

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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April 27, 2018

**Consolidated Financial Flash Report for the
Year Ended March 31, 2018**

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 General Shareholders Meeting	June 28, 2018		Scheduled Date of Dividend Payments	From June 29, 2018
Scheduled Date of the Submission of the Securities Report	June 28, 2018			

Note: Figures are rounded down to the nearest million yen.

1. Consolidated Performance for the Year Ended March 31, 2018 (From April 1, 2017 to March 31, 2018)

(1) Consolidated operating results

(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	%
Year ended March 31, 2018	332,682	15.7	38,881	26.4	40,893	28.6	13,056	(43.6)
Year ended March 31, 2017	287,624	(2.7)	30,767	3.1	31,805	(1.1)	23,152	28.1

Notes: Comprehensive income:

Year ended March 31, 2018: 19,374 million yen (-39.7%);

Year ended March 31, 2017: 32,148 million yen (366.1%)

	Net income per share	Fully diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to sales
	Yen	Yen	%	%	%
Year ended March 31, 2018	58.81	58.73	5.3	9.6	11.7
Year ended March 31, 2017	104.31	104.17	10.3	8.0	10.7

Reference: Share of (profit) loss of entities accounted for using equity method:

Year ended March 31, 2018: 283 million yen Year ended March 31, 2017: — million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2018	443,917	259,940	57.9	1,158.30
As of March 31, 2017	411,415	244,634	58.4	1,082.02

Reference: Equity:

As of March 31, 2018: 257,167 million yen As of March 31, 2017: 240,189 million yen

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2018	54,462	(14,951)	(11,625)	39,791
Year ended March 31, 2017	49,042	(29,121)	(15,834)	11,368

2. Cash Dividends

Record date	Cash dividend per share					Total annual cash dividends	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	1Q end	Interim	3Q end	Year-end	Full year			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended March 31, 2017	—	8.00	—	8.00	16.00	3,552	15.3	1.6
Year ended March 31, 2018	—	8.00	—	9.00	17.00	3,774	28.9	1.5
Year ending March 31, 2019 (Forecast)	—	9.00	—	9.00	18.00		16.7	

3. Projected Consolidated Performance for the Year Ending March 31, 2019 (From April 1, 2018 to March 31, 2019)

(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, 2018	160,000	(4.0)	16,000	(19.6)	17,000	(21.5)	12,000	(16.3)	54.05
Year ending March 31, 2019 (Full year)	320,000	(3.8)	32,000	(17.7)	34,000	(16.9)	24,000	83.8	108.10

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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4. Other Matters

(1) Material changes in subsidiaries during this period (changes in scope of consolidations resulting from change in subsidiaries): Yes

Number of subsidiaries newly consolidated: — (Name: —)

Number of subsidiaries excluded from consolidation: 1 (Name: Zeon Chemicals Europe Ltd.)

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

(i) Changes in policy due to amendment in accounting standards: No

(ii) Changes in policy other than above (i): No

(iii) Changes in accounting estimates: No

(iv) Restatements: No

(3) Number of shares outstanding (Common stock)

(i) Number of shares outstanding at the end of the year (Including treasury stock)

As of March 31, 2018: 237,075,556 shares As of March 31, 2017: 237,075,556 shares

(ii) Number of treasury stock

As of March 31, 2018: 15,054,569 shares As of March 31, 2017: 15,093,031 shares

(iii) Average number of shares outstanding in each year

Year ended March 31, 2018: 222,009,301 shares Year ended March 31, 2017: 221,957,049 shares

Reference: Summary of Non-consolidated Performance**Non-consolidated Performance for the Year ended March 31, 2018**

(From April 1, 2017 to March 31, 2018)

(Percentage figures respectively indicate changes from the previous year.)

(1) Non-consolidated operating results

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2018	219,002	13.2	27,856	20.0	32,324	30.8	1,759	(91.0)
Year ended March 31, 2017	193,405	(2.2)	23,219	0.7	24,722	(5.0)	19,471	46.6

	Net income per share	Fully diluted net income per share
	Yen	Yen
Year ended March 31, 2018	7.92	7.91
Year ended March 31, 2017	87.72	87.60

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Year ended March 31, 2018	373,254	200,738	53.7	903.03
Year ended March 31, 2017	347,651	196,910	56.6	886.05

Reference: Equity

As of March 31, 2018: 200,491 million yen As of March 31, 2017: 196,688 million yen

The financial flash report is not subject to auditing procedures by certified public accountants or auditing firms.

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)	Current fiscal year (As of March 31, 2018)
(Assets)		
Current assets		
Cash and bank deposits	11,677	41,666
Notes and accounts receivable—trade	70,222	75,787
Electronically recorded monetary claims	2,782	3,557
Merchandise and products	43,734	45,448
Work in process	5,145	4,689
Raw materials and supplies	12,978	13,759
Accounts receivable—other	29,328	36,241
Deferred tax assets	3,799	3,850
Other current assets	2,959	3,810
Allowance for doubtful accounts	(91)	(97)
Total current assets	182,533	228,710
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	44,667	41,914
Machinery, equipment and vehicles, net	60,351	45,888
Land	18,698	18,246
Construction in progress	8,046	5,285
Other property, plant and equipment, net	6,297	4,225
Total property, plant and equipment	138,058	115,559
Intangible assets		
Other intangible assets	3,857	3,355
Total intangible assets	3,857	3,355
Investments and other assets		
Investment securities	76,828	87,362
Net defined benefit asset	87	49
Deferred tax assets	273	434
Other investments and assets	10,012	8,677
Allowance for doubtful accounts	(233)	(228)
Total investments and other assets	86,967	96,294
Total fixed assets	228,883	215,208
Total assets	411,415	443,917

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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	(Millions of yen)	
	Previous fiscal year (As of March 31, 2017)	Current fiscal year (As of March 31, 2018)
(Liabilities)		
Current liabilities		
Notes and accounts payable—trade	63,851	81,103
Electronically recorded monetary claims	2,834	2,900
Short-term loans payable	18,037	16,573
Current portion of bonds	—	10,000
Income taxes payable	5,018	4,920
Reserve for bonuses	1,556	2,160
Other reserves	2,238	2,032
Other current liabilities	20,719	19,576
Total current liabilities	<u>114,253</u>	<u>139,264</u>
Long-term liabilities		
Bonds payable	20,000	10,000
Long-term loans payable	5,140	2,000
Deferred tax liabilities	8,776	13,458
Net defined benefit liability	12,760	12,181
Other reserves	626	1,359
Other long-term liabilities	5,225	5,715
Total long-term liabilities	<u>52,528</u>	<u>44,713</u>
Total Liabilities	<u>166,781</u>	<u>183,977</u>
(Net Assets)		
Shareholders' equity		
Common stock	24,211	24,211
Capital surplus	19,128	19,240
Retained earnings	179,390	190,273
Treasury stock, at cost	(12,275)	(12,245)
Total shareholders' equity	<u>210,454</u>	<u>221,480</u>
Accumulated other comprehensive income		
Net unrealized holding gain on available-for-sale securities	27,767	33,771
Deferred gains on hedges	(1)	(2)
Foreign currency translation adjustments	4,474	3,925
Remeasurements of defined benefit plans	(2,505)	(2,008)
Total accumulated other comprehensive income	<u>29,736</u>	<u>35,687</u>
Stock acquisition rights	222	246
Non-controlling interests	4,224	2,527
Total net assets	<u>244,634</u>	<u>259,940</u>
Total liabilities and net assets	<u>411,415</u>	<u>443,917</u>

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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(2) Consolidated Statements of Income

	(Millions of yen)	
	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Net sales	287,624	332,682
Cost of sales	200,699	231,410
Gross profit	86,925	101,272
Selling, general and administrative expenses	56,158	62,392
Operating income	30,767	38,881
Nonoperating income		
Interest income	123	120
Dividend income	1,917	2,237
Share of profit of entities accounted for using equity	—	283
Miscellaneous income	995	640
Total nonoperating income	3,035	3,280
Nonoperating expenses		
Interest expense	455	323
Foreign exchange loss	929	318
Depreciation from idle assets	354	306
Miscellaneous loss	261	321
Total nonoperating expenses	1,998	1,268
Ordinary income	31,805	40,893
Extraordinary gains		
Gain on sales of investment securities	37	231
Gain on sales of investments in capital of subsidiaries and associates	—	480
Insurance income	—	501
Gain on reversal of foreign currency translation adjustment	—	316
Other	1,189	214
Total extraordinary gains	1,226	1,742
Extraordinary losses		
Loss on disposal of fixed assets	758	497
Impairment loss	184	14,775
Loss on liquidation of affiliates	555	—
Loss on abolishment of retirement benefit plan	489	2,378
Other	116	132
Total extraordinary losses	2,102	17,782
Income before income taxes	30,928	24,853
Income taxes—current	8,341	10,069
Income taxes—deferred	(1,179)	1,332
Total taxes	7,162	11,401
Net income	23,766	13,451
Net income attributable to non-controlling interests	613	396
Net income attributable to owners of parent	23,152	13,056

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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(3) Statement of Comprehensive Income

	(Millions of yen)	
	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Previous fiscal year (From April 1, 2017 to March 31, 2018)
Net income	23,766	13,451
Other comprehensive income		
Valuation difference on available-for-sale securities	10,058	5,848
Deferred gains (losses) on hedges	3	(1)
Foreign currency translation adjustments	(2,072)	(527)
Remeasurements of defined benefit plans	393	497
Share of other comprehensive income of entities accounted for using equity method	—	106
Total other comprehensive income	<u>8,383</u>	<u>5,922</u>
Comprehensive income	<u>32,148</u>	<u>19,374</u>
Comprehensive income attributable to:		
Owners of parent	31,554	18,770
Non-controlling interests	594	604

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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(4) Consolidated Statements of Changes in Net Assets

Previous fiscal year (From April 1, 2016 to March 31, 2017)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	24,211	18,387	159,255	(12, 345)	189,508
Changes of items during the period					
Dividends from surplus			(3,551)		(3,551)
Profit attributable to owners of parent			23,152		23,152
Disposal of treasury stock		(7)		74	67
Purchase of treasury stock				(4)	(4)
Transfer to capital surplus from retained earnings		7	(7)		—
Change in treasury stock of parent arising from transactions with non-controlling shareholders		741			741
Change of scope of consolidation			540		540
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	741	20,135	70	20,946
Balance at the end of current period	24,211	19,128	179,390	(12,275)	210,454

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of current period	17,713	(3)	6,461	(2,898)	21,272	255	4,551	215,586
Changes of items during the period								
Dividends from surplus								(3,551)
Profit attributable to owners of parent								23,152
Disposal of treasury stock								67
Purchase of treasury stock								(4)
Transfer to capital surplus from retained earnings								—
Change in treasury stock of parent arising from transactions with non-controlling shareholders								741
Change of scope of consolidation								540
Net changes of items other than shareholders' equity	10,054	2	(1,987)	393	8,463	(33)	(327)	8,103
Total changes of items during the period	10,054	2	(1,987)	393	8,463	(33)	(327)	29,049
Balance at the end of current period	27,767	(1)	4,474	(2,505)	29,736	222	4,224	244,634

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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Current fiscal year (From April 1, 2017 to March 31, 2018)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	24,211	19,128	179,390	(12,275)	210,454
Changes of items during the period					
Dividends from surplus			(3,552)		(3,552)
Profit attributable to owners of parent			13,056		13,056
Disposal of treasury stock		3		33	35
Purchase of treasury stock				(2)	(2)
Change in ownership interest of parent due to transactions with non-controlling interests		110			110
Change of scope of equity method			1,380		1,380
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	112	10,884	30	11,026
Balance at the end of current period	24,211	19,240	190,273	(12,245)	221,480

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of current period	27,767	(1)	4,474	(2,505)	29,736	222	4,224	244,634
Changes of items during the period								
Dividends from surplus								(3,552)
Profit attributable to owners of parent								13,056
Disposal of treasury stock								35
Purchase of treasury stock								(2)
Change in treasury stock of parent arising from transactions with non-controlling shareholders								110
Change of scope of equity method								1,380
Net changes of items other than shareholders' equity	6,004	(1)	(549)	497	5,951	25	(1,697)	4,279
Total changes of items during the period	6,004	(1)	(549)	497	5,951	25	(1,697)	15,306
Balance at the end of current period	33,771	(2)	3,925	(2,008)	35,687	246	2,527	259,940

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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(5) Cash Flow Statement

	(Millions of yen)	
	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Net cash provided by operating activities		
Income before income taxes and minority interests	30,928	24,853
Depreciation and amortization	20,431	20,539
Gain on goodwill	670	670
Increase (decrease) in reserve for repair	(455)	597
Increase (decrease) in provision for loss on liquidation of subsidiaries and associates	(2,673)	—
Increase (decrease) in net defined benefit liability	(798)	(1,751)
Interest and dividends income	(2,040)	(2,357)
Increase (decrease) in provision for bonuses	(23)	580
Interest expenses	455	323
Compensation income	(1,060)	(100)
Loss (gain) on disposal of non-current assets	629	466
Impairment loss	184	14,775
Insurance income	—	(501)
Decrease (increase) in notes and accounts receivable—trade	(8,200)	(5,813)
Decrease (increase) in inventories	1,178	(1,949)
Increase (decrease) in notes and accounts payable—trade	13,802	16,930
Other, net	489	(5,061)
Subtotal	53,515	62,199
Interest and dividends income received	2,592	2,443
Interest expenses paid	(452)	(334)
Proceeds from subsidy	640	127
Proceeds from compensation	941	119
Income taxes paid	(8,195)	(10,092)
Net cash provided by operating activities	49,042	54,462
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(24,397)	(12,140)
Purchase of intangible assets	(1,303)	(1,197)
Purchase of investment securities	(2,400)	(626)
Proceeds from sales of investment securities	539	266
Proceeds from sales of investments in capital of subsidiaries and associates	—	543
Purchase of long-term prepaid expenses	(1,951)	(778)
Payments of loans receivable	(5,812)	(2,169)
Collection of loans receivable	5,923	2,056
Net decrease (increase) in time deposits	730	(1,472)
Other, net	(451)	565
Net cash provided by (used in) investing activities	(29,121)	(14,951)
Net cash used in financing activities		
Net increase (decrease) in short-term loans payable	706	(83)
Increase (decrease) in commercial papers	(500)	(1,500)
Proceeds from long-term loans payable	500	—
Repayment of long-term loans payable	(12,567)	(4,324)
Cash dividends paid shareholders	(3,546)	(3,547)
Dividends paid to non-controlling interests	(33)	(136)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(181)	(2,097)
Other, net	(214)	62
Net cash used in financing activities	(15,834)	(11,625)
Effect of exchange rate change on cash and cash equivalents	(162)	253

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Net increase (decrease) in cash and cash equivalents	3,925	28,139
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	11,368	39,791

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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(6) Segment Information

a. Business segments

Previous fiscal year (From April 1, 2016 to March 31, 2017) (Millions of yen)

	Elastomer	Specialty Materials	Sub Total	Other	Total	Adjustment	Consolidated
Net sales							
Sales to third parties	163,967	74,980	238,947	48,677	287,624	—	287,624
Intersegment sales and transfers	2,276	—	2,276	361	2,637	(2,637)	—
Total	166,243	74,980	241,223	49,038	290,261	(2,637)	287,624
Operating income	20,552	9,832	30,384	2,865	33,250	(2,482)	30,767
Assets	201,054	82,673	283,727	29,165	312,892	98,523	411,415
Others							
Depreciation and amortization	9,929	7,845	17,774	353	18,127	2,304	20,431
Gain on goodwill	670	—	670	—	670	—	670
Increase in property, plant and equipment and intangible assets	11,166	7,644	18,810	342	19,151	2,971	22,122

Current fiscal year (From April 1, 2017 to March 31, 2018) (Millions of yen)

	Elastomer	Specialty Materials	Sub Total	Other	Total	Adjustment	Consolidated
Net sales							
Sales to third parties	192,542	86,479	279,021	53,661	332,682	—	332,682
Intersegment sales and transfers	2,028	—	2,028	267	2,295	(2,295)	—
Total	194,570	86,479	281,049	53,928	334,977	(2,295)	332,682
Operating income	22,169	16,742	38,911	3,206	42,117	(3,237)	38,881
Assets	216,535	88,122	304,657	30,907	335,564	108,353	443,917
Others							
Depreciation and amortization	10,208	7,781	17,990	326	18,316	2,223	20,539
Gain on goodwill	670	—	670	—	670	—	670
Investments in entities accounted for using equity method	1,782	—	1,782	—	1,782	—	1,782
Increase in property, plant and equipment and intangible assets	7,998	3,644	11,642	362	12,004	2,564	14,568

b. Sales by region

Previous fiscal year (From April 1, 2016 to March 31, 2017) (Millions of yen)

Japan	North America	Europe	Asia (except Japan)	Other	Total
136,652	24,129	28,577	95,110	3,155	287,624

Current fiscal year (From April 1, 2017 to March 31, 2018) (Millions of yen)

Japan	North America	Europe	Asia (except Japan)	Other	Total
151,579	29,039	32,846	114,861	4,357	332,682