

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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July 31, 2017

**Consolidated Financial Report for the
First Quarter of the Year Ending March 31, 2018**

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	Takeo Furuya
Contact	Director and Corporate Officer	TEL	+81-3-3216-2747
Scheduled Date of the Submission of the Quarterly Report	August 10, 2017	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, 2018
(April 1, 2017 to June 30, 2017)**

(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, 2017	82,775	18.3	9,715	37.7	10,807	87.3	7,005	81.4
1Q period ended June 30, 2016	69,998	(7.8)	7,054	(10.1)	5,771	(32.4)	3,861	(31.1)

Note: Comprehensive income (loss):

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

1Q of the year ended March 31, 2017: (6,878 million yen) (—%)

	Net income per share	Fully diluted net income per share
	Yen	Yen
1Q period ended June 30, 2017	31.56	31.51
1Q period ended June 30, 2016	17.40	17.38

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
1Q period ended June 30, 2017	407,020	252,134	60.8
Year ended March 31, 2017	411,415	244,634	58.4

Reference: Equity:

As of June 30, 2017: 247,425 million yen

As of March 31, 2017: 240,189 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, 2017	—	8.00	—	8.00	16.00
Year ending March 31, 2018	—				
Year ending March 31, 2018 (Forecast)		8.00	—	9.00	17.00

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

**3. Projected Consolidated Performance for the Year Ending March 31, 2018
(From April 1, 2017 to March 31, 2018)**

(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, 2017	140,000	(0.1)	13,000	(1.6)	13,000	7.4	8,000	(0.9)	36.04
Year ending March 31, 2018 (Full year)	290,000	0.8	29,000	(5.7)	30,000	(5.7)	20,000	(13.6)	90.10

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: No

(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 June 30, 2017: 237,075,556 shares As of March 31, 2017: 237,075,556 shares

(ii) Number of treasury stock outstanding

As of June 30, 2017: 15,093,201 shares As of March 31, 2017: 15,093,031 shares

(iii) Average number of shares during the period

1Q ended June 30, 2017: 221,982,435 shares 1Q ended June 30, 2016: 221,895,594 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, 2017)	As of June 30, 2017
(Assets)		
Current assets		
Cash and bank deposits	11,677	14,941
Notes and accounts receivable—trade	70,222	72,874
Electronically recorded monetary claims	2,782	2,927
Merchandise and products	43,734	38,608
Work in process	5,145	3,258
Raw materials and supplies	12,978	12,765
Accounts receivable—other	29,328	22,286
Deferred tax assets	3,799	3,679
Other current assets	2,959	5,272
Allowance for doubtful accounts	(91)	(91)
Total current assets	182,533	176,518
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	44,667	44,475
Machinery, equipment and vehicles, net	60,351	57,188
Land	18,698	18,320
Construction in progress	8,046	8,811
Other property, plant and equipment, net	6,297	6,216
Total property, plant and equipment	138,058	135,010
Intangible assets		
Other intangible assets	3,857	3,630
Total intangible assets	3,857	3,630
Investments and other assets		
Investment securities	76,828	81,849
Deferred tax assets	273	263
Other investments and assets	10,099	9,982
Allowance for doubtful accounts	(233)	(233)
Total investments and other assets	86,967	91,862
Total fixed assets	228,883	230,502
Total assets	411,415	407,020

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	(Millions of yen)	
	Previous fiscal year (As of March 31, 2017)	As of June 30, 2017
(Liabilities)		
Current liabilities		
Notes and accounts payable—trade	63,851	54,066
Electronically recorded monetary claims	2,834	2,673
Short-term loans payable	18,037	17,866
Current portion of bonds payable	—	10,000
Income taxes payable	5,018	3,416
Reserve for bonuses	1,556	224
Other reserves	2,238	2,681
Other current liabilities	20,719	21,928
Total current liabilities	<u>114,253</u>	<u>112,854</u>
Long-term liabilities		
Bonds payable	20,000	10,000
Long-term loans payable	5,140	4,323
Deferred tax liabilities	8,776	10,063
Net defined benefit liability	12,760	11,662
Other reserves	626	895
Other long-term liabilities	5,225	5,088
Total long-term liabilities	<u>52,528</u>	<u>42,032</u>
Total Liabilities	<u>166,781</u>	<u>154,886</u>
(Net Assets)		
Shareholders' equity		
Common stock	24,211	24,211
Capital surplus	19,128	19,128
Retained earnings	179,390	185,999
Treasury stock, at cost	(12,275)	(12,275)
Total shareholders' equity	<u>210,454</u>	<u>217,062</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	27,767	30,150
Deferred gains on hedges	(1)	(1)
Foreign currency translation adjustments	4,474	2,616
Remeasurements of defined benefit plans	(2,505)	(2,402)
Total accumulated other comprehensive income	<u>29,736</u>	<u>30,363</u>
Stock acquisition rights	222	230
Non-controlling interests	4,224	4,478
Total net assets	<u>244,634</u>	<u>252,134</u>
Total liabilities and net assets	<u>411,415</u>	<u>407,020</u>

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(2) Consolidated Statements of Income

(Millions of yen)

	For the three months ended June 30, 2016	For the three months ended June 30, 2017
Net sales	69,998	82,775
Cost of sales	49,191	58,337
Gross profit	20,807	24,438
Selling, general and administrative expenses	13,752	14,723
Operating income	7,054	9,715
Non-operating income		
Interest income	29	25
Dividend income	424	692
Foreign exchange gain	—	506
Share of profit of investments accounted for using the equity method	—	68
Miscellaneous income	136	100
Total non-operating income	589	1,391
Non-operating expenses		
Interest expenses	145	89
Foreign exchange loss	1,583	—
Depreciation of inactive non-current assets	66	140
Miscellaneous loss	79	69
Total non-operating expenses	1,872	298
Ordinary income	5,771	10,807
Extraordinary gains		
Compensation income	357	—
Gain on extinguishment of tie-in shares	—	67
Other	3	—
Total extraordinary gains	360	67
Extraordinary losses		
Loss on disposal of fixed assets	144	127
Other	13	1
Total extraordinary losses	157	128
Income before income taxes	5,974	10,747
Income taxes	1,954	3,675
Net income	4,020	7,071
Net income attributable to non-controlling interests	158	66
Net income attributable to owners of parent	3,861	7,005

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(3) Statement of Comprehensive Income

(Millions of yen)

	For the three months ended June 30, 2016	For the three months ended June 30, 2017
Net income	4,020	7,071
Other comprehensive income		
Valuation difference on available-for-sale securities	(7,588)	2,393
Deferred gains (losses) on hedges	(1)	(0)
Foreign currency translation adjustments	(3,467)	(1,877)
Remeasurements of defined benefit plans	159	103
Share of profit of investments accounted for using the equity method	—	5
Total other comprehensive income	(10,898)	623
Comprehensive income	(6,878)	7,694
Comprehensive income attributable to:		
Owners of parent	(6,903)	7,612
Non-controlling interests	25	82

(4) Segment Information

Previous 1st quarter cumulative period (From April 1, 2016 to June 30, 2016)

(Millions of yen)

	Elastomer	Specialty Materials	Sub Total	Other	Total	Eliminations /Corporate	Consolidated
Net sales							
(1) Sales to third parties	41,202	17,422	58,624	11,374	69,998	—	69,998
(2) Intersegment sales and transfers	425	—	425	94	519	(519)	—
Total	41,627	17,422	59,049	11,468	70,517	(519)	69,998
Segment income and loss	4,552	2,460	7,012	600	7,613	(559)	7,054

Current 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