

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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October 31, 2017

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

Name of Listed Company ZEON CORPORATION
 Ticker Code 4205 (URL <http://www.zeon.co.jp>) Listed Stock Exchanges Tokyo Stock Exchange
 Representative President Name Kimiaki Tanaka
 Contact Director and Corporate Officer Name Takeo Furuya TEL: +81-3-3216-2747
 Scheduled Date of the Submission November 13, 2017 Scheduled Date of Dividend Payments December 6, 2017
 of the Quarterly Report

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, 2018
(April 1, 2017 to September 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	%
2Q period ended September 30, 2017	166,672	18.9	19,907	50.6	21,659	79.0	14,341	77.7
2Q period ended September 30, 2016	140,201	(8.0)	13,217	(20.0)	12,101	(29.5)	8,071	(26.3)

Note: Comprehensive income (loss):

2Q of the year ending March 31, 2018: 19,180 million yen (—%);

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

	Net income per share	Fully diluted net income per share
	Yen	Yen
2Q period ended September 30, 2017	64.60	64.52
2Q period ended September 30, 2016	36.37	36.32

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
2Q period ended September 30, 2017	434,861	263,619	59.5
Year ended March 31, 2017	411,415	244,634	58.4

Reference: Equity:

As of September 30, 2017: 258,804 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
Year ended March 31, 2016	Yen —	Yen 8.00	Yen —	Yen 8.00	Yen 16.00
Year ending March 31, 2017	—	8.00			
Year ending March 31, 2017 (Forecast)			—	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
Year ending March 31, 2017 (Full year)	325,000	(13.0)	35,000	(13.8)	38,000	(19.5)	25,000	8.0	112.62

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

(ii) Number of treasury stock outstanding

As of September 30, 2017: 15,054,236 shares As of March 31, 2017: 15,093,031 shares

(iii) Average number of shares during the period

2Q ended September 30, 2017: 221,999,195 shares 2Q ended September 30, 2016: 221,934,333 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 September 30, 2017
(Assets)		
Current assets		
Cash and bank deposits	11,677	27,880
Notes and accounts receivable—trade	70,222	77,098
Electronically recorded monetary claims	2,782	3,493
Merchandise and products	43,734	40,450
Work in process	5,145	3,316
Raw materials and supplies	12,978	13,285
Accounts receivable—other	29,328	26,364
Deferred tax assets	3,799	3,767
Other current assets	2,959	5,144
Allowance for doubtful accounts	(91)	(87)
Total current assets	182,533	200,710
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	44,667	44,185
Machinery, equipment and vehicles, net	60,351	55,279
Land	18,698	18,323
Construction in progress	8,046	10,054
Other property, plant and equipment, net	6,297	6,204
Total property, plant and equipment	138,058	134,045
Intangible assets		
Other intangible assets	3,857	3,510
Total intangible assets	3,857	3,510
Investments and other assets		
Investment securities	76,828	86,745
Deferred tax assets	273	258
Other investments and assets	10,099	9,827
Allowance for doubtful accounts	(233)	(234)
Total investments and other assets	86,967	96,596
Total fixed assets	228,883	234,150
Total assets	411,415	434,861

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	(Millions of yen)	
	Previous fiscal year (As of March 31, 2017)	As of September 30, 2017
(Liabilities)		
Current liabilities		
Notes and accounts payable—trade	63,851	67,110
Electronically recorded monetary claims	2,834	3,310
Short-term loans payable	18,037	17,853
Current portion of bonds payable	—	10,000
Income taxes payable	5,018	5,797
Reserve for bonuses	1,556	1,516
Other reserves	2,238	1,252
Other current liabilities	20,719	20,724
Total current liabilities	114,253	127,561
Long-term liabilities		
Bonds payable	20,000	10,000
Long-term loans payable	5,140	3,409
Deferred tax liabilities	8,776	11,804
Net defined benefit liability	12,760	11,843
Other reserves	626	1,503
Other long-term liabilities	5,225	5,120
Total long-term liabilities	52,528	43,680
Total liabilities	166,781	171,242
(Net Assets)		
Shareholders' equity		
Common stock	24,211	24,211
Capital surplus	19,128	19,131
Retained earnings	179,390	193,335
Treasury stock, at cost	(12,275)	(12,244)
Total shareholders' equity	210,454	224,433
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	27,767	33,466
Deferred gains on hedges	(1)	0
Foreign currency translation adjustments	4,474	2,985
Remeasurements of defined benefit plans	(2,505)	(2,080)
Total accumulated other comprehensive income	29,736	34,371
Stock acquisition rights	222	212
Non-controlling interests	4,224	4,603
Total net assets	244,634	263,619
Total liabilities and net assets	411,415	434,861

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(2) Consolidated Statements of Income

	(Millions of yen)	
	For the six months ended September 30, 2016	For the six months ended September 30, 2017
Net sales	140,201	166,672
Cost of sales	99,134	117,145
Gross profit	41,067	49,528
Selling, general and administrative expenses	27,850	29,621
Operating income	13,217	19,907
Non-operating income		
Interest income	56	53
Dividend income	868	1,219
Foreign exchange gain	—	606
Share of profit of investments accounted for using the equity method	—	133
Miscellaneous income	301	302
Total non-operating income	1,225	2,312
Non-operating expenses		
Interest expenses	269	172
Foreign exchange loss	1,860	—
Depreciation of inactive non-current assets	111	263
Miscellaneous loss	99	126
Total non-operating expenses	2,340	560
Ordinary income	12,101	21,659
Extraordinary gains		
Compensation income	486	—
Gain on sales of investment securities	9	30
Gain on extinguishment of tie-in shares	—	67
Other	94	0
Total extraordinary gains	589	97
Extraordinary losses		
Loss on disposal of fixed assets	274	268
Loss on liquidation of subsidiaries and affiliates	1,371	—
Loss on abolishment of retirement benefit plan	—	501
Other	55	25
Total extraordinary losses	1,699	794
Income before income taxes	10,991	20,961
Income taxes	2,622	6,446
Net income	8,369	14,515
Net income attributable to non-controlling interests	298	174
Net income attributable to owners of parent	8,071	14,341

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(3) Statement of Comprehensive Income

	(Millions of yen)	
	For the six months ended September 30, 2016	For the six months ended September 30, 2017
Net income	8,369	14,515
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,499)	5,727
Deferred gains (losses) on hedges	3	1
Foreign currency translation adjustments	(8,307)	(1,511)
Remeasurements of defined benefit plans	349	425
Share of profit of investments accounted for using the equity method	—	25
Total other comprehensive income	(9,455)	4,666
Comprehensive income	(1,086)	19,180
Comprehensive income attributable to:		
Owners of the parent	(1,097)	18,954
Non-controlling interests	11	226

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(4) Cash Flow Statement

	(Millions of yen)	
	For the six months ended September 30, 2016	For the six months ended September 30, 2017
Net cash provided by operating activities		
Income before income taxes	10,991	20,961
Depreciation and amortization	9,362	9,713
Gain on goodwill	335	335
Increase (decrease) in provision for loss on liquidation of subsidiaries and associates	1,204	—
Increase (decrease) in net defined benefit liability	(241)	(905)
Interest and dividend income	(924)	(1,272)
Interest expense	269	172
Decrease (increase) in notes and accounts	(1,897)	(7,724)
Decrease (increase) in inventories	5,783	4,457
Increase (decrease) in notes and accounts payable—trade	1,512	3,806
Other, net	(409)	855
Subtotal	25,987	30,399
Interest and dividend income received	1,670	1,412
Interest expenses paid	(268)	(169)
Income taxes paid	(4,847)	(5,418)
Other, net	138	164
Net cash provided by operating activities	22,678	26,388
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(12,497)	(4,657)
Purchase of intangible assets	(345)	(624)
Payments of loans receivable	(3,035)	(595)
Collection of loans receivable	2,923	577
Net decrease (increase) in time deposits	143	(1,118)
Purchase of long-term prepaid expenses	(8)	(556)
Other, net	35	148
Net cash provided by (used in) investing activities	(12,784)	(6,824)
Net cash used in financing activities		
Net increase (decrease) in short-term loans payable	(13)	1,041
Increase (decrease) in commercial papers	3,000	(1,500)
Proceeds from long-term loans payable	500	—
Repayment of long-term loans payable	(10,239)	(2,713)
Cash dividends paid	(1,772)	(1,806)
Cash dividends paid to non-controlling interests	(5)	(67)
Other, net	(102)	127
Net cash used in financing activities	(8,631)	(4,918)
Effect of exchange rate change on cash and cash equivalents	(866)	132
Net increase (decrease) in cash and cash equivalents	397	14,778
Cash and cash equivalents at beginning of period	6,832	11,368
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	611	0
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	284
Cash and cash equivalents at end of period	7,840	26,430

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(4) Segment Information

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

	Elastomer	Specialty Materials	Sub Total	Other	Total	Adjustment	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	8,318	4,697	13,014	1,347	14,362	(1,145)	13,217

Current 2nd quarter cumulative period (From April 1, 2017 to September 30, 2017) (Millions of yen)

	Elastomer	Specialty Materials	Sub Total	Other	Total	Adjustment	Consolidated
Net sales							
(1) Sales to third parties	97,556	43,091	140,647	26,025	166,672	—	166,672
(2) Intersegment sales and transfers	894	—	894	136	1,030	(1,030)	—
Total	98,449	43,091	141,541	26,161	167,702	(1,030)	166,672
Segment income	11,394	8,193	19,586	1,621	21,207	(1,300)	19,907