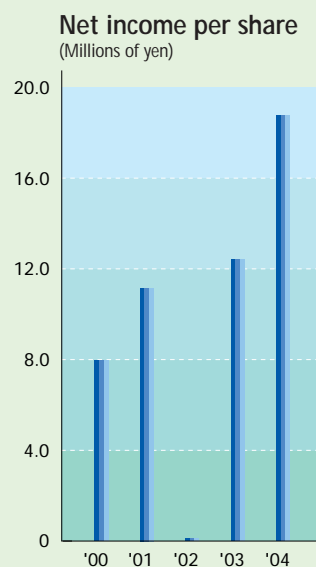
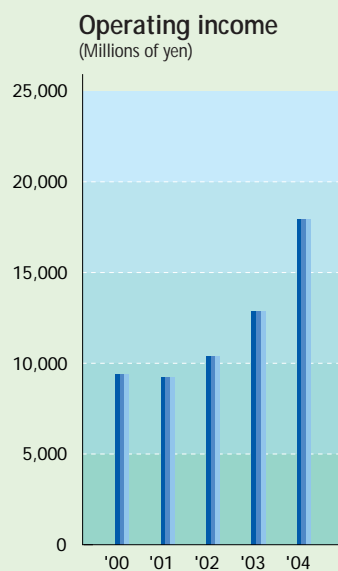
Five-Year Summary	17
Consolidated Financial Statements	
Consolidated Balance Sheets	18
Consolidated Statements of Income	20
Consolidated Statements of Shareholders' Equity	21
Consolidated Statements of Cash Flows	22
Notes to Consolidated Financial Statements	23
Independent Auditor's Report	35

Five-years Summary

ZEON Corporation and Consolidated Subsidiaries
For the years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2000	2001	2002	2003	2004	2004
Net sales	¥173,262	¥194,201	¥191,168	¥210,889	¥213,297	\$2,019,284
Operating income	9,364	9,194	10,323	12,945	17,897	169,431
income before income taxes	4,037	3,565	1,472	4,591	6,165	53,124
Net income	1,934	2,693	28	3,050	4,588	43,434
Net income per share	7.99	11.15	0.11	12.41	18.74	0.16
ROE(%)	3.0	4.0	0	5.0	7.0	
Total assets	222,701	235,058	232,728	216,000	222,254	2,104,080
Shareholders' equity	63,984	63,357	65,487	65,170	71,575	677,601
Equity ratio (%)	28.7	26.9	28.1	30.2	32.2	
Shareholders' equity per share	264.3	262.4	271.2	269.4	295.5	0.25

Note: The U.S. dollar amounts above and elsewhere in this annual report are translated from yen, for convenience only, at the rate of ¥105.63=\$1.00 (As of March 31, 2004)



Consolidated Balance Sheets

ZEON Corporation and Consolidated Subsidiaries
As of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2004	2003	2004	2003
Assets				
Current assets:				
Cash and cash equivalents (Note 15)	¥12,920	¥9,334	\$122,314	\$88,365
Short-term investments (Note 7)	109	100	1,032	947
Receivables, trade:				
Notes and accounts	39,386	43,646	372,868	413,197
Unconsolidated subsidiaries and affiliates	3,315	2,078	31,383	19,672
Inventories (Note 5)	31,812	33,607	301,165	318,158
Deferred tax assets (Note 12)	1,761	1,828	16,671	17,306
Other current assets (Note 8)	16,536	17,953	156,546	169,961
Allowance for doubtful accounts	(112)	(783)	(1,060)	(7,413)
Total current assets	105,727	107,763	1,000,919	1,020,193
Property, plant and equipment, at cost (Notes 7 and 9):				
Land	12,279	12,745	116,245	120,657
Buildings and structures	41,623	39,926	394,045	377,980
Machinery and equipment	161,937	162,249	1,533,059	1,536,012
Construction in progress	6,278	3,136	59,434	29,689
	222,117	218,056	2,102,783	2,064,338
Less accumulated depreciation	(146,393)	(143,773)	(1,385,904)	(1,361,100)
Property, plant and equipment, net	75,724	74,283	716,879	703,238
Intangible assets	6,542	7,456	61,933	70,586
Investments and other assets (Note 6):				
Investment securities (Note 7 and 15)	26,702	17,731	252,788	167,860
Unconsolidated subsidiaries and affiliates	2,054	2,242	19,445	21,224
Deferred tax assets (Note 12)	1,429	1,794	13,528	16,984
Other investments	5,145	5,656	48,708	53,545
Allowance for doubtful accounts	(1,076)	(935)	(10,186)	(8,852)
Total investments and other assets	34,254	26,488	324,283	250,761
Deferred charges	7	10	66	95
Total assets	¥222,254	¥216,000	\$2,104,080	\$2,044,873

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2004	2003	2004	2003
Liabilities and shareholders' equity				
Current liabilities:				
Short-term loans payable (Note 7)	¥25,752	¥27,608	\$243,794	\$261,365
Current portion of long-term debt (Note 7)	12,754	22,485	120,742	212,866
Payables, trade:				
Notes and accounts	42,517	43,639	402,509	413,131
Unconsolidated subsidiaries and affiliates	4,436	4,962	41,996	46,975
Payables, other (Note 8)	10,829	5,483	102,518	51,908
Accrued income taxes	3,766	2,321	35,653	21,973
Accrued expenses (Note 8)	3,880	4,686	36,732	44,362
Other current liabilities (Note 8 and 12)	4,790	3,803	45,347	36,003
Total current liabilities	108,724	114,987	1,029,291	1,088,583
Long-term liabilities:				
Long-term debt (Note 7)	17,752	18,599	168,058	176,077
Allowance for employees' retirement benefits (Note 11)	10,083	8,003	95,456	75,764
Deferred tax liabilities (Note 12)	414	1,079	3,919	10,215
Other long-term liabilities	11,747	6,962	111,209	65,909
Total long-term liabilities	39,996	34,643	378,642	327,965
Minority interests	1,959	1,200	18,546	11,360
Contingent liabilities (Note 13)				
Shareholders' equity:				
Common stock				
Authorized — 800,000,000 shares				
Issued — 242,075,556 shares	24,211	24,211	229,206	229,206
Capital surplus	18,372	18,336	173,928	173,587
Retained earnings (Note 4)	26,413	24,168	250,052	228,799
Net unrealized holding gain on available-for-sale securities	4,920	16	46,578	151
Foreign currency translation adjustments	(2,329)	(1,380)	(22,049)	(13,064)
Treasury stock, at cost:				
2004 — 22,336 shares	(12)	—	(114)	—
2003 — 333,206 shares	—	(181)	—	(1,714)
Total shareholders' equity	71,575	65,170	677,601	616,965
Total liabilities and shareholders' equity	¥222,254	¥216,000	\$2,104,080	\$2,044,873

Consolidated Statements of Income

ZEON Corporation and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2004	2003	2004	2003
Net sales	¥213,297	¥210,889	\$2,019,284	\$1,996,488
Cost of sales (Note 9 and 11)	153,987	156,988	1,457,796	1,486,207
Gross profit	59,310	53,901	561,488	510,281
Selling, general and administrative expenses (Note 9, 10 and 11)	41,413	40,956	392,057	387,731
Operating income	17,897	12,945	169,431	122,550
Other income (expenses):				
Interest and dividend income	637	410	6,030	3,881
Interest expenses	(1,072)	(1,519)	(10,149)	(14,380)
Equity in earnings of unconsolidated subsidiaries and affiliates, net	37	7	350	66
Other, net (Note 15 and 17)	(11,334)	(7,252)	(107,298)	(68,654)
	(11,732)	(8,354)	(111,067)	(79,087)
Income before income taxes and minority interests	6,165	4,591	58,364	43,463
Income taxes:				
Current	5,281	2,591	49,995	24,529
Deferred	(3,920)	(1,036)	(37,110)	(9,807)
Income before minority interests	4,804	3,036	45,479	28,741
Minority interests	(216)	14	(2,045)	133
Net income	¥4,588	¥3,050	\$43,434	\$28,874
Amounts per share:				
Net income	¥18.74	¥12.41	\$0.18	\$0.12
Cash dividends	6.00	5.00	0.06	0.05

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ZEON Corporation and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	Thousands	Millions of yen					
	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
Balance at March 31, 2002	242,076	¥24,211	¥18,336	¥23,112	¥469	(¥467)	(¥174)
Net income for the year	-	-	-	3,050	-	-	-
Cash dividends paid	-	-	-	(1,811)	-	-	-
Bonuses to directors and statutory auditors	-	-	-	(35)	-	-	-
Adjustment in minimum pension liability of consolidated subsidiaries in U.S.A.	-	-	-	(148)	-	-	-
Net change during the year	-	-	-	-	(453)	(913)	(7)
Balance at March 31, 2003	242,076	24,211	18,336	24,168	16	(1,380)	(181)
Surplus from sales of treasury stock	-	-	36	-	-	-	-
Increase due to change in number of consolidated subsidiaries	-	-	-	75	-	-	-
Increase due to merger of consolidated and unconsolidated subsidiaries	-	-	-	121	-	-	-
Net income for the year	-	-	-	4,588	-	-	-
Decrease due to change in number of consolidated subsidiaries	-	-	-	(964)	-	-	-
Cash dividends paid	-	-	-	(1,330)	-	-	-
Bonuses to directors and statutory auditors	-	-	-	(54)	-	-	-
Adjustment in minimum pension liability of consolidated subsidiaries in U.S.A.	-	-	-	(191)	-	-	-
Net change during the year	-	-	-	-	4,904	(949)	169
Balance at March 31, 2004	242,076	¥24,211	¥18,372	¥26,413	¥4,920	(¥2,329)	(¥12)

	Thousands of U.S. dollars (Note 3)						
Balance at March 31, 2002		\$229,206	\$173,587	\$218,801	\$4,440	(\$4,421)	(\$1,647)
Net income for the year		-	-	28,874	-	-	-
Cash dividends paid		-	-	(17,145)	-	-	-
Bonuses to directors and statutory auditors		-	-	(331)	-	-	-
Adjustment in minimum pension liability of consolidated subsidiaries in U.S.A.		-	-	(1,400)	-	-	-
Net change during the year		-	-	-	(4,289)	(8,643)	(67)
Balance at March 31, 2003		229,206	173,587	228,799	151	(13,064)	(1,714)
Surplus from sales of treasury stock		-	341	-	-	-	-
Increase due to change in number of consolidated subsidiaries		-	-	710	-	-	-
Increase due to merger of consolidated and unconsolidated subsidiaries		-	-	1,145	-	-	-
Net income for the year		-	-	43,434	-	-	-
Decrease due to change in number of consolidated subsidiaries		-	-	(9,126)	-	-	-
Cash dividends paid		-	-	(12,591)	-	-	-
Bonuses to directors and statutory auditors		-	-	(511)	-	-	-
Adjustment in minimum pension liability of consolidated subsidiaries in U.S.A.		-	-	(1,808)	-	-	-
Net change during the year		-	-	-	46,427	(8,985)	1,600
Balance at March 31, 2004		\$229,206	\$173,928	\$250,052	\$46,578	(\$22,049)	(\$114)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ZEON Corporation and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2004	2003	2004	2003
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 6,165	¥ 4,591	\$ 58,364	\$ 43,463
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	10,328	10,357	97,775	98,050
Increase in allowance for employees' retirement benefits	6,080	1,438	57,559	13,613
Interest and dividend income	(637)	(410)	(6,030)	(3,881)
Interest expenses	1,072	1,519	10,149	14,380
Loss on devaluation of investment securities	155	2,467	1,467	23,355
Decrease in receivables, trade	2,829	5,625	26,782	53,252
Decrease in inventories	920	3,445	8,710	32,614
(Decrease) increase in payables, trade	(1,732)	4,330	(16,397)	40,992
Other, net	6,820	(6,150)	64,565	(58,223)
Cash generated from operations	32,000	27,212	302,944	257,615
Interest and dividends received	584	389	5,529	3,683
Interest paid	(1,141)	(1,402)	(10,802)	(13,273)
Income taxes paid	(3,826)	(170)	(36,221)	(1,609)
Net cash provided by operating activities	27,617	26,029	261,450	246,416
Cash flows from investing activities:				
Purchases of property, plant and equipment	(11,281)	(9,095)	(106,797)	(86,102)
Proceeds from sales of property, plant and equipment	400	536	3,787	5,074
Purchases of intangible assets	(702)	(672)	(6,646)	(6,362)
Purchases of investment securities	(705)	(3,549)	(6,674)	(33,598)
Proceeds from sales of investment securities	147	818	1,392	7,744
Increase in loans receivable	(1,069)	(1,644)	(10,120)	(15,564)
Other, net	1,290	180	12,212	1,704
Net cash used in investing activities	(11,920)	(13,426)	(112,846)	(127,104)
Cash flows from financing activities:				
Decrease in short-term borrowings	(1,122)	(14,692)	(10,622)	(139,089)
Proceeds from long-term debt	15,541	5,743	147,127	54,369
Repayment of long-term debt	(25,451)	(15,241)	(240,945)	(144,287)
Dividends paid	(1,338)	(1,816)	(12,667)	(17,192)
Security deposits from loan for consumption of securities	–	5,303	–	50,204
Other, net	431	(8)	4,080	(76)
Net cash used in financing activities	(11,939)	(20,711)	(113,027)	(196,071)
Effect of exchange rate changes on cash and cash equivalents	(251)	(46)	(2,376)	(435)
Net increase (decrease) in cash and cash equivalents	3,507	(8,154)	33,201	(77,194)
Cash and cash equivalents at beginning of year	9,334	17,144	88,365	162,302
Increase in cash due to increase in number of consolidated subsidiaries	6	344	57	3,257
Increase in cash due to merger of consolidated and unconsolidated subsidiaries	73	–	691	–
Cash and cash equivalents at end of year	¥ 12,920	¥ 9,334	\$ 122,314	\$ 88,365

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 (24 subsidiaries as of March 31, 2004 and 22 subsidiaries as of March 31, 2003). 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.

2. Summary of Significant Accounting Policies (continued)

(3) Securities (continued)

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 principally by the straight-line 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 net retirement benefit obligation at transition is being amortized as incurred on a pro-rata basis by the straight-line method over five years, excluding the portion covered by the employees' retirement benefit trust. 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), which is not over than the average remaining service years for employees when incurred, from the following fiscal year of the accrual.

In March 2004, the Company and certain domestic consolidated subsidiaries terminated a part of tax-qualified pension plans, and transferred the relevant plans to defined contribution pension plans, advanced retirement allowance plans and lump-sum severance indemnity plans. As a result of changing these plans, the Company terminated an employees' retirement benefit trust. The impact resulting from transfer from tax-qualified pension plans to defined contribution pension plans and advanced retirement allowance plans was described in Note 11.

2. Summary of Significant Accounting Policies (continued)

(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 a component of shareholders' equity and are presented as "Foreign currency translation adjustments."

(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.

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 ¥105.63 = US\$1.00, the rate of exchange prevailing on March 31, 2004. 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 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 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, 2004 and 2003 included the legal reserve of ¥3,162 million (\$29,936 thousand) and ¥3,143 million (\$29,753 thousand)

5. Inventories

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Finished products	¥24,614	¥25,314	\$233,021	\$239,648
Work in process	2,426	2,548	22,967	24,122
Raw materials and supplies	4,772	5,745	45,177	54,388
	¥31,812	¥33,607	\$301,165	\$318,158

6. Investments and Other Assets

Investments in and long-term loans to unconsolidated subsidiaries and affiliates at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Capital investments	¥1,758	¥2,027	\$16,643	\$19,189
Long-term loans	296	215	2,802	2,035
	¥2,054	¥2,242	\$19,445	\$21,224

Other investments at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Long-term prepayments	¥1,454	¥1,058	\$13,765	\$10,016
Other	3,691	4,598	34,943	43,529
	¥5,145	¥5,656	\$48,708	\$53,545

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

Short-term loans payable at March 31, 2004 and 2003 were unsecured.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
2.5% Japanese yen unsecured bonds due 2004	¥10,000	¥10,000	\$94,670	\$94,670
2.0% Japanese yen unsecured bonds due 2003	–	10,000	–	94,670
Loans (principally from banks and insurance companies) and capital lease obligations	20,506	21,084	194,130	199,601
	30,506	41,084	288,800	388,941
Less current portion	(12,754)	(22,485)	(120,742)	(212,865)
	¥17,752	¥18,599	\$168,058	\$176,076

The aggregate annual maturities of long-term debt subsequent to March 31,2004 are summarized as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars	
2006	¥ 2,385		\$ 22,579	
2007	4,907		46,455	
2008	8,138		77,042	
2009	2,322		21,982	
2010 and thereafter	–		–	
	¥17,752		\$168,058	

Assets pledged as collateral for long-term debt at March 31,2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Time deposits	¥ 100	¥ 100	\$ 947	\$ 947
Property, plant and equipment, at net book value	27	41,748	256	395,229
Investment securities	2,802	1,787	26,527	16,918

8. Supplementary Information to the Consolidated Balance Sheets

Balances with unconsolidated subsidiaries and affiliates at March 31,2004 and 2003 were principally as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Other current assets	¥ 1,321	¥ 5,805	\$ 12,506	\$ 54,956
Accounts payable-other	64	40	606	379
Accrued expenses	371	280	3,512	2,651
Other current liabilities	367	341	3,474	3,228

9. Depreciation and Amortization

Depreciation and amortization charges for the years ended March 31,2004 and 2003 were ¥10,329million (\$97,789thousand) and ¥10,516million(\$99,553thousand), respectively.

10. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31,2004 and 2003 were ¥8,491million (\$80,382thousand) and ¥7,123million (\$67,432thousand), respectively.

11. Retirement Benefits

The Company and certain domestic consolidated subsidiaries had tax-qualified pension plans and lump-sum severance indemnity plans as their defined benefit pension plans. In March 2004, the Company and certain domestic consolidated subsidiaries terminated a part of tax-qualified pension plans, and transferred the relevant plans to defined contribution pension plans, advanced retirement allowance plans and lump-sum severance indemnity plans. As a result of changing these plans, the Company terminated an employees' retirement benefit trust. Certain foreign consolidated subsidiaries also 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, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Projected benefit obligation	(¥19,446)	(¥30,095)	(\$184,095)	(\$284,910)
Plan assets at fair value	4,466	8,719	42,280	82,543
Projected benefit obligation in excess of plan assets	(14,980)	(21,376)	(141,815)	(202,367)
Unrecognized net retirement benefit obligation at transition	1,987	4,232	18,811	40,064
Unrecognized net actuarial loss	4,011	8,922	37,972	84,465
Unrecognized prior service cost	(404)	219	(3,825)	2,074
Prepaid pension cost	(697)	-	(6,599)	-
Allowance for employees' retirement benefits	(¥10,083)	(¥8,003)	(\$95,456)	(\$75,764)

Notes: The impact resulting from transfer from tax-qualified pension plans to defined contribution pension plans and advanced retirement allowance plans was as follows:

Decrease in projected benefit obligation	¥ 8,780		\$ 83,120	
Plan assets	(4,776)		(45,214)	
Unrecognized net retirement benefit obligation at transition	(142)		(1,344)	
Unrecognized net actuarial loss	(3,391)		(32,103)	
Decrease in Allowance for employees' retirement benefits	471		4,459	

Retirement benefit expenses related to the plans, including amortization of the unfunded projected benefit obligation for the years ended March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
(a) Service cost	¥ 1,056	¥ 1,221	\$ 9,997	\$ 11,559
(b) Interest cost	844	904	7,990	8,558
(c) Expected return on plan assets	(177)	(264)	(1,675)	(2,499)
(d) Amortization of net retirement benefit obligation at transition	2,103	2,115	19,909	20,023
(e) Allocation of actuarial loss	741	573	7,015	5,425
(f) Amortization of prior service cost	16	41	151	388
(g) Net retirement benefit expenses [(a)+(b)+(c)+(d)+(e)+(f)]	4,583	4,590	43,387	43,454
(h) Loss resulted from transfer to defined contribution pension plans etc.	3,533	-	33,447	-
(i) Sub total [(g)+(h)]	8,116	4,590	76,834	43,454
(j) Employer match contribution to defined contribution pension plans	23	-	218	-
(k) Total [(i)+(j)]	¥ 8,139	¥ 4,590	\$ 77,052	\$ 43,454

Notes: As a result of transfer from tax-qualified pension plans to defined contribution pension plans and advanced retirement allowance plans in the Company and certain subsidiaries, gains of ¥1mil and losses of ¥3,534mil were respectively recognized in consolidated statement of income.

The assumptions at March 31, 2004 and 2003, which were used in determining retirement benefit expenses and the allowance for employees' retirement benefits shown above were as follows:

	2004	2003
Allocation of retirement benefit expenses	Flat allocation	Flat allocation
Discount rates	2.5% - 6.5%	2.5% - 7.0%
Expected rates of return on plan assets	1.0% - 8.25%	1.0% - 8.25%
Period of amortization of past service cost	13 - 15 years	15 years
Period of allocation of actuarial loss	9 - 13 years	9 - 13 years
Period of amortization of net retirement benefit obligation at transition	5 years	5 years

12. Income Taxes

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

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Deferred tax assets:				
Inventories	¥ 323	¥ 454	\$ 3,058	\$ 4,298
Investment securities	387	263	3,664	2,490
Net unrealized gain	831	601	7,867	5,690
Allowance for doubtful accounts	248	468	2,348	4,431
Accrued enterprise tax	344	216	3,257	2,045
Payables, other	1,981	–	18,754	–
Accrued expenses	571	434	5,406	4,109
Allowance for employees' retirement benefits	3,741	4,994	35,416	47,278
Retirement allowances for directors and statutory auditors	284	316	2,689	2,992
Operating losses carried forward	534	68	5,055	644
Foreign exchange loss	991	319	9,382	3,020
Net unrealized holding gain on available-for-sale securities	–	5	–	47
Other	642	1,280	6,078	12,118
Gross deferred tax assets	10,877	9,418	102,974	89,162
Valuation allowance	(608)	(168)	(5,756)	(1,590)
Total deferred tax assets	10,269	9,250	97,218	87,572
Deferred tax liabilities:				
Depreciation and amortization	(1,945)	(2,264)	(18,413)	(21,433)
Land	(311)	(314)	(2,944)	(2,973)
Investment securities	(411)	(304)	(3,891)	(2,878)
Reserve for deferred gain on fixed assets for tax purposes	(1,171)	(1,328)	(11,086)	(12,572)
Gain on contribution of securities to employees' retirement benefit trust	–	(1,488)	–	(14,087)
Retained earnings	(270)	(831)	(2,556)	(7,867)
Foreign exchange gain	(148)	–	(1,401)	0
Net unrealized holding gain on available-for-sale securities	(3,412)	–	(32,301)	0
Other	(12)	(187)	(114)	(1,770)
Total deferred tax liabilities	(7,680)	(6,716)	(72,706)	(63,580)
Net deferred tax assets	¥ 2,589	¥ 2,534	\$24,512	\$23,992

A reconciliation of the differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2004 and 2003 is as follows:

	2004	2003
Statutory tax rate	42.0	42.0
Increase (reduction) in taxes resulting from:		
Non-deductible expenses	1.3	1.2
Unrealized gains	(2.0)	(4.0)
Equity in losses of unconsolidated subsidiaries and affiliates, net	(0.1)	0.2
Net losses of consolidated subsidiaries	6.1	5.9
Tax credit	(9.2)	(5.5)
Changes in retained earnings of foreign subsidiaries	(9.2)	(2.6)
Rate difference from foreign subsidiaries	0.7	(2.3)
Allowance for doubtful accounts	(7.2)	–
Other	(0.3)	(1.0)
Effective tax rates	22.1	33.9

13. Contingent Liabilities

Contingent liabilities at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Notes discounted and endorsed	¥ 111	¥ 91	\$ 1,051	\$ 861
Guarantees	2,423	4,009	22,939	37,953

In December 2003, the Company and its U.S. Subsidiaries were sued for damages in class actions by direct purchasers of Acrylonitrile Butadiene Rubber ("NBR") by reason of price fixing regarding NBR in the U.S. Three other corporate groups have also been sued. However, the complaint does not explicitly assert the amount of damages. The Company and its subsidiaries are dealing with this litigation in cooperation with each other. In addition, the Company and its U.S. and European subsidiaries are being

investigated by the Department of Justice and European Commission regarding an allegation of restraint of trade of NBR.

On April 1, 2004, the Company and its U.S. subsidiaries were sued for damages in a class action by indirect purchasers of NBR in the State of California in accordance with the law of that state. Three other corporate groups have also been sued in that lawsuit and other similar class actions. The complaint does not explicitly assert the amount of damages.

14. Leases

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥1,113million (\$10,537thousand) and ¥1,176million (\$11,133thousand) for the years ended March 31, 2004 and 2003, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2004 and 2003 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Due within one year	¥ 787	¥ 1,040	\$ 7,451	\$ 9,846
Due after one year	753	1,202	7,129	11,379
Total	¥ 1,540	¥ 2,242	\$ 14,580	\$ 21,225

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2004 and 2003 for operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Due within one year	¥ 163	¥ 209	\$ 1,543	\$ 1,979
Due after one year	51	197	483	1,865
Total	¥ 214	¥ 406	\$ 2,026	\$ 3,844

15. Securities

The fair value at March 31, 2004 and 2003 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, 2004)						
Securities whose fair value exceeds their acquisition cost:						
Equity securities	¥14,045	¥22,660	¥ 8,615	\$132,964	\$214,522	\$81,558
Bonds and debentures	—	—	—	—	—	—
Subtotal	¥14,045	¥22,660	¥ 8,615	\$132,964	\$214,522	\$81,558
Securities whose acquisition cost exceeds their fair value:						
Equity securities	¥ 432	¥ 356	(¥76)	\$ 4,090	\$ 3,370	(\$720)
Bonds and debentures	1	1	—	9	9	—
Subtotal	¥ 433	¥ 357	(¥76)	\$ 4,099	\$ 3,379	(\$720)
Total	¥14,478	¥23,017	¥ 8,539	\$137,063	\$217,901	\$80,838

	Millions of yen			Thousands of U.S. dollars		
	Previous fiscal year (As of March 31, 2003)					
	Acquisition cost	Fair value	Unrealized gain (loss)	Acquisition cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their acquisition cost:						
Equity securities	¥ 6,030	¥ 7,296	¥ 1,266	\$57,087	\$69,071	\$11,984
Bonds and debentures	–	–	–	–	–	–
Subtotal	¥ 6,030	¥ 7,296	¥ 1,266	\$57,087	\$69,071	\$11,984
Securities whose acquisition cost exceeds their fair value:						
Equity securities	¥ 7,147	¥ 5,867	(¥1,280)	\$67,661	\$55,543	(\$12,118)
Bonds and debentures	1	1	–	9	9	–
Subtotal	¥ 7,148	¥ 5,868	(¥1,280)	\$67,670	\$55,552	(\$12,118)
Total	¥13,178	¥13,164	(¥14)	\$124,757	\$124,623	(\$134)

Total sales of available-for-sale securities and the related net realized gain for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Total sales	¥ 142	¥ 635	\$ 1,344	\$ 6,012
Net realized gain	72	364	682	3,446

Securities whose fair value was not known as of March 31, 2004 and 2003 principally consisted of the following:

	2004	2003	2004	2003
Held-to-maturity securities:				
Corporate bonds	¥ 6	¥ 6	\$ 57	\$ 57
Municipal bonds	12	18	114	170
Available-for-sale securities:				
Unlisted equity securities	3,667	3,542	34,716	33,532
Unlisted foreign bond	–	1,000	–	9,467
Money management fund	25	135	237	1,278

The carrying amounts of held-to-maturity securities and available-for-sale securities which had maturities as of March 31, 2004 and 2003 were as follows:

	Millions of yen				Thousands of U.S. dollars			
	Current fiscal year (As of March 31, 2004)							
	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	¥ 7	¥ 12	¥ –	¥ –	\$ 66	\$ 114	\$ –	\$ –
Total	¥ 7	¥ 12	¥ –	¥ –	\$ 66	\$ 114	\$ –	\$ –
Previous fiscal year (As of March 31, 2003)								
	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	¥ 12	¥ 13	¥ –	¥ –	\$ 114	\$ 123	\$ –	\$ –
Total	¥ 12	¥ 13	¥ –	¥ –	\$ 114	\$ 123	\$ –	\$ –

16. Fair value of derivatives positions

The fair value of derivatives positions at March 31, 2004 and 2003 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, 2004)						
Forward foreign exchange contracts:						
To sell foreign currencies	¥15,479	¥18,288	(¥2,809)	\$146,540	\$173,133	(\$26,593)
To buy foreign currencies	669	638	(31)	6,333	6,040	(293)
	¥16,148	¥18,926	(¥2,840)	\$152,873	\$179,173	(\$26,886)

17. Other Income (Expenses) - Other, Net

Other income (expenses) - other, net for the years ended March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Gain on sales of investment securities	¥ 124	¥ 364	\$ 1,174	\$ 3,446
Rental income	177	113	1,676	1,070
Gain on sales of property, plant and equipment	41	75	388	710
Amortization of deferred charges	0	(157)	0	(1,486)
Foreign exchange gain, net	(3,557)	(1,148)	(33,674)	(10,868)
Loss on disposal of property, plant and equipment	(1,069)	(326)	(10,120)	(3,086)
Restructuring costs	(689)	(25)	(6,523)	(237)
Loss on devaluation of investment securities	(155)	(2,467)	(1,467)	(23,355)
Amortization of net retirement benefit obligation at transition	(2,103)	(2,115)	(19,909)	(20,023)
Loss resulted from transfer to defined contribution pension plans etc.	(3,534)	–	(33,456)	–
Other, net	(569)	(1,566)	(5,387)	(14,825)
	(¥11,334)	(¥7,252)	(\$107,298)	(\$68,654)

18. Segment Information

The business and geographical segments of the Company and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 are outlined as follows:

Business Segments

Current fiscal year (From April 1, 2003, to March 31, 2004)

	Millions of yen					Eliminations and corporate assets	Consolidated
	Elastomer	Specialty High Performance materials	Others	Total			
I. Sales and operating income:							
Sales to third parties	¥ 126,087	¥ 31,314	¥ 55,896	¥ 213,297	–	¥ 213,297	
Inter-group sales and transfers	61	17	342	420	(420)	–	
Total	126,148	31,331	56,238	213,717	(420)	213,297	
Operating expenses	116,781	23,813	55,271	195,865	(465)	195,400	
Operating income	¥ 9,367	¥ 7,518	¥ 967	¥ 17,852	¥ 45	¥ 17,897	
II. Assets, depreciation and capital expenditures:							
Total assets	¥ 112,197	¥ 33,831	¥ 33,136	¥ 179,164	¥ 43,090	¥ 222,254	
Depreciation	5,687	2,548	1,094	9,329	999	10,328	
Capital expenditures	3,831	4,624	463	8,918	1,115	10,033	

Previous fiscal year (From April 1, 2002, to March 31, 2003)

	Millions of yen					
	Elastomer	Specialty High Performance materials	Others	Total	Eliminations and corporate assets	Consolidated
I. Sales and operating income:						
Sales to third parties	¥ 123,749	¥ 25,535	¥ 61,605	¥ 210,889	–	¥ 210,889
Inter-group sales and transfers	43	–	232	275	(275)	–
Total	123,792	25,535	61,837	211,164	(275)	210,889
Operating expenses	116,515	20,988	60,749	198,252	(308)	197,944
Operating income	¥ 7,277	¥ 4,547	¥ 1,088	¥ 12,912	¥ 33	¥ 12,945
II. Assets, depreciation and capital expenditures:						
				¥ –		
Total assets	¥ 118,723	¥ 27,595	¥ 33,719	¥ 180,037	¥ 35,963	¥ 216,000
Depreciation	6,404	2,186	790	9,380	977	10,357
Capital expenditures	3,441	3,096	467	7,004	1,124	8,128

Current fiscal year (From April 1, 2003, to March 31, 2004)

	Thousands of U.S. dollars					
I. Sales and operating income:						
Sales to third parties	\$ 1,193,667	\$ 296,450	\$ 529,167	\$ 2,019,284	–	\$ 2,019,284
Inter-group sales and transfers	577	161	3,238	3,976	(3,976)	–
Total	1,194,244	296,611	532,405	2,023,260	(3,976)	2,019,284
Operating expenses	1,105,567	225,438	523,250	1,854,255	(4,402)	1,849,853
Operating income	\$ 88,677	\$ 71,173	\$ 9,155	\$ 169,005	\$ 426	\$ 169,431
II. Assets, depreciation and capital expenditures:						
				–		
Total assets	\$ 1,062,170	\$ 320,278	\$ 313,699	\$ 1,696,147	\$ 407,933	\$ 2,104,080
Depreciation	53,839	24,122	10,356	88,317	9,458	97,775
Capital expenditures	36,268	43,775	4,383	84,426	10,556	94,982

Previous fiscal year (From April 1, 2002, to March 31, 2003)

	Thousands of U.S. dollars					
I. Sales and operating income:						
Sales to third parties	\$ 1,171,533	\$ 241,740	\$ 583,215	\$ 1,996,488	–	\$ 1,996,488
Inter-group sales and transfers	407	–	2,196	2,603	(2,603)	–
Total	1,171,940	241,740	585,411	1,999,091	(2,603)	1,996,488
Operating expenses	1,103,048	198,694	575,112	1,876,854	(2,916)	1,873,938
Operating income	\$ 68,892	\$ 43,046	\$ 10,299	\$ 122,237	\$ 313	\$ 122,550
II. Assets, depreciation and capital expenditures:						
				–		
Total assets	\$ 1,123,952	\$ 261,242	\$ 319,217	\$ 1,704,411	\$ 340,462	\$ 2,044,873
Depreciation	60,627	20,695	7,479	88,801	9,249	98,050
Capital expenditures	32,576	29,310	4,421	66,307	10,641	76,948

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 High Performance materials	Specialty Chemicals (e.g., Synthetic aroma, Synthetic organic pharmaceuticals), Information materials (e.g., Electronic materials, Polymerized toners), Specialty plastics (Cyclo-olefin polymer (COP) and fine processed products with COP)
Others	Civil engineering materials, 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.

Notes: 3. Previously, the ZEON Group's business activities were categorized into five segments: the "Rubber," "Latices" and "Chemicals" segments, which had been separated mainly in view of the classification method of the chemical industry in our mainstay petrochemicals, and the "Information, the Environment and Health" and "Other" segments for the peripheral businesses on the basis of the derivative technologies.

Effective from the period under review, the ZEON Group has reclassified its business segments into three—"Elastomer," "Specialty High Performance materials" and "Other" according to its segmentation categories for business management purposes—and reviewed the business segments to which the respective subsidiaries and affiliates belong.

This change has been made to properly disclose the latest business positioning and business climate according to new three-year intermediate-term business plan "PZ-2" that Zeon has set up in May 2003 for the purpose of the business expansion.

Based on the new segmentation, the Company has restated the previously reported segment information for the year ended March 31, 2003.

Geographical Segments

Current fiscal year (From April 1, 2003, to March 31, 2004)

	Millions of yen						Eliminations and corporate assets	Consolidated
	Japan	North America	Europe	Asia	Total			
I. Sales and operating income:								
Sales to third parties	¥ 173,192	¥ 17,638	¥ 15,011	¥ 7,456	¥ 213,297	–	¥ 213,297	
Inter-group sales and transfers	15,373	7,171	206	1,092	23,842	(23,842)	–	
Total	188,565	24,809	15,217	8,548	237,139	(23,842)	213,297	
Operating expenses	172,763	22,946	15,156	8,232	219,097	(23,697)	195,400	
Operating income	¥ 15,802	¥ 1,863	¥ 61	¥ 316	¥ 18,042	(¥145)	¥ 17,897	
II. Assets at end of year:								
Total assets	¥ 156,768	¥ 29,006	¥ 8,420	¥ 3,407	¥ 197,601	¥ 24,653	¥ 222,254	

Previous fiscal year (From April 1, 2002, to March 31, 2003)

	Millions of yen						Eliminations and corporate assets	Consolidated
	Japan	North America	Europe	Asia	Total			
I. Sales and operating income:								
Sales to third parties	¥ 171,699	¥ 18,141	¥ 13,320	¥ 7,729	¥ 210,889	–	¥ 210,889	
Inter-group sales and transfers	14,065	6,798	86	1,049	21,998	(21,998)	–	
Total	185,764	24,939	13,406	8,778	232,887	(21,998)	210,889	
Operating expenses	174,402	23,544	13,253	8,414	219,613	(21,669)	197,944	
Operating income	¥ 11,362	¥ 1,395	¥ 153	¥ 364	¥ 13,274	(¥329)	¥ 12,945	
II. Assets at end of year:								
Total assets	¥ 155,467	¥ 32,082	¥ 8,490	¥ 3,909	¥ 199,948	¥ 16,052	¥ 216,000	

Current fiscal year (From April 1, 2003, to March 31, 2004)

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	\$ 1,639,610	\$ 166,979	\$ 142,109	\$ 70,586	\$ 2,019,284	–	\$2,019,284
Inter-group sales and transfers	145,536	67,888	1,950	10,338	225,712	(225,712)	–
Total	1,785,146	234,867	144,059	80,924	2,244,996	(225,712)	2,019,284
Operating expenses	1,635,549	217,230	143,482	77,932	2,074,193	(224,340)	1,849,853
Operating income	\$ 149,597	\$ 17,637	\$ 577	\$ 2,992	\$ 170,803	(\$1,372)	\$ 169,431
II. Assets at end of year:							
Total assets	\$ 1,484,124	\$ 274,600	\$ 79,712	\$ 32,254	\$ 1,870,690	\$ 233,390	\$2,104,080

Previous fiscal year (From April 1, 2002, to March 31, 2003)

Thousands of U.S. dollars							
I. Sales and operating income:							
Sales to third parties	\$ 1,625,475	\$ 171,741	\$ 126,101	\$ 73,171	\$ 1,996,488	–	\$1,996,488
Inter-group sales and transfers	133,153	64,357	814	9,931	208,255	(208,255)	–
Total	1,758,628	236,098	126,915	83,102	2,204,743	(208,255)	1,996,488
Operating expenses	1,651,067	222,891	125,466	79,655	2,079,079	(205,141)	1,873,938
Operating income	\$ 107,561	\$ 13,207	\$ 1,449	\$ 3,447	\$ 125,664	(\$3,114)	\$ 122,550
II. Assets at end of year:							
Total assets	\$ 1,471,806	\$ 303,721	\$ 80,375	\$ 37,007	\$ 1,892,909	\$ 151,964	\$2,044,873

Overseas Sales

Sales are analyzed geographically as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Sales designated for:				
Japan	¥ 128,480	¥ 126,267	\$ 1,216,321	\$ 1,195,371
North America	22,618	24,887	214,125	235,605
Europe	23,446	20,984	221,963	198,656
Asia	36,614	36,501	346,625	345,555
Other	2,139	2,250	20,250	21,301
Total	¥ 213,297	¥ 210,889	\$ 2,019,284	\$ 1,996,488

19. Subsequent Event

The following appropriations of retained earnings of the Company were approved at a shareholders' meeting held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3.00 = \$0.03 per share)	¥ 726	\$ 6,873
Bonuses to directors and statutory auditors	50	473

Independent Auditor's Report

The Board of Directors ZEON CORPORATION

We have audited the accompanying consolidated balance sheets of ZEON CORPORATION and consolidated subsidiaries as of March 31, 2004 and 2003, 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 and applied 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, 2004 and 2003, 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.

As described in Note 18, the Company has changed the classification of its business segments.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 and 2003 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 to the consolidated financial statements.

Shin Nihon & Co.

June 29, 2004



Corporate History

- Apr. 1950** Nippon Zeon Co., Ltd. founded to manufacture and sell synthetic resins with starting capital of 5 million yen. Head Office set up within Nippon Light Metal Co., Ltd. (7-3 Ginza Nishi, Chuo-ku, Tokyo).
- Apr. 1952** Polyvinyl chloride resin (PVC) production begins at Kanbara Plant (Shizuoka Prefecture).
- Nov. 1956** PVC production begins at Takaoka Plant (Toyama Prefecture).
- Jul. 1959** Production of Japan's first synthetic rubbers begins at Kawasaki Plant (Kanagawa Prefecture). Central Research Laboratory opens.
- Sep. 1961** Listed on the Tokyo Stock Exchange. Listed on the Osaka and Nagoya Stock Exchanges in October.
- Jun. 1965** Head Office moves to present location in Marunouchi, Chiyoda-ku, Tokyo.
- Aug. 1965** Butadiene and SBR production using the GPB Process (Nippon Zeon's proprietary technology for extracting butadiene) begins at Tokuyama Plant (Yamaguchi Prefecture).
- Mar. 1967** Kanbara Plant closed for rationalization.
- Sep. 1969** PVC production begins at Mizushima Plant (Okayama Prefecture).
- Nov. 1971** GPI (ZEON's proprietary technology for extracting isoprene) facility completed in Mizushima Plant and production of IR at the plant.
- Jul. 1988** Establishes Zeon Chemicals, Inc. in the U.S. The company, now a consolidated subsidiary, is engaged in local production of hydrogenated acrylonitril butadiene rubber.
- Mar. 1989** Establishes Zeon Chemicals Europe Limited in the U.K. The company, now a consolidated subsidiary, acquires the nitrile rubber division of BP Chemicals Ltd. and starts operations on April 1.
- Sep. 1989** Establishes Zeon Chemicals USA, Inc. in the U.S. The following month the company acquires the specialty rubber division of BF Goodrich Chemical Co. of the U.S.
- Oct. 1993** Moves into the electronic materials business in China and establishes Suzuhou Rui Hong Electronic Chemicals Co., Ltd., a joint venture with Suzuhou Electronic Materials Co., Ltd. and Marubeni Corporation.
- Jul. 1995** Spins off vinyl chloride business, transferring it to Shin Dai-Ichi Vinyl Corporation.
- May. 1996** Establishes Zeon Chemicals (Thailand) Co., Ltd. to produce C5 hydrocarbon resins. The company, now a consolidated subsidiary, starts production in April 1998.
- Apr. 1997** Completes Yonezawa Plant (Yamagata Prefecture), now Zeon Chemicals Yonezawa Co., Ltd., to manufacture fine chemicals.
- Jul. 1997** Establishes Chesin Co., Ltd., an electronic materials sales company, in South Korea as a joint venture with Sinwa Trading Co., Ltd.
- Sep. 1997** Zeon Chemicals USA, Inc. (now a consolidated subsidiary) acquires the goodwill of acrylic rubber business from EniChem Elastomerie, Inc. of Italy.
- Dec. 1998** Zeon Chemicals L.P. (now a consolidated subsidiary) acquires from DMS Copolymer, Inc., a Dutch company, its North American NBR operation.
- May. 1999** Concludes an agreement with the parent companies of Shin Dai-Ichi Vinyl Corporation on structural reform
- Sep. 1999** Zeon Chemicals L.P. (now a consolidated subsidiary) acquires a specialty rubber operation from Goodyear Tire & Rubber, of the U.S.
- Mar. 2000** Discontinues production of PVC at Mizushima Plant and withdraws from the PVC business.
- Jul. 2000** Changes the English company name to ZEON CORPORATION.
- Jul. 2000** Tokyo Zairyo Co., Ltd. (now a consolidated subsidiary) and Zeon Trading Co., Ltd. merge.
- Jan. 2001** Zeon Kasei Co., Ltd. (now a consolidated subsidiary) and Asahi Chemical Co., Ltd. merge.
- May. 2001** Establishes Zeon CSC Corporation, a sales company handling specialty materials, in Taiwan and launches business operations in earnest.
- Jul. 2001** Zeon Environmental Materials Co., Ltd. (now a consolidated subsidiary) begins business.
- Dec. 2001** Completes a factory for processing light-guide plates for highly functional (thermoplastic transparent) resin COP liquid crystal displays, along with an optical film technical center in Takaoka .
- Mar. 2002** Completes a second plant for medical equipment and materials in Takaoka.
- Apr. 2002** Consolidates the manufacturing and R&D departments for medical equipment and materials as Zeon Medical Inc. (now a consolidated subsidiary).
- Mar. 2003** Applies for delisting of stock on the Nagoya Stock Exchange. (Delisted in April 2003.)
- Aug. 2003** Transfers DCPD-RIM operations to RIMTEC Corporation by means of a company breakup.

Year	Award issuing organization	Award name and technology
1998	Environmental Protection Agency (U.S.A.)	Stratospheric Ozone Protection Award (October 27)
2000	Japan Chemical Industry Association	Environment Technology Award "Development and manufacturing of environmentally friendly fluorinated materials." (May 25)
2000	Tsukuba Foundation for Chemical and Bio-Technology	The 8th Award "Development and evaluation of cyclic fluorinated compounds as environmentally safe materials." (May 29)
2003	The Green Sustainable Chemistry Network (GSCN)	The Green Sustainable Chemistry (GSC), Minister of the Environment Award

ZEORORA®-H received the Green & Sustainable Chemistry, Minister of the Environment Award

Unique fluorine cleaning solvent "ZEORORA®-H", having no harmful effects on the ozone layer and less impact on global warming. We were honored to receive the Green and Sustainable Chemistry (GSC), Minister of the Environment Award. In addition, ZEORORA®-H has received many other commendations, including the U.S. Environmental Protection Agency's Stratospheric Ozone Protection Award, recognizing its outstanding features as an environment-friendly cleaning agent. It is widely used in products such as electronics components as a degreasing cleaner in place of CFC or chlorine solvents, and it is being extensively applied to many fields.



Corporate Data

As of March 31, 2004

ZEON Corporation

2-6-1 Marunouchi, Chiyoda-ku, Tokyo 100-8323, Japan

Established April 12, 1950
Capital ¥24,211 million
Number of Employees 2,840

Directors and Auditors

Chairman Katsuhiko Nakano

President & CEO Naozumi Furukawa

Representative Executive Managing Director Masahiro Yamazaki

Managing Director Teruaki Hiramatsu
Hideki Seki
Yoichi Mishima
Masafumi Miyamoto

Director Tadao Natsuume
Yasuro Wada
Seiichi Okada
Yoshiro Ogura
Masaaki Niimura
Tadayuki Minami
Kohei Arakawa
Yoshimasa Fushimi
Minero Iwata

Standing Auditors Masaru Kagawa
Satoshi Sema

External Corporate Auditors Yasuo Tominaga
Yuzuru Fujita
Tamiki Ishihara

Public Relations Dept. Tel: +81-3-3216-2747
Fax: +81-3-3216-0501

Export Sales Tel: +81-3-3216-1807
Fax: +81-3-3216-0503

Licensing Tel: +81-3-3578-7713
Fax: +81-3-3578-7745

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

Principal Domestic Subsidiaries and Affiliates Consolidated or Accounted for by the Equity Method

Consolidation	Percentage Owned
Optes Inc.	100.0
Zeon Kasei Co., Ltd.	100.0
Zeon Polymix Inc.	100.0
Zeon Medical Inc.	100.0
Zeon Yamaguchi Co., Ltd.	100.0
Zeon North Co., Ltd.	100.0
Zeon Information System Co., Ltd.	100.0
Tokyo Zairyo Co., Ltd.	53.9
Zeon Environmental Material Co., Ltd.	100.0
Zeon F&B Co., Ltd.	100.0
RIMTEC Corporation	60.0
Zeon Logistical Materials Co., Ltd.	100.0
Zeon Bio-science Co., Ltd.	100.0

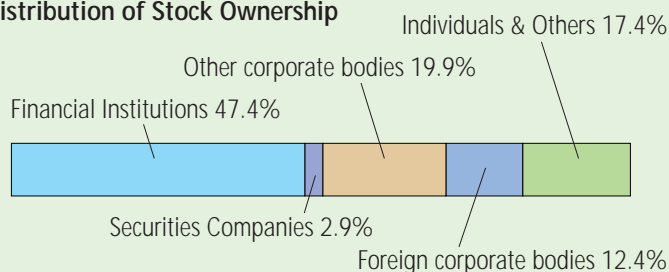
Equity method	Percentage Owned
Zeon Analysis Center Co., Ltd.	100.0

Number of Stocks Issued 242,075,556

Number of Shareholders 18,965

Major Shareholders Japan Trustee Services Bank, Ltd.
Furukawa Electric Co., Ltd.
The Master Trust Bank of Japan, Ltd.
Yokohama Rubber Co., Ltd.
Asahi Mutual Life Insurance Company
Trust and Custody Services Bank, Ltd.
Asahi Kasei Chemicals Corp.
Mizuho Corporate Bank, Ltd.
Mizuho Bank, Ltd.
Sompo Japan Insurance Inc.

Distribution of Stock Ownership



Closing Date March 31st of each year

Stock Exchange Tokyo (First Section)
Osaka (First Section)

Transfer Agent The Chuo Mitsui Trust and Banking Company, Limited



ZEON CORPORATION

2-6-1 Marunouchi, Chiyoda-ku, Tokyo 100-8323, Japan

<http://www.zeon.co.jp/>