

Consolidated Financial Flash Report for the Year Ended March 31, 2004

May 14, 2004

Name of Listed Company: ZEON CORPORATION

Location of Head Office (Prefecture): Metropolis of Tokyo

Ticker Code: 4205

Listed Stock Exchanges: Tokyo Stock Exchange and Osaka Securities Exchange

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

Representative: Naozumi Furukawa, President & CEO

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Date of the Board of Directors Meeting held for Closing of Accounts: May 14, 2004

Adoption of U.S. GAAP: No

1. Consolidated Performance for the Year Ended March 31, 2004 (April 1, 2003, through March 31, 2004)

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

(1) Consolidated operating results

	Net sales		Operating income		Ordinary income	
	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)
Year ended March 31, 2004	213,297	1.1	17,897	38.3	13,712	40.0
Year ended March 31, 2003	210,889	10.3	12,945	25.4	9,791	16.4

	Net income		Net income per share	Fully diluted net income per share	Return on shareholders' equity	Ordinary income to total assets	Ordinary income to net sales
	(Millions of yen)	(%)	(Yen)	(Yen)	(%)	(%)	(%)
Year ended March 31, 2004	4,588	50.4	18.74	—	6.7	6.3	6.4
Year ended March 31, 2003	3,050	—	12.41	—	4.7	4.4	4.6

Notes:

1. Equity in earnings of unconsolidated subsidiaries and affiliates, net:

Year ended March 31, 2004 ¥37 million

Year ended March 31, 2003 ¥7 million

2. Average number of shares outstanding during fiscal year (consolidated)

Year ended March 31, 2004 241,910,445 shares

Year ended March 31, 2003 241,751,921 shares

3. Change in accounting method: None

4. The percentage figures for net sales, operating income, ordinary income and net income indicate year-over-year change.

(2) Consolidated financial position

	Total assets (Millions of yen)	Shareholders' equity (Millions of yen)	Equity ratio (%)	Shareholders' equity per share (Yen)
Year ended March 31, 2004	222,254	71,575	32.2	295.47
Year ended March 31, 2003	216,000	65,170	30.2	269.38

Note:

Number of shares outstanding at end of period (consolidated)

Year ended March 31, 2004 242,053,220 shares

Year ended March 31, 2003 241,742,350 shares

(3) Consolidated cash flows

	Cash flows from operating activities (Millions of yen)	Cash flows from investing activities (Millions of yen)	Cash flows from financing activities (Millions of yen)	Cash and cash equivalents at end of the period (Millions of yen)
Year ended March 31, 2004	26,994	(11,920)	(11,939)	12,920
Year ended March 31, 2003	26,029	(13,426)	(20,711)	9,334

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

Number of consolidated subsidiaries: 24

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: 3

Excluded subsidiaries: 1

Equity method

Newly applied affiliates: 0

Excluded affiliates: 0

2. Projected Consolidated Performance for Fiscal 2004, the Year Ending March 31, 2005 (April 1, 2004, through March 31, 2005)

	Net sales (Millions of yen)	Ordinary income (Millions of yen)	Net income (Millions of yen)
Interim period	105,300	7,000	3,000
Year ending March 31, 2005 (Full year)	217,600	17,000	7,800

(Reference) Projected net income per share (full year): ¥32.00

Note: These projected performance figures are based on information available to ZEON's management at the time this report was prepared. There are many uncertain factors inherent in forecasting, and there might be cases in which actual results differ from forecast values. See page 9 of the Attachment for further information on forecasts.

(Attachment)

(1) Corporate Group

The ZEON Group consists of ZEON CORPORATION (“the Company,” “ZEON” or “we”), 54 subsidiaries and 10 affiliates. The principal lines of business of the Company and its respective subsidiaries and affiliates, as well as their relationships with each other, are described below.

Business segment	Major business line and products	Major group companies engaged in the business	
Elastomers	Synthetic Rubbers, Synthetic Latices, Chemicals (e.g., C5 Hydrocarbon Resins, Thermoplastic Elastomers)	Domestic	ZEON CORPORATION, Tokyo Zairyo Co., Ltd., Zeon Polymix Inc., Matsumi Co., Ltd. (Total 4)
		Overseas	Zeon Chemicals L.P., Zeon Chemicals Europe Ltd., Zeon Europe GmbH, Zeon France S.A., Zeon Italia S.r.L., Zeon Asia Pte. Ltd., Zeon Chemicals (Thailand) Co., Ltd., Zeon Advanced Polymix Co., Ltd., Zeon Trading (Shanghai) Co., Ltd., Shanghai Zeon Co., Ltd., Lam Seng Tokyo Zairyo Zeon Sdn. Bhd. and seven other associated companies (Total 18)
Specialty materials	Specialty Chemicals (e.g., Synthetic Aromas, Synthetic Organic Intermediates for Pharmaceuticals), Information Materials (e.g., electronic materials, Polymerized Toners), Specialty resins (Cyclo-olefin polymers [COPs] and fine processed products with COPs)	Domestic	ZEON CORPORATION, Optes Inc., Tokyo Zairyo Co., Ltd., Zeon Chemicals Yonezawa Co., Ltd., Zeon Chemical Service Co., Ltd. (Total 5)
		Overseas	Zeon Chemicals L.P., Zeon Europe GmbH., Zeon Shinhwa Inc., Suzuhou Rui Hong Electronic Chemicals Co., Ltd., Zeon CSC Corporation (Total 5)
Others	Civil Engineering materials, RIM blending liquid, RIM molding products, Medical equipment, Gene recombination vaccines, Butadiene extraction technology licensing, Outsourced production of Vinyl chloride resins, Vinyl chloride compounds, Packaging and distribution materials, Housing materials, etc.	Domestic	ZEON CORPORATION, Zeon North Co., Ltd., Zeon Environmental Materials Co., Ltd., Zeon Yamaguchi Co., Ltd., Zeon Analysis Center Co., Ltd., RIMTEC Corporation, Zeon Rim Co., Ltd., Zeon Medical Inc., Zeon Bio-science Co., Ltd., Tokyo Zairyo Co., Ltd., Zeon Kasei Co., Ltd., Zeon Logistical Materials Co., Ltd., Okayama Butadiene Co., Ltd., Ibaraki Zeon Kasei Co., Ltd., Zeon Information Systems Co., Ltd., Zeon F&B Co., Ltd., Zeon Kawasaki Service Co., Ltd., and 16 other associated companies (Total 33)
		Overseas	Zeon Chemicals Inc., Zeon Biomune Inc., Biomune Company (partnership), Tokyo Zairyo (Shanghai) Co., Ltd., and three other associated companies (Total 7)

Notes:

1. Companies engaged in several different businesses are separately indicated in the relevant categories.
2. Business segments have been changed effective from fiscal 2003, and the business segments to which the respective subsidiaries and affiliates belong have been newly reviewed for reclassification.

(2) Management Policies, Operating Results and Financial Position

Management Policies

1. Basic Management Policy

ZEON's corporate philosophy is "ZEON is contributing to the preservation of the Earth and the prosperity of the human race." The basic management tenets to achieve this philosophy are "Contribution to society," "Unique technologies" and "Engagement of and by all employees." Under these three mainstay tenets, ZEON, with its name drawn from words signifying the Earth (*geo*) and eternity (*eon*), is committed to responsible stewardship of the global environment as the foundation for human prosperity through the development and application of unique, world-leading technologies under its management principle of "Establishing the ZEON Group, the pride of every employee."

The ZEON Group believes it is essential for each manager and employee of the Group companies to recognize his or her role as an integral part of society and to act in compliance with laws and corporate ethics to build a reliable company trusted by shareholders, customers and local communities. To that end, the ZEON Group formulated the following "Constitution of the ZEON Group" and has endeavored not only to comply with laws and regulations in Japan and overseas but also to take a sensible course in its corporate activities with respect to social norms. Moreover, building on this code of conduct, ZEON recommends that its Group companies encourage their respective managers and employees to exercise self-discipline and determine personal guidelines so that the "Constitution of ZEON Group" can be consistently applied in their daily business operations.

The Constitution of the ZEON Group:

Article 1: ZEON shall respect corporate ethics and serve society.

Article 2: ZEON shall always emphasize environmental and safety issues.

Article 3: ZEON shall continuously strive to meet market needs by employing its unique technologies.

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

Article 5: ZEON, as a vital organization, shall aid each employee in achieving self-fulfillment through his or her work.

Article 6: Each ZEON employee shall be expected to meet challenges in his or her area of expertise in order to achieve corporate targets with the results to be shared fairly.

Article 7: ZEON shall endeavor to ensure "speed" in decision making and responses to daily requirements.

ZEON's basic management strategy is "to establish a business model that will continuously expand profitability through ensuring stable profitability in the existing (Elastomers) businesses and developing new businesses" on the basis of improving the ZVA management index, which is our economic value-added (EVA) business practice. Based on this basic strategy, the ZEON Group formulated a new three-year, intermediate-term business plan, "PZ-2," in May 2003. Through PZ-2, we intend to achieve more than ¥3.0 billion of ZVA by the end of fiscal 2005. We are confident that achieving this goal will expand the Group's corporate value and fulfill the expectations of all stakeholders.

2. Basic Policy on Profit Distribution

ZEON strives to establish a business models that will continuously expand profitability by developing businesses, and innovating a corporate culture from the viewpoint that raising ZVA is in the shareholders' interests. Our basic policy on distributing dividends is to return the Company's profits to shareholders stably and continuously. Retained earnings not distributed to shareholders will be allocated to the development of ZEON's original technologies, investment in restructuring and building stronger business models to aim a more solid financial structure..

3. Stance and Policy about reducing the Minimum Stock Investment Unit

ZEON recognizes the importance of reducing the minimum stock investment unit as an effective measure to encourage greater participation by individual investors and to increase the long-term stable holdings of the Company's shares by faithful shareholders. However, we do not intend to reduce the minimum stock investment unit at this time because the liquidity of our shares is currently acceptable. Accordingly, we will study appropriate measures by evaluating future market trends and ZEON's stock price movement.

4. Primary Management Indices

ZEON recognizes that improving our ZVA management index is a fundamental management strategy in the belief that raising our corporate value satisfies the expectations of not only our shareholders but also all our stakeholders. ZVA, which is calculated by reducing the capital cost from net operating profit after tax, reflects our profitability

and financial capability. All our business activities aim to raise ZVA, and our aim is to achieve “ZVA of ¥3.0 billion or more by the end of fiscal 2005.”

ZEON has already established companywide reforms to promote the “Engagement of and by all employees” by taking advantage of the ZVA management index even in the performance evaluation of each employee.

5. Medium- to Long-Term Management Strategies

ZEON has set up its new three-year, intermediate-term business plan, “PZ-2,” in May 2003. Our corporate strategy is focused on accomplishing the targets set in “PZ-2.” An outline of this plan is as follows:

[Creating “Proud ZEON”: Summary of the three-year, intermediate-term business plan “PZ-2”]

(1) Business strategy

Improve profit for six consecutive periods by ensuring stable profitability from the existing (Elastomers) businesses and expanding new businesses

ZEON will continue to create many high-value added products by its innovative technologies with a focusing on the specialty High Performance materials business through R&D and capital investments in new businesses using cash flows yielded by the elastomers business. Moreover, we will establish a strong earnings structure that allows for the steady reduction of interest-bearing debt by improving ZVA, which is to be achieved through the synergy of the elastomers and specialty High performance materials businesses.

Complete our integrated C5 fraction utilization project

Main raw material of our mainstay products are C4 and C5 fractions, which are principally extracted from naphtha. ZEON is the sole enterprise in the world that has taken full advantages of C5 fractions. PZ-2 stipulates a substantial cost reduction through optimizing the production balance of C5 fraction-based products, in line with completing an integrated C5 fraction utilization project.

(2) Financial strategy

Improve our financial structure (by the end of fiscal 2005)

We will endeavor to curtail interest-bearing debt, raise the equity ratio and reduce total assets toward a D/E ratio target of 0.7 or less.

(3) Cost reduction plan (Z σ campaign)

Target of Z σ (sigma)

We will revitalize the Z σ campaign, which is our plan to reduce costs by ¥12.0 billion from 2003 to 2005.

(4) Profit targets

Fiscal 2005 targets

ZVA	¥3.0 billion or more
Net sales	¥230.0 billion or more
Operating income	¥26.0 billion or more
Interest-bearing debt	¥60.0 billion or less
D/E ratio:	0.7 or less

6. Our Tasks Ahead

To satisfy the targets for fiscal 2005, which is the last year of “PZ-2,” we are continuously advancing the following reforms. The performance for fiscal 2003, which is the first year of “PZ-2,” exceeded the first-year targets set in “PZ-2.”

[Business-model reform]

ZEON will continue to create new businesses while maintaining stable profitability in the existing elastomers materials business. In the elastomers business, recent efforts to focus and expand the business of specialized products have proven the effectiveness, resulting not only in stable cash flows but also in top-class position in the niche markets globally. By promoting specialization within the elastomers business, we are strengthening our earnings structure. In the new business such as specialty high performance materials business, relying on its core technologies, ZEON intends to develop new products that respond to market needs and upgrade them to de facto standard products available worldwide. In addition, ZEON’s R&D efforts will cultivate untapped new markets with the Company’s core technologies. To that end, ZEON will continue to reinforce its R&D structure and make positive capital investments.

[Financial reform]

ZEON will strive to achieve the financial targets set forth in PZ-2. Zeon has promoted Z (sigma), which is an aggressive cost-reduction campaign involving the participation of all employees, to strengthen global cost competitiveness. The number of themes in our Z activities is increasing each year, and the actual cost-cutting has stably contributed to the settlement of accounts. More than just a cost-cutting campaign, the Z campaign is also used in the performance evaluation of employees, including salary adjustments. This campaign continually revitalizes our activities, thereby improving our financial capabilities.

[Corporate culture reform]

A basic management policy to achieve ZEON's corporate philosophy is "Engagement of and by all employees." Accordingly, this philosophy is central to the Z activities. ZEON has taken the initiative in strengthening its corporate culture to respect flexible and speedy decisions and actions via this companywide commitment.

7. Basic Policy and Measures Implemented for Corporate Governance

ZEON considers the reinforcement of corporate governance to be an essential objective in the pursuit of greater management transparency. In particular, the disclosure of corporate information to respective stakeholders, especially to shareholders, should help raise the transparency level of management, thereby reinforcing corporate governance. About auditor system, ZEON has adopted a statutory auditor system. The Board of Directors meet once a month, in principle, with the attendance of outside auditors to ensure the appropriate monitoring of management and the execution of business operation. ZEON currently has three outside auditors appointed from a business partner and from an corporate shareholder. Management believes that the outside auditor system has proven the effectiveness in term of monitoring the business management process.

Moreover, ZEON has established a Risk Management Council to upgrade its risk management and legal compliance systems. Two subordinate committees, Risk Management and Compliance, report to the Risk Management Council.

Operating Results

1. Overview of Operations

In the fiscal year ended March 31, 2004, the Japanese economy showed signs of recovery aided by increased exports to the United States and Asia, and capital investment rallied in the Japanese civil sector.

The petrochemical industry continued to be unstable due to higher naphtha prices, despite a trend toward rising exports to China.

In these difficult circumstances, the ZEON Group formulated PZ-2, a new intermediate-term business plan for fiscal 2003 to fiscal 2005 to accelerate the achievement of planned targets. In addition to focusing on the development of new applications of products based on the Group's innovative technologies, ZEON continued to permeate the Z cost-reduction campaign among the Group companies in response to intensifying global competition.

As a result, consolidated net sales increased 1.1% year over year to ¥213,297 million. Operating income jumped 38.3% to ¥17,897 million as our cost-saving and cost-curtailement efforts offset raw material price increases triggered by higher naphtha prices. Ordinary income rose 40.0% to ¥13,712 million, and thereby marked an increase in profit for the fourth fiscal year in a row. Consolidated net income soared 50.4% to ¥4,588 million despite the accrual of a ¥3,534 million loss caused by the transition of a retirement benefit scheme.

(Consolidated)

(Millions of yen)

Fiscal period Segment	Year ended March 31, 2004		Year ended March 31, 2003		Increase (decrease)	
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	Amount	Year over year (%)
Net sales	213,297	100.0	210,889	100.0	2,408	1.1
Elastomers	126,148	59.1	123,792	58.7	2,356	1.9
High performance materials	31,331	14.7	25,535	12.1	5,796	22.7
Other	56,238	26.4	61,837	29.3	(5,599)	(9.1)
Eliminations and corporate assets	(420)	(0.2)	(275)	(0.1)	(145)	52.7

Fiscal period Segment	Year ended March 31, 2004		Year ended March 31, 2003		Increase (decrease)	
	Amount	Ratio to net sales (%)	Amount	Ratio to net sales (%)	Amount	Year over year (%)
Operating income	17,897	8.4	12,945	6.2	4,952	38.3
Ordinary income	13,712	6.4	9,791	4.7	3,921	40.0
Net income	4,588	2.2	3,050	1.5	1,538	50.4

(Nonconsolidated)

(Millions of yen)

Fiscal period Segment	Year ended March 31, 2004		Year ended March 31, 2003		Increase (decrease)	
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	Amount	Year over year (%)
Net sales	122,234	100.0	117,948	100.0	4,286	3.6
Elastomers	91,181	74.6	88,273	74.8	2,908	3.3
High performance materials	26,784	21.9	23,198	19.7	3,586	15.5
Other	4,269	3.5	6,477	5.5	(2,208)	(34.1)

Fiscal period Segment	Year ended March 31, 2004		Year ended March 31, 2003		Increase (decrease)	
	Amount	Ratio to net sales (%)	Amount	Ratio to net sales (%)	Amount	Year over year (%)
Operating income	12,510	10.2	9,366	7.9	3,144	33.6
Ordinary income	12,368	10.1	7,874	6.7	4,494	57.1
Net income	1,983	1.6	2,569	2.2	(586)	(22.8)

2. Overview by Business Segment

Effective from the current fiscal year ended March 31, 2004, we have changed the presentation of our business segments. Therefore, the amount in the same term a year earlier has been reclassified to conform to the new presentation for year-over-year comparisons.

(Elastomers)

Domestic sales of general-purpose rubber rose significantly year over year, supported by favorable automobile tire production and shipments. Domestic sales of specialty rubber increased helped by an expanding market for a new use. Total export shipments of synthetic rubber decreased. Exports of specialty rubber advanced due to the cultivation of a new market, but exports of general-purpose rubber declined. Sales of the U.S. and European synthetic rubber subsidiaries increased in terms of local currencies. However, sales at the U.S. subsidiary, converted into yen, decreased due to a stronger yen. As a result, overall synthetic rubber sales were up year over year.

Synthetic latices sales for ABS resins and rubber gloves grew, but sales for processed paper were sluggish. Total sales of synthetic latices exceeded those of the previous year.

In chemicals, sales of the mainstay petrochemical resins remained flat. However, domestic sales and exports of the thermoplastic elastomer "SIS" experienced steady demand. Sales at the Thai subsidiary rose in the latter half of the year. As a consequence, overall chemical sales increased year over year.

As a result of these factors, elastomers sales for the current fiscal year ended March 31, 2004, rose 1.9% to ¥126,148 million, and operating income expanded 28.7% to ¥9,367 million.

(High performance materials)

In the specialty plastics business, sales of ZEONEX increased substantially, reflecting burgeoning demand for mobile phones with camera CCDs and plastic lenses, prisms for digital cameras and pickup lens for DVD players. Sales of ZEONOR were actively promoted due to favorable sales expansion in conventional applications such as light guide plates for LC panels and ZEONOR FILM. Consequently, sales of overall specialty plastics considerably exceeded those of the previous year.

In information materials, sales of the mainstay electronic materials rose significantly, principally owing to the extensive adoption of ZEOROLA ZFL-58, a dry etching gas for semiconductor manufacture, by leading global semiconductor corporations. In addition, sales were favorable for chemicals used in the semiconductor industry. In the imaging materials field, sales of polymerized toner increased. As a result, sales of overall information materials expanded year over year.

In specialty chemicals, sales of the main synthetic aroma chemicals increased slightly behind a strong promotional effort despite the yen appreciation. Sales of specialty chemicals trended steadily upward and overtook those of the previous year. Sales of overall specialty chemicals advanced year over year.

As a result of these factors, high-performance materials sales for the fiscal year ended March 31, 2004, rose 22.7% to ¥31,331 million, and operating income expanded 65.3% to ¥7,518 million.

(Others)

The Company had been trying to sell its RIM (Reaction Injection Molding) products independently, but to enhance further business development ZEON established RIMTEC Corporation, by integrating its RIM business with Teijin-Metton Co., Ltd., which engages in the DCPD-RIM business. The new enterprise intends to expand market demand for DCPD-RIM with a renewed operating system. The Company decided to transfer its environmental materials business, one of the pillars of its environmental business, to a third party and retains only the business for ZEON's combined septic tanks. With this restructuring, sales in the environmental business dipped from the previous year.

In health science, the medical equipment business was sluggish, with sales down year over year, and Zeon Bio-science Co., Ltd., was dissolved, although the Company continues to engage in research and development on a recombinant vaccine.

Sales from the outsourced production of vinyl chloride resins were less than the previous year due to the adverse effect of a sluggish vinyl chloride industry. Revenue from technology licensing sales increased, whereas equipment sales decreased year over year.

In other subsidiaries, each company improved sales year over year, however, most sales increases were among group companies. Therefore, consolidated sales shrunk.

As a result of these factors, segmental net sales for the fiscal year ended March 31, 2004, declined 9.1% to ¥56,238 million and operating income decreased 11.1% to ¥967million.

3. Future Outlook

Although the U.S. and Asian economies are progressing steadily and Japan's domestic economy seems to be improving via increased exports and expanded investment in plant and equipment, the strong yen and the sharp price increases of naphtha could continue to negatively affect the operating conditions for the industry. Therefore, the business environment surrounding the Company is not expected to be optimistic.

Beginning in fiscal 2004, the Company and one of its consolidated subsidiaries change the method of depreciation that applies to tangible assets except buildings from the straight-line method to the fixed-rate method. This change is intended to allow the Company to promptly redeem capital invested in response to increased investment in plant and equipment for shorter life cycle products and the acceleration of the economic obsolescence of advanced equipment. The increment of depreciation expenses due to the above change is expected to about ¥2,200 million.

Our consolidated projections for the year ending March 31, 2005, are ¥217.6 billion in net sales (up 2.0% year over year), ¥19.0 billion in operating income (up 6.2%), ¥17.0 billion in ordinary income (up 24.0%) and ¥7.8 billion in net income (up 70.0%). These consolidated forecasts assume an exchange rate of ¥100 per U.S. dollar and an average naphtha price of ¥26,000 per kiloliter for the next fiscal year. ZEON's management plans to pay an annual dividend of ¥6.0 per share, consisting of a ¥3.0 interim dividend and a ¥3.0 year-end dividend.

(Consolidated)

(Millions of yen)

Fiscal period Segment	Year ending March 31, 2005		Year ended March 31, 2004		Increase (decrease)	
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	Amount	Year over year (%)
Net sales	217,600	100.0	213,297	100.0	4,303	2.0
Elastomers	122,700	56.4	126,148	59.1	(3,448)	(2.7)
High performance materials	38,850	17.9	31,331	14.7	7,519	24.0
Other	56,150	25.8	56,238	26.4	(88)	(0.2)
Elimination and corporate assets	(100)	(0.1)	(420)	(0.2)	320	(76.2)

	Year ending March 31, 2005		Year ended March 31, 2004		Increase (decrease)	
	Amount	Ratio to net sales (%)	Amount	Ratio to net sales (%)	Amount	Year over year (%)
Operating income	19,000	8.7	17,897	8.4	1,103	6.2
Ordinary income	17,000	7.8	13,712	6.4	3,288	24.0
Net income	7,800	3.6	4,588	2.2	3,212	70.0

(Nonconsolidated)

(Millions of yen)

Fiscal period Segment	Year ending March 31, 2005		Year ended March 31, 2004		Increase (decrease)	
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	Amount	Year over year (%)
Net sales	124,310	100.0	122,234	100.0	2,076	1.7
Elastomers	89,200	71.8	91,181	74.6	(1,981)	(2.2)
High performance materials	32,130	25.8	26,784	21.9	5,346	20.0
Other	2,980	2.4	4,269	3.5	(1,289)	(30.2)

	Year ending March 31, 2005		Year ended March 31, 2004		Increase (decrease)	
	Amount	Ratio to net sales (%)	Amount	Ratio to net sales (%)	Amount	Year over year (%)
Operating income	10,520	8.5	12,510	10.2	(1,990)	(15.9)
Ordinary income	10,950	8.8	12,368	10.1	(1,418)	(11.5)
Net income	5,100	4.1	1,983	1.6	3,117	157.2

4. Others

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

In addition, the Company and its U.S. and European subsidiaries are being investigated by the Department of Justice and European Commission regarding an allegation of restraint of trade of NBR.

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

- (2) On November 21, 2003, the Minister of the Economy, Trade and Industry revoked the authorization for our Mizushima Plant to carry out routine and safety inspections, and revoked the authorization for our Tokuyama Plant to carry out safety inspections based on the High-Pressure Gas Safety Law. We apologize to our shareholders for these areas of concern

The Company is coping with these issues with integrity and recognizes that compliance with laws and corporate ethics are the foundation of a corporation’s existence. The Company will pay all efforts to further strengthen and establish corporate compliance system.

Financial Position

(Millions of yen)

	Year ended March 31, 2004	Year ended March 31, 2003	Year-over-year change
Cash flows from operating activities	26,994	26,029	965
Cash flows from investing activities	(11,920)	(13,426)	1,506
Cash flows from financing activities	(11,939)	(20,711)	8,722
Effect of exchange rate changes on cash and cash equivalents	372	(46)	418
Net increase (decrease) in cash and cash equivalents	3,507	(8,154)	11,661
Cash and cash equivalents at the beginning of the year	9,334	17,144	(7,810)
Increase in cash due to an increase in the number of consolidated subsidiaries	6	344	(338)
Increase in cash due to merger of consolidated subsidiary and nonconsolidated subsidiary	73		73
Cash and cash equivalents at the end of the year	12,920	9,334	3,586

As indicated above, cash and cash equivalents (“cash”) at the end of the year increased ¥3,586 million, or 38.4% year over year, on a consolidated basis.

(Cash flows from operating activities)

Net cash provided by operating activities increased to ¥26,994 million. The amount of increment from fiscal 2002 to fiscal 2003 was ¥965 million, relatively small growth by 3.7% over year to year. Major factor of the difference was attributable to increase in tax payment and decrease in working capital, although increase of allowance for employees retirement benefits which attributed the Company and its four subsidiaries changed a part of their approved pension plans to defined contribution plans.

(Cash flows from investing activities)

Net cash used in investing activities decreased to ¥11,920 million. The amount of difference between fiscal 2003 and fiscal 2002 was ¥1,506 million, declined by 11.2% year over year. The principal factor of this decline was primarily the result of a decrease in payments for the purchase of investment securities despite an increase in payments for the acquisition of property, plant and equipment.

(Cash flows from financing activities)

Net cash used in financing activities decreased to ¥11,939 million. The amount of difference between fiscal 2003 and fiscal 2002 was ¥8,772 million, shrunken by 42.4% year over year. This is primarily the result of the amount of reduction of interest-bearing debt in fiscal 2003 was smaller than that of in fiscal 2002 although we had been making efforts to lower interest-bearing debt from previous fiscal year.

The trends of several cash flow indicators are as follows:

	Year ended March 31, 2001 (76th fiscal term)	Year ended March 31, 2002 (77th fiscal term)	Year ended March 31, 2003 (78th fiscal term)	Year ended March 31, 2004 (79th fiscal term)
Equity ratio (%)	27.0	28.1	30.2	32.2
Market value-based equity ratio (%)	53.0	56.5	58.3	87.2
Debt redemption (years)	9.7	3.2	2.6	2.1
Interest coverage ratio (times)	4.8	15.5	18.6	23.7

Notes:

Equity ratio: Shareholders' equity/Total assets

Market value-based equity ratio: Total market capitalization/Total assets

Debt redemption: Interest-bearing debt/Operating cash flow

Interest coverage ratio: Operating cash flow/Interest payment

- * All of the above indicators are calculated for the respective values on a consolidated basis.
- * Total market capitalization is calculated by multiplying the closing stock price at the end of the year by the number of shares outstanding at the end of the year (after deducting the treasury stock of shares).
- * Operating cash flow is the value stated as "Cash flows from operating activities" in the consolidated statements of cash flows. Interest-bearing debt indicates the liabilities for which interest is paid on all the liabilities posted in the consolidated balance sheets. Interest payment corresponds to the amount of interest paid in the consolidated statements of cash flows.

(3) Consolidated Financial Statements

1. Consolidated Balance Sheets

(Millions of yen)

Fiscal period Account item	Current fiscal year (As of March 31, 2004)		Previous fiscal year (As of March 31, 2003)		Year-over- year change
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
(Assets)					
Current assets	105,727	47.6	107,763	49.9	(2,036)
Cash and bank deposits	13,004		9,268		
Notes and accounts receivable—trade	42,701		45,724		
Marketable securities	25		166		
Inventories	31,812		33,607		
Accounts receivable—other	13,955		15,000		
Deferred tax assets	1,761		1,828		
Other current assets	2,581		2,953		
Allowance for doubtful accounts	(112)		(783)		
Fixed assets	116,520	52.4	108,227	50.1	8,293
Property, plant and equipment, at cost	75,724	34.1	74,283	34.4	1,441
Buildings and structures	19,514		18,661		
Machinery, equipment and vehicles	34,694		36,837		
Land	12,279		12,745		
Construction in progress	6,278		3,136		
Other tangible assets	2,959		2,904		
Intangible assets	6,542	2.9	7,456	3.4	(914)
Goodwill	3,353		4,120		
Other	3,189		3,336		
Investments and other assets	34,254	15.4	26,488	12.3	7,766
Investment securities	28,001		19,537		
Deferred tax assets	1,429		1,794		
Other investments and other asset	5,900		6,092		
Allowance for doubtful accounts	(1,076)		(935)		
Deferred charges	7	0.0	10	0.0	(3)
Total Assets	222,254	100.0	216,000	100.0	6,254

(Millions of yen)

Account item	Current fiscal year (As of March 31, 2004)		Previous fiscal year (As of March 31, 2003)		Year-over-year change
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
(Liabilities)					
Current liabilities	108,724	48.9	114,987	53.2	(6,263)
Notes and accounts payable—trade	46,953		48,601		
Short-term loans payable	28,506		40,093		
Accrued income tax	3,766		2,321		
Reserve for bonus	1,312		1,251		
Other reserve	5		340		
Other current liabilities	28,182		22,381		
Long-term liabilities	39,996	18.0	34,643	16.1	5,353
Bonds payable			10,000		
Long-term loans payable	17,752		8,599		
Deferred tax liabilities	414		1,079		
Allowance for employees' retirement benefits	10,083		8,003		
Retirement allowances for directors and statutory auditors	706		770		
Other reserves	15				
Consolidation adjustments account	539		637		
Other long-term liabilities	10,487		5,555		
Total Liabilities	148,720	66.9	149,630	69.3	(910)
(Minority interests)					
Minority interests	1,959	0.9	1,200	0.5	759
Total Shareholders' Equity					
Common stock	24,211	10.9	24,211	11.2	
Capital surplus	18,372	8.3	18,336	8.5	36
Retained earnings	26,413	11.9	24,168	11.2	2,245
Net unrealized holding gain (loss) on available-for-sale securities	4,920	2.2	16	0.0	4,904
Foreign currency translation adjustments	(2,329)	(1.0)	(1,380)	(0.6)	(949)
Treasury stock, at cost	(12)	(0.0)	(181)	(0.1)	169
Total Shareholders' equity	71,575	32.2	65,170	30.2	6,405
Total Liabilities, Minority interests and Shareholders' equity	222,254	100.0	216,000	100.0	6,254

2. Consolidated Statements of Income

(Millions of yen)

Account item	Current fiscal year (From April 1, 2003, to March 31, 2004)		Previous fiscal year (From April 1, 2002, to March 31, 2003)		Year-over-year change		
	Amount	Percentage	Amount	Percentage			
Net sales		213,297	100.0	210,889	100.0	2,408	
Cost of sales		153,987	72.2	156,988	74.4	(3,001)	
Gross profit		59,310	27.8	53,901	25.6	5,409	
Selling, general and administrative expenses		41,413	19.4	40,956	19.4	457	
Operating income		17,897	8.4	12,945	6.2	4,952	
Nonoperating income							
Interest income	103			109			
Dividend income	534			300			
Amortization of consolidation adjustments account	98			98			
Equity in earnings of unconsolidated subsidiaries and affiliates, net	37			7			
Rental income	177			113			
Gain on sales of utilities	233			217			
Other nonoperating income	426	1,608	0.7	384	1,228	0.6	380
Nonoperating expenses							
Interest expense	1,072			1,519			
Foreign exchange loss, net	3,557			1,148			
Loss on disposal of inventories	663			999			
Other nonoperating expenses	501	5,793	2.7	716	4,382	2.1	1,411
Ordinary income		13,712	6.4	9,791	4.7	3,921	
Extraordinary gains							
Gain on sales of property, plant and equipment	41			75			
Gain on sales of investment securities	72			364			
Reversal of allowance for doubtful accounts				54			
Other	73	186	0.1	2	495	0.2	(309)
Extraordinary losses							
Loss on disposal of property, plant and equipment	1,069			326			
Loss on devaluation of investment securities	155			2,467			
Amortization of net retirement benefit obligation at transition	2,103			2,115			
Loss caused by transition of retirement benefit scheme	3,534						
Other	872	7,733	3.6	787	5,695	2.7	2,038
Income before income taxes and minority interests		6,165	2.9	4,591	2.2	1,574	
Income, inhabitant and enterprise taxes	5,281			2,591			
Adjustment of Income taxes	(3,920)	1,361	0.6	(1,036)	1,555	0.7	(194)
Minority interests in net (income) losses of consolidated subsidiaries		(216)	(0.1)		14	0.0	(230)
Net income		4,588	2.2	3,050	1.5	1,538	

3. Consolidated Statements of Surplus

(Millions of yen)

Fiscal period Account item	Current fiscal year (From April 1, 2003, to March 31, 2004)		Previous fiscal year (From April 1, 2002, to March 31, 2003)	
	Amount		Amount	
(Capital surplus)				
Capital surplus at beginning of period		18,336		18,336
Increase in capital surplus				
Surplus from sales of treasury stock	36	36		
Capital surplus at end of period		18,372		18,336
(Retained earnings)				
Retained earnings at beginning of period		24,168		23,112
Increase in retained earnings				
Net income for the year	4,588		3,050	
Increase due to an increase in the number of consolidated subsidiaries	75			
Increase due to merger of consolidated and unconsolidated subsidiaries	121	4,784		3,050
Decrease in retained earnings				
Dividends paid	1,330		1,811	
Bonuses to directors and statutory auditors	54		35	
Decrease due to an increase in the number of consolidated subsidiaries	964			
Other	191	2,539	148	1,994
Retained earnings at end of period		26,413		24,168

4. Consolidated Statements of Cash Flows

(Millions of yen)

Account item	Fiscal period	Current fiscal year (From April 1, 2003, to March 31, 2004)	Previous fiscal year (From April 1, 2002, to March 31, 2003)	Year-over-year change
		Amount	Amount	Amount
Cash flows from operating activities:				
Income before income taxes and minority interests		6,165	4,591	
Depreciation and amortization		10,328	10,357	
(Decrease) increase in allowance for doubtful accounts		(528)	(382)	
Increase in allowance for employees' retirement benefits		6,080	1,438	
Interest and dividend income		(637)	(410)	
Interest expense		1,072	1,519	
Foreign exchange gain or loss, net		3,006	697	
Loss on disposition of fixed assets		1,069	326	
Loss on devaluation of investment securities		155	2,467	
Decrease (increase) in receivables—trade		3,460	5,625	
Decrease (increase) in inventories		1,139	3,445	
(Decrease) increase in payables—trade		(3,000)	4,330	
Other, net		3,068	(6,791)	
Subtotal		31,377	27,212	4,165
Interest and dividends received		584	389	
Interest paid		(1,141)	(1,402)	
Income taxes paid		(3,826)	(170)	
Net cash provided by operating activities		26,994	26,029	965
Cash flows from investing activities:				
Purchases of property, plant and equipment		(11,281)	(9,095)	
Proceeds from sales of property, plant and equipment		400	536	
Purchases of intangible assets		(702)	(672)	
Purchases of investment securities		(705)	(3,549)	
Proceeds from sales of investment securities		130	818	
Proceeds from redemption of investment bonds		1,006		
Payments of loans receivable		(1,069)	(1,644)	
Proceeds from collection of loans receivable		626	297	
Other, net		(325)	(117)	
Net cash used in investing activities		(11,920)	(13,426)	1,506
Cash flows from financing activities:				
Net (decrease) increase in short-term loans payable		(1,122)	(14,692)	
Proceeds from long-term loans payable		15,541	5,743	
Repayment of long-term loans payable		(15,451)	(5,241)	
Redemption of bonds payable		(10,000)	(10,000)	
Dividends paid for minority shareholders		(11)	(11)	
Dividends paid		(1,327)	(1,805)	
Security deposits from loan for consumption of securities		—	5,303	
Other, net		431	(8)	
Net cash used in financing activities		(11,939)	(20,711)	8,772
Effect of exchange rate changes on cash and cash equivalents		372	(46)	418
Net increase (decrease) in cash and cash equivalents		3,507	(8,154)	11,661
Cash and cash equivalents at beginning of period		9,334	17,144	(7,810)
Increase in cash and cash equivalents due to increase in the number of consolidated subsidiaries		6	344	(338)
Increase in cash and cash equivalents due to merger of consolidated and unconsolidated subsidiaries		73		73
Cash and cash equivalents at end of period		12,920	9,334	3,586

Basis of Presenting the Consolidated Financial Statements for the Current Fiscal Year

(1) Scope of consolidation

Number of consolidated subsidiaries: 24

Major consolidated subsidiaries:

Optes Inc., Zeon Kasei Co., Ltd., Tokyo Zairyo Co., Ltd., Zeon Chemicals Inc.
and Zeon Chemicals Europe Ltd.

Taking into account their increased importance, Zeon Bio-science Co., Ltd., and Zeon Logistical Materials Co., Ltd., which were unconsolidated subsidiaries in the last fiscal year, have been newly consolidated effective from the current fiscal year under review.

RIMTEC Corporation, which became the successor corporation of the RIM business as of August 1, 2003, due to the corporate separation, has been newly consolidated effective from the current fiscal year under review.

Zeon Engineering Co., Ltd., which was a consolidated subsidiary in the last fiscal year, is excluded from consolidation due to its liquidation as of July 21, 2003, effective from the current fiscal year under review.

Major unconsolidated subsidiaries

Major unconsolidated subsidiaries:

Zeon Kawasaki Service Co., Ltd., Zeon Mizushima Service Co., Ltd., and Zeon Tokuyama Service Co., Ltd.
(Reason for exclusion from consolidation)

These unconsolidated subsidiaries are excluded from consolidation because they are small-scale firms, for which the respective sums of total assets, net sales and net income (loss) (corresponding to equity owned by the consolidated companies) and retained earnings (corresponding to equity owned by the consolidated companies) for the current fiscal year have no significant impact on the consolidated financial statements.

(2) Application of the equity method

Number of unconsolidated subsidiaries accounted for by the equity method: 2

Company names:

Zeon Analysis Center Co., Ltd., and Zeon Deutschland GmbH

There is no affiliate accounted for by the equity method.

The unconsolidated subsidiaries (e.g., Zeon Maintenance Construction Co., Ltd.) and affiliates (e.g., Okayama Butadiene Co., Ltd.) that are not accounted for by the equity method are excluded from the application of the equity method because the respective sums of net income (loss) (corresponding to equity owned by the consolidated companies) and retained earnings (corresponding to equity owned by the consolidated companies) for the current fiscal year have no significant impact on the consolidated financial statements.

Of all the companies accounted for by the equity method, the financial statements for the respective business years are used for those that have closing date that differs from the consolidated closing date (March 31 of each year), provided that necessary adjustments are made for consolidation purposes with regard to important transactions that have taken place in the period from their respective closing dates to the consolidated closing dates.

(3) Closing date of consolidated subsidiaries, etc.

The consolidated subsidiaries for which the closing date is different from the consolidated closing date are as follows:

<u>Company name</u>	<u>Closing date</u>
Zeon Chemicals Inc.	December 31 *1
Zeon Chemicals Europe Ltd.	December 31 *1
Zeon Europe GmbH	December 31 *1
ZC International Sales Inc.	December 31 *1
Zeon Chemicals L.P.	December 31 *1
Zeon Biomune Inc.	December 31 *1
Zeon Chemicals (Thailand) Co., Ltd.	December 31 *1
Zeon Asia Pte. Ltd.	December 31 *1
Biomune Co.	December 31 *1
Riverport Corporation	December 31 *1
Zeon GP, LLC	December 31 *1

*1. The financial statements as of the closing date of each consolidated subsidiary are used provided that necessary adjustments are made for consolidation purposes with regard to important transactions that have taken place in the period from its fiscal year closing date to the consolidated closing date.

(4) Summary of significant accounting policies

Valuation basis and method for important assets

(1) Marketable securities and investments securities

(a) Held-to-maturity securities

Carried at amortized cost using the straight-line method.

(b) Available-for-sale securities

Available-for-sale securities whose fair values are readily determinable: Carried at fair value with the corresponding unrealized holding gain or loss, net of the applicable income taxes, recorded directly as a separate component of shareholders' equity. The cost of securities sold is principally determined by the moving-average method.

Available-for-sale securities for whose fair values are not readily determinable:

Carried at cost determined by the moving-average method.

(2) Derivative instruments

Market value method

(3) Inventories

Inventories of the Company and domestic consolidated subsidiaries, in general, are carried at cost determined by the gross average method. Those of foreign consolidated subsidiaries, in general, are stated at the lower of cost or market value determined by the moving-average method.

Method for depreciation of important depreciable assets

(1) Property, plant and equipment

The depreciation of property, plant and equipment is principally computed by the straight-line method.

(2) Intangible assets

The amortization of intangible assets is computed by the straight-line method. Computer software for internal use is amortized by the straight-line method over the estimated useful life (mainly 5 years).

Basis of important reserves

(1) Allowance for doubtful accounts

The allowance for doubtful accounts is provided for possible losses from bad debt at an amount estimated based on a loan-loss ratio for the normal receivables, plus anticipated uncollectible amounts determined by reference to the collectibility of individual doubtful receivables.

(2) Reserve for bonuses

The reserve for bonuses is principally provided at an amount considered sufficient to cover estimated possible payment.

(3) Allowance for employees' retirement benefits

The allowance for employees' retirement benefits is provided at an amount to be accrued at the balance-sheet date and which is calculated based on the projected benefit obligation and fair value of pension plan assets at the end of this fiscal year ending March 31, 2004. The net retirement benefit obligation at transition is being amortized as incurred on a pro-rata basis by the straight-line method over five years.

The retirement benefit obligation for certain domestic consolidated subsidiaries corresponds to the amount that would be required to be paid for retirement benefits if all eligible employees voluntarily quit their companies as of the balance-sheet dates or the amount of liability reserve in pension financing.

Prior service cost for the Company and certain foreign consolidated subsidiaries is amortized as incurred on a straight-line basis over a certain period (13–15 years).

Unrecognized actuarial gain or loss is amortized by the straight-line method over a certain period (9–13 years), which is not over than the average remaining service years for employees when incurred, from the following fiscal year of the accrual.

(Additional information)

The Company and its four domestic consolidated subsidiaries changed a part of the tax-qualified pension plan to a defined contribution pension plan, a retirement benefit in advance plan and a lump-sum severance indemnity plan from March 2004. Based upon this change, the Company canceled the employees' retirement benefit trust. The effect of this change caused on profit and loss, etc., is explained in Note 7) titled "Retirement benefits."

(4) Retirement allowances for directors and statutory auditors

The retirement allowances for the directors and statutory auditors of the Company and certain domestic consolidated subsidiaries are provided for possible payments at amounts that would be required to be paid in accordance with their respective internal rules if all eligible directors and statutory auditors resigned their positions as of the respective balance-sheet dates.

(5) Other reserves

Reserve for repairs

The reserve for repairs is provided for periodic repairs of manufacturing facilities at an amount corresponding to the portion for the current fiscal year, by allocating the estimated expenses that would be necessary for periodic repairs to a fixed period.

Basis of translation of assets and liabilities denominated in foreign currencies into yen

Receivables and payables denominated in foreign currencies have been translated into yen at the spot rate of exchange in effect at the balance-sheet date. The resulting exchange differences are charged or credited to income. The Company translates the assets and liabilities accounts, except for shareholders' equity, of its foreign subsidiaries at the spot rate of exchange in effect at their respective balance-sheet dates. Revenue and expense accounts are translated at the average exchange rate in effect during the current fiscal year under review. The resulting translation differences have been shown as "Foreign currency translation adjustments" in shareholders' equity except for those corresponding to minority interest, which are recorded as a component of minority interests.

Accounting for leases

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

Accounting for hedge

(1) Hedge accounting

The Company has adopted the deferral method for hedging activities, in principle.

Monetary assets and liabilities denominated in foreign currencies covered by forward foreign exchange contracts entered into by certain domestic consolidated subsidiaries are accounted by appropriation if they satisfy the requirements of appropriation treatment. For interest rate swaps, the preferential treatment is applied if the swaps satisfy the requirements.

(2) Hedging instruments and hedged items

Hedging instruments: Forward foreign exchange contracts, interest rate swaps and cross currency swaps

Hedged items:

Forward foreign exchange contracts: Accounts receivable and payable—trade denominated in foreign currencies, projected transactions in foreign currencies

Interest rate swaps: Borrowings

(3) Hedging policy

As a general rule, the ZEON Group companies enter into derivative transactions to avoid and hedge the currency rate fluctuation risk and the interest rate risk. A forward foreign exchange contract for projected transactions denominated in foreign currencies shall be concluded when a contract is entered into based on the real demand principle. The counter parties of derivative transactions are limited to highly credible financial institutions.

(4) Assessment of the effectiveness of a hedge

For forward foreign exchange contracts, the effectiveness assessment is omitted because they are limited to within the real demand range. For interest rate swaps, such effectiveness assessment is omitted because the swap trades are qualified for preferential treatment.

Other important matter

- (1) Accounting for consumption taxes
Transactions subject to the consumption tax and local consumption tax are recorded at amounts exclusive of the consumption taxes.
- (5) Valuation of assets and liabilities of consolidated subsidiaries
The assets and liabilities of consolidated subsidiaries are valued on the basis of the full fair value accounting method.
- (6) Amortization of the consolidation adjustments account
The amount of the consolidation adjustments account is amortized over five years for one company and over 10 years for another company, on a straight-line basis.
- (7) Treatment of appropriation items of profit
Consolidated statements of surplus are based on the distribution of profit finalized during the consolidation fiscal year.
- (8) Cash and cash equivalents in the consolidated statements of cash flows
Cash and cash equivalents in the consolidated statements of cash flows include cash on hand, demand deposits and short-term investments due within three months from the acquired date, which are easily convertible into cash with little or no risk from fluctuation in value.

Notes to Consolidated Financial Statements

(Notes to Consolidated Balance Sheets)

(Millions of yen)

	As of March 31, 2004	As of March 31, 2003
1. Accumulated depreciation for property, plant and equipment	146,393	143,773
2. Assets pledged as collateral and secured debt		
Assets pledged:		
Time deposits	100	100
Buildings and structures		11,048
Machinery, equipment and vehicles (including tools, furniture and fixtures)		24,693
Land	27	6,007
Investment securities	2,802	1,787
Total	2,929	43,635
Debt corresponding to the above:		
Notes and accounts payable—trade	4,015	3,078
Long-term loans payable (including loans payable due within one year)	349	3,661
Long-term loans payable of unconsolidated subsidiaries	17	23
Total	4,381	6,762
3. Investment in unconsolidated subsidiaries and affiliates		
Investment securities (stocks)	1,298	1,806
Other in “Investments and other assets” (amounts invested)	460	221
4. Contingent liabilities		
Liabilities for guarantee		
Debt guarantee against borrowings from financial institutions by associated companies other than consolidated subsidiaries and employees		
Shin Dai-Ichi Vinyl Corporation		1,106
Zeon Chemicals Yonezawa Co., Ltd.	369	520
Zeon Advanced Polymix Co., Ltd.	330	395
Gunma Zeon Kasei Co., Ltd.	50	79
Zeon France S.A.	92	86
Tokyo Zairyo (USA) Inc.	53	60
Other affiliates	188	58
Employees	1,341	1,705
Total	2,423	4,009
5. Notes receivable endorsed and transferred	111	91
6. Number of treasury stock of shares and number of parent company's shares owned by subsidiaries (shares)		
	As of March 31, 2004	As of March 31, 2003
Number of treasury stock of shares	22,336	15,971
Number of parent company's shares owned by subsidiaries		317,235

	(Millions of yen)	
	As of March 31, 2004	As of March 31, 2003
7. Subordinate portion of beneficial interest in trust included in notes receivable	638	592

(Notes to Consolidated Statements of Income and Consolidated Statements of Surplus)

	(Millions of yen)	
	Current fiscal year (From April 1, 2003, to March 31, 2004)	Previous fiscal year (From April 1, 2002, to March 31, 2003)
1. Major accounts and amounts of selling, general and administrative expenses		
Freight charges	8,107	7,765
Salaries and allowances	8,386	8,203
Research and development expenses	8,491	7,123
Provision for reserve for bonuses	518	537
Provision for allowance for employees' retirement benefits	1,245	998

2. Loss on disposal of property, plant and equipment is caused by sales of land and the disposal of machinery, equipment and vehicles.

3. Gain on sales of fixed assets is principally caused by sales of land.

4. Research and development expenses included in selling, general and administrative expenses and manufacturing costs

	(Millions of yen)	
	Current fiscal year (From April 1, 2003, to March 31, 2004)	Previous fiscal year (From April 1, 2002, to March 31, 2003)
	8,491	7,123

5. Breakdown of "Other" under "Decrease in retained earnings"

	(Millions of yen)	
	Current fiscal year (From April 1, 2003, to March 31, 2004)	Previous fiscal year (From April 1, 2002, to March 31, 2003)
Adjustment in additional minimum pension liabilities for consolidated subsidiaries in the United States included in "Other comprehensive income" recorded by the U.S. GAAP.	191	148

(Note to Consolidated Statements of Cash Flows)

1. Relations between the year-end balance of cash and cash equivalents (as of March 31, 2004 and March 31, 2003) and the accounts listed in the consolidated balance sheets

	(Millions of yen)	
	Current fiscal year (as of March 31, 2004)	Previous fiscal year (as of March 31, 2003)
Cash and bank deposits	13,004	9,268
Marketable securities	25	166
Time deposits for which the deposit period exceeds three months	(109)	(100)
Cash and cash equivalents	12,920	9,334

1) Segment Information

1. Business segments

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

(Millions of yen)

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

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

(Millions of yen)

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

Notes:

1. Business segmentation method

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

2. Major products of each business segment

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

3. Changes in business segments

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

Effective from current fiscal year under review, the ZEON Group has reclassified its business segments into three—"Elastomers," "Specialty high performance materials" and "Other" according to its segmentation categories for business management purposes—and reviewed the business segments to which the respective subsidiaries and affiliates belong.

This change has been made to properly disclose the latest business positioning and business climate according to new three-year intermediate-term business plan "PZ-2" that Zeon has set up in May 2003 with careful review of business management units in the pursuit of future business development and corporate growth.

4. Amount and major items of corporate assets included in "Elimination and corporate assets"

	Current fiscal year (Millions of yen)	Previous fiscal year (Millions of yen)	Major items
Amount of corporate assets included in "Elimination and corporate assets"	45,883	37,714	Surplus funds operated by parent company (securities, short-term loans <repurchase agreement>), Long-term investment funds (investment securities), Properties related to administrative departments, etc.

5. Depreciation, amortization and capital expenditures, respectively, include the amortization of and the increase in long-term prepaid expenses.

2. Geographic Segments

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

(Millions of yen)

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

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

(Millions of yen)

	Japan	North America	Europe	Asia	Total	Elimination 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
Intersegment 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 Total assets	155,467	32,082	8,490	3,909	199,948	16,052	216,000

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
- Amount and major items of corporate assets included in "Elimination and corporate assets" are the same as those described in the Note 3. to "1. Business segments."

3. Overseas Sales

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

(Millions of yen)

	North America	Europe	Asia	Other	Total
I Overseas sales	22,618	23,446	36,614	2,139	84,817
II Consolidated sales					213,297
III Ratio of overseas sales to consolidated sales (%)	10.6%	11.0%	17.2%	1.0%	39.8%

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

(Millions of yen)

	North America	Europe	Asia	Other	Total
I. Overseas sales	24,887	20,984	36,501	2,250	84,622
II. Consolidated sales					210,889
III. Ratio of overseas sales to consolidated sales (%)	11.8%	9.9%	17.3%	1.1%	40.1%

Notes:

1. Segmentation by geographic area is based on geographical proximity.
2. Principal countries or regions by geographic area
 - (1) North America: United States, Canada and Mexico
 - (2) Europe: United Kingdom, Germany and Italy
 - (3) Asia: China, South Korea, Thailand and Malaysia
 - (4) Other: Brazil and Australia
3. Overseas sales are those of the Company and consolidated subsidiaries in countries and regions other than Japan.

2) Leases

1. Finance leases that do not transfer ownership of leased property to the lessee

(1) Assumed data as to acquisition cost, accumulated depreciation and net book value at the end of the year

(Millions of yen)

	Current fiscal year (From April 1, 2003, to March 31, 2004)				Previous fiscal year (From April 1, 2002, to March 31, 2003)			
	Machinery, equipment and vehicles	“Other” under “Property, plant and equipment”	Intangible assets	Total	Machinery, equipment and vehicles	“Other” under “Property, plant and equipment”	Intangible assets	Total
Acquisition cost	827	2,878	474	4,179	899	3,367	543	4,809
Accumulated depreciation	417	1,842	380	2,639	442	1,782	343	2,567
Net book value	410	1,036	94	1,540	457	1,585	200	2,242

Note:

Assumed acquisition cost is calculated by including the interest portion thereon because the ratio of outstanding future lease payments to property, plant and equipment at the end of the year is low.

(2) Assumed future lease payments at end of year

(Millions of yen)

	Current fiscal year (From April 1, 2003, to March 31, 2004)	Previous fiscal year (From April 1, 2002, to March 31, 2003)
Due within one year	787	1,040
Due after one year	753	1,202
Total	1,540	2,242

Note:

Assumed future lease payments at the end of the year is calculated by including the interest portion thereon because the ratio of outstanding future lease payments to property, plant and equipment at the end of year is low.

(3) Lease payments and assumed depreciation cost

(Millions of yen)

	Current fiscal year (From April 1, 2003, to March 31, 2004)	Previous fiscal year (From April 1, 2002, to March 31, 2003)
Lease payments	1,113	1,176
Assumed depreciation expenses	1,113	1,176

(4) Calculation method on assumed depreciation expenses

Straight-line method using the lease period as the useful life and with no residual value.

2. Operating leases

(Millions of yen)

	Current fiscal year (From April 1, 2003, to March 31, 2004)	Previous fiscal year (From April 1, 2002, to March 31, 2003)
Future lease payments		
Due within one year	163	209
Due after one year	51	197
Total	214	406

3) Transactions with Related Parties

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

(1) Directors and major individual shareholders, etc.

Attribute	Name	Location	Capital stock (Millions of yen)	Principal business or profession	Ownership percentage of voting rights, etc.	Relationship with the Company		Description of transactions	Transaction amount (Millions of yen)	Account item	Year-end balance (Millions of yen)
						Directors' posts held concur- rently	Business relationship				
Director	Yasuo Tominaga			President, The Yokohama Rubber Co., Ltd.				Sale of rubber products (Note2)	6,927	Accounts receivable —trade	183
								Purchase of raw materials (Note2)	45	Notes payable and accounts payable —trade	0

Notes:

- Of the figures above, "Transaction amount" does not include consumption taxes, whereas "Year-end balance" does.
- The transactions between Mr. Yasuo Tominaga and the Company are so-called arm's length transactions, in which he acted as the representative of the third party (The Yokohama Rubber Co., Ltd., which holds a 4.8% voting rights of the Company shares), and they were determined by reference to the terms and conditions for unrelated operating bodies. Therefore, the transactions concerned are not inferior to other business connections in regard to their terms and conditions.

Attribute	Name	Location	Capital stock (Millions of yen)	Principal business or profession	Ownership percentage of voting rights, etc.	Relationship with the Company		Description of transactions	Transaction amount (Millions of yen)	Account item	Year-end balance (Millions of yen)
						Directors' posts held concurrently	Business relationship				
Director	Yuzuru Fujita			President, Asahi Mutual Life Insurance Co.				Payment of premiums (note 1)	36		
								Repayment of funds (note1)	2,200	Borrowing	500
								Payment of Interest (note1)	8	Accrued interest payable	
								Lending of funds (note 1)		Loan receivable	500
								Reception of interest (note1)	21	Accrued interest receivable etc.	34

Note 1

The transactions between Mr. Yuzuru Fujita and the Company are so-called arm's length transactions, in which he acted as the representative of the third party (Asahi Mutual Life Insurance Co. that holds a 3.2% voting rights of the Company shares), and they were determined by reference to the terms and conditions for unrelated operating bodies. Therefore, the transactions concerned are not inferior to other business connections in regard to their terms and conditions.

(2) Subsidiaries, etc.

Attribute	Company name	Location	Capital stock (Millions of yen)	Principal business or profession	Ownership percentage of voting rights, etc.	Relationship with the Company		Description of transactions	Transaction amount (Millions of yen)	Account item	Year-end balance (Millions of yen)
						Directors' posts held concurrently	Business relationship				
Affiliate	Okayama Butadiene Co., Ltd.	Chuo-ku, Tokyo	490	Production and sale of butadiene	(Ownership) Directly 50.0%	Five directors	Purchase of raw materials and sale of service	Purchase of Raw materials (paid provision) (note 2)	1,252	Accounts receivable—other	2,822
										Accounts payable—trade	3,109

Notes:

1. Of the figures above, "Transaction amount" does not include consumption taxes, whereas "Year-end balance" does.
2. Transaction conditions and the principles on the decision thereof
The terms and conditions for the purchase of raw materials are determined after price negotiations by carefully taking into account overall cost.

4) Tax-Effect Accounting

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

	(Millions of yen)	
	Current fiscal year (As of March 31, 2004)	Previous fiscal year (As of March 31, 2003)
Deferred tax assets:		
Inventories	323	454
Investment securities	280	263
Net unrealized gain or loss	831	601
Allowance for doubtful accounts	248	468
Accrued enterprise tax	344	216
Account payable—other	1,981	
Reserve for bonuses	571	434
Allowance for employees' retirement benefits	3,741	4,994
Retirement allowances for directors and Statutory auditors	284	316
Operating losses carried forward	534	68
Foreign exchange loss	991	319
Net unrealized holding gain on available-for-sale securities		5
Other	642	1,280
Gross deferred tax assets	10,770	9,418
Valuation allowance	(608)	(168)
Total deferred tax assets	10,162	9,250
Deferred tax liabilities:		
Depreciation and amortization	(1,945)	(2,264)
Land (full fair value accounting method)	(311)	(314)
Investment securities (full fair value accounting method)	(304)	(304)
Gain on contribution of securities to employees' retirement benefit trust		(1,488)
Reserve for deferred gain on fixed assets for tax purposes	(1,171)	(1,328)
Retained earnings	(270)	(831)
Foreign exchange gain	(148)	
Net unrealized holding gain on available-for-sale securities	(3,412)	
Other	(12)	(187)
Total deferred tax liabilities	(7,573)	(6,716)
Net deferred tax assets	2,589	2,534

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

	Current fiscal year (As of March 31, 2004)	Previous fiscal year (As of March 31, 2003)
Statutory tax rate	42.0%	42.0%
(Adjustment)		
Increase (reduction) in taxes resulting from:		
Net losses of consolidated subsidiaries	6.1	5.9
Loss on devaluation of investing securities	2.6	
Reduction in deferred tax assets due to tax rate change	2.5	2.8
Permanently nondeductible expenses such as entertainment expenditures	1.3	1.2
Difference in tax rates of foreign consolidated subsidiaries	0.7	(2.3)
Equity in losses of unconsolidated subsidiaries and affiliates, net	(0.1)	0.2
Permanent exclusion from gross revenue such as dividends received	(1.2)	(0.9)
Appropriation of operating losses brought forward for tax	(1.5)	(1.6)

purposes		
Unrealized gain or loss	(2.0)	(4.0)
Provision for doubtful accounts for receivables from consolidated subsidiaries	(7.2)	
Increase (decrease) in retained earnings of foreign consolidated subsidiaries	(9.2)	(2.6)
Tax credit	(9.2)	(5.5)
Other	(2.7)	(1.3)
Effective tax rates	22.1%	33.9%

5) Securities

1. Available-for-sale securities whose fair value is readily determinable

(Millions of yen)

	Fiscal year	Current fiscal year (As of March 31, 2004)			Previous fiscal year (As of March 31, 2003)		
	Category	Acquisition cost	Book value per consolidated balance sheets	Unrealized gain (loss)	Acquisition cost	Book value per consolidated balance sheets	Unrealized gain (loss)
Securities for which book value per the consolidated balance sheets exceeds their acquisition cost	(1) Equity securities	14,045	22,660	8,615	6,030	7,296	1,266
	(2) Bonds and debentures						
	Government and municipal bonds						
	Corporate bonds						
	Other bonds and debentures						
(3) Other							
	Subtotal	14,045	22,660	8,615	6,030	7,296	1,266
Securities for which acquisition cost exceeds their book value per the consolidated balance sheets	(1) Equity	432	356	(76)	7,147	5,867	(1,280)
	(2) Bonds and debentures						
	Government and municipal bonds						
	Corporate bonds						
	Other bonds and debentures						
(3) Other							
	Subtotal	433	357	(76)	7,148	5,868	(1,280)
Total		14,478	23,017	8,539	13,178	13,164	(14)

2. Available-for-sale securities sold during the years ended March 31, 2004 and 2003

(Millions of yen)

	Current fiscal year (From April 1, 2003, to March 31, 2004)	Previous fiscal year (From April 1, 2002, to March 31, 2003)
Total sales	142	635
Total gain on sales	72	364
Total loss on sales		

3. Major components of securities for which the fair value was not known at March 31, 2004 and 2003
(Millions of yen)

Category	Current fiscal year (As of March 31, 2004)	Previous fiscal year (As of March 31, 2003)
	Book value per the consolidated balance	Book value per the consolidated balance
(1) Held-to-maturity securities		
Nonnegotiable corporate bonds	6	6
Nonnegotiable municipal bonds	12	18
(2) Available-for-sale securities		
Unlisted equity securities excluding OTC issues	3,667	3,542
Unlisted foreign bonds		1,000
Money management funds	25	135

4. Redemption schedule of held-to-maturity securities and available-for-sale securities that had maturities at March 31, 2004 and 2003

Current fiscal year (As March 31, 2004) (Millions of yen)

	Within 1 year	More than 1 year but less than 5 years	More than 5 years but less than 10 years	More than 10 years
1. Bonds				
Nonnegotiable municipal bonds	7	5		
Nonnegotiable corporate bonds		6		
Other bonds and debentures		1		
2. Other Negotiable deposits				
Total	7	12		

Previous fiscal year (As March 31, 2003) (Millions of yen)

	Within 1 year	More than 1 year but less than 5 years	More than 5 years but less than 10 years	More than 10 years
1. Bonds				
Nonnegotiable municipal bonds	6	12		
Nonnegotiable corporate bonds	6			
Other bonds and debentures		1		
2. Other Negotiable deposits				
Total	12	13		

6) Derivative Transactions

The fair value of derivative positions at March 31, 2004 and 2003

(Millions of yen)

Category	Type of transactions	Current fiscal year (As of March 31, 2004)			Previous fiscal year (As of March 31, 2003)				
		Contract amount		Fair value	Unrealized gain (loss)	Contract amount		Unrealized gain (loss)	
			More than 1 year				More than 1 year		
Transactions other than market trade	Forward foreign exchange contracts:								
	To sell foreign currencies								
	US\$	6,612		6,376	236	240	238	2	
	UK£	19		19	(0)	31	31	0	
	Euro	8,848		11,893	(3,045)				
To buy foreign currencies									
US\$	669	111	638	(31)	998	229	1,034	36	
Total		16,148	111	18,926	(2,840)	1,269	229	1,303	38

Notes:

Current fiscal year

(From April 1, 2003, to March 31, 2004)

1. Calculation method on fair value of derivatives
The same as at right.

2. The same as at right.

Previous fiscal year

(From April 1, 2002, to March 31, 2003)

1. Calculation method on fair value of derivatives
The exchange rates at the end of the year adopt futures quotations.

2. Derivative transactions subject to accounting for hedging activities are excluded.

7) Retirement Benefits

1. Outline of retirement benefit plan

Current fiscal year (As of March 31, 2004)

The Company and certain domestic consolidated subsidiaries had a tax-qualified pension plan administered by an independent trustee that covers substantially all their employees and a lump-sum severance indemnity plan that qualifies as a defined benefit pension plan. However, The Company and its four domestic consolidated subsidiaries changed a part of tax-qualified pension plan to a defined contribution pension plan, retirement benefit in advance plan and a lump-sum severance indemnity plan from March 2004. Based upon this change, the Company canceled the employees' retirement benefit trust. Certain foreign consolidated subsidiaries also have defined benefit pension plans covering substantially all their employees.

Previous fiscal year (As of March 31, 2003)

The Company and certain domestic consolidated subsidiaries have a tax-qualified pension plan administered by an independent trustee that covers substantially all their employees and a lump-sum severance indemnity plan that 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 set up an employees' retirement benefit trust.

2. Retirement benefit obligation

(Millions of yen)

	Current fiscal year (As of March 31, 2004)	Previous fiscal year (As of March 31, 2003)
a. Projected benefit obligation	(19,446)	(30,095)
b. Plan assets at fair value	4,466	8,719
c. Allowance for employees' retirement benefits	10,083	8,003
d. Prepaid pension cost	(697)	
Total (a + b + c + d)	(5,594)	(13,373)
Breakdown of the total		
e. Unrecognized net retirement benefit obligation at transition	(1,987)	(4,232)
f. Unrecognized net actuarial loss	(4,011)	(8,922)
g. Unrecognized past service cost	404	(219)
(e + f + g)	(5,594)	(13,373)

Current fiscal year
(As of March 31, 2004)

Previous fiscal year
(As of March 31, 2003)

Notes:

1. The same as at right.

2. Amounts of effect due to changing a part of qualified pension plan to a defined contribution pension plan and retirement benefit in advance are as follows;

(Millions of yen)

Decrease in projected benefit obligation	8,780
Plan asset at fair value	(4,776)
Unrecognized net retirement benefit obligation at transition	(142)
Unrecognized net actuarial loss	(3,391)

Decrease in allowance for employees' retirement benefits

471

Notes:

1. Certain subsidiaries adopt a simplified method for calculating their projected benefit obligation.

2. —

3. Retirement benefit expenses

(Millions of yen)

	Current fiscal year (From April 1, 2003, to March 31, 2004)	Previous fiscal year (From April 1, 2002, to March 31, 2003)
a. Service cost (note 1)	1,056	1,221
b. Interest cost	844	904
c. Expected return on plan assets	(177)	(264)
d. Amortization of net retirement benefit obligation at transition	2,103	2,115
e. Allocation of actuarial loss	741	573
f. Amortization of past service cost	16	41
g. Net retirement benefit expenses (a + b + c + d + e + f)	4,583	4,590
Profit and loss due to changing retirement pension system (note 2)	3,533	
Subtotal	8,116	4,590
Payment to defined contribution plan system	23	
Total	8,139	4,590

Current fiscal year (As of March 31, 2004)	Previous fiscal year (As of March 31, 2003)
Notes	Notes
1. The same as at right.	1. The retirement benefit expenses of certain consolidated subsidiaries that adopt the simplified method are recorded in "a. Service cost."
2. A profit and loss came into existence in the Company and certain consolidated subsidiaries due to termination of a part of retirement pension plan. One million yen was included in extraordinary gains and 3,534 million yen was included in extraordinary loss.	2. —
4. The assumptions at March 31, 2004 and 2003, which were used in determining retirement benefit expenses and the allowance for employees' retirement benefits shown above were as follows:	

	Current fiscal year (From April 1, 2003, to March 31, 2004)	Previous fiscal year (From April 1, 2002, to March 31, 2003)
a. Allocation of retirement benefit expenses	Mainly on a flat allocation basis	Mainly on a flat allocation basis
b. Discount rates	2.5% - 6.5%	2.5%–7.0%
c. Expected rates of return on plan assets	1.0%–8.25%	1.0%–8.25%
d. Period of amortization of past service cost	13 – 15 years (For The Company and its foreign consolidated subsidiaries)	15 years (for foreign consolidated subsidiaries)
e. Period of allocation of actuarial loss	9–13 years (Unrecognized actuarial gain or loss is amortized by the straight-line method over a certain period, which is not more than the average remaining service years for employees when incurred, from the following fiscal year of accrual.)	9–13 years (Unrecognized actuarial gain or loss is amortized by the straight-line method over a certain period, which is not more than the average remaining service years for employees when incurred, from the following fiscal year of accrual.)
f. Period of amortization of net retirement benefit obligation at transition	5 years	5 years

(4) Production, Orders Received and Sales

Production

Production results by business segment for the current period ended March 31, 2004, were as follows:

Business segment	Quantity or amount	Year-over-year change (%)
Elastomers	541,009 tons	1.6
Specialty High Performance materials	¥16,482 million	48.2
Other	¥1,344 million	(33.1)

Notes:

1. The components of "Other" are described in the Segment Information under (3) Consolidated Financial Statements.
2. The figures above do not include consumption taxes.
3. Effective from current fiscal year under review, ZEON Group has reclassified its business segments and reviewed the business segments to which the respective subsidiaries and affiliates belong. Accordingly, the above quantity or figures are calculated based on the corresponding respective figures for the previous fiscal year reclassified under new business segments.

Orders received
None applicable

Sales performance
Refer to “Operating Results”