

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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July 31, 2018

**Consolidated Financial Report for the
First Quarter of the Year Ending March 31, 2019**

Name of Listed Company	ZEON CORPORATION		Listed Stock	Tokyo Stock Exchange
Ticker Code	4205		Exchanges	
(URL)	http://www.zeon.co.jp)		Name	Kimiaki Tanaka
Representative	President		Name	Hirofumi Imai
Contact	Director and Senior Corporate Officer		TEL	+81-3-3216-2747
Scheduled Date of the Submission of the Quarterly Report	August 10, 2018		Scheduled Date of Dividend Payments	—

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

**1. Consolidated Performance for 1st quarter of the year ending March 31, 2019
(April 1, 2018 to June 30, 2018)**

(1) Consolidated operating results (Cumulative)

(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 attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
1Q period ended June 30, 2018	83,672	1.1	8,456	(13.0)	9,658	(10.6)	6,653	(5.0)
1Q period ended June 30, 2017	82,775	18.3	9,715	37.7	10,807	87.3	7,005	81.4

Note: Comprehensive income (loss):

1Q of the year ending March 31, 2019: 1,422 million yen (-81.5%);

1Q of the year ended March 31, 2018: 7,694 million yen (—%)

	Net income per share	Fully diluted net income per share
	Yen	Yen
1Q period ended June 30, 2018	29.97	29.93
1Q period ended June 30, 2017	31.56	31.51

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
1Q period ended June 30, 2018	425,028	259,381	60.4
Year ended March 31, 2018	440,519	259,940	58.4

Reference: Equity:

As of June 30, 2018: 256,566 million yen

As of March 31, 2018: 257,167 million yen

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2. Cash Dividends

Record date	Cash dividend per share				
	1Q end	2Q end	3Q end	Year-end	Full year
Year ended March 31, 2018	Yen —	Yen 8.00	Yen —	Yen 9.00	Yen 17.00
Year ending March 31, 2019	—				
Year ending March 31, 2019 (Forecast)		9.00	—	10.00	19.00

Note: Revisions to the most recently disclosed dividend forecasts: No

**3. Projected Consolidated Performance for the Year Ending March 31, 2019
(From April 1, 2018 to March 31, 2019)**

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Interim period ending September 30, 2018	160,000	(4.0)	16,000	(19.6)	17,000	(21.5)	12,000	(16.3)	54.42
Year ending March 31, 2019 (Full year)	320,000	(3.8)	32,000	(17.7)	34,000	(16.9)	24,000	83.8	109.30

Note: Revisions to the most recently disclosed dividend forecasts: No

4. Other Matters

(1) Material changes in subsidiaries during the three-month period (changes in scope of consolidations resulting from change in subsidiaries): No

(2) Application of special accounting methods for the preparation of quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, procedures and presentation on preparation of consolidated financial statements

(i) Changes in policy due to amendment in accounting standards: No

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

(iii) Changes in accounting estimates: No

(iv) Restatements: No

(4) Number of shares outstanding (Common stock)

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

As of June 30, 2018: 237,075,556 shares As of March 31, 2018: 237,075,556 shares

(ii) Number of treasury stock outstanding

As of June 30, 2018: 15,054,658 shares As of March 31, 2018: 15,054,569 shares

(iii) Average number of shares during the period

1Q ended June 30, 2018: 222,020,920 shares 1Q ended June 30, 2017: 221,982,435 shares

This quarterly financial report is not subject to the quarterly review required under the Financial Instruments and Exchange Act.

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, 2018)	As of June 30, 2018
(Assets)		
Current assets		
Cash and bank deposits	41,666	29,274
Notes and accounts receivable—trade	75,787	77,935
Electronically recorded monetary claims	3,557	3,397
Merchandise and products	45,448	47,290
Work in process	4,689	4,266
Raw materials and supplies	13,759	15,102
Accounts receivable—other	36,241	35,904
Other current assets	3,810	4,547
Allowance for doubtful accounts	(97)	(97)
Total current assets	224,859	217,617
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	41,914	41,621
Machinery, equipment and vehicles, net	45,888	43,818
Land	18,246	18,220
Construction in progress	5,285	4,258
Other property, plant and equipment, net	4,225	4,019
Total property, plant and equipment	115,559	111,936
Intangible assets		
Other intangible assets	3,355	3,195
Total intangible assets	3,355	3,195
Investments and other assets		
Investment securities	87,362	82,983
Deferred tax assets	886	813
Other investments and assets	8,726	8,713
Allowance for doubtful accounts	(228)	(228)
Total investments and other assets	96,746	92,280
Total fixed assets	215,660	207,411
Total assets	440,519	425,028

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	(Millions of yen)	
	Previous fiscal year (As of March 31, 2018)	As of June 30, 2018
(Liabilities)		
Current liabilities		
Notes and accounts payable—trade	81,103	81,521
Electronically recorded monetary claims	2,900	3,563
Short-term loans payable	16,573	15,575
Current portion of bonds payable	10,000	—
Income taxes payable	4,920	2,831
Reserve for bonuses	2,160	266
Other reserves	2,032	4,166
Other current liabilities	19,576	18,818
Total current liabilities	<u>139,264</u>	<u>126,742</u>
Long-term liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	2,000	2,000
Deferred tax liabilities	10,060	8,736
Net defined benefit liability	12,181	12,172
Other reserves	1,359	519
Other long-term liabilities	5,715	5,478
Total long-term liabilities	<u>41,315</u>	<u>38,905</u>
Total Liabilities	<u>180,579</u>	<u>165,647</u>
(Net Assets)		
Shareholders' equity		
Common stock	24,211	24,211
Capital surplus	19,240	19,240
Retained earnings	190,273	194,929
Treasury stock, at cost	<u>(12,245)</u>	<u>(12,245)</u>
Total shareholders' equity	<u>221,480</u>	<u>226,135</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	33,771	30,640
Deferred gains on hedges	(2)	0
Foreign currency translation adjustments	3,925	1,689
Remeasurements of defined benefit plans	<u>(2,008)</u>	<u>(1,899)</u>
Total accumulated other comprehensive income	<u>35,687</u>	<u>30,430</u>
Stock acquisition rights	246	264
Non-controlling interests	<u>2,527</u>	<u>2,552</u>
Total net assets	<u>259,940</u>	<u>259,381</u>
Total liabilities and net assets	<u>440,519</u>	<u>425,028</u>

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(2) Consolidated Statements of Income

	(Millions of yen)	
	For the three months ended June 30, 2017	For the three months ended June 30, 2018
Net sales	82,775	83,672
Cost of sales	58,337	59,674
Gross profit	24,438	23,997
Selling, general and administrative expenses	14,723	15,541
Operating income	9,715	8,456
Non-operating income		
Interest income	25	32
Dividend income	692	745
Foreign exchange gain	506	378
Share of profit of investments accounted for using the equity method	68	66
Miscellaneous income	100	168
Total non-operating income	1,391	1,390
Non-operating expenses		
Interest expenses	89	62
Depreciation of inactive non-current assets	140	66
Miscellaneous loss	69	60
Total non-operating expenses	298	187
Ordinary income	10,807	9,658
Extraordinary gains		
Compensation income	—	0
Gain on extinguishment of tie-in shares	67	—
Total extraordinary gains	67	0
Extraordinary losses		
Loss on disposal of fixed assets	127	172
Other	1	16
Total extraordinary losses	128	188
Income before income taxes	10,747	9,470
Income taxes	3,675	2,732
Net income	7,071	6,738
Net income attributable to non-controlling interests	66	84
Net income attributable to owners of parent	7,005	6,653

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(3) Statement of Comprehensive Income

(Millions of yen)

	For the three months ended June 30, 2017	For the three months ended June 30, 2018
Net income	7,071	6,738
Other comprehensive income		
Valuation difference on available-for-sale securities	2,393	(3,131)
Deferred gains (losses) on hedges	(0)	2
Foreign currency translation adjustments	(1,877)	(2,264)
Remeasurements of defined benefit plans	103	109
Share of other comprehensive income of entities accounted for using equity method	5	(32)
Total other comprehensive income	623	(5,316)
Comprehensive income	7,694	1,422
Comprehensive income attributable to:		
Owners of parent	7,612	1,397
Non-controlling interests	82	25

(4) Segment Information

Previous 1st quarter cumulative period (From April 1, 2017 to June 30, 2017)

(Millions of yen)

	Elastomer	Specialty Materials	Sub Total	Other	Total	Eliminations /Corporate	Consolidated
Net sales							
(1) Sales to third parties	48,773	21,207	69,980	12,795	82,775	—	82,775
(2) Intersegment sales and transfers	440	—	440	69	509	(509)	—
Total	49,213	21,207	70,420	12,864	83,284	(509)	82,775
Segment income and loss	5,427	4,138	9,565	881	10,446	(732)	9,715

Current 1st quarter cumulative period (From April 1, 2018 to June 30, 2018)

(Millions of yen)

	Elastomer	Specialty Materials	Sub Total	Other	Total	Eliminations /Corporate	Consolidated
Net sales							
(1) Sales to third parties	50,398	19,522	69,921	13,751	83,672	—	83,672
(2) Intersegment sales and transfers	530	—	530	86	616	(616)	—
Total	50,928	19,522	70,451	13,837	84,287	(616)	83,672
Segment income and loss	5,123	3,398	8,521	643	9,164	(708)	8,456

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(Significant subsequent events)

Share Repurchase

The Company resolved at a meeting of its Board of Directors on July 6, 2018 to repurchase its own shares pursuant to Article 156 of the Companies Act of Japan, as applied pursuant to Article 165, Paragraph 3.

1. Purpose of the Share Repurchase

To bolster returns to shareholders, improve capital efficiency, and enable the Company to execute flexible capital policies.

2. Details of the Share Repurchase

- (1) Class of shares to be repurchased: common stock of Zeon Corporation
- (2) Total number of shares to be repurchased: 5,000,000 (maximum)
- (3) Total amount of shares to be repurchased: 5,000,000,000 yen (maximum)
- (4) Repurchase period: from July 9, 2018 to August 31, 2018 (execution base)
- (5) Method of share repurchase: open market purchase through a trust bank

The Company completed its share repurchases pursuant to the above resolution by its Board of Directors, as follows:

- (1) Class of shares repurchased: common stock of Zeon Corporation
- (2) Total number of shares repurchased: 3,529,900
- (3) Total amount of shares repurchased: 4,999,922,400 yen
- (4) Repurchase period: from July 9, 2018 to July 20, 2018 (contract basis)
- (5) Method of share repurchase: open market purchase through a trust bank