

ZEON

ZEON CORPORATION

ANNUAL
REPORT
2003

Fiscal Year Ended March 31, 2003

CORPORATE PROFILE

ZEON Corporation was initially established in April 1950 with equity participation from BF Goodrich Chemical Co. of the United States providing technical assistance, and three Japanese companies within the Furukawa Group: Furukawa Electric Co., Ltd., Yokohama Rubber Co., Ltd., and Nippon Light Metal Co., Ltd. Originally founded to manufacture polyvinyl chloride resins, the Company became the first Japanese enterprise to produce synthetic rubbers in 1959. In 1971, all ZEON Corporation stock held by BF Goodrich Chemical Co. of the U.S.A. was transferred to Japanese interests. We developed an original process for extracting butadiene, the main raw material for synthetic rubbers, from C4 fraction in 1965, followed by the development of a method for extracting isoprene from C5 fraction. Based on these fundamental advances in our own technologies, we established a complete production system starting from material production, ultimately positioning ZEON as a world-class manufacturer of synthetic rubbers. We currently command the top market share of oil-resistant specialty rubbers for automobile components.

Driven by our comprehensive approach to C5 fraction applications, we have conducted extensive research and development and opened markets for a diverse range of products, such as thermoplastic elastomer SIS, C5 hydrocarbon resins, synthetic aroma chemicals, super-plasticizers for concrete, epoxy resin hardening agents, cyclo-olefin polymers, and RIM molding products. We take pride in our world-leading ranking in the comprehensive use of C5 fraction, with virtually every product in this area maturing into a major business concern.

In 1995, we transferred our polyvinyl chloride resin business to Shin Dai-Ichi Vinyl Corporation (ZEST), a joint venture company between ZEON and two other companies. In 2000, we reduced our percentage of equity in ZEST and transferred our controlling stake to Tokuyama Co., Ltd. At the same time, operation of our subsidiary, Sanyo Monomer Co., Ltd., a manufacturer of polyvinyl chloride monomer, was discontinued. Thus, we withdrew from the polyvinyl chloride resin business which was our original business line when ZEON Corporation was established.

As a result, our current business activities represent a powerful synergy of petrochemical products, including basic materials centered on C4 and C5, and new business lines in health, the environment, and information fields. Our C4 business line includes synthetic rubbers and synthetic latices, while the C5 business comprises of chemical and specialty chemical products. Medical products are at the forefront of our health-related business; environmental materials and RIM products headline our environmental business; and electronic materials, imaging materials, cyclo-olefin polymers (ZEONEX, ZEONOR), and fine processed products using ZEONOR form the focus of activities in our information-related business concerns. We also license selected components of our leading technologies, including those related to manufacturing synthetic rubbers and latices, extracting butadiene and butene, and drainage facilities. ZEON celebrated its 50th anniversary in 2000.

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FINANCIAL HIGHLIGHTS

ZEON Corporation and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

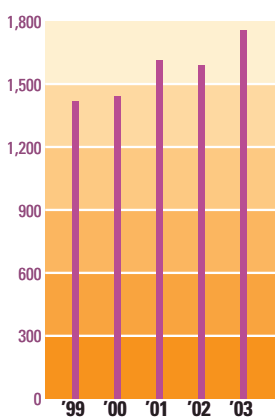
	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Net sales	¥210,889	¥191,168	\$1,754,484	\$1,590,416
Operating income	12,945	10,323	107,696	85,882
Net income	3,050	28	25,374	233

As of March 31, 2003 and 2002

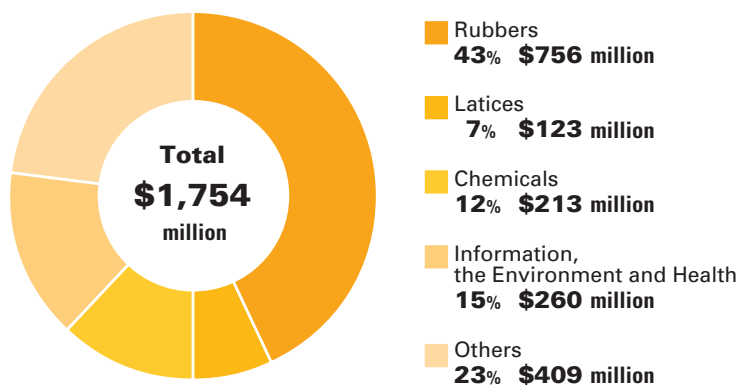
	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Total assets	¥216,000	¥232,728	\$1,797,005	\$1,936,173
Shareholders' equity	65,170	65,487	542,180	544,817
Number of employees	2,868	2,782		

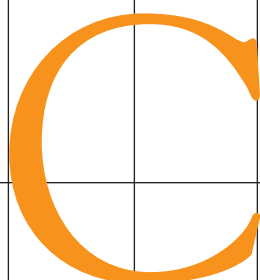
Note: The U.S. dollar amounts above and elsewhere in this annual report are translated from yen, for convenience only, at the rate of ¥120.20 = US\$1.00

Net Sales
(Millions of U.S. dollars)



Sales by Segment
(For the year ended March 31, 2003)





CORPORATE MESSAGE TO SHAREHOLDERS

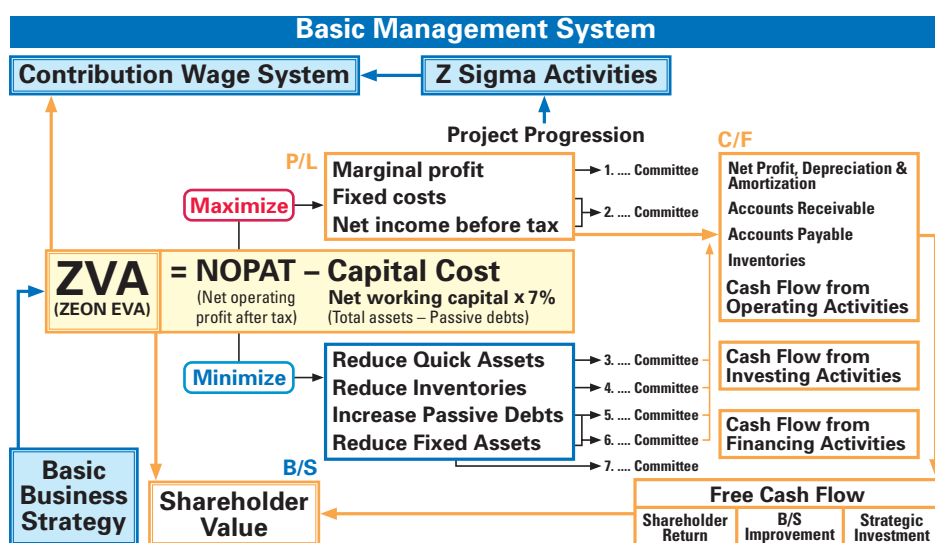
I was appointed as President & CEO of ZEON Corporation at the board meeting held on June 27, 2003, and it is my pleasure to report our progress for fiscal 2002 to our shareholders. As you should be aware, my mission is to contribute to ZEON's continual development and to increase corporate value. I would deeply appreciate your support and cooperation in the future as well.

The Japanese economy showed some positive signs in the first half of fiscal 2002, characterized by an increase in exports mainly to the United States and Asia with an accompanying recovery in production. However, capital investment and personal consumption were weak and stock prices remained stagnant with high unemployment rates. In addition, the Iraq situation dampened consumer confidence, further miring the economy.

Similarly, the petrochemical industry, despite an increase in demand for exports mainly to China, also struggled under a challenging business environment due to such factors as sluggish domestic demand and skyrocketing prices for crude oil and naphtha.

Under these circumstances, ZEON Corporation endeavored to expand its share of the global market and develop new markets under a specialization strategy for our petrochemical products centered on synthetic rubbers, synthetic latices and chemicals. In Information, the Environment and Health business, we focused on the development of new product applications based on our unique technologies. ZEONOR Film, which was placed on the market in the latter half of fiscal 2002, contributed to increased net sales. We also implemented group-wide actions to maintain and strengthen competitiveness through ZΣ (Z sigma) activities to reduce costs.

As a result, the consolidated financial statements for fiscal 2002 reflected ¥210,889 million in sales, up 10.3% over the previous year. Operating income increased 25.4% year-on-year to ¥12,945 million, with ordinary income increasing 16.4% to ¥9,791 million. While we were forced to report valuation losses on marketable securities, mostly of bank issues, due to the low rate of the Nikkei 225 Index that fell short of ¥8,000 at the end of the fiscal year under review, net income significantly increased to ¥3,050 million, mainly due to decreased valuation losses compared to previous year.



Unparalleled expertise generates new phase of growth



Naozumi Furukawa
President & CEO




Under our policy to distribute stable dividends based on current term profit and management conditions, as well as future prospects, a dividend of ¥2.50 per share was distributed at the end of the fiscal year. Total annual dividends came to ¥5 per share including the interim dividend, which is the same as the previous year.

Looking ahead, although corporate profit has recovered slightly, the management environment is expected to remain harsh due to a downturn in exports and capital investment caused by uncertainty over the Middle East situation and the US economy, as well as the prolonged slump in personal consumption.

ZEON Corporation established PZ-2, our new 3-Year Plan, to establish a system for improving our ZVA management index for all corporate activities. ZEON is actively moving to reform its business, financial structure and corporate culture. In business reform, ZEON will establish new businesses including Specialty Chemicals, Specialty Plastics, Fine Processed Products by Specialty Plastics, Imaging & Electronic Materials, Medical Products, and RIM Products as pillars for future growth, while ensuring stable profit from Elastomer business with continuing specialization.

With regard to reform of our financial structure, ZEON is pursuing its goal of reducing interest-bearing debt through a reduction in total assets centering on account receivables and inventory. In addition, we will further enhance our cost competitiveness on the global stage through our ZΣ activities. ZΣ activities serve as a driving force to further strengthen a quick and nimble corporate culture involving the participation of all employees. Through these reform efforts, ZEON will enhance business performance by improving the ZVA, with a constant eye on costs from a global viewpoint.

We appreciate your continuing support and cooperation.



3

-YEAR MANAGEMENT PLAN: PZ-2

In May 2003, ZEON Corporation released its PZ-2, the management plan covering the three years ending March 31, 2003, 2004, and 2005.

Placing ZVA at the center of the management index to raise ZVA above zero

ZVA is a management index aimed at enhancing corporate value based on the concept of the cost of capital, and ZEON Corporation has placed it at the center of its management indices since fiscal 2001. Factors for improving ZVA have been broken down into the efficient reduction of capital costs and the expansion of profit. ZEON pursues these factors through specific projects and through ZΣ activities as a company-wide cost reduction effort, including linkage to its compensation system. The goal of PZ-2 is to raise ZVA above zero in fiscal 2004.

Creating cash flows and reducing interest-bearing debt through a complete review of the balance sheet

In the two years beginning in March 2001, ZEON reduced its interest-bearing debt by ¥31.5 billion from ¥105 billion. This resulted from a thorough review and efficient streamlining of the balance sheet. Under PZ-2, ZEON will continue to raise the efficiency of its balance sheet and intends to use the resulting cash flows to invest in new businesses and to strengthen its financial structure.

Securing stable profit through a strategy of complete specialization in the elastomer materials business

The elastomer materials business, consisting of Synthetic Rubber, Synthetic Latices and Chemicals, has long served as the backbone of ZEON, and the company will further specialize in this business as its "cash cow" for securing stable profit while also actively investing the generated cash flows into new businesses including Specialty Plastics, Precision Processed Products, and Imaging and Electronics Materials.

Allocating greater resources into new businesses such as Specialty Plastics and Fine Processed Products

Under PZ-2, about 70% of plant investment and R&D investment will be allocated to the specialty materials business centered on Specialty Plastics and Precision Processed Products, Imaging and Electronics Materials, and Specialty Chemicals. In the three-year period covered by PZ-2, the Specialty Materials business is expected to generate profit exceeding that of the elastomer materials business.

Reducing total costs by completing the C5 Comprehensive Utilization Plan

ZEON makes the most efficient use of C5 fraction of any company in the world. However, we have yet to utilize various materials extracted from C5 fractions in a balanced manner. Total utilization of C5 for optimizing the production balance of various products would lead to major reductions in total cost. During the three years covered by PZ-2, ZEON intends to fully realize the comprehensive utilization of C5.

Characteristics of PZ-2

Targeting three consecutive years of increase in revenue and profit, with ¥230 billion in net sales and ¥26 billion in operating income in fiscal 2005

Placing ZVA at the center of the management index to raise ZVA above zero

Creating cash flows and reducing interest-bearing debt through a complete review of the balance sheet

Securing stable profit through a strategy of further specialization in the elastomer materials business

Allocating greater resources to new businesses such as Specialty Plastics and Fine Processed Products

Reducing total costs by completing the C5 Comprehensive Utilization Plan

Systemizing cost reductions through ZΣ Activities

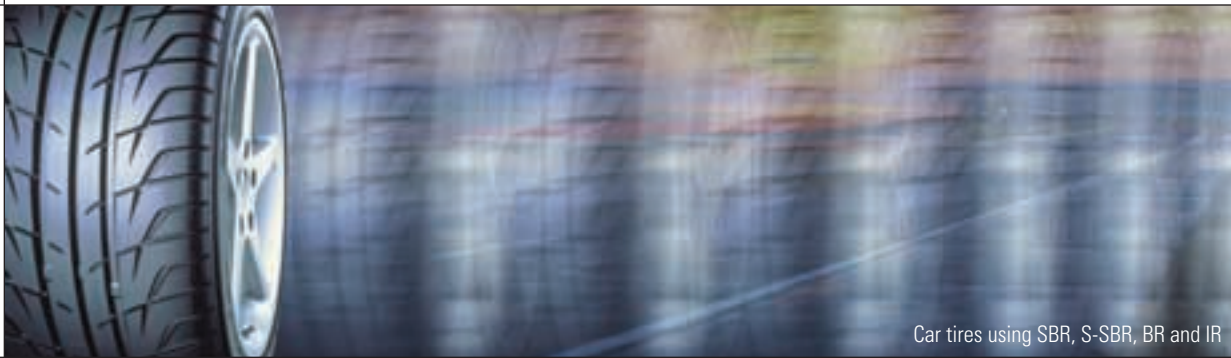
Striking a balance between stable dividends and a strengthened financial structure

Systemizing cost reductions through ZΣ Activities

While every corporation seeks to reduce costs, ZEON systematically pursues this goal through its company-wide ZΣ activities. This major initiative incorporates a system that instantly identifies the content of each major strategy and makes progress reports available on the corporate intranet. Employees who significantly improve performance are rewarded through increased compensation starting in the same month. As a result, ¥13.0 billion was realized in reduced costs in the three years between 2000 and 2002. Under PZ-2, ZEON plans to further reduce costs by ¥12.0 billion through ZΣ activities during the three-year period between 2003 and 2005. This initiative is not limited to cost reduction, but also includes the generation of cash flows as a major goal.

Striking a balance between stable dividends and a strengthened financial structure

PZ-2 is expected to create over ¥53.0 billion in cash flows from operating activities during the three-year period. Of the cash flows thus generated, ¥40.0 billion will be used primarily for investments in new businesses, ¥5.0 billion for dividend payment and ¥8.0 billion for strengthening the financial structure through repayment of loans and other measures. As a result, ZEON's financial structure is expected to comprise interest-bearing debt of approximately ¥60.0 billion, an equity ratio of 37% and a D/E ratio falling below 1.0, to 0.7.



REVIEW OF BUSINESSES

Synthetic Rubbers

Domestic sales increased over the previous year due to the strong demand of general-purpose rubber, a result of a ten-year record high in the production of tires, as well as favorable performance by plastic modifier applications in the wake of the recovery in the polystyrene industry. In addition, shipments for specialty rubbers steadily improved along with favorable automobile production.

Export sales rose significantly over the previous year as shipments of both general-purpose rubbers and specialty rubbers increased considerably due to the introduction to a leading European manufacturer and active demand in China and Southeast Asia.

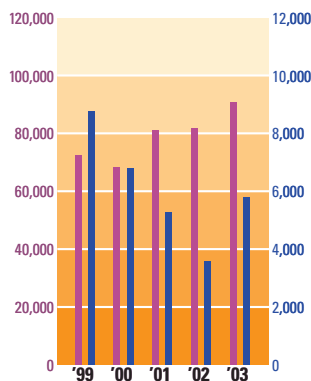
As for foreign affiliated companies, rising demand for specialty rubbers in the United States, due to automobile production that exceeded the previous year as a result of the recovery of the US economy, drove strong shipments. Sales of specialty rubbers in Europe rose due to increased shipments in response to the recovery of the European economy. As a result, sales in Europe and the United States exceeded the previous year.

In terms of income, in the face of rising manufacturing costs due to the high costs of raw materials, we achieved improved profitability compared to the previous year because of efforts to shift the increased costs to product prices and to cut raw material costs.

As a result, sales of Synthetic Rubbers rose 11.3% over the previous year to ¥90,891 million, with operating income increasing 62.4% to ¥5,783 million.

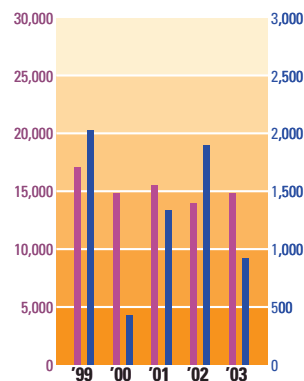
Synthetic Latices

Domestic sales decreased compared to the previous year due to the sluggish shipment for specialty latices including those for tire cord treatment, although the volume of shipments exceeded the previous year due to strong demand for ABS resins, paper coatings and gloves.



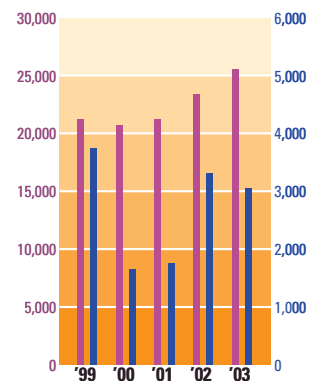
Rubbers

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



Latices

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



Chemicals

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

Export sales declined compared to the previous year due to the strong yen, although the shipments were generally favorable mainly for cosmetic puffs and ABS resin.

As for foreign affiliated companies, sales increased over the previous year mainly due to steady growth in shipments for gloves.

As a result, sales increased 5.7% compared to the previous year to ¥14.778 billion, with operating income decreasing 51.3% to ¥922 million.

Chemicals

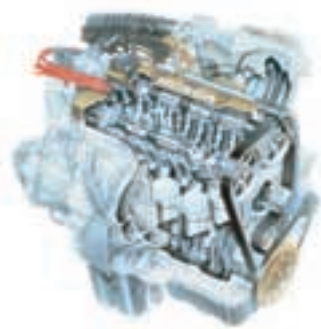
Domestic sales maintained the same level as the previous year as market development for thermoplastic elastomer SIS progressed and demand steadily increased, although shipments slightly decreased corresponding to sluggish market conditions for petroleum resins, our core products.

Export sales increased compared to the previous year due to favorable performance in exports to Europe and China.

As for foreign affiliated companies on the other hand, both the volume and sales increased over the previous year due to the full-fledged production and sales of petroleum resins, mainly for road marking applications, at our Thai subsidiary.

In Specialty Chemicals, demand for synthetic aroma chemicals both for Green Notes and Jasmine Notes remained firm, mainly in the European and the US markets. In addition, sales of industrial chemicals and pharmaceutical and agricultural intermediates demonstrated steady growth.

As a result, sales increased 9.5% year-on-year to ¥25,567 million, with operating income decreasing 7.6% to ¥3,057 million.



Car engine utilizing various specialty rubber parts



Work gloves made of NBR latex



Aliphatic hydrocarbon resin for use in road marking paints



REVIEW OF BUSINESSES

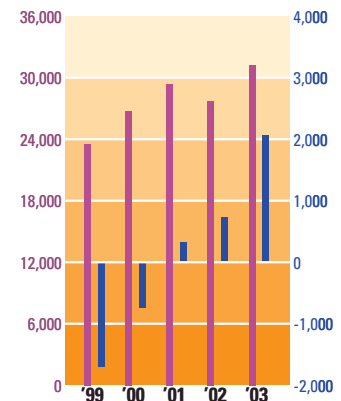
Information, the Environment and Health

Sales for Electronics Materials decreased compared to the previous year, despite our commitment to expansion through sales efforts and the development and marketing of new products against the backdrop of a prolonged slump in the semiconductor industry, our major market. However, sales of ZEORORA-ZFL58, an etching gas for cutting-edge semiconductor fine processing, our core product, increased significantly over the previous year. Sales of Imaging Materials increased compared to the previous year due to the steady expansion in the adoption of polymerized toner as a micro-capsule, low-temperature fixing toner.

Sales of Specialty Plastics (cyclo-olefin polymer) rose considerably over the previous year due to the expansion in demand for the ZEONEX series for DVD pickup lenses and a sharp rise in demand for plastic lenses used in CCD cameras, including those for camera-equipped cell phones. Sales of the ZEONOR series significantly increased over the previous year due to the steady expansion in conventional applications for LCD backlight and frontlight guide plates and in new applications such as SACD (Super Audio CD). ZEONOR Film, for which production and sales started in the latter half of the year under review, successfully contributed to the increased sales for the Specialty Plastics business.

Sales for Environmental Materials fell short of the previous year due to a slowdown in the shipment of recycled plastic materials including artificial plastic logs and civil engineering materials for soil reinforcement application, caused by decreased public investment and intensified competition with other companies compared to the previous year.

Sales of RIM (Reaction Injection Molding) Products decreased year-on-year, despite our sales efforts in the field of septic tanks, which is a major application, in the face of severe competition with other materials.



Information, the Environment and Health

■ Net Sales (Millions of yen)

■ Operating Income (Millions of yen)

Geo-textile materials used for reinforcement of artificial river bank in Yamaguchi Prefecture



Fence constructed with artificial plastic logs



For Health-related businesses, both sales and operating income for Medical Products increased over the previous year due to a steady increase in OEM production for PTCA (Percutaneous Transluminal Coronary Angioplasty) catheters, and the incorporation of Biomune Co., a manufacturing and sales company of poultry vaccines located in the United States, into our consolidated accounts in fiscal 2002.

As a result, sales increased 12.9% year-on-year to ¥31,303 million, with operating income increasing 185.5% to ¥2,067 million.

In a related development, the board of directors resolved on May 16, 2003, to conclude a corporate separation agreement to the effect that RIMTEC, our wholly owned subsidiary company, will succeed our RIM business.

Others

Sales for our polyvinyl chloride resin business slightly decreased compared to the previous year, while sales of facilities were largely below the previous year's level. In addition, profit from technology licensing and technical assistance remained sluggish.

As for affiliated companies on the other hand, sales in trading activities rose significantly. Every affiliate pursued cost reduction to improve profitability.

As a result, sales increased 9.8% to ¥49,105 million, with operating income increasing 27.8% to ¥1,080 million, compared to the previous year.



Light guide plate made with ZEONOR



Compact septic tank

SPECIAL FEATURES

Groundbreaking technology leads to manufacture and marketing of LCD optical film

In October 2002, we started the manufacture and sales of LCD optical film (product name: ZEONOR Film) using a groundbreaking technology to unite a sheet extrusion process with high-performance thermoplastic transparent resin COP (cyclo-olefin polymers, product name: ZEONOR).

Extremely high-quality optical film is generally produced using the solution cast method since the sheet extrusion process was thought to be problematic, despite its high productivity and cost competitiveness.

Nevertheless, in the course of refining polymers and accumulating a wealth of production expertise, our technical staff overcame a number of obstacles and succeeded, for the first time in the industry, in commercial production of optical film using the sheet extrusion process.

In addition to superior optical properties, ZEONOR Film boasts such features as low moisture permeability and high heat resistance compared to other optical film on the market, leading to rapid expansion in sales as an LCD optical film, such as retardation film.



In anticipation of dramatic market growth in flat panel displays (FPDs) for large-size liquid crystal TVs, we will redouble our efforts to further develop ZEONOR Film.

Completion of second plant boosts polymerized toner production capacity

In March 2003, in response to growing demand for polymerized toners used in laser printers, we completed the construction of a second plant within our Tokuyama Plant, providing additional annual production capacity of 1,000 tons, which, with our existing 1,500-ton capacity, boosts overall annual capacity to 2,500 tons.

Applying its innovative technology and drawing upon many years of cultivating sophisticated polymer technology expertise, ZEON was the first in the world to introduce polymerized toners into the market in 1993. Since then, polymerized toners suitable for energy-

efficient, high-speed printing have earned acclaim across the market and seen steady sales growth.



Green Sustainable Chemistry, Minister of the Environment Award recognizes ZEON's development of ZEORORA fluoro compound

In March 2003, ZEON received the Green Sustainable Chemistry (GSC), Minister of the Environment Award from the Green Sustainable Chemistry Network (GSCN) for its development of the ZEORORA fluoro compound. GSCN consists of ten corporate and academic members, as well as national laboratories, engaged in chemical research.

The presentation of the GSC Awards is one of GSCN's international activities to instill awareness of social responsibility in chemists, pursue health and safety for humanity and the environment through innovative advances in chemical technology, and contribute to the establishment of a sustainable society.

ZEORORA is used as a dry etching gas for next-generation semiconductor production and as a cleaning solvent. The outstanding features of ZEORORA, such as a zero ozone depletion coeffi-

cient and a lower impact on global warming, have earned ZEON a variety of awards, including the Stratospheric Ozone Protection Award from the U.S. Environmental Protection Agency (EPA), the JCIA Award for Technological Excellence from the Japan Chemical Industry Association, and the Prize for Chemical and Bio-Technology, Tsukuba



Prize for Chemical and Bio-Technology, Tsukuba

Tsukuba, from the Tsukuba Foundation for Chemical and Bio-Technology. This most recent award, along with the three earlier ones, reemphasizes the value of the product for reducing impact on the environment.



GSC Award



EPA's Stratospheric Ozone Protection Award



RESEARCH AND DEVELOPMENT

The R&D division of ZEON Group (ZEON Corporation and its consolidated subsidiaries) consists of the R&D Center in Kawasaki, Kanagawa Prefecture, which is a central organization for research and development comprised of five laboratories; the Quality and Technology Sections of the four factories in Takaoka (Toyama Prefecture), Kawasaki (Kanagawa Prefecture), Shunan (Yamaguchi Prefecture), Kurashiki (Okayama Prefecture); Zeon Kasei Kawasaki Laboratory; the laboratories of Zeon Medical Co., Ltd., Zeon Bio-science Co., Ltd., Zeon Chemicals Limited Partnership (U.S.) and Zeon Biomune Inc. (U.S.); as well as a research group of Zeon Chemicals Europe Limited (U.K.) as R&D divisions for affiliated companies in Japan and overseas. In addition, research in China is assigned to a local laboratory.

These research units function in close collaboration with related divisions from a global perspective in line with ZEON's basic R&D philosophy to contribute to society by creating world-leading businesses through developing unique technologies in the specific fields in which ZEON excels, based on our management commitment to technology and a disciplined focus on the market.

Total research and development costs for fiscal 2003 were ¥7,123 million, of which R&D costs directly related to each business segment were ¥3,742 million and common R&D costs were ¥3,381 million.

Major Research and Development Activities

Synthetic Rubbers

- While developing new products in a close, collaborative system established by R&D divisions in Japan, the US and Europe as a world leader in specialty rubbers centered on H-NBR, NBR, ACM and CHR, the Division significantly contributed to sales expansion through research on optimum compounding for various applications and technical services for developing new applications and cultivating new markets.
- For general-purpose rubbers such as SBR, BR and IR, the Division promoted specialization and developed new rubbers for fuel-efficient tires and high-performance resin modifiers, contributing to sales expansion.

Synthetic Latices

- The Division contributed to sales expansion in this area by focusing on the development of SB latex for paper coatings, the major application of latex, and NBR latex for gloves in response to the expanded market for nitril gloves, as well as technical services and new market cultivation.

Chemicals

- While promoting the development of new products for Quintone, petroleum resin for hotmelt adhesives, and Quintac thermoplastic elastomer, the Division contributed to sales expansion by concentrating on technical services for various applications and cultivating new markets.



Information, the Environment and Health

- For the cyclo-olefin polymer (COP) ZEONEX series, the Division has developed optical applications for pickup lenses used in blue lasers for blue-ray discs by taking full advantage of its extremely low birefringence. For the ZEONOR series, we are expanding applications to Super Audio CDs and heat-shrink labels for beverage bottles. Furthermore, we have focused on the development of precision optical films used for polarizing films and polarizing plate protection films for LCDs.
- In the fields of liquid crystals and EL, ZEON introduced new products into the market to meet the active demand for solutions and resists for various flat display panels.
- In response to the expanded sales of polymerized toner, driven by its low-temperature fixing and high image qualities, we reinforced production during fiscal 2003. The development of polymerized color toner is proceeding as planned due to its widely regarded low-temperature fixing and high image qualities.
- ZEORORA ZFL-58 is becoming a world standard product, widely recognized for its excellent etching performance and environmental friendliness. Demand for the fluorine cleaning solvent ZEORORA-H, on the other hand, has been increasing as a substitute for CFCs.
- The adoption of binder for lithium-ion batteries is increasing due to their recognized effects in improving battery capacity and the assembly yield rate.
- The development of housing equipment and materials such as sink basins and bathtub pans applying DCPD-RIM (Reaction Injection Molding) contributed to sales, while technical support for compact septic tanks also helped to boost the business.
- In environmental materials, we have been developing products that effectively utilize waste plastic while also improving quality. We are also actively developing composite products using recycled materials, such as wood particles and used train tickets.
- In research related to medical equipment, we have been developing new products in the fields of circulatory system catheters, including PTCA catheters and IABP catheters, as well as digestive system and clonal catheters, toward expanding product lines ahead of market demand.

Others

- Zeon Kasei Kawasaki Laboratory has been focusing on developing compounds specifically for construction and car interior materials, particularly various environmentally friendly wood dust compounds that are highly regarded by customers. Zeon Kasei has been developing new applications for acrylic pastes that replace PVC pastes, substantially contributing to market expansion. In addition to the existing olefin sheet business, Zeon Kasei entered the film business, with development centered on conductive liner sheets and conductive films steadily leading to increased sales for electronic applications. In addition, deodorants for textile applications that were developed to counter perspiration odor significantly boosted profit, while the deodorant product lines were expanded to strengthen business.

Corporate Information

ZEON Corporation

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Export Sales Tel: +81-3-3216-1807
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Public Relations Dept. Tel: +81-3-3216-2747
Fax: +81-3-3216-0501

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

Date of Establishment April 12, 1950

Capital ¥24,211 million (at March 31, 2003)

Number of Employees 2,868 (at March 31, 2003)

Directors and Auditors (As of June 27, 2003)

Chairman Katsuhiko Nakano

President & CEO Naozumi Furukawa

**Representative Executive
Managing Director** Yutaka Otawa

Executive Managing Director Masahiro Yamazaki

Managing Directors Teruaki Hiramatsu
Hideki Seki
Yoichi Mishima
Masafumi Miyamoto

Directors Tadao Natsume
Yasuro Wada
Seiichi Okada
Yoshiro Ogura
Masaaki Nimura
Tadayuki Minami
Kohei Arakawa
Yoshimasa Fushimi

Standing Auditors Masaru Kagawa
Satoshi Sema

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

Consolidation	Percentage Owned
Zeon Kasei Co., Ltd.	100.0
Zeon Polymix Inc.	100.0
Zeon Medical Inc.	100.0
Optes Inc.	100.0
Zeon Yamaguchi Co., Ltd.	100.0
Zeon North Co., Ltd.	100.0
Zeon Engineering Co., Ltd.	100.0
Zeon Information System Co., Ltd.	100.0
Tokyo Zairyo Co., Ltd.	53.9
Zeon Environmental Materials Co., Ltd.	100.0
Zeon F&B Co., Ltd.	100.0
Equity method	
Zeon Analysis Center Co., Ltd.	100.0

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

Consolidation	Percentage Owned
Zeon Chemicals Inc 4100 Bells Lane, Louisville, Kentucky 40211, U.S.A. Tel: +502-775-7700 Fax: +502-775-7714	100.0
Zeon Chemicals Europe Ltd. Sully, Vale of Glamorgan, CF64 5YU, United Kingdom Tel: +44-1446-725400 Fax: +44-1446-747988	100.0
Zeon Europe GmbH Niederlasser Lohweg 177, 40507 Dusseldorf, Germany Tel: +49-211-52670 Fax: +49-211-5267260	100.0
Zeon Chemicals (Thailand) Co.,Ltd. 3 Tambol Huavpong, Soi G-14 Pakom-Songkhororat Road, Amphur Muang, Rayong 21150, Thailand Tel: +66-3-868-5973-5 Fax: +66-3-868-5972	73.9
Zeon Asia Pte Ltd. 331 North Bridge Road, #20-01/02, Odeon Towers, Singapore 188720 Tel: +65-6332-2338 Fax: +65-6332-2339	100.0
Zeon Chemicals L.P.	100.0
Zeon Chemicals International Sales Inc.	100.0
Zeon Biomune Inc.	100.0
Riverport Corporation	100.0
Biomune Corporation(Partnership)	75.0
Zeon GP LLC	100.0
Equity method	
Zeon Deutschland GmbH	100.0

Consolidated Financial Statements

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Consolidated Balance Sheets

ZEON Corporation and Consolidated Subsidiaries
As of March 31, 2003 and 2002

Assets	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2003	2002	2003	2002
Current assets:				
Cash and cash equivalents (Note 16)	¥ 9,334	¥ 17,144	\$ 77,654	\$ 142,629
Short-term investments (Note 8)	100	100	832	832
Receivables, trade:				
Notes and accounts	43,646	49,633	363,111	412,920
Unconsolidated subsidiaries and affiliates	2,078	1,760	17,288	14,642
Inventories (Note 5)	33,607	37,556	279,592	312,446
Deferred tax assets (Note 13)	1,828	2,046	15,208	17,022
Other current assets (Note 9)	17,953	14,050	149,360	116,889
Allowance for doubtful accounts	(783)	(835)	(6,514)	(6,947)
Total current assets	107,763	121,454	896,531	1,010,433
Property, plant and equipment, at cost (Notes 8 and 10):				
Land	12,745	12,967	106,032	107,879
Buildings and structures	39,926	39,519	332,163	328,777
Machinery and equipment	162,249	160,754	1,349,825	1,337,388
Construction in progress	3,136	3,456	26,090	28,752
	218,056	216,696	1,814,110	1,802,796
Less accumulated depreciation	(143,773)	(138,905)	(1,196,115)	(1,155,616)
Property, plant and equipment, net	74,283	77,791	617,995	647,180
Investments and other assets (Note 6):				
Unconsolidated subsidiaries and affiliates	2,242	4,256	18,652	35,407
Deferred tax assets (Note 13)	1,794	315	14,925	2,621
Investment securities (Note 8 and 16)	17,731	17,383	147,512	144,617
Other	5,656	4,385	47,055	36,481
Allowance for doubtful long-term loans	(935)	(1,260)	(7,778)	(10,483)
Total investments and other assets	26,488	25,079	220,366	208,643
Intangible assets	7,456	8,235	62,030	68,511
Deferred charges (Note 7)	10	169	83	1,406
Total assets	¥216,000	¥232,728	\$1,797,005	\$1,936,173

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2003	2002	2003	2002
Liabilities and shareholders' equity				
Current liabilities:				
Short-term loans payable (Note 8)	¥ 27,608	¥ 42,608	\$ 229,684	\$ 354,476
Current portion of long-term debt (Note 8)	22,485	14,072	187,063	117,071
Payables, trade:				
Notes and accounts	43,639	39,906	363,053	331,997
Unconsolidated subsidiaries and affiliates	4,962	4,299	41,281	35,765
Payables, other (Note 9)	5,483	9,507	45,616	79,093
Accrued income taxes	2,321	386	19,309	3,211
Accrued expenses (Note 9)	4,686	5,583	38,985	46,448
Other current liabilities (Note 9 and 13)	3,803	2,322	31,639	19,318
Total current liabilities	114,987	118,683	956,630	987,379
Long-term liabilities:				
Long-term debt (Note 8)	18,599	36,723	154,734	305,516
Deferred tax liabilities (Note 13)	1,079	1,704	8,977	14,176
Allowance for employees' retirement benefits (Note 12)	8,003	6,607	66,581	54,967
Other long-term liabilities	6,962	2,372	57,920	19,734
Total long-term liabilities	34,643	47,406	288,212	394,393
Minority interests	1,200	1,152	9,983	9,584
Contingent liabilities (Note 14)	—	—	—	—
Shareholders' equity:				
Common stock, without par value:				
Authorized – 800,000,000 shares				
Issued – 242,075,556 shares	24,211	24,211	201,423	201,423
Capital surplus	18,336	18,336	152,546	152,546
Retained earnings (Note 4)	24,168	23,112	201,065	192,279
Foreign currency translation adjustments	(1,380)	(467)	(11,481)	(3,885)
Net unrealized holding gain on available-for-sale securities	16	469	133	3,902
Treasury stock, at cost:				
2002 – 317,933 shares	—	(174)	—	(1,448)
2003 – 333,206 shares	(181)	—	(1,506)	—
Total shareholders' equity	65,170	65,487	542,180	544,817
Total liabilities and shareholders' equity	¥216,000	¥232,728	\$1,797,005	\$1,936,173

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

ZEON Corporation and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2003	2002	2003	2002
Net sales	¥210,889	¥191,168	\$1,754,484	\$1,590,416
Cost of sales (Note 10 and 12)	156,988	142,483	1,306,057	1,185,383
Gross profit	53,901	48,685	448,427	405,033
Selling, general and administrative expenses (Note 10,11 and 12)	40,956	38,362	340,732	319,151
Operating income	12,945	10,323	107,695	85,882
Other income (expenses):				
Interest and dividend income	410	329	3,411	2,737
Interest expense	(1,519)	(1,892)	(12,637)	(15,740)
Equity in earnings of unconsolidated subsidiaries and affiliates, net	7	88	58	732
Other, net (Note 16 and 18)	(7,252)	(7,376)	(60,332)	(61,365)
	(8,354)	(8,851)	(69,500)	(73,636)
Income before income taxes and minority interests	4,591	1,472	38,195	12,246
Income taxes – current	2,591	880	21,556	7,321
Income taxes – deferred	(1,036)	478	(8,619)	3,977
Income before minority interests	3,036	114	25,258	948
Minority interests in net (income) losses of consolidated subsidiaries	14	(86)	116	(715)
Net income	¥ 3,050	¥ 28	\$ 25,374	\$ 233

	Yen		U.S. dollars (Note 3)	
	2003	2002	2003	2002
Amounts per share:				
Net income	¥ 12.41	¥ 0.11	\$ 0.10	\$ 0.00
Cash dividends	5.00	5.00	0.04	0.04

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ZEON Corporation and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

	Thousands	Millions of yen					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Foreign currency translation adjustments	Net unrealized holding gain on available-for-sale securities	Treasury stock
Balance at March 31, 2001	242,076	¥24,211	¥18,336	¥23,862	¥(2,728)	¥ —	¥(324)
Increase due to change in number of consolidated subsidiaries	—	—	—	127	—	—	—
Net income for the year	—	—	—	28	—	—	—
Decrease due to change in number of consolidated subsidiaries	—	—	—	(2)	—	—	—
Cash dividends paid	—	—	—	(845)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(58)	—	—	—
Net change during the year	—	—	—	—	2,261	469	150
Balance at March 31, 2002	242,076	24,211	18,336	23,112	(467)	469	(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	—	—	—	—	(913)	(453)	(7)
Balance at March 31, 2003	242,076	¥24,211	¥18,336	¥24,168	¥(1,380)	¥ 16	¥(181)

	Thousands of U.S. dollars (Note 3)					
	Common stock	Capital surplus	Retained earnings	Foreign currency translation adjustments	Net unrealized holding gain on available-for-sale securities	Treasury stock
Balance at March 31, 2001	\$201,423	\$152,546	\$198,519	\$(22,696)	\$ —	\$(2,696)
Increase due to change in number of consolidated subsidiaries	—	—	1,057	—	—	—
Net income for the year	—	—	233	—	—	—
Decrease due to change in number of consolidated subsidiaries	—	—	(17)	—	—	—
Cash dividends paid	—	—	(7,030)	—	—	—
Bonuses to directors and statutory auditors	—	—	(483)	—	—	—
Net change during the year	—	—	—	18,811	3,902	1,248
Balance at March 31, 2002	201,423	152,546	192,279	(3,885)	3,902	(1,448)
Net income for the year	—	—	25,374	—	—	—
Cash dividends paid	—	—	(15,066)	—	—	—
Bonuses to directors and statutory auditors	—	—	(291)	—	—	—
Adjustment in minimum pension liability of consolidated subsidiaries in U.S.A.	—	—	(1,231)	—	—	—
Net change during the year	—	—	—	(7,596)	(3,769)	(58)
Balance at March 31, 2003	\$201,423	\$152,546	\$201,065	\$(11,481)	\$ 133	\$(1,506)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ZEON Corporation and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2003	2002	2003	2002
Cash flows from operating activities				
Income before income taxes and minority interests	¥ 4,591	¥ 1,472	\$ 38,195	\$ 12,246
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	10,357	10,220	86,165	85,025
Increase in allowance for employees' retirement benefits	1,438	1,228	11,963	10,216
Interest and dividend income	(410)	(329)	(3,411)	(2,737)
Interest expense	1,519	1,892	12,637	15,740
Loss on devaluation of investment securities	2,467	5,253	20,524	43,702
Decrease (increase) in receivables, trade	5,625	9,010	46,797	74,958
Decrease (increase) in inventories	3,445	4,050	28,661	33,694
(Decrease) increase in payables, trade	4,330	(2,167)	36,024	(18,028)
Other, net	(6,150)	2,597	(51,165)	21,607
Cash generated from operations	27,212	33,226	226,390	276,423
Interest and dividends received	389	322	3,236	2,678
Interest paid	(1,402)	(1,897)	(11,664)	(15,782)
Income taxes paid	(170)	(2,188)	(1,414)	(18,203)
Net cash provided by operating activities	26,029	29,463	216,548	245,116
Cash flows from investing activities				
Purchases of investment securities	(3,549)	(703)	(29,526)	(5,849)
Proceeds from sales of investment securities	818	948	6,805	7,887
Purchases of property, plant and equipment	(9,095)	(8,897)	(75,666)	(74,018)
Proceeds from sales of property, plant and equipment	536	3,051	4,459	25,383
Purchases of intangible assets	(672)	(2,492)	(5,591)	(20,732)
Increase in loans receivable	(1,644)	(1,182)	(13,677)	(9,834)
Other, net	180	(268)	1,498	(2,230)
Net cash used in investing activities	(13,426)	(9,543)	(111,698)	(79,393)
Cash flows from financing activities				
(Decrease) increase in short-term borrowings	(14,692)	(5,204)	(122,230)	(43,295)
Proceeds from long-term debt	5,743	1,564	47,779	13,012
Repayment of long-term debt	(15,241)	(6,180)	(126,797)	(51,414)
Decrease in commercial paper	—	(5,000)	—	(41,597)
Dividends paid	(1,816)	(853)	(15,108)	(7,097)
Security deposits from loan for consumption of securities	5,303	—	44,118	—
Other, net	(8)	(57)	(67)	(474)
Net cash used in financing activities	(20,711)	(15,730)	(172,305)	(130,865)
Effect of exchange rate changes on cash and cash equivalents	(46)	226	(383)	1,880
Net increase (decrease) in cash and cash equivalents	(8,154)	4,416	(67,838)	36,738
Increase in cash due to increase in number of consolidated subsidiaries	344	2,597	2,863	21,605
Cash and cash equivalents at beginning of year	17,144	10,131	142,629	84,285
Cash and cash equivalents at end of year	¥ 9,334	¥17,144	\$ 77,654	\$142,628

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Basis of Presentation

ZEON CORPORATION (the "Company") and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted and applied in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

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

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

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (22 subsidiaries as of March 31, 2003 and 19 subsidiaries as of March 31, 2002). All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in certain unconsolidated subsidiaries and significant affiliates are accounted for by the equity method. All significant unrealized intercompany items have been eliminated in consolidation.

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

(2) Cash and Cash Equivalents

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

(3) Securities

Securities other than investments in affiliates have been classified as "held-to-maturity securities" and "available-for-sale securities." Available-for-sale securities are securities other than trading securities and held-to-maturity securities. Held-to-maturity securities are carried at amortized cost or accumulated cost calculated by the straight-line method. Available-for-sale securities whose fair value is readily determinable are carried at fair value with the corresponding unrealized gain/loss recorded directly as a separate component of shareholders' equity, and those whose fair value is not readily determinable are carried at moving average cost.

(4) Allowance for Doubtful Accounts

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

(5) Inventories

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

(6) Depreciation

Depreciation of property, plant and equipment is computed generally 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) Deferred Charges

Bond issuance expenses are deferred and amortized by the straight-line method over a period of three years.

Certain research and development costs which are expected to generate future revenues are capitalized as deferred charges and amortized on a straight-line basis over a period of five years in accordance with the Commercial Code. Other research and development costs are charged to expense as incurred.

(8) Leases

Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(9) Employees' Retirement Benefits

The allowance for employees' retirement benefits is provided principally based on the retirement benefit obligation less the fair value of the plan assets. The net retirement benefit obligation at transition of ¥15,539 million (\$129,276 thousand) is being amortized over five years and amortization commenced the year ended March 31, 2001. The plan assets of the Company include an employees' retirement benefit trust to which the Company contributed its own securities.

(10) 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.

Notes to Consolidated Financial Statements (continued)

(11) 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."

(12) 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.

(13) 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.

The Company has adopted Financial Accounting Standard No.2, "Accounting Standard for Earnings per Share", and the Financial Accounting Standards Implementation Guidance No.4, "Implementation Guidance for the Accounting Standard for Earnings per Share", since the year beginning April 1,2002. Net income per share for the year ended March 31,2002 would have been reported ¥ (0.03), if this new accounting standard was applied retroactively.

(14) Treasury Stock and Reduction of Legal Reserves

Effective from April 1, 2002, the Company adopted Financial Accounting Standard No.1, "Accounting Standard on Treasury Stock and Reversal of Legal Reserves". The effect on net income of adopting of this standard is insignificant.

Due to the amendment of Regulations Concerning the Terminology, Forms and Preparation Methods of Consolidated Financial Statements, the Company discloses the shareholders' equity section in the consolidated balance sheet as at March 31, 2003 and the consolidated statement of capital surplus and retained earnings for the year ended March 31, 2003 in accordance with the revised regulations.

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 ¥120.20 = US\$1.00, the rate of exchange prevailing on March 31, 2003. 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

On October 1, 2001, an amendment (the "Amendment") to the Commercial Code of Japan (the "Code") became effective. The Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of October 1, 2001. The Amendment also provides that all share issuances after September 30, 2001 will be of shares with no par value. Prior to the date on which the Amendment became effective, the Company's shares of common stock had a par value of ¥50 per share.

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 equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

The retained earnings account in the accompanying consolidated financial statements at March 31, 2003 included the legal reserve of ¥3,143 million (\$26,147 thousand).

5. Inventories

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Finished products	¥25,314	¥29,414	\$210,599	\$244,709
Work in process	2,548	2,491	21,198	20,724
Raw materials and supplies	5,745	5,651	47,795	47,013
	¥33,607	¥37,556	\$279,592	\$312,446

6. Investments and Long-Term Loans

Investments in and long-term loans to unconsolidated subsidiaries and affiliates at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Capital investments	¥2,027	¥3,839	\$16,863	\$31,938
Long-term loans	215	417	1,789	3,469
	¥2,242	¥4,256	\$18,652	\$35,407

Other investments at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Long-term prepayments	¥1,058	¥1,391	\$ 8,802	\$11,572
Other	4,598	2,994	38,253	24,909
	¥5,656	¥4,385	\$47,055	\$36,481

7. Deferred Charges

Deferred charges at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Research and development costs	¥—	¥156	\$—	\$1,298
Other	10	13	83	108
	¥10	¥169	\$83	\$1,406

Notes to Consolidated Financial Statements (continued)

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

Short-term loans payable at March 31, 2003 and 2002 were unsecured. Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
2.05% Japanese yen unsecured bonds due 2002	¥ —	¥10,000	\$ —	\$ 83,195
2.5% Japanese yen unsecured bonds due 2004	10,000	10,000	83,195	83,195
2.0% Japanese yen unsecured bonds due 2003	10,000	10,000	83,195	83,195
Loans (principally from banks and insurance companies) and capital lease obligations	21,084	20,795	175,407	173,002
	41,084	50,795	341,797	422,587
Less current portion	(22,485)	(14,072)	(187,063)	(117,071)
	¥18,599	¥36,723	\$154,734	\$305,516

The aggregate annual maturities of long-term debt subsequent to March 31, 2003 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥22,485	\$187,063
2005	11,970	99,584
2006	2,051	17,063
2007	3,387	28,178
2008 and thereafter	1,191	9,909
	¥41,084	\$341,797

Assets pledged as collateral for long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Time deposits	¥ 100	¥ 100	\$ 832	\$ 832
Property, plant and equipment, at net book value	41,748	44,737	347,321	372,188
Investment securities	1,787	2,204	14,867	18,336

9. Supplementary Information to the Consolidated Balance Sheets

Balances with unconsolidated subsidiaries and affiliates at March 31, 2003 and 2002 were principally as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Other current assets	¥5,805	¥4,512	\$48,295	\$37,537
Account payable – other	40	26	333	216
Accrued expenses	280	491	2,329	4,085
Other current liabilities	341	440	2,837	3,661

10. Depreciation and Amortization

Depreciation and amortization charges for the years ended March 31, 2003 and 2002 were ¥10,516 million (\$87,486 thousand) and ¥10,442 million (\$86,868 thousand), respectively.

11. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2003 and 2002 were ¥7,123 million (\$59,258 thousand) and ¥6,377 million (\$53,057 thousand), respectively.

12. Retirement Benefits

The Company and certain domestic consolidated subsidiaries have a non-contributory pension plan administered by an independent trustee which covers substantially all their employees and a lump-sum severance indemnity plan which qualifies as a defined benefit pension plan. Certain foreign consolidated subsidiaries also have defined benefit pension plans covering substantially all their employees. The Company has contributed its own securities to an employees' retirement benefit trust.

The table below sets forth the funded status of the plans and the amounts recognized in the balance sheets at March 31, 2003 and 2002:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Projected benefit obligation	¥(30,095)	¥(31,054)	\$ (250,374)	\$ (258,353)
Plan assets at fair value	8,719	11,075	72,537	92,138
Projected benefit obligation in excess of plan assets	(21,376)	(19,979)	(177,837)	(166,215)
Unrecognized net retirement benefit obligation at transition	4,232	6,347	35,208	52,804
Unrecognized net actuarial loss	8,922	7,227	74,226	60,125
Unrecognized past service cost	219	—	1,822	—
Prepaid pension cost	—	(202)	—	(1,681)
Allowance for employees' retirement benefits	¥ (8,003)	¥ (6,607)	\$ (66,581)	\$ (54,967)

Retirement benefit expenses related to the plans, including amortization of the unfunded projected benefit obligation for the years ended March 31, 2003 and 2002, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Service cost	¥1,221	¥1,219	\$10,158	\$10,141
Interest cost	904	874	7,521	7,271
Expected return on plan assets	(264)	(365)	(2,196)	(3,037)
Amortization of net retirement benefit obligation at translation	2,115	2,115	17,596	17,596
Allocation of actuarial loss	573	387	4,767	3,220
Amortization of past service cost	41	29	341	241
Net retirement benefit expenses	¥4,590	¥4,259	\$38,187	\$35,432

The assumptions at March 31, 2003 and 2002, which were used in determining retirement benefit expenses and the allowance for employees' retirement benefits shown above were as follows:

	2003	2002
Allocation of retirement benefit expenses	Flat allocation	Flat allocation
Discount rates	2.5% – 7.0%	2.5% – 7.5%
Expected rates of return on plan assets	1.0% – 8.25%	1.0% – 8.25%
Period of amortization of past service cost	15 years	9 – 12 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

Notes to Consolidated Financial Statements (continued)

13. Income Taxes

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

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Deferred tax assets:				
Inventories	¥ 454	¥ 387	\$ 3,777	\$ 3,220
Investment securities	263	90	2,188	749
Net unrealized gain	601	485	5,000	4,035
Allowance for doubtful accounts	468	537	3,893	4,468
Accrued enterprise tax	216	22	1,797	183
Accrued expenses	434	349	3,611	2,903
Allowance for employees' retirement benefits	4,994	4,138	41,547	34,426
Retirement allowances for directors and statutory auditors	316	316	2,629	2,629
Operating losses carried forward	68	607	566	5,050
Foreign exchange loss	319	—	2,654	—
Net unrealized holding gain on available-for-sale securities	5	—	42	—
Other	1,280	1,300	10,649	10,815
Gross deferred tax assets	9,418	8,231	78,353	68,478
Valuation allowance	(168)	(90)	(1,398)	(749)
Total deferred tax assets	9,250	8,141	76,955	67,729
Deferred tax liabilities:				
Depreciation and amortization	(2,264)	(2,087)	(18,835)	(17,363)
Land	(314)	(399)	(2,612)	(3,319)
Investment securities	(304)	(267)	(2,529)	(2,221)
Reserve for deferred gain on fixed assets for tax purposes	(1,328)	(1,540)	(11,048)	(12,812)
Gain on contribution of securities to employees' retirement benefit trust	(1,488)	(1,488)	(12,379)	(12,379)
Retained earnings	(831)	(941)	(6,914)	(7,829)
Foreign exchange gain	—	(306)	—	(2,546)
Net unrealized holding gain on available-for-sale securities	—	(266)	—	(2,213)
Other	(187)	(193)	(1,556)	(1,606)
Total deferred tax liabilities	(6,716)	(7,487)	(55,873)	(62,288)
Net deferred tax assets	¥2,534	¥ 654	\$21,082	\$ 5,441

A reconciliation of the differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2003 and 2002 is as follows:

	2003	2002
Statutory tax rate	42.0%	42.0%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses	1.2	20.3
Unrealized gain	(4.0)	18.6
Equity in losses of unconsolidated subsidiaries and affiliates, net	0.2	17.8
Net losses of consolidated subsidiaries	5.9	—
Tax credit	(5.5)	(4.3)
Other	(5.9)	(2.2)
Effective tax rates	33.9%	92.2%

Japanese Local Tax Law was amended and the Company's aggregate statutory tax rate will decrease effective April 1, 2004. The effective tax rate reflected in the calculation of deferred taxes was 42% for temporary differences for which reversals are scheduled in the year to March 31, 2004, and was 40% for temporary differences for which reversals are scheduled thereafter.

As a result, deferred tax assets (net of deferred tax liabilities) decreased by ¥127 million (\$1,055 thousand) and income tax-deferred increased by ¥127 million (\$1,055 thousand).

14. Contingent Liabilities

Contingent liabilities at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Notes discounted and endorsed	¥ 91	¥ 165	\$ 757	\$ 1,373
Guarantees	4,009	5,048	33,353	41,997

15. Leases

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥1,176 million (\$9,784 thousand) and ¥1,248 million (\$10,383 thousand) for the years ended March 31, 2003 and 2002, respectively. Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2003 and 2002 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Due within one year	¥1,040	¥1,048	\$ 8,652	\$ 8,719
Due after one year	1,202	1,543	10,000	12,837
Total	¥2,242	¥2,591	\$18,652	\$21,556

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2003 and 2002 for operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Due within one year	¥209	¥201	\$1,739	\$1,672
Due after one year	197	157	1,639	1,306
Total	¥406	¥358	\$3,378	\$2,978

16. Securities

The fair value at March 31, 2003 and 2002 of available-for-sale securities is summarized as follows:

	At March 31, 2003					
	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Fair value	Unrealized gain (loss)	Acquisition cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their acquisition cost:						
Equity securities	¥ 6,030	¥ 7,296	¥ 1,266	\$ 50,167	\$ 60,699	\$ 10,532
Bonds and debentures	—	—	—	—	—	—
Subtotal	¥ 6,030	¥ 7,296	¥ 1,266	\$ 50,167	\$ 60,699	\$ 10,532
Securities whose acquisition cost exceeds their fair value:						
Equity securities	¥ 7,147	¥ 5,867	¥(1,280)	\$ 59,459	\$ 48,810	\$(10,649)
Bonds and debentures	1	1	—	8	8	—
Subtotal	¥ 7,148	¥ 5,868	¥(1,280)	\$59,467	\$ 48,818	\$(10,649)
Total	¥13,178	¥13,164	¥ (14)	\$109,634	\$109,517	\$ (117)

Notes to Consolidated Financial Statements (continued)

	At March 31, 2002					
	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Fair value	Unrealized gain (loss)	Acquisition cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their acquisition cost:						
Equity securities	¥ 7,561	¥ 9,158	¥ 1,597	\$ 62,903	\$ 76,190	\$ 13,287
Bonds and debentures	1	1	0	8	8	0
Subtotal	¥ 7,562	¥ 9,159	¥ 1,597	\$ 62,911	\$ 76,198	\$ 13,287
Securities whose acquisition cost exceeds their fair value:						
Equity securities	¥ 7,536	¥ 6,555	¥(981)	\$ 62,696	\$ 54,534	\$(8,162)
Bonds and debentures	—	—	—	—	—	—
Subtotal	¥ 7,536	¥ 6,555	¥(981)	\$62,696	\$54,534	\$(8,162)
Total	¥15,098	¥15,714	¥ 616	\$125,607	\$130,732	\$ 5,125

Total sales of available-for-sale securities and the related net realized gain for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Total sales	¥635	¥188	\$5,283	\$1,564
Net realized gain	364	111	3,028	923

Securities whose fair value was not known at March 31, 2003 and 2002 principally consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Held-to-maturity securities:				
Corporate bonds	¥ 6	¥ 6	\$ 50	\$ 50
Municipal bonds	18	24	150	200
Available-for-sale securities:				
Unlisted equity securities	3,542	639	29,468	5,316
Unlisted foreign bonds	1,000	1,000	8,319	8,319
Money management funds	135	114	1,123	948

The carrying amounts of held-to-maturity securities and available-for-sale securities which had maturities at March 31, 2003 and 2002 were as follows:

	At March 31, 2003							
	Millions of yen				Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Bonds	¥12	¥13	¥—	¥—	\$100	\$108	\$—	\$—
Total	¥12	¥13	¥—	¥—	\$100	\$108	\$—	\$—

	At March 31, 2002							
	Millions of yen				Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Bonds	¥6	¥25	¥—	¥—	\$50	\$208	\$—	\$—
Total	¥6	¥25	¥—	¥—	\$50	\$208	\$—	\$—

17. Fair Value of Derivatives Positions

The fair value of derivatives positions at March 31, 2003 and 2002 is summarized as follows:

	At March 31, 2003					
	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
To sell foreign currencies	¥ 271	¥ 269	¥ 2	\$ 2,255	\$ 2,238	\$ 17
To buy foreign currencies	998	1,034	36	8,303	8,602	299
	¥1,269	¥1,303	¥38	\$10,558	\$10,840	\$316

	At March 31, 2002					
	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
To sell foreign currencies	¥5,274	¥5,394	¥(120)	\$43,877	\$44,875	\$(998)
To buy foreign currencies	1,358	1,393	35	11,298	11,589	291
	¥6,632	¥6,787	¥ (85)	\$55,175	\$56,464	\$(707)

18. Other Income (Expenses)—Other, Net

Other income (expenses)—other, net for the years ended March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Gain on sales of investment securities	¥ 364	¥ 111	\$ 3,028	\$ 923
Rental income	113	207	940	1,722
Gain on sales of property, plant and equipment	75	1,923	624	15,998
Amortization of deferred charges	(157)	(222)	(1,306)	(1,847)
Foreign exchange gain, net	(1,148)	143	(9,551)	1,190
Loss on disposal of property, plant and equipment	(326)	(290)	(2,712)	(2,413)
Restructuring costs	(25)	—	(208)	0
Loss on devaluation of investment securities	(2,467)	(5,253)	(20,524)	(43,702)
Amortization of net retirement benefit obligation at transition	(2,115)	(2,115)	(17,596)	(17,596)
Other, net	(1,566)	(1,880)	(13,027)	(15,640)
	¥(7,252)	¥(7,376)	\$(60,332)	\$(61,365)

Notes to Consolidated Financial Statements (continued)

19. Segment Information

The business and geographical segments of the Company and its consolidated subsidiaries for the years ended March 31, 2003 and 2002 are outlined as follows:

Business Segments

	Year ended March 31, 2003							
	Millions of yen							
	Rubber	Latices	Chemicals	Information, the environment, and health	Others	Total	Eliminations and corporate assets	Consolidated
I. Sales and operating income:								
Sales to third parties	¥90,848	¥14,778	¥25,567	¥31,221	¥48,475	¥210,889	¥ —	¥210,889
Inter-group sales and transfers	43	—	—	82	630	755	(755)	—
Total	90,891	14,778	25,567	31,303	49,105	211,644	(755)	210,889
Operating expenses	85,108	13,856	22,510	29,236	48,025	198,735	(791)	197,944
Operating income	¥ 5,783	¥ 922	¥ 3,057	¥ 2,067	¥ 1,080	¥ 12,909	¥ 36	¥ 12,945

II. Assets, depreciation and capital expenditures:								
Total assets	¥89,280	¥11,377	¥24,544	¥31,125	¥24,980	¥181,306	¥34,694	¥216,000
Depreciation	4,495	591	1,759	2,192	343	9,380	977	10,357
Capital expenditures	2,549	391	690	3,105	269	7,004	1,124	8,128

	Year ended March 31, 2002							
	Millions of yen							
	Rubber	Latices	Chemicals	Information, the environment, and health	Others	Total	Eliminations and corporate assets	Consolidated
I. Sales and operating income:								
Sales to third parties	¥81,640	¥13,975	¥23,357	¥27,717	¥44,479	¥191,168	¥ —	¥191,168
Inter-group sales and transfers	54	—	—	18	228	300	(300)	—
Total	81,694	13,975	23,357	27,735	44,707	191,468	(300)	191,168
Operating expenses	78,133	12,083	20,047	27,011	43,862	181,136	(291)	180,845
Operating income	¥ 3,561	¥ 1,892	¥ 3,310	¥ 724	¥ 845	¥ 10,332	¥ (9)	¥ 10,323

II. Assets, depreciation and capital expenditures:								
Total assets	¥100,470	¥12,910	¥24,622	¥32,161	¥26,140	¥196,303	¥36,425	¥232,728
Depreciation	4,744	639	1,716	2,066	434	9,599	621	10,220
Capital expenditures	3,864	563	693	3,297	714	9,131	2,355	11,486

	Year ended March 31, 2003							
	Thousands of U.S. dollars							
	Rubber	Latices	Chemicals	Information, the environment, and health	Others	Total	Eliminations and corporate assets	Consolidated
I. Sales and operating income:								
Sales to third parties	\$755,807	\$122,945	\$212,704	\$259,742	\$403,286	\$1,754,484	\$ —	\$1,754,484
Inter-group sales and transfers	358	—	—	682	5,241	6,281	(6,281)	—
Total	756,165	122,945	212,704	260,424	408,527	1,760,765	(6,281)	1,754,484
Operating expenses	708,053	115,275	187,271	243,228	399,543	1,653,370	(6,581)	1,646,789
Operating income	\$ 48,112	\$ 7,670	\$ 25,433	\$ 17,196	\$ 8,984	\$ 107,395	\$ 300	\$ 107,695

II. Assets, depreciation and capital expenditures:								
Total assets	\$742,762	\$94,651	\$204,193	\$258,943	\$207,820	\$1,508,369	\$288,636	\$1,797,005
Depreciation	37,396	4,917	14,634	18,236	2,854	78,037	8,128	86,165
Capital expenditures	21,206	3,253	5,740	25,832	2,238	58,269	9,351	67,620

	Year ended March 31, 2002							
	Thousands of U.S. dollars							
	Rubber	Latices	Chemicals	Information, the environment, and health	Others	Total	Eliminations and corporate assets	Consolidated
I. Sales and operating income:								
Sales to third parties	\$679,201	\$116,265	\$194,318	\$230,591	\$370,041	\$1,590,416	\$ —	\$1,590,416
Inter-group sales and transfers	449	—	—	150	1,897	2,496	(2,496)	—
Total	679,650	116,265	194,318	230,741	371,938	1,592,912	(2,496)	1,590,416
Operating expenses	650,025	100,524	166,780	224,717	364,909	1,506,955	(2,421)	1,504,534
Operating income	\$ 29,625	\$ 15,741	\$ 27,538	\$ 6,024	\$ 7,029	\$ 85,957	\$ (75)	\$ 85,882

II. Assets, depreciation and capital expenditures:								
Total assets	\$835,857	\$107,404	\$204,842	\$267,562	\$217,471	\$1,633,136	\$303,037	\$1,936,173
Depreciation	39,468	5,316	14,276	17,188	3,611	79,859	5,166	85,025
Capital expenditures	32,146	4,684	5,765	27,429	5,940	75,964	19,592	95,556

Geographical Segments

Year ended March 31, 2003

Millions of yen

	Japan	North America	Europe	Asia	Total	Eliminations and corporate assets	Consolidated
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
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Year ended March 31, 2002

Millions of yen

	Japan	North America	Europe	Asia	Total	Eliminations and corporate assets	Consolidated
I. Sales and operating income:							
Sales to third parties	¥158,292	¥15,731	¥11,362	¥5,783	¥191,168	¥ —	¥191,168
Inter-group sales and transfers	9,795	5,956	163	1,190	17,104	(17,104)	—
Total	168,087	21,687	11,525	6,973	208,272	(17,104)	191,168
Operating expenses	158,972	20,314	11,413	6,673	197,372	(16,527)	180,845
Operating income	¥ 9,115	¥ 1,373	¥ 112	¥ 300	¥ 10,900	¥ (577)	¥ 10,323

II. Assets at end of year:

Total assets	¥166,914	¥34,924	¥ 7,895	¥4,256	¥213,989	¥ 18,739	¥232,728
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Year ended March 31, 2003

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	\$1,428,444	\$150,924	\$110,815	\$64,301	\$1,754,484	\$ —	\$1,754,484
Inter-group sales and transfers	117,013	56,556	715	8,727	183,011	(183,011)	—
Total	1,545,457	207,480	111,530	73,028	1,937,495	(183,011)	1,754,484
Operating expenses	1,450,932	195,874	110,258	70,000	1,827,064	(180,275)	1,646,789
Operating income	\$ 94,525	\$ 11,606	\$ 1,272	\$ 3,028	\$ 110,431	\$ (2,736)	\$ 107,695

II. Assets at end of year:

Total assets	\$1,293,403	\$266,905	\$ 70,632	\$32,521	\$1,663,461	\$133,544	\$1,797,005
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Year ended March 31, 2002

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	\$1,316,905	\$130,874	\$94,526	\$48,111	\$1,590,416	\$ —	\$1,590,416
Inter-group sales and transfers	81,489	49,551	1,356	9,900	142,296	(142,296)	—
Total	1,398,394	180,425	95,882	58,011	1,732,712	(142,296)	1,590,416
Operating expenses	1,322,562	169,002	94,950	55,516	1,642,030	(137,496)	1,504,534
Operating income	\$ 75,832	\$ 11,423	\$ 932	\$ 2,495	\$ 90,682	\$ (4,800)	\$ 85,882

II. Assets at end of year:

Total assets	\$1,388,635	\$290,549	\$65,682	\$35,408	\$1,780,274	\$155,899	\$1,936,173
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Notes to Consolidated Financial Statements (continued)

Overseas Sales

Sales are analyzed geographically as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Sales designated for:				
Japan	¥126,267	¥121,476	\$1,050,474	\$1,010,616
North America	24,887	22,785	207,046	189,559
Europe	20,984	18,329	174,576	152,488
Asia	36,501	26,683	303,669	221,988
Other	2,250	1,895	18,719	15,765
Total	¥210,889	¥191,168	\$1,754,484	\$1,590,416

20. Subsequent Event

The following appropriations of retained earnings of the Company were approved at a shareholders' meeting held on June 27, 2003:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥2.50=\$0.02 per share)	¥605	\$5,033
Bonuses to directors and statutory auditors	50	416

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, 2003 and 2002, 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 independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the years ended March 31, 2003 and 2002 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 27, 2003**

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of ZEON CORPORATION and consolidated subsidiaries under Japanese accounting principles and practices.

