

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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October 29, 2015

Consolidated Financial Report for the Second Quarter of the Year Ending March 31, 2016

Name of Listed Company	ZEON CORPORATION	Listed Stock Exchanges	Tokyo Stock Exchange
Ticker Code 4205	(URL http://www.zeon.co.jp)	Name	Kimiaki Tanaka
Representative	President	Name	Takeo Furuya
Contact	Director and Corporate Officer	TEL	+81-3-3216-2747
Scheduled Date of the Submission of the Quarterly Report	November 9, 2015	Scheduled Date of Dividend Payments	December 4, 2015

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, 2016
(April 1, 2015 to September 30, 2015)**

(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	%
2Q period ended September 30, 2015	152,427	(0.6)	16,518	13.8	17,160	10.3	10,946	21.3
2Q period ended September 30, 2014	153,362	3.4	14,513	(13.3)	15,564	(14.3)	9,024	(16.5)

Note: Comprehensive income: 2Q of the year ending March 31, 2016: 5,178 million yen (-49.8%);
2Q of the year ended March 31, 2015: 10,320 million yen (-31.2%)

	Net income per share	Fully diluted net income per share
	Yen	Yen
2Q period ended September 30, 2015	48.26	48.18
2Q period ended September 30, 2014	39.79	39.72

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
2Q period ended September 30, 2015	407,485	219,232	52.7
Year ended March 31, 2015	399,512	215,631	52.9

Reference: Equity: As of September 30, 2015: 214,670 million yen As of March 31, 2015: 211,217 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, 2015	Yen —	Yen 7.00	Yen —	Yen 7.00	Yen 14.00
Year ending March 31, 2016	—	7.00	—	8.00	15.00
Year ending March 31, 2016 (Forecast)	—	—	—	8.00	15.00

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

3. Projected Consolidated Performance for the Year Ending March 31, 2016 (From April 1, 2015 to March 31, 2016)

(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
Year ending March 31, 2016 (Full year)	320,000	4.1	32,000	13.3	32,000	2.9	23,000	20.5	101.42

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, 2015: 242,075,556 shares As of March 31, 2015: 242,075,556 shares

(ii) Number of treasury stock outstanding

As of September 30, 2015: 15,179,259 shares As of March 31, 2015: 15,286,593 shares

(iii) Average number of shares during the period

2Q ended September 30, 2015: 226,834,891 shares 2Q ended September 30, 2014: 226,790,726 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.

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5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	(Millions of yen)	
	Previous fiscal year (As of March 31, 2015)	As of September 30, 2015
(Assets)		
Current assets		
Cash and bank deposits	4,151	10,675
Notes and accounts receivable—trade	70,970	70,282
Electronically recorded monetary claims	720	1,035
Marketable securities	—	3,400
Merchandise and products	43,299	47,019
Work in process	4,393	4,639
Raw materials and supplies	13,543	13,106
Accounts receivable—other	32,284	32,910
Deferred tax assets	3,231	3,223
Other current assets	4,115	4,546
Allowance for doubtful accounts	(95)	(93)
Total current assets	176,609	190,743
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	42,455	44,316
Machinery, equipment and vehicles, net	55,187	51,783
Land	18,371	18,355
Construction in progress	11,965	16,523
Other property, plant and equipment, net	6,249	6,112
Total property, plant and equipment	134,227	137,088
Intangible assets		
Other intangible assets	5,262	4,820
Total intangible assets	5,262	4,820
Investments and other assets		
Investment securities	75,972	67,437
Net defined benefit assets	44	35
Deferred tax assets	618	598
Other investments and assets	7,177	7,202
Allowance for doubtful accounts	(397)	(438)
Total investments and other assets	83,414	74,833
Total fixed assets	222,903	216,742
Total assets	399,512	407,485

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	(Millions of yen)	
	Previous fiscal year (As of March 31, 2015)	As of September 30, 2015
(Liabilities)		
Current liabilities		
Notes and accounts payable—trade	60,466	64,804
Electronically recorded obligations	796	1,431
Short-term loans payable	18,220	31,841
Commercial paper	10,000	—
Income taxes payable	3,902	4,763
Reserve for bonuses	1,977	1,297
Other reserves	531	3,657
Other current liabilities	23,282	20,791
Total current liabilities	119,174	128,585
Long-term liabilities		
Bonds payable	10,000	20,000
Long-term loans payable	20,669	10,463
Deferred tax liabilities	12,908	10,005
Net defined benefit liability	14,209	13,569
Other reserves	1,461	170
Other long-term liabilities	5,460	5,461
Total long-term liabilities	64,707	59,668
Total Liabilities	183,881	188,253
(Net Assets)		
Shareholders' equity		
Common stock	24,211	24,211
Capital surplus	18,514	18,505
Retained earnings	148,285	157,644
Treasury stock, at cost	(12,737)	(12,648)
Total shareholders' equity	178,273	187,712
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	28,350	21,938
Deferred gains (losses) on hedges	(0)	(2)
Foreign currency translation adjustments	7,666	8,050
Remeasurements of defined benefit plans	(3,072)	(3,028)
Total accumulated other comprehensive income	32,943	26,958
Stock acquisition rights	304	239
Non-controlling interests	4,111	4,324
Total net assets	215,631	219,232
Total liabilities and net assets	399,512	407,485

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(2) Consolidated Statements of Income

(Millions of yen)

	For the six months ended September 30, 2014	For the six months ended September 30, 2015
Net sales	153,362	152,427
Cost of sales	112,565	108,003
Gross profit	40,797	44,424
Selling, general and administrative expenses	26,284	27,906
Operating income	14,513	16,518
Non-operating income		
Interest income	60	59
Dividend income	810	999
Foreign exchange gain	423	—
Other non-operating income	657	331
Total non-operating income	1,949	1,388
Non-operating expenses		
Interest expense	410	309
Depreciation from idle assets	337	245
Other non-operating expenses	151	192
Total non-operating expenses	898	746
Ordinary income	15,564	17,160
Extraordinary gains		
Compensation income	—	338
Other	893	95
Total extraordinary gains	893	433
Extraordinary losses		
Loss on disposal of fixed assets	612	156
Impairment loss	1,247	735
Other	132	34
Total extraordinary losses	1,991	925
Income before income taxes	14,466	16,668
Income taxes	5,250	5,430
Net income	9,215	11,239
Net income attributable to owners of parent	192	292
Net income attributable to non-controlling interests	9,024	10,946

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(3) Statement of Comprehensive Income

(Millions of yen)

	For the six months ended September 30, 2014	For the six months ended September 30, 2015
Net income	9,215	11,239
Other comprehensive income		
Valuation difference on available-for-sale securities	2,648	(6,488)
Deferred gains (losses) on hedges	3	(3)
Foreign currency translation adjustments	(1,680)	387
Remeasurements of defined benefit plans	134	44
Total other comprehensive income	1,104	(6,060)
Comprehensive income	10,320	5,178
Comprehensive income attributable to:		
Owners of the parent	10,092	4,961
Non-controlling interests	228	218

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(4) Cash Flow Statement

	(Millions of yen)	
	For the six months ended September 30, 2014)	For the six months ended September 30, 2015)
Net cash provided by operating activities		
Income before income taxes	14,466	16,668
Depreciation and amortization	8,858	10,070
Gain on goodwill	335	335
Increase (decrease) in provision for bonuses	(488)	(676)
Increase (decrease) in reserve for repair	579	1,966
Increase (decrease) in net defined benefit liability	147	(580)
Interest and dividends income	(870)	(1,057)
Interest expense	410	309
Impairment loss	1,247	735
Decrease (increase) in notes and accounts	(5,241)	324
Decrease (increase) in inventories	(1,928)	(3,442)
Increase (decrease) in notes and accounts payable—trade	14,716	5,014
Other, net	(8,919)	(1,086)
Subtotal	23,312	28,578
Interest and dividends income received	917	1,084
Interest expenses paid	(403)	(294)
Income taxes paid	(9,720)	(4,348)
Other, net	49	8
Net cash provided by operating activities	14,154	25,028
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(9,123)	(13,811)
Purchase of intangible assets	(603)	(507)
Purchase of investment securities	(550)	(996)
Payments of loans receivable	(590)	(781)
Collection of loans receivable	508	406
Other, net	1,056	(908)
Net cash provided by (used in) investing activities	(9,303)	(16,597)
Net cash used in financing activities		
Net increase (decrease) in short-term loans payable	(411)	3,481
Increase (decrease) in commercial papers	3,500	(10,000)
Proceeds from long-term loans payable	1,535	—
Repayment of long-term loans payable	(6,735)	(434)
Proceeds from issuance of bonds	—	10,000
Cash dividends paid	(1,359)	(1,586)
Cash dividends paid to non-controlling interests	(5)	(5)
Other, net	(101)	(104)
Net cash used in financing activities	(3,575)	1,353
Effect of exchange rate change on cash and cash equivalents	(113)	(43)
Net increase (decrease) in cash and cash equivalents	1,162	9,742
Cash and cash equivalents at beginning of period	8,117	3,491
Cash and cash equivalents at end of period	9,279	13,233

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(4) Segment Information

Previous 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	8,926	4,545	13,471	1,038	14,508	5	14,513

Current 2nd quarter cumulative period (From April 1, 2015 to September 30, 2015) (Millions of yen)

	Elastomer	Specialty Materials	Sub Total	Other	Total	Eliminations /Corporate	Consolidated
Net sales							
(1) Sales to third parties	92,274	36,045	128,319	24,108	152,427	—	152,427
(2) Intersegment sales and transfers	854	—	854	207	1,061	(1,061)	—
Total	93,127	36,045	129,172	24,315	153,488	(1,061)	152,427
Segment income and loss	10,786	5,280	16,066	1,106	17,172	(654)	16,518