

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT.

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Fiscal Year ended March 31, 2006 **Consolidated Financial Flash Report for the Year Ended March 31, 2006**

May 17, 2006

Name of Listed Company ZEON CORPORATION  
Listed Stock Exchanges Tokyo Stock Exchange and Osaka Securities Exchange  
Ticker Code 4205  
Location of Head Office (Prefecture) Metropolis of Tokyo

(URL <http://www.zeon.co.jp>)

Representative Contact President & CEO  
Director and General Manager,  
Finance & Accounting Department  
Name Naozumi Furukawa  
Name Tadayuki Minami

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Date of the Board of Directors Meeting held for Closing of Accounts May 17, 2006  
Adoption of U.S. GAAP No

### 1. Consolidated Performance for the Year Ended March 31, 2006 (April 1, 2005, through March 31, 2006)

#### (1) Consolidated operating results

Note: All amounts less than one million yen in the tables below are rounded off.

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2006	263,074	13.7	26,835	39.0	26,459	40.7
Year ended March 31, 2005	231,364	8.5	19,304	7.9	18,804	37.1

	Net income		Net income per share	Fully diluted net income per share
	Millions of yen	%	Yen	Yen
Year ended March 31, 2006	15,249	96.2	63.23	—
Year ended March 31, 2005	7,773	69.4	32.01	—

	Return on shareholders' equity (ROE)	Ordinary income to total assets	Ordinary income to net sales
	%	%	%
Year ended March 31, 2006	17.6	10.4	10.1
Year ended March 31, 2005	10.5	8.2	8.1

- Notes
- Equity in earnings (loss) of unconsolidated subsidiaries and affiliates, net:  
Year ended March 31, 2006 (¥21 million), Year ended March 31, 2005 ¥32 million
  - Average number of shares outstanding during the year (consolidated)  
Year ended March 31, 2006 239,577,391 shares  
Year ended March 31, 2005 241,126,214 shares
  - Change in accounting method: No
  - The percentage figures for net sales, operating income, ordinary income and net income indicate respective year-over-year changes from the previous fiscal year.

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**(2) Consolidated financial position**

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
Year ended March 31, 2006	272,674	96,528	35.4	405.10
Year ended March 31, 2005	236,861	76,357	32.3	317.86

Note Number of shares outstanding at the end of the year (consolidated)  
 Year ended March 31, 2006 238,034,549 shares  
 Year ended March 31, 2005 240,044,279 shares

**(3) Consolidated cash flows**

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2006	26,948	(25,011)	(5,653)	7,320
Year ended March 31, 2005	20,556	(17,666)	(5,489)	10,295

**(4) Scope of consolidation and application of the equity method**

Number of consolidated subsidiaries: 22  
 Number of unconsolidated subsidiaries accounted for by the equity method: 2  
 Number of affiliates accounted for by the equity method: 0

**(5) Changes in scope of consolidation and application of the equity method**

Consolidation:  
 Newly consolidated subsidiaries: 2, Excluded subsidiaries: 3  
 Equity method:  
 Newly applied affiliates: 0, Excluded affiliates: 0

**2. Projected Consolidated Performance for the Year Ending March 31, 2007 (April 1, 2006, through March 31, 2007)**

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Interim period ending September 30, 2006	133,500	13,000	7,000
Year ending March, 31, 2007 (Full year)	287,000	29,000	16,000

(Reference) 1. Projected net income per share (full year): ¥67.22

Note: These projected performance figures are based on information available to ZEON's management at the time this report was prepared and are subject to potential risks and uncertainty. Accordingly, the users should be aware that actual results may differ significantly from any expressed future performance herein due to various factors. See page 5 of the Attachment for further information on forecasts.

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### 3. Operating Results

#### (1) Overview of operating results for the fiscal year ended March 31, 2006

Despite the destabilizing factor of surge in raw material markets such as crude oil, in this consolidated fiscal year the Japanese economy escaped the temporary slowdown that had continued since the second half of the previous year. The economy is in a moderate recovery mainly thanks to domestic demand including increases in individual consumption and capital spending and improved employment situation due to stable expansion of corporate sector's performance.

In the petrochemical industry, raw material prices including naphtha still keep rising, causing a substantial cost increase and it will remain the biggest concern. On the other hand, the domestic economic recovery and a growth in export mainly to China kept demand high. The ZEON Group's demand remained stable relating to automobile, tire, liquid crystal component and overseas divisions.

In this business environment the Group continued its effort to reduce costs. However, the rise in material prices dented the profits and the Group worked toward revising the sales prices of our products in order to regain profitability in divisions including the elastomer business. Also the Group has implemented a profit-oriented sales policy especially in the overseas markets. The specialty materials business focused on development of new products and sales promotion.

As a result of these factors, the consolidated net sales for the year ended March 31, 2006 were 263,074 million yen (13.7% increase from the previous year). The operating income was 26,835 million yen (39.0% increase), the ordinary income was 26,459 million yen (40.7% increase) and the net income was 15,249 million yen (96.2% increase) on a consolidated base.

(Consolidated)

(Millions of yen)

Fiscal year \ Segment	Year ended March 31, 2006		Year ended March 31, 2005		Increase (decrease)	
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	Amount	Year over Year (%)
Net sales	263,074	100.0	231,364	100.0	31,710	13.7
Elastomer	156,136	59.3	138,417	59.8	17,719	12.8
Specialty materials	41,762	15.9	36,897	15.9	4,865	13.2
Other	65,799	25.0	56,409	24.4	9,390	16.6
Eliminations/Corporate	(623)	(0.2)	(359)	(0.1)	(264)	73.5

Fiscal year \ Account item	Year ended March 31, 2006		Year ended March 31, 2005		Increase (decrease)	
	Amount	Ratio to net sales (%)	Amount	Ratio to net sales (%)	Amount	Year over Year (%)
Operating income	26,835	10.2	19,304	8.3	7,532	39.0
Ordinary income	26,459	10.1	18,804	8.1	7,655	40.7
Net income	15,249	5.8	7,773	3.4	7,476	96.2

(Nonconsolidated)

(Millions of yen)

Fiscal year \ Segment	Year ended March 31, 2006		Year ended March 31, 2005		Increase (decrease)	
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	Amount	Year over Year (%)
Net sales	152,589	100.0	133,621	100.0	18,968	14.2
Elastomer	118,558	77.7	100,390	75.1	18,168	18.1
Specialty materials	30,785	20.2	30,118	22.6	667	2.2
Other	3,246	2.1	3,112	2.3	134	4.3

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Fiscal year Account item	Year ended March 31, 2006		Year ended March 31, 2005		Increase (decrease)	
	Amount	Ratio to net sales (%)	Amount	Ratio to net sales (%)	Amount	Year over Year (%)
Operating income	16,580	10.9	11,165	8.4	5,415	48.5
Ordinary income	18,043	11.8	11,966	9.0	6,076	50.8
Net income	10,493	6.9	5,771	4.3	4,721	81.8

## (2) Overview by Business Segment (Elastomer)

Domestic sales of synthetic rubber fell in volume from the previous year although the demand for automobiles and tires continued to be strong since the previous year. This fall is because the Group could not match the demand increase due to lean inventory from the continuous tight demand. Export sales of synthetic rubber, which enjoyed steady demand in the Chinese and other Asian markets, dipped in volume from the previous year failing to meet the strong demand for the same reason as the domestic sales. Accordingly, the sales volume for both domestic and exports decreased from the previous year. However, net sales was higher than the previous year helped by the price revision corresponding to the continuous hike in material prices, a shift to profit-oriented sales policy and sales promotion of strategically focused products. As for the overseas subsidiaries, sales of the U.S. subsidiaries were solid. Although sales of U.K. subsidiary were sluggish, the subsidiary focuses on increasing profitability through improvement of productivity and introduction of new products. In sum, the overall synthetic rubber surpassed the previous year's figures in sales as well as in operating income.

The domestic sales of synthetic latices were somewhat lower in volume than the previous year, but surpassed in amount due to an increase in specialty products and revision of sales prices. On the other hand, export sales exceeded the previous year's level with strong demand for glove material continuing from the previous period and as a result of improvement by reassessing the clients for other uses. As a result, overall sales and operating income of synthetic latices increased year over year.

In chemicals, sales of petrochemical resins decreased from the previous year in volume and the sales volume of thermoplastic elastomer "SIS" fell mainly in domestic market from last year due to failure to meet the demand because of lean inventory. However, net sales exceeded the last year's figures thanks to price revision corresponding to the rises in material prices. In addition, the Thai subsidiary for petrochemical resins performed well and posted a sales rise. As a result, overall sales and operating income of chemicals increased year over year.

As a result of these factors, segmental net sales for the year ended March 31, 2006 were 156,136 million yen (12.8% increase from previous year) and the operating income was 15,237 million yen (49.9% increase).

## (Specialty materials)

In the specialty plastics (cyclo-olefin polymer) business, sales of ZEONOR FILM, an optical film application for LC panels, rose significantly due to strong demand. Also, sales for ZEONEX series for optical lenses and medical uses rose as well. Consequently, overall sales and operating income of specialty plastics increased year over year.

In information materials, the sales quantities of ZEOROLA ZFL-58, a dry etching gas for semiconductor manufacture and battery materials increased among electronic materials. But due to the change in accounting method for sales of etching gas, the sales decreased year on year. In addition and starting this fiscal year, our Korean subsidiary joined the scope of consolidation. As a result, overall sales and operating income of information materials increased year over year.

In specialty chemicals, while sales of the mainstay synthetic aroma chemicals decreased for reasons that include some of the users starting to manufacture their own products and a drop in sales quantity, sales of special chemicals increased year on year. As a consequence, overall sales and operating income of specialty chemicals decreased year over year.

As a result of these factors, segmental net sales for the year ended March 31, 2006 were 41,762 million yen (13.2% increase from the previous year) and the operating income was 10,202 million yen (18.6% increase).

## (Other)

In other business, the sales from the trading operations of the subsidiaries rose significantly, although sales of environmental business and health materials business were approximately the same levels as the previous year.

Consequently, segmental net sales for the year ended March 31, 2006 were 65,799 million yen (16.6% increase from the previous year) and the operating income was 1,416 million yen (149.5% increase).

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## (3) Future Outlook

As for the outlook for the next year, the Chinese economy and other Asian economies are expected to remain solid and the Japanese economy is also expected to keep robust due to recovery of exports and capital spending. However, in addition to the rise in interest rates and the volatile foreign exchange rates, material prices are expected to keep rising; the ZEON Group will continue to face a severe operating environment that warrants little optimism.

On a consolidated basis for the year ending March 31, 2007, we project 287.0 billion yen in net sales (9.1% increase from the previous year), 29.0 billion yen in operating income (8.1% increase), 29.0 billion yen in ordinary income (9.6% increase) and 16.0 billion yen in net income (4.9% increase), assuming that the exchange rate would be 110 yen/\$ and the average naphtha price over the year 46,000 yen/KL. ZEON plans to pay an annual dividend of 9.0 yen per share, consisting of a 4.0 yen interim dividend and a 5.0 yen year-end dividend.

(Consolidated)

(Millions of yen)

Fiscal year	Year ending March 31, 2007		Year ended March 31, 2006		Increase (decrease)	
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	Amount	Year over Year (%)
Segment						
Net sales	287,000	100.0	263,074	100.0	23,926	9.1
Elastomer	166,700	58.1	156,136	59.3	10,564	6.8
Specialty materials	56,700	19.8	41,762	15.9	14,938	35.8
Other	64,300	22.4	65,799	25.0	(1,499)	(2.3)
Eliminations/Corporate	(700)	(0.3)	(623)	(0.2)	(77)	12.4

Fiscal year	Year ending March 31, 2007		Year ended March 31, 2006		Increase (decrease)	
	Amount	Ratio to net sales (%)	Amount	Ratio to net sales (%)	Amount	Year over Year (%)
Account item						
Operating income	29,000	10.1	26,835	10.2	2,165	8.1
Ordinary income	29,000	10.1	26,459	10.1	2,541	9.6
Net income	16,000	5.6	15,249	5.8	751	4.9

(Nonconsolidated)

(Millions of yen)

Fiscal year	Year ending March 31, 2007		Year ended March 31, 2006		Increase (decrease)	
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	Amount	Year over Year (%)
Segment						
Net sales	166,000	100.0	152,589	100.0	13,411	8.8
Elastomer	124,600	75.1	118,558	77.7	6,042	5.1
Specialty materials	38,500	23.2	30,785	20.2	7,715	25.1
Other	2,900	1.7	3,246	2.1	(346)	(10.7)

Fiscal year	Year ending March 31, 2007		Year ended March 31, 2006		Increase (decrease)	
	Amount	Ratio to net sales (%)	Amount	Ratio to net sales (%)	Amount	Year over Year (%)
Account item						
Operating income	15,000	9.0	16,580	10.9	(1,580)	(9.5)
Ordinary income	16,000	9.6	18,043	11.8	(2,043)	(11.3)
Net income	10,000	6.0	10,493	6.9	(493)	(4.7)

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(4) Other Matters

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

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

As to class actions filed under state laws, an indirect purchaser lawsuit (class action) was filed in April 2004, in the State of California in the U.S. In May 2006, ZCLP reached a settlement agreement under which ZCLP agreed to pay \$1.53 million (approximately 180 million Yen) to the plaintiffs. With the approval of the agreement by the Superior Court of California, County of San Francisco, the indirect purchaser lawsuit in the State of California will be resolved in regard to all plaintiffs who did not opt out of the lawsuit. The Company and ZCLP are cooperating in dealing with the remaining litigation filed in other states.

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

(b) The Company’s Board of Directors decided at the meetings to repurchase the treasury stock of shares under Article 211-3, Paragraph 1, Item 2 of the Japanese Commercial Code and subsequently conducted the repurchases as shown below.

Board of Directors’ resolution	November 4, 2005	March 9, 2006
Reason for the repurchase	To conduct flexible capital policies in response to changes in the business environment	
Type of shares repurchased	The Company’s common shares	The Company’s common shares
Total number of shares repurchased	1,000,000 shares	1,000,000 shares
Acquisition value	¥1,380 per share	¥1,462 per share
Date of acquisition	November 7, 2005	March 10, 2006
Method of acquisition	Purchasing in the market via “Single-stock-name transaction to acquire treasury stock” at the Osaka Securities Exchange Co., Ltd.	Purchase in the market via “treasury stock repurchase” at the Osaka Securities Exchange Co., Ltd.

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**4. Consolidated Financial Statements****(1) Consolidated Balance Sheets**

(Millions of yen)

Account item	Note No.	Previous fiscal year (As of March 31, 2005)		Current fiscal year (As of March 31, 2006)		Year-over-year
		Amount	Composition Ratio (%)	Amount	Composition Ratio (%)	Increase (Decrease)
<b>(Assets)</b>						
<b>Current assets</b>						
Cash and bank deposits	*5	10,378		7,663		
Notes and accounts receivable—trade	*7	45,776		48,338		
Marketable securities		25		2		
Inventories		37,702		44,666		
Accounts receivable—other		15,855		21,128		
Deferred tax assets		2,641		3,402		
Other current assets		2,523		1,085		
Allowance for doubtful accounts		(89)		(117)		
<b>Total current assets</b>		<b>114,811</b>	<b>48.5</b>	<b>126,167</b>	<b>46.3</b>	<b>11,356</b>
<b>Fixed assets</b>						
Property, plant and equipment	*1, 5					
Buildings and structures		21,780		23,299		
Machinery, equipment and vehicles		37,801		40,678		
Land		12,435		12,462		
Construction in progress		7,020		8,949		
Other property, plant and equipment		2,592		3,283		
<b>Total property, plant and equipment</b>		<b>81,628</b>	<b>34.5</b>	<b>88,672</b>	<b>32.5</b>	<b>7,043</b>
<b>Intangible assets</b>						
Goodwill		3,545		3,177		
Other intangible assets		2,682		3,193		
<b>Total intangible assets</b>		<b>6,227</b>	<b>2.6</b>	<b>6,370</b>	<b>2.3</b>	<b>143</b>
<b>Investments and other assets</b>						
Investment securities	*2, 3, 5	29,267		45,820		
Deferred tax assets		437		451		
Other investments and other assets	*3	5,574		5,795		
Allowance for doubtful accounts		(1,089)		(606)		
<b>Total investments and other assets</b>		<b>34,189</b>	<b>14.4</b>	<b>51,460</b>	<b>18.9</b>	<b>17,271</b>
<b>Total fixed assets</b>		<b>122,044</b>	<b>51.5</b>	<b>146,502</b>	<b>53.7</b>	<b>24,458</b>
Deferred charges		6	0.0	5	0.0	(1)
<b>Total Assets</b>		<b>236,861</b>	<b>100.0</b>	<b>272,674</b>	<b>100.0</b>	<b>35,813</b>
<b>(Liabilities)</b>						
<b>Current liabilities</b>						
Notes and accounts payable—trade	*5	55,486		63,710		
Short-term loans payable	*5	21,558		28,317		
Commercial paper		16,500		4,000		
Income taxes payable		3,121		6,069		
Reserve for bonuses		1,462		1,696		
Other reserves		51		35		
Other current liabilities	*2	26,794		18,206		
<b>Total current liabilities</b>		<b>124,971</b>	<b>52.7</b>	<b>122,032</b>	<b>44.7</b>	<b>(2,939)</b>

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Account item	Note No.	Previous fiscal year (As of March 31, 2005)		Current fiscal year (As of March 31, 2006)		Year-over-year
		Amount	Composition Ratio(%)	Amount	Composition Ratio(%)	Increase (Decrease)
Long-term liabilities						
Bonds payable		-		10,000		
Long-term loans payable		15,580		14,013		
Deferred tax liabilities		750		7,139		
Allowance for employees' Retirement benefits		11,749		11,695		
Reserve for retirement benefits for directors and statutory auditors		776		731		
Allowance for environmental remediation		-		517		
Other reserves		-		17		
Consolidation adjustments account		441		349		
Other long-term liabilities	*2	4,038		6,490		
Total long-term liabilities		33,336	14.1	50,951	18.7	17,615
Total Liabilities (Minority Interests)		158,307	66.8	172,983	63.4	14,676
Minority interests (Shareholders' Equity)		2,197	0.9	3,162	1.2	965
Common stock	*9	24,211	10.2	24,211	8.9	-
Capital surplus		18,372	7.8	18,372	6.7	-
Retained earnings		32,078	13.6	44,963	16.5	12,885
Net unrealized holding gain on available-for-sale Securities		5,710	2.4	14,497	5.3	8,787
Foreign currency translation adjustments		(2,433)	(1.0)	(1,080)	(0.4)	1,353
Treasury stock, at cost	*10	(1,582)	(0.7)	(4,435)	(1.6)	(2,853)
Total Shareholders' Equity		76,357	32.3	96,528	35.4	20,171
Total Liabilities, Minority Interests and Shareholders' Equity		236,861	100.0	272,674	100.00	35,813

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## (2) Consolidated Statements of Income

(Millions of yen)

Account item	Note No.	Previous fiscal year (From April 1, 2004, to March 31, 2005)		Current fiscal year (From April 1, 2005, to March 31, 2006)		Year-over-year Increase (Decrease)		
		Amount	Percentage (%)	Amount	Percentage (%)			
Net sales	*1, 3		231,364	100.0		263,074	100.0	31,710
Cost of sales			170,694	73.8		193,218	73.4	22,525
Gross profit			60,671	26.2		69,856	26.6	9,186
Selling, general and administrative expenses			41,367	17.9		43,021	16.4	1,654
Operating income			19,304	8.3		26,835	10.2	7,532
Nonoperating income								
Interest income			129			181		
Dividend income			840			671		
Amortization of consolidation adjustments account			98			92		
Equity in earnings of unconsolidated subsidiaries and affiliates, net:			32			-		
Foreign exchange gain		-			349			
Rental income		189			120			
Gain on sales of utilities		192			221			
Other nonoperating income		638	2,117	0.9	592	2,226	0.9	110
Nonoperating expenses								
Interest expense		642			621			
Loss from investments by the equity method		-			21			
Foreign exchange loss, nets		111			-			
Loss on disposal of inventories		715			1,459			
Head office moving expense		491			-			
Other nonoperating expenses		658	2,616	1.1	503	2,603	1.0	(14)
Ordinary income			18,804	8.1		26,459	10.1	7,655

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Account item	Note No.	Previous fiscal year (From April 1, 2004, to March 31, 2005)			Current fiscal year (From April 1, 2005, to March 31, 2006)			Year-over-year Increase (Decrease)
		Amount		Percentage (%)	Amount		Percentage (%)	
Extraordinary gains	*2							
Gain on sales of fixed assets		1			2			
Gain on sales of consolidated subsidiary stocks		-			1,947			
Gain on sales of investment securities		12			-			
Income from recovery of bad debts		2			-			
Other		2	16	0.0	90	2,039	0.8	2,022
Extraordinary losses	*4							
Loss on disposal of fixed assets		1,084			1,507			
Loss on devaluation of investment securities		335			-			
Amortization of net retirement benefit obligation at transition		1,985			-			
Litigation costs		1,615			2,002			
Loss on allowance for environmental remediation		-			517			
Other	278	5,297	2.3	370	4,396	1.7	(901)	
Income before income taxes and minority interests			13,524	5.8		24,101	9.2	10,578
Income taxes—current		5,587			8,665			
Income taxes—deferred		(116)	5,471	2.3	(310)	8,355	3.2	2,884
Minority interests in net (income) losses of consolidated subsidiaries			(280)	(0.1)		(498)	(0.2)	(218)
Net income			7,773	3.4		15,249	5.8	7,476

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## (3) Consolidated Statements of Surplus

(Millions of yen)

Account item	Note No.	Previous fiscal year (From April 1, 2004, to March 31, 2005)		Current fiscal year (From April 1, 2005, to March 31, 2006)	
		Amount		Amount	
(Capital surplus)					
Capital surplus at beginning of year			18,372		18,372
Capital surplus at the end of the year			18,372		18,372
(Retained earnings)					
Retained earnings at beginning of year			26,413		32,078
Increase in retained earnings					
Net income		7,773		15,249	
Increase due to an increase in the number of consolidated subsidiaries		—	7,773	236	15,485
Decrease in retained earnings					
Dividends paid		1,449		1,680	
Bonuses to directors and statutory auditors		55		55	
Decrease due to an increase in the number of consolidated subsidiaries		0		-	
Decrease due to a decrease in the number of consolidated subsidiaries		221		-	
Other	*1	383	2,109	864	2,599
Retained earnings at end of year			32,078		44,963

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## (4) Consolidated Statements of Cash Flows

(Millions of yen)

		Previous fiscal year (From April 1, 2004, to March 31, 2005)	Current fiscal year (From April 1, 2005, to March 31, 2006)	Year-over-year
Account item	Note No.	Amount	Amount	Increase/decrease
Cash flows from operating activities:				
Income before income taxes and minority interests		13,524	24,101	
Depreciation and amortization		12,881	13,515	
Increase(decrease) in allowance for employees' retirement benefits		1,694	-	
Interest and dividend income		(968)	(852)	
Interest expense		642	621	
Loss on disposal of fixed assets		1,084	1,507	
Gain from sales of consolidated subsidiary stocks		-	(1,947)	
Litigation costs		-	2,002	
Decrease (increase) in receivables—trade		(3,042)	(1,860)	
Decrease (increase) in inventories		(6,041)	(6,486)	
(Decrease) increase in payables—trade		8,649	7,577	
Other, net		(1,705)	(2,066)	
Subtotal		26,718	36,113	9,395
Interest and dividends received		958	852	
Interest paid		(696)	(686)	
Payment of litigation costs		-	(3,466)	
Income taxes paid		(6,425)	(5,865)	
Net cash provided by operating activities		20,556	26,948	6,392
Cash flows from investing activities:				
Acquisition of property, plant and equipment		(15,720)	(25,717)	
Acquisition of intangible assets		(989)	(1,506)	
Purchases of investment securities		(564)	(1,591)	
Proceeds from sales of subsidiary stocks associated with change in the scope of consolidation		-	2,298	
Increase in loans receivable		(1,207)	(1,273)	
Proceeds from collection of loans receivable		1,072	2,001	
Proceedings from deposit refund associated with headquarter relocation		-	591	
Other, net		(258)	186	
Net cash used in investing activities		(17,666)	(25,011)	(7,344)

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		Previous fiscal year (From April 1, 2004, to March 31, 2005)	Current fiscal year (From April 1, 2005, to March 31, 2006)	Year-over-year
Account item	Note No.	Amount	Amount	Increase/decrease
Cash flows from financing activities:				
Net (decrease) increase in short-term loans payable		(6,508)	3,277	
Net (decrease) increase in commercial paper		16,500	(12,500)	
Proceeds from long-term loans payable		7,154	3,339	
Repayment of long-term loans payable		(9,598)	(2,295)	
Proceedings from issue of bonds payable		-	10,000	
Redemption of bonds payable		(10,000)	-	
Dividends paid for minority shareholders		(23)	(91)	
Dividends paid		(1,444)	(1,726)	
Repurchase of treasury stock		(1,570)	(2,854)	
Received cash collateral associated with contract to loan securities for consumption		-	2,500	
Repayment of cash collateral associated with contract to loan securities for consumption		-	(5,303)	
Net cash used in financing activities		(5,489)	(5,653)	(164)
Effect of exchange rate changes on cash and cash equivalents		(88)	407	496
Net increase (decrease) in cash and cash equivalents		(2,688)	(3,308)	(620)
Cash and cash equivalents at beginning of year		12,920	10,295	(2,626)
Increase in cash and cash equivalents due to an increase in the number of consolidated subsidiaries		85	334	250
Decrease in cash and cash equivalents due to a decrease in the number of consolidated subsidiaries		(23)	-	23
Cash and cash equivalents at end of year		10,295	7,320	(2,974)

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## Notes to Consolidated Financial Statements

(Notes to Consolidated Balance Sheets)

	As of March 31, 2005	As of March 31, 2006																																										
*1.	Accumulated depreciation for property, plant and equipment ¥153,081million	Accumulated depreciation for property, plant and equipment ¥163,033 million																																										
*2.	“Investment securities” include ¥12,468 million in securities lent under loan-for-consumption contracts. “Deposits received” of ¥5,303 million related to the relevant transactions are included in “Other current liabilities” under “Current liabilities.”	“Investment securities” include ¥4,460 million in securities lent under loan-for-consumption contracts. “Deposits received” of ¥2,500 million related to the relevant transactions are included in “Other long-term liabilities” under “Long-term liabilities.”																																										
*3	The amounts regarding unconsolidated subsidiaries and affiliates  (Millions of yen)	The amounts regarding unconsolidated subsidiaries and affiliates  (Millions of yen)																																										
	<table border="1"> <tr> <td>Investment securities (stocks)</td> <td>1,073</td> </tr> <tr> <td>Other investments and other assets (investments)</td> <td>467</td> </tr> </table>	Investment securities (stocks)	1,073	Other investments and other assets (investments)	467	<table border="1"> <tr> <td>Investment securities (stocks)</td> <td>1,215</td> </tr> <tr> <td>Other investments and other assets (investments)</td> <td>489</td> </tr> </table>	Investment securities (stocks)	1,215	Other investments and other assets (investments)	489																																		
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4	(Millions of yen)	(Millions of yen)																																										
	<table border="1"> <tr> <td>Notes receivable discounted</td> <td>—</td> </tr> <tr> <td>Notes receivable endorsed and transferred</td> <td>248</td> </tr> </table>	Notes receivable discounted	—	Notes receivable endorsed and transferred	248	<table border="1"> <tr> <td>Notes receivable discounted</td> <td>—</td> </tr> <tr> <td>Notes receivable endorsed and transferred</td> <td>71</td> </tr> </table>	Notes receivable discounted	—	Notes receivable endorsed and transferred	71																																		
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Notes receivable endorsed and transferred	71																																											
*5	Assets pledged as collateral and secured debt (Millions of yen)	Assets pledged as collateral and secured debt (Millions of yen)																																										
	<table border="1"> <tr> <td>Assets pledged:</td> <td></td> </tr> <tr> <td>Cash and bank deposits (time deposits)</td> <td>100</td> </tr> <tr> <td>Land</td> <td>25</td> </tr> <tr> <td>Investment securities</td> <td>1,003</td> </tr> <tr> <td>Total</td> <td>1,128</td> </tr> <tr> <td>Debt corresponding to the above:</td> <td></td> </tr> <tr> <td>Notes and accounts payable—trade</td> <td>4,288</td> </tr> <tr> <td>Long-term loans payable (including current portion of long-term loans payable)</td> <td>118</td> </tr> <tr> <td>Long-term loans payable of unconsolidated subsidiaries</td> <td>11</td> </tr> <tr> <td>Other (*)</td> <td>15,213</td> </tr> <tr> <td>Total</td> <td>19,630</td> </tr> </table>	Assets pledged:		Cash and bank deposits (time deposits)	100	Land	25	Investment securities	1,003	Total	1,128	Debt corresponding to the above:		Notes and accounts payable—trade	4,288	Long-term loans payable (including current portion of long-term loans payable)	118	Long-term loans payable of unconsolidated subsidiaries	11	Other (*)	15,213	Total	19,630	<table border="1"> <tr> <td>Assets pledged:</td> <td></td> </tr> <tr> <td>Cash and bank deposits (time deposits)</td> <td>73</td> </tr> <tr> <td>Land</td> <td>25</td> </tr> <tr> <td>Investment securities</td> <td>1,130</td> </tr> <tr> <td>Total</td> <td>1,228</td> </tr> <tr> <td>Debt corresponding to the above:</td> <td></td> </tr> <tr> <td>Notes and accounts payable—trade</td> <td>3,078</td> </tr> <tr> <td>Long-term loans payable of unconsolidated subsidiaries</td> <td>5</td> </tr> <tr> <td>Other (*)</td> <td>11,080</td> </tr> <tr> <td>Total</td> <td>14,163</td> </tr> </table>	Assets pledged:		Cash and bank deposits (time deposits)	73	Land	25	Investment securities	1,130	Total	1,228	Debt corresponding to the above:		Notes and accounts payable—trade	3,078	Long-term loans payable of unconsolidated subsidiaries	5	Other (*)	11,080	Total	14,163
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	(*) Debt involved in the banking transaction of Mizushima Ecoworks Ltd.	(*) Debt involved in the banking transaction of Mizushima Ecoworks Ltd.																																										

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	As of March 31, 2005	As of March 31, 2006																								
6.	<p>Contingent liabilities</p> <p>Liabilities for guarantee:</p> <p>Debt guarantee against borrowings from financial institutions by associated companies other than consolidated subsidiaries and employees</p> <p style="text-align: right;">(Millions of yen)</p> <table border="1"> <tr> <td>Zeon Chemicals Yonezawa Co., Ltd.</td> <td style="text-align: right;">218</td> </tr> <tr> <td>Zeon Advanced Polymix Co., Ltd.</td> <td style="text-align: right;">334</td> </tr> <tr> <td>Zeon Polymix (Guangzhou) CO., LTD.</td> <td style="text-align: right;">65</td> </tr> <tr> <td>Zeon France S.A.</td> <td style="text-align: right;">54</td> </tr> <tr> <td>TOKYO ZAIRYO (Shanghai) CO., LTD.</td> <td style="text-align: right;">71</td> </tr> <tr> <td>Other affiliate(s) (one)</td> <td style="text-align: right;">43</td> </tr> <tr> <td>Employees</td> <td style="text-align: right;">1,443</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b>2,228</b></td> </tr> </table> <p>Responsibility for reparations related to contentious cases</p> <p>The Company and its wholly owned U.S. subsidiary, Zeon Chemicals L.P. ("ZCLP", located in Kentucky, U.S.) have been sued for damages (class action and individual lawsuits) by direct and indirect purchasers of NBR alleging price fixing regarding NBR in the U.S. Other corporate groups have also been sued. ZCLP has reached a settlement agreement with respect to an individual lawsuit filed by certain large direct purchasers, who consequently filed a motion for dismissal of the suit against the Company and ZCLP. The Company and ZCLP are cooperatively dealing with the remaining litigation. The complaints do not explicitly assert the amounts of damages.</p> <p>In addition, the Company and its European subsidiary are being investigated by the European Commission regarding an allegation of restraint of trade of NBR.</p>	Zeon Chemicals Yonezawa Co., Ltd.	218	Zeon Advanced Polymix Co., Ltd.	334	Zeon Polymix (Guangzhou) CO., LTD.	65	Zeon France S.A.	54	TOKYO ZAIRYO (Shanghai) CO., LTD.	71	Other affiliate(s) (one)	43	Employees	1,443	<b>Total</b>	<b>2,228</b>	<p>Contingent liabilities</p> <p>Liabilities for guarantee:</p> <p>Debt guarantee against borrowings from financial institutions by associated companies other than consolidated subsidiaries and employees</p> <p style="text-align: right;">(Millions of yen)</p> <table border="1"> <tr> <td>Zeon Chemicals Yonezawa Co., Ltd.</td> <td style="text-align: right;">507</td> </tr> <tr> <td>Zeon Advanced Polymix Co., Ltd.</td> <td style="text-align: right;">204</td> </tr> <tr> <td>Zeon Polymix (Guangzhou) Employees</td> <td style="text-align: right;">1,168</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b>1,982</b></td> </tr> </table> <p>Responsibility for reparations related to contentious cases</p> <p>The Company and its wholly owned U.S. subsidiary, Zeon Chemicals L.P. ("ZCLP", located in Kentucky, U.S.A.) have been sued in the United States along with other companies for damages (class action lawsuits) by direct and indirect purchasers of NBR (acrylonitrile butadiene rubber) for allegedly fixing price.</p> <p>For the lawsuit for damage by direct purchasers, the plaintiffs' attorneys and ZCLP reached an agreement in September 2005 that ZCLP will pay U.S. dollar 16 million (approximately 1.7 billion yen) to the plaintiffs. In December 2005 the federal district court approved the agreement. Some of the plaintiffs had opted out, but ZCLP has already reached an agreement with each of them. Thus the lawsuit (civil action lawsuit) for damage by direct purchasers in the U.S. has been settled.</p> <p>For the damage lawsuit (civil action lawsuit) by indirect purchasers, a damage lawsuit (civil action lawsuit) was filed in April 2004 in the State of California in the United States under the state law by indirect purchasers. In May 2006 the State of California plaintiffs' attorneys and ZCLP reached a settlement agreement that ZCLP will pay U.S. dollar 1.53 million (approximately 180 million yen) to the plaintiffs. With the approval of the agreement by the State Supreme Court of California, San Francisco County, the damage lawsuit (civil action lawsuit) by indirect purchasers in the State of California will have been settled in relation to all the plaintiff members who had not opted out. Similar lawsuits have also been filed in other states and the Company and ZCLP are cooperatively dealing with them.</p> <p>In addition, the Company and its European subsidiary are being investigated by the European Commission regarding an alleged anticompetitive behavior on NBR and are cooperating with the investigation.</p>	Zeon Chemicals Yonezawa Co., Ltd.	507	Zeon Advanced Polymix Co., Ltd.	204	Zeon Polymix (Guangzhou) Employees	1,168	<b>Total</b>	<b>1,982</b>
Zeon Chemicals Yonezawa Co., Ltd.	218																									
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	As of March 31, 2005	As of March 31, 2006												
*7.	Subordinated portion of beneficial interest in trust included in notes receivable ¥502 million	Subordinated portion of beneficial interest in trust included in notes receivable ¥483 million												
8	<p>The Company has entered into several contracts on lending commitment with eight banks for efficient procurement of working capital. The balance of unexecuted borrowings under these contracts as of March 31, 2005, was as follows:</p> <p style="text-align: right;">(Millions of yen)</p> <table border="1"> <tr> <td>Total lending commitment</td> <td>18,000</td> </tr> <tr> <td>Executed borrowings</td> <td>—</td> </tr> <tr> <td>On balance:</td> <td>18,000</td> </tr> </table>	Total lending commitment	18,000	Executed borrowings	—	On balance:	18,000	<p>The Company has entered into several contracts on lending commitment with eight banks for efficient procurement of working capital. The balance of unexecuted borrowings under these contracts as of March 31, 2006, was as follows:</p> <p style="text-align: right;">(Millions of yen)</p> <table border="1"> <tr> <td>Total lending commitment</td> <td>17,000</td> </tr> <tr> <td>Executed borrowings</td> <td>—</td> </tr> <tr> <td>On balance:</td> <td>17,000</td> </tr> </table>	Total lending commitment	17,000	Executed borrowings	—	On balance:	17,000
Total lending commitment	18,000													
Executed borrowings	—													
On balance:	18,000													
Total lending commitment	17,000													
Executed borrowings	—													
On balance:	17,000													
*9	The Company's total number of shares outstanding was 242,075,556 common shares.	The Company's total number of shares outstanding was 242,075,556 common shares.												
*10	The treasury stock of shares held by the Company and consolidated subsidiaries, as well as by unconsolidated subsidiaries and affiliates accounted for by the equity method, were 2,031,277 common shares in total as of March 31, 2005.	The treasury stock of shares held by the Company and consolidated subsidiaries, as well as by unconsolidated subsidiaries and affiliates accounted for by the equity method, were 4,041,007 common shares in total as of March 31, 2006.												

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## (Notes to Consolidated Statements of Income)

	Previous fiscal year (From April 1, 2004, to March 31, 2005)	Current fiscal year (From April 1, 2005, to March 31, 2006)
*1	Major accounts and amounts of selling, general and administrative expenses (Millions of yen)	Major accounts and amounts of selling, general and administrative expenses (Millions of yen)
	Freight charges	8,209
	Salaries and allowances	8,054
	Research and development expenses	8,962
	Provision for reserve for bonuses	554
	Provision for allowance for employees' retirement benefits	797
		Freight charges
		8,781
		Salaries and allowances
		8,287
		Research and development expenses
		9,148
		Provision for reserve for bonuses
		583
		Provision for allowance for employees' retirement benefits
		848
*2	"Gain on sales of fixed assets" principally resulting from sales of machinery, equipment and vehicles as a component of "Plant, property and equipment."	"Gain on sales of fixed assets" principally resulting from sales of machinery, equipment and vehicles as a component of "Plant, property and equipment."
*3	R&D expenditures included in "Selling, general and administrative expenses" and "current manufacturing costs" ¥8,962 million	R&D expenditures included in "Selling, general and administrative expenses" and "current manufacturing costs" ¥9,148 million
*4	"Litigation costs" in extraordinary losses refer to costs (mainly corresponding to the fine in accordance with a plea agreement between the DOJ and ZCLP (a U.S. subsidiary)) regarding an allegation of restraint of trade of NBR (acrylonitrile butadiene rubber), which was posted by the ZEON Group. ¥1,615 million	"Litigation costs" in extraordinary losses refer to costs (mainly corresponding to the settlement based on the agreement between the plaintiffs and our U.S. subsidiary for the damage lawsuit (civil action lawsuit) filed by direct purchasers) regarding an alleged price cartel of NBR (acrylonitrile butadiene rubber) in the United States, which was posted by the ZEON Group. ¥2,002 million

## (Note to Consolidated Statements of Surplus)

	Previous fiscal year (From April 1, 2004, to March 31, 2005)	Current fiscal year (From April 1, 2005, to March 31, 2006)
*1	"Other" under "Decrease in retained earnings" Additional minimum pension liability included in "Other comprehensive income" posted by ZEON's U.S. subsidiary in accordance with the U.S. GAAP. ¥383 million	"Other" under "Decrease in retained earnings" Additional minimum pension liability included in "Other comprehensive income" posted by ZEON's U.S. subsidiary in accordance with the U.S. GAAP. ¥261 million Decrease in retained earnings associated with change in accounting standard for overseas subsidiaries ¥603 million

## (Note to Consolidated Statements of Cash Flows)

	Previous fiscal year (From April 1, 2004, to March 31, 2005)	Current fiscal year (From April 1, 2005, to March 31, 2006)
(1)	Relations between the cash and cash equivalents at end of year (as of March 31, 2005) and the accounts listed in the consolidated balance sheets (Millions of yen)	Relations between the cash and cash equivalents at end of year (as of March 31, 2006) and the accounts listed in the consolidated balance sheets (Millions of yen)
	Cash and bank deposits	10,378
	Marketable securities	25
	Time deposits for which depositing period exceeds three months	(109)
	Cash and cash equivalents	10,295
		Cash and bank deposits
		7,663
		Time deposits for which depositing period exceeds three months
		(343)
		Cash and cash equivalents
		7,320

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## Segment Information

### a. Business segments

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

(Millions of yen)

	Elastomer	Specialty materials	Other	Total	Eliminations/ Corporate	Consolidated
Net sales and operating income/expenses						
Net sales						
(1) Sales to third parties	138,408	36,897	56,060	231,364	-	231,364
(2) Intersegment sales and transfers	9	-	349	359	(359)	-
Total	138,417	36,897	56,409	231,723	(359)	231,364
Operating expenses	128,255	28,294	55,841	212,390	(330)	212,061
Operating income	10,163	8,602	568	19,332	(29)	19,304
Assets, depreciation and amortization and capital expenditures						
Assets	116,065	41,429	30,900	188,393	48,468	236,861
Depreciation and amortization	6,080	4,422	754	11,256	1,625	12,881
Capital expenditures	5,201	10,914	1,041	17,156	1,795	18,951

Notes:

#### 1. Business segmentation method and major products by business segment

##### (1) Business segmentation method

According to the ZEON Group's segmentation categories for business management purposes

##### (2) Major products by business segment

Business segment	Major business line and products
Elastomer	Synthetic rubbers, Synthetic latices, Chemicals (e.g., C5 petrochemical resins, Thermoplastic elastomers)
Specialty materials	Specialty Chemicals (e.g., Synthetic aroma, Synthetic organic pharmaceuticals), Information materials (e.g., Electronic materials, Polymerized toners), Specialty plastics (Cyclo-olefin polymer and fine processed products with cyclo-olefin polymer)
Other	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.

2. The amount of the corporate assets included in "Eliminations/corporate" was 49,008 million yen. They consisted mainly of long-term investment funds (investment securities) used by the Company and properties related to administrative departments.

3. Depreciation and amortization and capital expenditures included amortization of and an increase in long-term prepaid expenses, respectively.

#### 4. Change in the depreciation method of tangible fixed assets

Starting the fiscal year ending March 2005 the Group has changed the depreciation method of property, plant and equipment for the Company and one of its domestic subsidiaries from straight-line method to declining-balance method except for buildings.

As a result of this change, compared with the previous accounting method, operating expenses for the year increased 584 million yen for "Elastomer," 754 million yen for "Specialty materials" and 180 million yen for "Other," whereas operating income decreased by the same amount for the respective segments.

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

(Millions of yen)

	Elastomer	Specialty materials	Other	Total	Eliminations/ Corporate	Consolidated
Net sales and operating income/expenses						
Net sales						
(1) Sales to third parties	156,132	41,762	65,180	263,074	-	263,074
(2) Intersegment sales and transfers	4	-	619	623	(623)	-
Total	156,136	41,762	65,799	263,698	(623)	263,074
Operating expenses	140,900	31,560	64,383	236,843	(603)	236,239
Operating income	15,237	10,202	1,416	26,855	(20)	26,835
Assets, depreciation and amortization and capital expenditures						
Assets	128,825	50,758	31,964	211,547	61,126	272,674
Depreciation and amortization	6,080	5,137	628	11,846	1,669	13,515
Capital expenditures	8,082	10,199	1,155	19,436	2,024	21,460

Notes:

1. Business segmentation method and major products by business segment

(1) Business segmentation method

According to the ZEON Group's segmentation categories for business management purposes.

(2) Major products by business segment

Business segment	Major business line and products
Elastomer	Synthetic rubbers, Synthetic latices, Chemicals (e.g., C5 petrochemical resins, Thermoplastic elastomers)
Specialty materials	Chemicals (e.g., Synthetic aroma, Synthetic organic pharmaceuticals), Information materials (e.g., Electronic materials, Polymerized toners), Specialty plastics (Cyclo-olefin polymer and fine processed products with cyclo-olefin polymer)
Other	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.

2. The amount of the corporate assets included in "Eliminations/corporate" was ¥63,068 million. These consisted mainly of long-term investment funds (investment securities) used by the Company and properties related to administrative departments.

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## b. Geographical Segments

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

(Millions of yen)

	Japan	North America	Europe	Asia	Total	Eliminations/ Corporate	Consolidated
Net sales and operating income/expenses							
Net sales							
(1) Sales to third parties	189,155	19,381	15,223	7,605	231,364	—	231,364
(2) Intersegment sales and transfers	16,430	7,863	181	828	25,301	(25,301)	—
Total	205,585	27,243	15,404	8,434	256,666	(25,301)	231,364
Operating expenses	189,565	24,368	15,434	8,268	237,635	(25,575)	212,061
Operating income (Operating loss)	16,020	2,875	(30)	166	19,030	273	19,304
Assets	168,754	29,175	8,705	3,468	210,103	26,758	236,861

Notes:

- Segmentation by geographic area is based on geographical proximity.
- Principal countries or regions by geographic area
  - North America: United States
  - Europe: United Kingdom and Germany
  - Asia: Thailand and Singapore
- The amount of the corporate assets included in “Eliminations/corporate” was 49,008 million yen. They consisted mainly of long-term investment funds (investment securities) used by the Company and properties related to administrative departments.
- Change in the depreciation method of tangible fixed assets  
Starting the fiscal year ending March 2005 the Group has changed the depreciation method of property, plant and equipment for the Company and one of its domestic subsidiaries from straight-line method to declining-balance method except for buildings.  
As a result of this change, compared with the previous accounting method, operating expenses for the year increased 1,518 million yen in Japan whereas the operating income decreased by the same amount.

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

(Millions of yen)

	Japan	North America	Europe	Asia	Total	Eliminations/ Corporate	Consolidated
Net sales and operating income/expenses							
Net sales							
(1) Sales to third parties	216,164	20,373	15,041	11,496	263,074	-	263,074
(2) Intersegment sales and transfers	21,654	7,605	181	1,192	30,633	(30,633)	-
Total	237,819	27,979	15,222	12,688	293,708	(30,633)	263,074
Operating expenses	213,892	25,157	15,507	12,045	266,601	(30,362)	236,239
Operating income (Operating loss)	23,926	2,822	(285)	643	27,107	(271)	26,835
Assets	189,535	29,392	9,932	5,514	234,373	38,301	272,674

Notes:

- Segmentation by geographic area is based on geographical proximity.
- Principal countries or regions by geographic area
  - North America: United States
  - Europe: United Kingdom and Germany
  - Asia: Thailand Singapore and South Korea
- The amount of the corporate assets included in “Eliminations/corporate” was 63,068 million yen. They consisted mainly of long-term investment funds (investment securities) used by the Company and properties related to administrative departments.

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## c. Overseas Sales

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

(Millions of yen)

	North America	Europe	Asia	Other	Total
Overseas sales	24,317	24,182	47,359	2,082	97,939
Consolidated sales					231,364
Ratio of overseas sales to consolidated sales (%)	10.5	10.4	20.5	0.9	42.3

Notes:

- Segmentation by geographic area is based on geographical proximity.
- Principal countries or regions by geographic area
  - North America: United States, Canada and Mexico
  - Europe: United Kingdom, Germany and Italy
  - Asia: China, South Korea, Thailand and Malaysia
  - Other: Brazil and Australia
- Overseas sales indicate sales amounts in countries or regions other than Japan recorded by the Company and its consolidated subsidiaries.

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

(Millions of yen)

	North America	Europe	Asia	Other	Total
Overseas sales	24,552	23,221	64,150	2,790	114,712
Consolidated sales					263,074
Ratio of overseas sales to consolidated sales (%)	9.3	8.8	24.4	1.1	43.6

Notes:

- Segmentation by geographic area is based on geographical proximity.
- Principal countries or regions by geographic area
  - North America: United States, Canada and Mexico
  - Europe: United Kingdom, Germany and Italy
  - Asia: China, South Korea, Thailand, Malaysia and Taiwan
  - Other: Brazil and Australia
- Overseas sales indicate sales amounts in countries or regions other than Japan recorded by the Company and its consolidated subsidiaries.

## (Significant Subsequent Events)

Previous fiscal year (From April 1, 2004, to March 31, 2005)	Current fiscal year (From April 1, 2005, to March 31, 2006)
(Sale of a subsidiary's shares) The Board of Directors, at a meeting held on May 18, 2005, resolved to sell common shares of ZEON BIOMUNE INC held by ZEON CHEMICALS, a U.S. subsidiary.	(Issue of ZEON Corporation Unsecured Bond No. 5) The Company issued unsecured bond No. 5 in the domestic market through public offering on May 1, 2006, further to the resolution of the Board of Directors at their meeting held on March 9, 2006. The details of the issue are as follows.
(1) Substance of the sale Number of shares to be sold: 1,000 (100% of the shares held) Date of conclusion of the sales contract: June 10, 2005 (2) Counterparty to whom they are assigned CEVA SANTE ANIMALE S.A. (3) Reason for the assignment To allow ZEON CHEMICALS INC. to focus its management resources on the mainstay synthetic rubber business and to build a solid financial capability by	(1) Security Name ZEON Corporation Unsecured Bond No. 5 (with a pari passu clause limited to bonds and notes) (2) Issue Amount 10 billion yen (3) Issue Price 100 yen per 100 yen face-value (4) Issue Date May 1, 2006 (5) Coupon Rate

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<p>selling the animal vaccine business as a non-staple business.</p> <p>(4) Effects on consolidated performance Relative to this sale of a subsidiary's shares, an extraordinary gain of approximately ¥2.0 billion is expected for the year ending March 31, 2006.</p>	<p>2.02% per annum</p> <p>(6) Maturity Date May 1, 2013</p> <p>(7) Method of Redemption The Company shall redeem the aggregate principal amount of the Bonds on May 1, 2013.</p> <p>(8) Security or Guarantee No security or guarantee is created for the benefit of the Bonds and no specific asset is reserved therefor.</p> <p>(9) Special Financial Covenant</p> <p>[1] Limited Pledge of Collateral The Company will, as long as there is unredeemed portion of the Bonds, create a pari passu security for the Bonds as specified by the Secured Debenture Trust Law in case where the Company offers a security (in cases where the Company creates a security on the Company's assets, the Company reserves a security on certain assets of the Company or the Company promises not to offer certain assets as a collateral for debts other than specified as so) for other unsecured bonds that the Company already issued or will issue in the future (excluding unsecured bonds with security convertible clause as defined in "[2] Other Clauses" later) in the domestic market. Consequently the Bonds can be inferior to debts other than the unsecured bonds which the Company already issued or will issue in the future in the domestic market (excluding unsecured bonds with security convertible clause as defined in "[2] Other Clauses" later).</p> <p>[2] Other Clauses No special financial covenants such as security convertible clause are attached to the Bonds. Security convertible clause refers to a special agreement that allows the Company to create a security any time or to create a security in order to cancel a special agreement such as net asset value maintenance clause that the Company forfeits the benefit of term in case a certain event occurs to the Company's financial indicators.</p> <p>(10) Use of net proceeds The Company intends to use the proceeds of this issue for repayment of borrowings (including commercial papers) and for loans and investments.</p>
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### Disclaimer Regarding Forward – Looking Statements

These materials are intended to provide information only, and are not to solicit actions of any kind. Business results forecasts are based on management's assumptions in light of information currently available. Actual sales and income may differ significantly from these forecasts.

The Company shall not take any responsibility regarding the accuracy or completeness of any forecasts pertaining to business results forecasts contained herein.

The user acknowledge that he/she agrees to exercise his/her own judgment in using these materials. The Company shall bear no responsibility for any loss arising from investment decisions relying fully on these materials.