

## ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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October 31, 2016

**Consolidated Financial Report for the  
Second Quarter of the Year Ending March 31, 2017**

Name of Listed Company	ZEON CORPORATION	Listed Stock	Tokyo Stock Exchange
Ticker Code	4205	Exchanges	
(URL <a href="http://www.zeon.co.jp">http://www.zeon.co.jp</a> )		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 7, 2016	Scheduled Date of Dividend Payments	December 6, 2016

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, 2017  
(April 1, 2016 to September 30, 2016)**

## (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, 2016	140,201	(8.0)	13,217	(20.0)	12,101	(29.5)	8,071	(26.3)
2Q period ended September 30, 2015	152,427	(0.6)	16,518	13.8	17,160	10.3	10,946	21.3

Note: Comprehensive income (loss):

2Q of the year ending March 31, 2017: (1,086 million yen) (—%);

2Q of the year ended March 31, 2016: 5,178 million yen (−49.8%)

	Net income per share	Fully diluted net income per share
	Yen	Yen
2Q period ended September 30, 2016	36.37	36.32
2Q period ended September 30, 2015	48.26	48.18

## (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
2Q period ended September 30, 2016	368,593	213,406	56.6
Year ended March 31, 2016	384,753	215,586	54.8

Reference: Equity:

As of September 30, 2016: 208,510million yen      As of March 31, 2016: 210,780 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
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2016	—	7.00	—	8.00	15.00
Year ending March 31, 2017	—	8.00			
Year ending March 31, 2017 (Forecast)			—	8.00	16.00

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

**3. Projected Consolidated Performance for the Year Ending March 31, 2017  
(From April 1, 2016 to March 31, 2017)**

(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, 2017 (Full year)	280,000	(5.3)	28,000	(6.2)	28,000	(12.9)	19,000	5.1	85.63

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, 2016: 237,075,556 shares	As of March 31, 2016: 237,075,556 shares
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  - (ii) Number of treasury stock outstanding
 

As of September 30, 2016: 15,089,824 shares	As of March 31, 2016: 15,179,841 shares
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  - (iii) Average number of shares during the period
 

2Q ended September 30, 2016: 221,934,333 shares	2Q ended September 30, 2015: 226,834,891 shares
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**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, 2016)	As of September 30, 2016
(Assets)		
Current assets		
Cash and bank deposits	7,963	8,673
Notes and accounts receivable—trade	64,708	62,576
Electronically recorded monetary claims	1,308	2,202
Merchandise and products	47,462	39,936
Work in process	3,732	4,055
Raw materials and supplies	12,534	11,434
Accounts receivable—other	26,601	22,834
Deferred tax assets	4,607	4,435
Other current assets	4,070	5,494
Allowance for doubtful accounts	(79)	(71)
Total current assets	172,907	161,568
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	43,793	43,387
Machinery, equipment and vehicles, net	47,289	46,606
Land	18,276	18,140
Construction in progress	23,293	22,305
Other property, plant and equipment, net	5,875	5,917
Total property, plant and equipment	138,526	136,355
Intangible assets		
Other intangible assets	4,187	3,664
Total intangible assets	4,187	3,664
Investments and other assets		
Investment securities	60,821	58,352
Deferred tax assets	320	312
Other investments and assets	8,295	8,640
Allowance for doubtful accounts	(302)	(299)
Total investments and other assets	69,133	67,005
Total fixed assets	211,846	207,025
Total assets	384,753	368,593

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	(Millions of yen)	
	Previous fiscal year (As of March 31, 2016)	As of September 30, 2016
<b>(Liabilities)</b>		
Current liabilities		
Notes and accounts payable—trade	51,852	50,836
Electronically recorded obligations	1,754	2,240
Short-term loans payable	25,755	17,714
Income taxes payable	4,633	2,922
Reserve for bonuses	1,586	1,291
Provision for loss on liquidation of subsidiaries and associates	3,268	3,530
Other reserves	3,017	3,210
Other current liabilities	22,563	24,506
Total current liabilities	114,427	106,248
Long-term liabilities		
Bonds payable	20,000	20,000
Long-term loans payable	9,309	6,254
Deferred tax liabilities	6,463	4,918
Net defined benefit liability	13,383	12,729
Other reserves	386	434
Other long-term liabilities	5,199	4,602
Total long-term liabilities	54,740	48,939
Total liabilities	169,167	155,187
<b>(Net Assets)</b>		
Shareholders' equity		
Common stock	24,211	24,211
Capital surplus	18,387	18,387
Retained earnings	159,255	166,083
Treasury stock, at cost	(12,345)	(12,272)
Total shareholders' equity	189,508	196,410
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	17,713	16,213
Deferred gains (losses) on hedges	(3)	(1)
Foreign currency translation adjustments	6,461	(1,563)
Remeasurements of defined benefit plans	(2,898)	(2,549)
Total accumulated other comprehensive income	21,272	12,100
Stock acquisition rights	255	204
Non-controlling interests	4,551	4,692
Total net assets	215,586	213,406
Total liabilities and net assets	384,753	368,593

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## (2) Consolidated Statements of Income

(Millions of yen)

	For the six months ended September 30, 2015	For the six months ended September 30, 2016
Net sales	152,427	140,201
Cost of sales	108,003	99,134
Gross profit	44,424	41,067
Selling, general and administrative expenses	27,906	27,850
Operating income	16,518	13,217
Non-operating income		
Interest income	59	56
Dividend income	999	868
Other non-operating income	331	301
Total non-operating income	1,388	1,225
Non-operating expenses		
Interest expense	309	269
Foreign exchange gain	27	1,860
Other non-operating expenses	411	211
Total non-operating expenses	746	2,340
Ordinary income	17,160	12,101
Extraordinary gains		
Compensation income	338	486
Other	95	103
Total extraordinary gains	433	589
Extraordinary losses		
Loss on disposal of fixed assets	156	274
Loss on liquidation of subsidiaries and affiliates	—	1,371
Other	769	55
Total extraordinary losses	925	1,699
Income before income taxes	16,668	10,991
Income taxes	5,430	2,622
Net income	11,239	8,369
Net income attributable to owners of parent	292	298
Net income attributable to non-controlling interests	10,946	8,071

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## (3) Statement of Comprehensive Income

(Millions of yen)

	For the six months ended September 30, 2015	For the six months ended September 30, 2016
Net income	11,239	8,369
Other comprehensive income		
Valuation difference on available-for-sale securities	(6,488)	(1,499)
Deferred gains (losses) on hedges	(3)	3
Foreign currency translation adjustments	387	(8,307)
Remeasurements of defined benefit plans	44	349
Total other comprehensive income	(6,060)	(9,455)
Comprehensive income	5,178	(1,086)
Comprehensive income attributable to:		
Owners of the parent	4,961	(1,097)
Non-controlling interests	218	11

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## (4) Cash Flow Statement

	(Millions of yen)	
	For the six months ended September 30, 2015)	For the six months ended September 30, 2016)
Net cash provided by operating activities		
Income before income taxes	16,668	10,991
Depreciation and amortization	10,070	9,362
Gain on goodwill	335	335
Increase (decrease) in provision for bonuses	(676)	(278)
Increase (decrease) in reserve for repair	1,966	290
Increase (decrease) in provision for loss on liquidation of subsidiaries and associates	—	1,204
Increase (decrease) in net defined benefit liability	(580)	(241)
Interest and dividend income	(1,057)	(924)
Interest expense	309	269
Decrease (increase) in notes and accounts	324	(1,897)
Decrease (increase) in inventories	(3,442)	5,783
Increase (decrease) in notes and accounts payable—trade	5,014	1,512
Other, net	(351)	(420)
Subtotal	28,578	25,987
Interest and dividend income received	1,084	1,670
Interest expenses paid	(294)	(268)
Income taxes paid	(4,348)	(4,847)
Other, net	8	138
Net cash provided by operating activities	25,028	22,678
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(13,811)	(12,497)
Purchase of intangible assets	(507)	(345)
Purchase of investment securities	(996)	(21)
Payments of loans receivable	(781)	(3,035)
Collection of loans receivable	406	2,923
Other, net	(908)	191
Net cash provided by (used in) investing activities	(16,597)	(12,784)
Net cash used in financing activities		
Net increase (decrease) in short-term loans payable	3,481	(13)
Increase (decrease) in commercial papers	(10,000)	3,000
Proceeds from long-term loans payable	—	500
Repayment of long-term loans payable	(434)	(10,239)
Proceeds from issuance of bonds	10,000	—
Cash dividends paid	(1,586)	(1,772)
Cash dividends paid to non-controlling interests	(5)	(5)
Other, net	(104)	(102)
Net cash used in financing activities	1,353	(8,631)
Effect of exchange rate change on cash and cash equivalents	(43)	(866)
Net increase (decrease) in cash and cash equivalents	9,742	397
Cash and cash equivalents at beginning of period	3,491	6,832
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	—	611
Cash and cash equivalents at end of period	13,233	7,840

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## (4) Segment Information

Previous 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	10,786	5,280	16,066	1,106	17,172	(654)	16,518

Current 2nd quarter cumulative period (From April 1, 2016 to September 30, 2016) (Millions of yen)

	Elastomer	Specialty Materials	Sub Total	Other	Total	Eliminations /Corporate	Consolidated
Net sales							
(1) Sales to third parties	80,694	36,452	117,146	23,055	140,201	—	140,201
(2) Intersegment sales and transfers	864	—	864	181	1,045	(1,045)	—
Total	81,558	36,452	118,010	23,236	141,246	(1,045)	140,201
Segment income and loss	8,318	4,697	13,014	1,347	14,362	(1,145)	13,217