

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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May 8, 2014

**Consolidated Financial Flash Report for the
Year Ended March 31, 2014**

Name of Listed Company	ZEON CORPORATION	Listed Stock Exchanges	Tokyo Stock Exchange
Ticker Code	4205	Name	Kimiaki Tanaka
(URL http://www.zeon.co.jp)		Name	Tadayuki Minami
Representative	President	TEL	+81-3-3216-2747
Contact	Managing Director and Corporate Officer	Scheduled Date of Dividend Payments	From June 30, 2014
Scheduled Date of the General Shareholders Meeting	June 27, 2014		
Scheduled Date of the Submission of the Securities Report	June 27, 2014		

Note: Figures are rounded down to the nearest million yen.

1. Consolidated Performance for the Year Ended March 31, 2014 (From April 1, 2013 to March 31, 2014)

(1) Consolidated operating results

(Percentage figures respectively indicate year-over-year changes from the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2014	296,427	18.2	29,901	26.2	32,561	29.1	19,650	33.2
Year ended March 31, 2013	250,763	(4.6)	23,696	(26.2)	25,212	(19.9)	14,750	(22.9)

Notes: Comprehensive income:

Year ended March 31, 2014: 28,291 million yen (-3.8%);

Year ended March 31, 2013: 29,397 million yen (41.7%)

	Net income per share	Fully diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to sales
	Yen	Yen	%	%	%
Year ended March 31, 2014	85.15	85.01	11.7	9.0	10.1
Year ended March 31, 2013	63.81	63.70	10.1	7.6	9.4

Reference: Equity in earnings (losses) of unconsolidated subsidiaries and affiliates, net:

Year ended March 31, 2014: - million yen Year ended March 31, 2013: - million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2014	370,872	181,414	47.9	783.11
As of March 31, 2013	350,508	162,057	45.2	685.64

Reference: Equity capital:

As of March 31, 2014: 177,604 million yen As of March 31, 2013: 158,494 million yen

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(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2014	36,396	(31,513)	(10,105)	8,117
Year ended March 31, 2013	33,061	(24,858)	(10,006)	12,115

2. Cash Dividends

Record date	Cash dividend per share					Total annual cash dividends	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	1Q end	Interim	3Q end	Year-end	Full year			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended March 31, 2013	—	6.00	—	6.00	12.00	2,774	18.8	1.9
Year ended March 31, 2014	—	7.00	—	6.00	13.00	2,982	15.3	1.8
Year ending March 31, 2015 (Forecast)	—	7.00	—	7.00	14.00		18.7	

3. Projected Consolidated Performance for the Year Ending March 31, 2015 (From April 1, 2014 to March 31, 2015)

(Percentage figures respectively indicate changes from the previous year.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Interim period ending September 30, 2014	150,000	1.1	11,000	(34.3)	11,000	(39.4)	8,000	(26.0)	35.27
Year ending March 31, 2015 (Full year)	310,000	4.6	25,000	(16.4)	25,000	(23.2)	17,000	(13.5)	74.96

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4. Other Matters

(1) Significant changes of specified subsidiaries (Changes of Specified Subsidiaries Accompanied by Change in Scope of Consolidation): None

(2) Changes in accounting principle, procedures and presentation on preparation of consolidated financial statements

(i) Changes in policy due to amendment in accounting standards: Yes

(ii) Changes in policy other than above (i): No

(iii) Changes in accounting estimates: No

(iv) Restatements: No

(3) Number of shares outstanding (Common stock)

(i) Number of shares outstanding at the end of the year (Including treasury stock)

As of March 31, 2014: 242,075,556 shares As of March 31, 2013: 242,075,556 shares

(ii) Number of treasury stock

As of March 31, 2014: 15,283,615 shares As of March 31, 2013: 10,913,315 shares

(iii) Average number of shares outstanding in each year

Year ended March 31, 2014: 230,763,417 shares Year ended March 31, 2013: 231,164,585 shares

Reference: Summary of Non-consolidated Performance**Non-consolidated Performance for the Year ended March 31, 2014**

(From April 1, 2013 to March 31, 2014)

(Percentage figures respectively indicate changes from the previous year.)

(1) Non-consolidated operating results

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2014	204,738	13.2	25,449	44.5	28,275	47.0	18,367	59.0
Year ended March 31, 2013	180,868	(3.3)	17,615	(27.3)	19,232	(20.8)	11,552	(19.8)

	Net income per share		Fully diluted net income per share	
	Yen		Yen	
Year ended March 31, 2014	79.59		79.46	
Year ended March 31, 2013	49.97		49.89	

(2) Non-consolidated financial position

	Total assets	Net Assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Year ended March 31, 2014	307,315	147,805	48.0	650.55
Year ended March 31, 2013	303,207	137,847	45.4	595.19

Reference: Equity

As of March 31, 2014: 147,539 million yen As of March 31, 2013: 137,585 million yen

Note regarding indication of status of implementation of the review procedure

The review of consolidated financial statements based on the Financial Instruments and Exchange Act had not been completed as of the date of disclosure of this financial report.

Note concerning appropriate use of performance forecasts, etc.

The projected performance figures in this report are based on information available to ZEON's management at the time this report was prepared and are not intended to be interpreted as goals the company will achieve. Accordingly, users should be aware that actual results may differ materially from any expressed future performance herein due to various factors.

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5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
(Assets)		
Current assets		
Cash and bank deposits	12,216	9,105
Notes and accounts receivable—trade	69,299	71,060
Merchandise and products	43,145	44,659
Work in process	3,826	4,099
Raw materials and supplies	9,607	12,201
Accounts receivable—other	31,916	30,303
Deferred tax assets	2,703	3,721
Other current assets	3,019	3,294
Allowance for doubtful accounts	(75)	(45)
Total current assets	175,656	178,396
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	34,817	38,953
Machinery, equipment and vehicles, net	35,126	45,319
Land	18,042	18,192
Construction in progress	16,751	14,109
Other property, plant and equipment, net	4,200	6,148
Total property, plant and equipment	108,937	122,721
Intangible assets		
Other intangible assets	6,577	5,943
Total intangible assets	6,577	5,943
Investments and other assets		
Investment securities	51,971	56,030
Net defined benefit asset	—	293
Deferred tax assets	901	536
Other investments and assets	6,773	7,247
Allowance for doubtful accounts	(306)	(295)
Total investments and other assets	59,338	63,812
Total fixed assets	174,852	192,476
Total assets	350,508	370,872

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	(Millions of yen)	
	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
(Liabilities)		
Current liabilities		
Notes and accounts payable—trade	73,953	64,769
Short-term loans payable	20,156	30,302
Commercial paper	7,000	5,000
Corporate bonds redeemable within one year	10,000	—
Income taxes payable	3,923	8,929
Reserve for bonuses	1,657	1,813
Other reserves	123	2,632
Other current liabilities	17,747	20,223
Total current liabilities	134,560	133,668
Long-term liabilities		
Bonds payable	—	10,000
Long-term loans payable	29,327	20,263
Deferred tax liabilities	8,059	8,290
Allowance for employees' retirement benefits	11,549	—
Net defined benefit liability	—	12,368
Other reserves	1,762	507
Other long-term liabilities	3,194	4,361
Total long-term liabilities	53,891	55,789
Total Liabilities	188,451	189,457
(Net Assets)		
Shareholders' equity		
Common stock	24,211	24,211
Capital surplus	18,372	18,514
Retained earnings	115,836	132,476
Treasury stock, at cost	(8,108)	(12,734)
Total shareholders' equity	150,312	162,467
Accumulated other comprehensive income		
Net unrealized holding gain on available-for-sale securities	15,848	15,081
Deferred gains on hedges	(0)	(1)
Foreign currency translation adjustments	(5,468)	2,261
Pension liabilities adjustments	(2,199)	—
Remeasurements of defined benefit plans	—	(2,205)
Total accumulated other comprehensive income	8,182	15,136
Stock acquisition rights	262	266
Minority interests	3,301	3,545
Total net assets	162,057	181,414
Total liabilities and net assets	350,508	370,872

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(2) Consolidated Statements of Income

	(Millions of yen)	
	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)
Net sales	250,763	296,427
Cost of sales	180,624	213,307
Gross profit	70,139	83,120
Selling, general and administrative expenses	46,442	53,219
Operating income	23,696	29,901
Nonoperating income		
Interest income	104	100
Dividend income	1,119	1,268
Foreign exchange gain	1,345	1,991
Gain on sale of goods	462	490
Miscellaneous income	920	581
Total nonoperating income	3,949	4,430
Nonoperating expenses		
Interest expense	934	724
Depreciation from idle assets	1,330	630
Miscellaneous loss	170	416
Total nonoperating expenses	2,434	1,770
Ordinary income	25,212	32,561
Extraordinary gains		
Gain on sale of available-for-sale securities	—	334
Gain on negative goodwill	119	159
Gain on sale of equity in affiliates	212	—
Compensation income	251	—
Other	24	51
Total extraordinary gains	605	544
Extraordinary losses		
Loss on disposal of fixed assets	353	479
Valuation loss on investment securities	483	64
Other	1,558	35
Total extraordinary losses	2,394	577
Income before income taxes and minority interests	23,423	32,528
Income taxes—current	7,235	12,752
Income taxes—deferred	1,023	(217)
Total taxes	8,257	12,535
Income before minority interests in net income of consolidated subsidiaries	15,166	19,992
Minority interests in net income of consolidated subsidiaries	416	343
Net income	14,750	19,650

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(3) Statement of Comprehensive Income

	(Millions of yen)	
	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Previous fiscal year (From April 1, 2013 to March 31, 2014)
Income before minority interests in net income of consolidated subsidiaries	15,166	19,992
Other comprehensive income		
Valuation difference on available-for-sale securities	10,657	(741)
Deferred gains (losses) on hedges	(2)	(1)
Foreign currency translation adjustments	3,738	7,929
Pension liabilities adjustments	(162)	1,111
Total other comprehensive income	14,231	8,298
Comprehensive income	29,397	28,291
Comprehensive income attributable to:		
Owners of the parent	28,816	27,707
Minority interests	582	583

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(4) Consolidated Statements of Changes in Net Assets

Previous fiscal year (From April 1, 2012 to March 31, 2013)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	24,211	18,372	103,861	(8,104)	138,340
Changes of items during the period					
Dividends from surplus			(2,774)		(2,774)
Net income			14,750		14,750
Disposal of treasury stock			(0)	1	1
Purchase of treasury stock				(5)	(5)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	—	11,976	(4)	11,972
Balance at the end of current period	24,211	18,372	115,836	(8,108)	150,312

	Accumulated other comprehensive income						Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Pension liability adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of current period	5,210	1	(9,063)	(2,037)	—	(5,889)	228	2,801	135,480
Changes of items during the period									
Dividends from surplus									(2,774)
Net income									14,750
Disposal of treasury stock									1
Purchase of treasury stock									(5)
Net changes of items other than shareholders' equity	10,638	(2)	3,596	(162)	—	14,071	33	501	14,605
Total changes of items during the period	10,638	(2)	3,596	(162)	—	14,071	33	501	26,577
Balance at the end of current period	15,848	(0)	(5,468)	(2,199)	—	8,182	262	3,301	162,057

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Current fiscal year (From April 1, 2013 to March 31, 2014)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	24,211	18,372	115,836	(8,108)	150,312
Changes of items during the period					
Dividends from surplus			(3,009)		(3,009)
Net income			19,650		19,650
Disposal of treasury stock		(7)		54	46
Purchase of treasury stock				(5,007)	(5,007)
Change due to share exchanges		149		327	476
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	142	16,640	(4,626)	12,155
Balance at the end of current period	24,211	18,514	132,476	(12,734)	162,467

	Accumulated other comprehensive income						Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Pension liability adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of current period	15,848	(0)	(5,468)	(2,199)	—	8,182	262	3,301	162,057
Changes of items during the period									
Dividends from surplus									(3,009)
Net income									19,650
Disposal of treasury stock									46
Purchase of treasury stock									(5,007)
Change due to share exchanges									476
Net changes of items other than shareholders' equity	(768)	(1)	7,729	2,199	(2,205)	6,955	4	244	7,202
Total changes of items during the period	(768)	(1)	7,729	2,199	(2,205)	6,955	4	244	19,358
Balance at the end of current period	15,081	(1)	2,261	—	(2,205)	15,136	266	3,545	181,414

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(5) Cash Flow Statement

	(Millions of yen)	
	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)
Net cash provided by operating activities		
Income before income taxes and minority interests	23,423	32,528
Depreciation and amortization	18,122	17,068
Gain on goodwill	—	629
Increase (decrease) in provision for retirement benefits	(334)	(12,103)
Increase (decrease) in reserve for bonuses	(131)	111
Increase (decrease) in reserve for repair	(1,306)	1,522
Increase (decrease) in net defined benefit liability	—	12,736
Interest and dividends income	(1,222)	(1,368)
Interest expenses	934	724
Decrease (increase) in notes and accounts	3,549	1,266
Decrease (increase) in inventories	111	(1,386)
Increase (decrease) in notes and accounts payable—trade	(3,955)	(12,278)
Other, net	(477)	3,792
Subtotal	<u>38,716</u>	<u>43,241</u>
Interest and dividends income received	1,222	1,355
Interest expenses paid	(941)	(790)
Proceeds from subsidy	776	267
Income taxes paid	<u>(6,712)</u>	<u>(7,676)</u>
Net cash provided by operating activities	<u>33,061</u>	<u>36,396</u>
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(20,186)	(24,535)
Proceeds from property, plant and equipment	59	855
Purchase of intangible assets	(747)	(913)
Purchase of investment securities	(327)	(6,520)
Proceeds from sales of investment securities	212	1,421
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(2,728)	—
Payments of loans receivable	(963)	(680)
Collection of loans receivable	582	354
Net increase (decrease) in time deposits	27	(783)
Purchase of long-term prepaid expenses	(338)	(680)
Other, net	<u>(450)</u>	<u>(30)</u>
Net cash provided by (used in) investing activities	<u>(24,858)</u>	<u>(31,513)</u>
Net cash used in financing activities		
Net increase (decrease) in short-term loans payable	(2,603)	(2,581)
Increase (decrease) in commercial papers	7,000	(2,000)
Proceeds from long-term loans payable	1,050	7,283
Repayment of long-term loans payable	(12,512)	(4,610)
Proceeds from issuance of bonds	—	10,000
Redemption of bonds	—	(10,000)
Purchase of treasury shares	(5)	(5,008)
Cash dividends paid shareholders	(2,773)	(3,005)
Cash dividends paid to minority shareholders	(24)	(30)
Other, net	<u>(139)</u>	<u>(155)</u>
Net cash used in financing activities	<u>(10,006)</u>	<u>(10,105)</u>
Effect of exchange rate change on cash and cash equivalents	<u>726</u>	<u>1,223</u>

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Net increase (decrease) in cash and cash equivalents	(1,077)	(3,999)
Cash and cash equivalents at beginning of period	13,192	12,115
Cash and cash equivalents at end of period	12,115	8,117

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(6) Segment Information

a. Business segments

Previous fiscal year (From April 1, 2012 to March 31, 2013) (Millions of yen)

	Elastomer	Specialty Materials	Sub Total	Other	Total	Eliminations/ Corporate	Consolidated
Net sales							
Sales to third parties	162,363	51,411	213,774	36,989	250,763	—	250,763
Intersegment sales and transfers	1,665	—	1,665	519	2,185	(2,185)	—
Total	164,028	51,411	215,439	37,508	252,947	(2,185)	250,763
Operating income	19,595	2,613	22,208	1,489	23,698	(1)	23,696
Assets	179,797	71,878	251,675	29,199	280,874	69,634	350,508
Others							
Depreciation and amortization	6,681	9,720	16,401	73	16,474	1,648	18,122
Gain on goodwill	—	—	—	—	—	—	—
Capital expenditures	15,333	5,040	20,373	433	20,806	2,683	23,489

Current fiscal year (From April 1, 2013 to March 31, 2014) (Millions of yen)

	Elastomer	Specialty Materials	Sub Total	Other	Total	Eliminations/ Corporate	Consolidated
Net sales							
Sales to third parties	181,852	64,154	246,006	50,421	296,427	—	296,427
Intersegment sales and transfers	2,499	—	2,499	377	2,876	(2,876)	—
Total	184,351	64,154	248,505	50,798	299,303	(2,876)	296,427
Operating income	19,322	9,121	28,444	1,488	29,932	(31)	29,901
Assets	192,704	76,687	269,391	28,021	297,412	73,460	370,872
Others							
Depreciation and amortization	7,378	7,380	14,759	324	15,083	1,985	17,068
Gain on goodwill	629	—	629	—	629	—	629
Capital expenditures	12,788	12,053	24,841	386	25,227	1,884	27,111

b. Sales by region

Previous fiscal year (From April 1, 2012 to March 31, 2013) (Millions of yen)

Japan	North America	Europe	Asia (except Japan)	Other	Total
136,711	22,966	25,198	63,140	2,748	250,763

Current fiscal year (From April 1, 2013 to March 31, 2014) (Millions of yen)

Japan	North America	Europe	Asia (except Japan)	Other	Total
153,452	25,898	31,130	83,015	2,932	296,427