

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

This is a translation of the original Japanese-language document and is provided for convenience only. In all cases, the Japanese-language original shall take precedence.

November 6, 2014

**Consolidated Financial Report for the
Second Quarter of the Year Ending March 31, 2015**

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	Tadayuki Minami
Contact	Managing Director and Corporate Officer	TEL	+81-3-3216-2747
Scheduled Date of the Submission of the Quarterly Report	November 7, 2014	Scheduled Date of Dividend Payments	—

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

**1. Consolidated Performance for 2nd quarter of the year ending March 31, 2015
(April 1, 2014 to September 30, 2014)**

(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	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2Q period ended September 30, 2014	153,362	3.4	14,513	(13.3)	15,564	(14.3)	9,024	(16.5)
2Q period ended September 30, 2013	148,374	16.6	16,738	46.3	18,162	76.0	10,806	94.7

Note: Comprehensive income:

2Q of the year ending March 31, 2015: 10,320 million yen (-31.2%);

2Q of the year ended March 31, 2014: 14,990 million yen (243.7%)

	Net income per share	Fully diluted net income per share
	Yen	Yen
2Q period ended September 30, 2014	39.79	39.72
2Q period ended September 30, 2013	46.70	46.63

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
2Q period ended September 30, 2014	388,284	189,986	47.9
Year ended March 31, 2014	370,872	181,414	47.9

Reference: Equity:

As of September 30, 2014: 186,015 million yen As of March 31, 2014: 177,604 million yen

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

This is a translation of the original Japanese-language document and is provided for convenience only. In all cases, the Japanese-language original shall take precedence.

2. Cash Dividends

Record date	Cash dividend per share				
	1Q end	2Q end	3Q end	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2014	—	7.00	—	6.00	13.00
Year ending March 31, 2015	—	7.00			
Year ending March 31, 2015 (Forecast)			—	7.00	14.00

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

**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
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

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

4. Other Matters

(1) Significant changes of specified subsidiaries during the three-month period under review (Changes of Specified Subsidiaries Accompanied by Change in Scope of Consolidation): No

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

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

- (i) Changes due to amendment in accounting standards: Yes
- (ii) Changes except above (i): No
- (iii) Changes in accounting estimates: No
- (iv) Restatement of revisions: No

(4) Number of shares outstanding (Common stock)

- (i) Number of shares outstanding at the end of the period (Including treasury stock)
As of September 30, 2014: 242,075,556 shares As of March 31, 2014: 242,075,556 shares
- (ii) Number of treasury stock outstanding
As of September 30, 2014: 15,285,588 shares As of March 31, 2014: 15,283,615 shares
- (iii) Average number of shares during the period
2Q ended September 30, 2014: 226,790,726 shares 2Q ended September 30, 2013: 231,380,773 shares

Note regarding indication of status of implementation of the quarterly review procedure

This quarterly financial report is not subject to the quarterly review required under the Financial Instruments and Exchange Act. The review of quarterly consolidated financial statements based on the Financial Instruments and Exchange Act had not been completed as of the date of disclosure of this quarterly 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.

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

This is a translation of the original Japanese-language document and is provided for convenience only. In all cases, the Japanese-language original shall take precedence.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (As of March 31, 2014)	As of September 30, 2014
(Assets)		
Current assets		
Cash and bank deposits	9,105	10,013
Notes and accounts receivable—trade	71,060	75,561
Merchandise and products	44,659	46,257
Work in process	4,099	4,136
Raw materials and supplies	12,201	11,872
Accounts receivable—other	30,303	36,392
Deferred tax assets	3,721	3,581
Other current assets	3,294	3,802
Allowance for doubtful accounts	(45)	(82)
Total current assets	178,396	191,533
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	38,953	38,998
Machinery, equipment and vehicles, net	45,319	46,937
Land	18,192	18,020
Construction in progress	14,109	12,938
Other property, plant and equipment, net	6,148	5,943
Total property, plant and equipment	122,721	122,837
Intangible assets		
Other intangible assets	5,943	5,624
Total intangible assets	5,943	5,624
Investments and other assets		
Investment securities	56,030	60,468
Net defined benefit assets	293	590
Deferred tax assets	536	483
Other investments and assets	7,247	7,157
Allowance for doubtful accounts	(295)	(408)
Total investments and other assets	63,812	68,291
Total fixed assets	192,476	196,751
Total assets	370,872	388,284

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

This is a translation of the original Japanese-language document and is provided for convenience only. In all cases, the Japanese-language original shall take precedence.

(Millions of yen)

	Previous fiscal year (As of March 31, 2014)	As of September 30, 2014
(Liabilities)		
Current liabilities		
Notes and accounts payable—trade	64,769	78,748
Short-term loans payable	30,302	23,700
Commercial paper	5,000	8,500
Income taxes payable	8,929	4,265
Reserve for bonuses	1,813	1,316
Other reserves	2,632	2,793
Other current liabilities	20,223	20,797
Total current liabilities	<u>133,668</u>	<u>140,118</u>
Long-term liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	20,263	20,886
Deferred tax liabilities	8,290	9,468
Allowance for employees' retirement benefits	12,368	12,722
Other reserves	507	863
Other long-term liabilities	4,361	4,240
Total long-term liabilities	<u>55,789</u>	<u>58,180</u>
Total Liabilities	<u>189,457</u>	<u>198,298</u>
(Net Assets)		
Shareholders' equity		
Common stock	24,211	24,211
Capital surplus	18,514	18,514
Retained earnings	132,476	139,817
Treasury stock, at cost	(12,734)	(12,736)
Total shareholders' equity	<u>162,467</u>	<u>169,806</u>
Accumulated other comprehensive income		
Net unrealized holding gain on available-for-sale securities	15,081	17,653
Deferred gains (losses) on hedges	(1)	2
Foreign currency translation adjustments	2,261	627
Remeasurements of defined benefit plans	(2,205)	(2,071)
Total accumulated other comprehensive income	<u>15,136</u>	<u>16,210</u>
Stock acquisition rights	266	288
Minority interests	3,545	3,682
Total net assets	<u>181,414</u>	<u>189,986</u>
Total liabilities and net assets	<u>370,872</u>	<u>388,284</u>

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

This is a translation of the original Japanese-language document and is provided for convenience only. In all cases, the Japanese-language original shall take precedence.

(2) Consolidated Statements of Income

(Millions of yen)

	For the six months ended September 30, 2013	For the six months ended September 30, 2014
Net sales	148,374	153,362
Cost of sales	105,694	112,565
Gross profit	42,680	40,797
Selling, general and administrative expenses	25,942	26,284
Operating income	16,738	14,513
Nonoperating income		
Interest income	46	60
Dividend income	602	810
Foreign exchange gain	1,134	423
Other nonoperating income	483	657
Total nonoperating income	2,265	1,949
Nonoperating expenses		
Interest expense	376	410
Depreciation from idle assets	345	337
Other nonoperating expenses	118	151
Total nonoperating expenses	840	898
Ordinary income	18,162	15,564
Extraordinary gains		
Gain on sale of fixed assets	0	834
Other	13	59
Total extraordinary gains	13	893
Extraordinary losses		
Loss on disposal of fixed assets	101	612
Impairment loss	—	1,247
Valuation loss on investment securities	460	—
Other	25	132
Total extraordinary losses	586	1,991
Income before income taxes and minority interests	17,590	14,466
Income taxes	6,591	5,250
Income before minority interests in net income of consolidated subsidiaries	10,999	9,215
Minority interests in net income of consolidated subsidiaries	193	192
Net income	10,806	9,024

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

This is a translation of the original Japanese-language document and is provided for convenience only. In all cases, the Japanese-language original shall take precedence.

(3) Statement of Comprehensive Income

	(Millions of yen)	
	For the six months ended September 30, 2013	For the six months ended September 30, 2014
Income before minority interests in net income of consolidated subsidiaries	10,999	9,215
Other comprehensive income		
Valuation difference on available-for-sale securities	(483)	2,648
Deferred gains (losses) on hedges	(1)	3
Foreign currency translation adjustments	4,781	(1,680)
Pension liabilities adjustments	(306)	—
Remeasurements of defined benefit plans	—	134
Total other comprehensive income	3,991	1,104
Comprehensive income	14,990	10,320
Comprehensive income attributable to:		
Owners of the parent	14,636	10,092
Minority interests	353	228

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

This is a translation of the original Japanese-language document and is provided for convenience only. In all cases, the Japanese-language original shall take precedence.

(4) Cash Flow Statement

	(Millions of yen)	
	For the six months ended September 30, 2013)	For the six months ended September 30, 2014)
Net cash provided by operating activities		
Income before income taxes and minority interests	17,590	14,466
Depreciation and amortization	7,841	8,858
Gain on goodwill	294	335
Increase (decrease) in reserve for repair	1,404	579
Interest and dividends income	(647)	(870)
Interest expense	376	410
Impairment loss	—	1,247
Loss (gain) on valuation of investment securities	460	—
Decrease (increase) in notes and accounts receivable—trade	(2,392)	(5,241)
Decrease (increase) in inventories	(21)	(1,928)
Increase (decrease) in notes and accounts payable—trade	(8,550)	14,716
Other, net	1,439	(9,259)
Subtotal	17,794	23,312
Interest and dividends income received	682	917
Interest expenses paid	(439)	(403)
Income taxes paid	(4,247)	(9,720)
Other, net	1	49
Net cash provided by operating activities	13,791	14,154
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(11,610)	(9,123)
Proceeds from property, plant and equipment	1	1,059
Purchase of intangible assets	(537)	(603)
Purchase of investment securities	(203)	(550)
Payments of loans receivable	(207)	(590)
Collection of loans receivable	72	508
Other, net	(82)	(4)
Net cash provided by (used in) investing activities	(12,566)	(9,303)
Net cash used in financing activities		
Net increase (decrease) in short-term loans payable	2,869	(411)
Increase (decrease) in commercial papers	(3,000)	3,500
Proceeds from long-term loans payable	—	1,535
Repayment of long-term loans payable	(3,682)	(6,735)
Proceeds from issuance of bonds	10,000	—
Redemption of bonds	(10,000)	—
Cash dividends paid	(1,385)	(1,359)
Cash dividends paid to minority shareholders	(5)	(5)
Other, net	(74)	(101)
Net cash used in financing activities	(5,277)	(3,575)
Effect of exchange rate change on cash and cash equivalents	818	(113)
Net increase (decrease) in cash and cash equivalents	(3,235)	1,162
Cash and cash equivalents at beginning of period	12,115	8,117
Cash and cash equivalents at end of period	8,880	9,279

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

This is a translation of the original Japanese-language document and is provided for convenience only. In all cases, the Japanese-language original shall take precedence.

(5) Segment Information

Previous 2nd quarter cumulative period (From April 1, 2013 to September 30, 2013) (Millions of yen)

	Elastomer	Specialty Materials	Sub Total	Other	Total	Eliminations /Corporate	Consolidated
Net sales							
(1) Sales to third parties	90,910	33,004	123,914	24,461	148,374	—	148,374
(2) Intersegment sales and transfers	1,258	—	1,258	172	1,430	(1,430)	—
Total	92,167	33,004	125,172	24,632	149,804	(1,430)	148,374
Segment income	10,654	5,408	16,062	679	16,740	(3)	16,738

Current 2nd quarter cumulative period (From April 1, 2014 to September 30, 2014) (Millions of yen)

	Elastomer	Specialty Materials	Sub Total	Other	Total	Eliminations /Corporate	Consolidated
Net sales							
(1) Sales to third parties	92,883	35,689	128,572	24,791	153,362	—	153,362
(2) Intersegment sales and transfers	970	—	970	229	1,199	(1,199)	—
Total	93,854	35,689	129,542	25,020	154,562	(1,199)	153,362
Segment income and loss	8,926	4,545	13,471	1,038	14,508	5	14,513