

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT

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October 31, 2018

**Consolidated Financial Report for the
Second Quarter of the Year Ending March 31, 2019**

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	Hirofumi Imai
Contact	Director and Senior Corporate Officer	TEL	+81-3-3216-2747
Scheduled Date of the Submission of the Quarterly Report	November 13, 2018	Scheduled Date of Dividend Payments	December 6, 2018

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, 2019
(April 1, 2018 to September 30, 2018)**

(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, 2018	169,031	1.4	17,979	(9.7)	20,273	(6.4)	14,549	1.5
2Q period ended September 30, 2017	166,672	18.9	19,907	50.6	21,659	79.0	14,341	77.7

Note: Comprehensive income:

2Q period ended September 30, 2018: 14,597 million yen (down 23.9%);

2Q period ended September 30, 2017: 19,180 million yen (—%)

	Net income per share	Fully diluted net income per share
	Yen	Yen
2Q period ended September 30, 2018	65.98	65.89
2Q period ended September 30, 2017	64.60	64.52

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
2Q period ended September 30, 2018	439,158	267,570	60.3
Year ended March 31, 2018	440,519	259,940	58.4

Reference: Equity:

As of September 30, 2018: 264,681 million yen As of March 31, 2018: 257,167 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, 2018	—	8.00	—	9.00	17.00
Year ending March 31, 2019	—	9.00			
Year ending March 31, 2019 (Forecast)			—	10.00	19.00

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

**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
Year ending March 31, 2019 (Full year)	320,000 (3.8)	32,000 (17.7)	34,000 (16.9)	24,000 83.8	109.30

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

4. Other Matters

(1) Material changes in subsidiaries during the three-month period (changes in scope of consolidations resulting from change in subsidiaries): No

(2) Application of special accounting methods for the preparation of quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, 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

(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, 2018: 237,075,556 shares As of March 31, 2018: 237,075,556 shares
- (ii) Number of treasury stock outstanding
As of September 30, 2018: 18,576,642 shares As of March 31, 2018: 15,054,569 shares
- (iii) Average number of shares during the period
2Q ended September 30, 2018: 220,511,496 shares 2Q ended September 30, 2017: 221,999,195 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

	Previous fiscal year (As of March 31, 2018)	(Millions of yen) As of September 30, 2018
(Assets)		
Current assets		
Cash and bank deposits	41,666	35,727
Notes and accounts receivable—trade	75,787	78,079
Electronically recorded monetary claims	3,557	3,481
Merchandise and products	45,448	49,612
Work in process	4,689	3,888
Raw materials and supplies	13,759	14,682
Accounts receivable—other	36,241	36,895
Other current assets	3,810	4,373
Allowance for doubtful accounts	(97)	(95)
Total current assets	224,859	226,641
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	41,914	41,179
Machinery, equipment and vehicles, net	45,888	42,945
Land	18,246	18,228
Construction in progress	5,285	4,398
Other property, plant and equipment, net	4,225	3,996
Total property, plant and equipment	115,559	110,746
Intangible assets		
Other intangible assets	3,355	3,101
Total intangible assets	3,355	3,101
Investments and other assets		
Investment securities	87,362	89,415
Deferred tax assets	886	797
Other investments and assets	8,726	8,686
Allowance for doubtful accounts	(228)	(230)
Total investments and other assets	96,746	98,669
Total fixed assets	215,660	212,516
Total assets	440,519	439,158

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	(Millions of yen)	
	Previous fiscal year (As of March 31, 2018)	As of September 30, 2018
(Liabilities)		
Current liabilities		
Notes and accounts payable—trade	81,103	83,746
Electronically recorded monetary claims	2,900	3,500
Short-term loans payable	16,573	14,766
Current portion of bonds payable	10,000	—
Income taxes payable	4,920	4,392
Reserve for bonuses	2,160	1,613
Provision for repairs	1,989	4,720
Other reserves	42	43
Other current liabilities	19,576	17,864
Total current liabilities	139,264	130,644
Long-term liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	2,000	2,000
Deferred tax liabilities	10,060	10,779
Net defined benefit liability	12,181	12,348
Other reserves	1,359	127
Other long-term liabilities	5,715	5,690
Total long-term liabilities	41,315	40,944
Total Liabilities	180,579	171,588
(Net Assets)		
Shareholders' equity		
Common stock	24,211	24,211
Capital surplus	19,240	19,240
Retained earnings	190,273	202,825
Treasury stock, at cost	(12,245)	(17,238)
Total shareholders' equity	221,480	229,038
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	33,771	35,053
Deferred gains on hedges	(2)	2
Foreign currency translation adjustments	3,925	2,507
Remeasurements of defined benefit plans	(2,008)	(1,920)
Total accumulated other comprehensive income	35,687	35,642
Stock acquisition rights	246	269
Non-controlling interests	2,527	2,619
Total net assets	259,940	267,570
Total liabilities and net assets	440,519	439,158

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(2) Consolidated Statements of Income

	(Millions of yen)	
	For the six months ended September 30, 2017	For the six months ended September 30, 2018
Net sales	166,672	169,031
Cost of sales	117,145	119,745
Gross profit	49,528	49,286
Selling, general and administrative expenses	29,621	31,307
Operating income	19,907	17,979
Non-operating income		
Interest income	53	69
Dividend income	1,219	1,276
Foreign exchange gain	606	847
Share of profit of investments accounted for using the equity method	133	124
Miscellaneous income	302	348
Total non-operating income	2,312	2,664
Non-operating expenses		
Interest expenses	172	112
Depreciation of inactive non-current assets	263	120
Miscellaneous loss	126	139
Total non-operating expenses	560	371
Ordinary income	21,659	20,273
Extraordinary gains		
Gain on sales of investment securities	30	—
Compensation income	0	7
Gain on extinguishment of tie-in shares	67	—
Total extraordinary gains	97	7
Extraordinary losses		
Loss on disposal of fixed assets	268	232
Loss on abolishment of retirement benefit plan	501	—
Other	25	20
Total extraordinary losses	794	252
Income before income taxes	20,961	20,027
Income taxes	6,446	5,280
Net income	14,515	14,747
Net income attributable to non-controlling interests	174	197
Net income attributable to owners of parent	14,341	14,549

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(3) Statement of Comprehensive Income

	(Millions of yen)	
	For the six months ended September 30, 2017	For the six months ended September 30, 2018
Net income	14,515	14,747
Other comprehensive income		
Valuation difference on available-for-sale securities	5,727	1,282
Deferred gains (losses) on hedges	1	4
Foreign currency translation adjustments	(1,511)	(1,453)
Remeasurements of defined benefit plans	425	88
Share of other comprehensive income of entities accounted for using equity method	25	(70)
Total other comprehensive income	4,666	(150)
Comprehensive income	19,180	14,597
Comprehensive income attributable to:		
Owners of parent	18,954	14,505
Non-controlling interests	226	92

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(4) Cash Flow Statement

	(Millions of yen)	
	For the six months ended September 30, 2017	For the six months ended September 30, 2018
Net cash provided by operating activities		
Income before income taxes	20,961	20,027
Depreciation and amortization	9,713	9,087
Gain on goodwill	335	41
Increase (decrease) in net defined benefit liability	(905)	207
Increase (decrease) in provision for repairs	(22)	1,479
Interest and dividend income	(1,272)	(1,344)
Increase (decrease) in provision for bonuses	(56)	(534)
Interest expense	172	112
Decrease (increase) in notes and accounts receivable—trade	(7,724)	(3,063)
Decrease (increase) in inventories	4,457	(4,835)
Increase (decrease) in notes and accounts payable—trade	3,806	3,820
Other, net	932	(1,902)
Subtotal	30,399	23,093
Interest and dividend income received	1,412	1,500
Interest expenses paid	(169)	(132)
Proceeds from insurance income	—	501
Income taxes paid	(5,418)	(5,680)
Other, net	164	374
Net cash provided by operating activities	26,388	19,656
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(4,657)	(5,397)
Purchase of intangible assets	(624)	(341)
Payments of loans receivable	(595)	(1,210)
Collection of loans receivable	577	879
Net decrease (increase) in time deposits	(1,118)	(755)
Purchase of long-term prepaid expenses	(556)	(135)
Other, net	148	(337)
Net cash provided by (used in) investing activities	(6,824)	(7,296)
Net cash used in financing activities		
Net increase (decrease) in short-term loans payable	1,041	(158)
Increase (decrease) in commercial papers	(1,500)	—
Repayment of long-term loans payable	(2,713)	(1,562)
Redemption of bonds	—	(10,000)
Purchase of treasury shares	(2)	(5,000)
Cash dividends paid	(1,806)	(1,995)
Cash dividends paid to non-controlling interests	(67)	(16)
Other, net	129	(80)
Net cash used in financing activities	(4,918)	(18,811)
Effect of exchange rate change on cash and cash equivalents	132	(145)
Net increase (decrease) in cash and cash equivalents	14,778	(6,596)
Cash and cash equivalents at beginning of period	11,368	39,791
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	0	—
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	284	—
Cash and cash equivalents at end of period	26,430	33,195

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(5) Segment Information

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

	Elastomer	Specialty Materials	Sub Total	Other	Total	Eliminations /Corporate	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 and loss	11,394	8,193	19,586	1,621	21,207	(1,300)	19,907

Current 2nd quarter cumulative period (From April 1, 2018 to September 30, 2018) (Millions of yen)

	Elastomer	Specialty Materials	Sub Total	Other	Total	Eliminations /Corporate	Consolidated
Net sales							
(1) Sales to third parties	99,217	42,411	141,628	27,402	169,031	—	169,031
(2) Intersegment sales and transfers	1,007	—	1,007	162	1,169	(1,169)	—
Total	100,224	42,411	142,635	27,565	170,200	(1,169)	169,031
Segment income and loss	9,545	8,745	18,291	1,265	19,556	(1,577)	17,979