

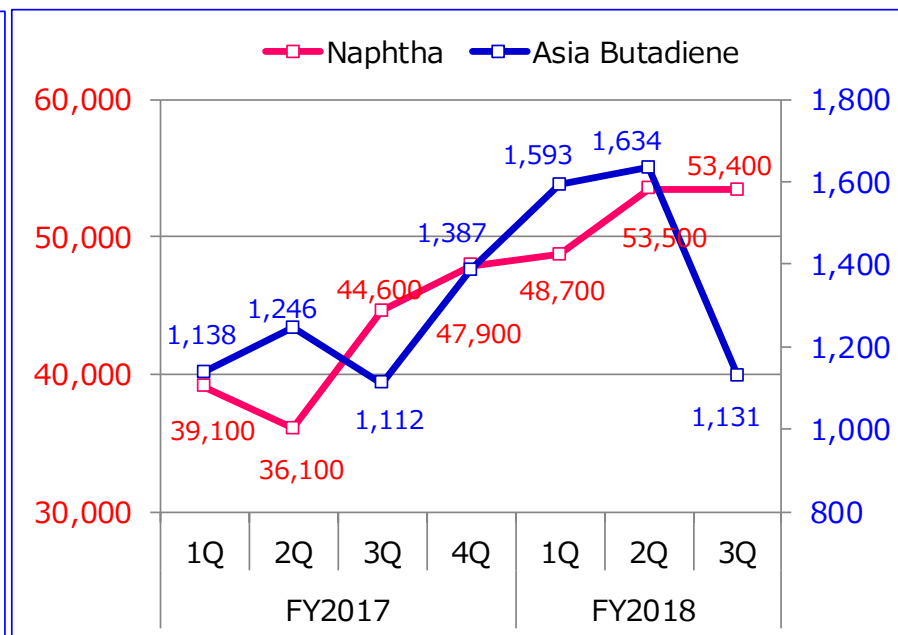
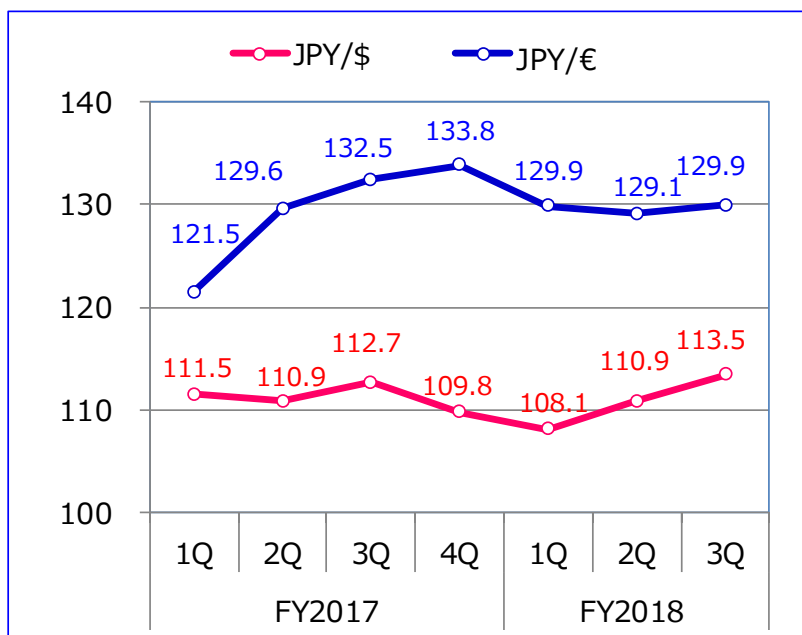
**Financial Report**  
**The 3<sup>rd</sup> Quarter of FY2018**  
**(From Apr. 1 to Dec. 31, 2018)**

**ZEON**  
**ZEON CORPORATION**

Jan. 31, 2019

- ◆ Business Environment
- ◆ Summary and Topics
- ◆ Statement of Income (Consolidated)
  - Total
  - Elastomer Business
  - Specialty Materials Business
  - Others
- ◆ Comparative Balance Sheet (Consolidated)
- ◆ Forecast of Operating Performance for FY2018

Ave. for 9 mo.		FY2018 3Q	FY2017 3Q	Increase / Decrease	
				Amount	Rate
Exchange rate	(JPY/\$)	110.8	111.7	-0.9	-1 %
Exchange rate	(JPY/€)	129.6	127.9	1.7	1 %
Crude Oil	(\$/bbl)	72	54	18	33 %
Naphtha price	(JPY/kl)	51,800	39,900	11,900	30 %
Asian Butadiene price	(\$/ t )	1,453	1,161	292	25 %
Isoprene	(\$/ t )	1,487	1,321	166	13 %
Natural rubber	(\$/ t )	1,331	1,502	-171	-11 %



(Ave. for Q)

## Summary

### ■ Elastomer Business

- **Rubbers** Steady in domestic sales, fare well business in oversea subsidiaries (esp. USA). Export sales declined due to the stagnant natural rubber market price.
- **Latexes** Domestic sales for resin modifier and export to China were weak at one point.
- **Chemicals** Steady in all sales in domestic, export and oversea subsidiaries, but the operating income was declined due to the raise of the raw material prices.

### ■ Specialty Materials Business

- **Specialty Chemicals** Healthy demand in Specialty Chemicals. Steady growth in Battery materials.
- **Specialty Plastics** Solid sales of Cyclo Olefin Polymer for optical uses. Optical Film sales was affected by the customers' inventory adjusting both for TV and mobile use.

## Topics

- Apr.** Announcement of the decision to expand the drying capacity of the "High-performance Zetpol<sup>®</sup> " (Scheduled to be completed in Sep. 2019)
- Aug.** Announcement of the decision to establish a new subsidiary in Thailand for Acrylic Rubber manufacture and sale
- Oct.** Announcement of the decision to expand the production capacity of the "ZeonorFilm<sup>™</sup> " in Takaoka, Toyama (Scheduled operation start in Oct. 2019)
- Oct.** Announcement of the decision to construct the production line of the "ZeonorFilm<sup>™</sup> " for large size LCD-TV in Tsuruga, Fukui (Scheduled operation start in Apr. 2020)
- Jan.** Impirment on fixed assets of Singapore subsidiary (S-SBR manufacturing facilities) (JPY 8.6 billion)

(Unit : JPY100m)

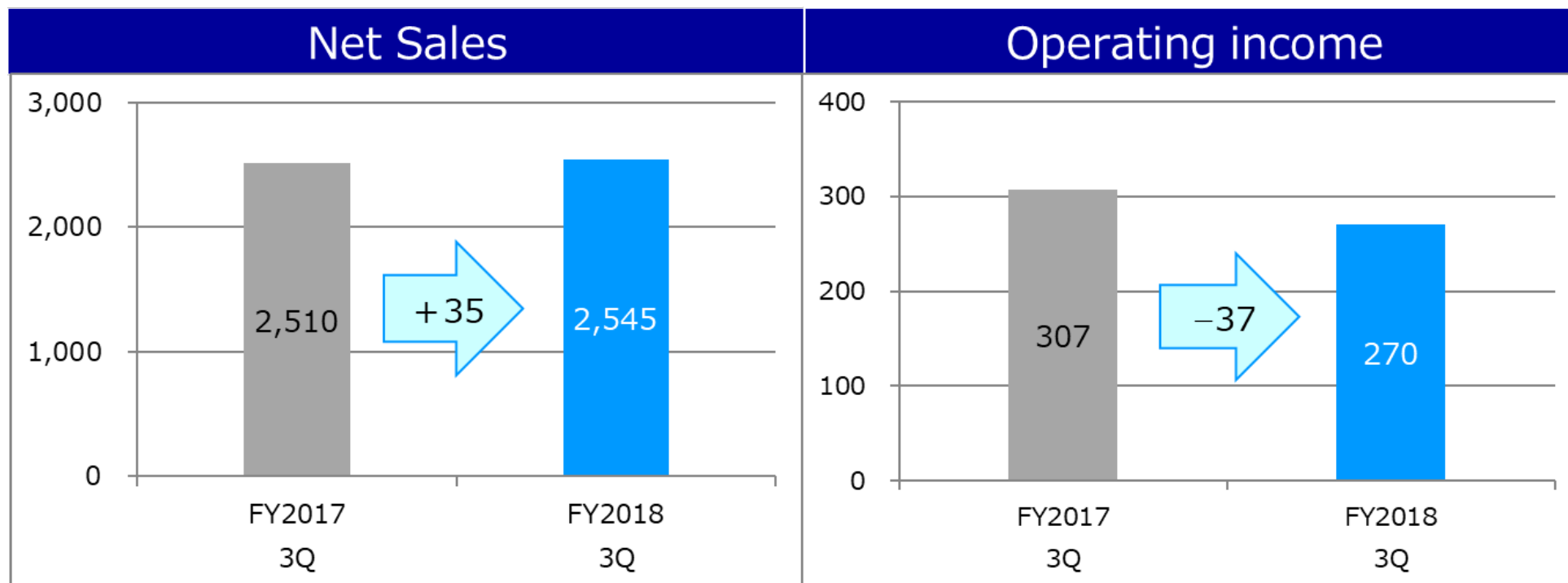
	FY2018 3Q	FY2017 3Q	Increase / Decrease	
			Amount	Rate
Net sales	2,545	2,510	35	1 %
Operating income	270	307	-37	-12 %
Non-operating income & expenses	23	22	1	5 %
Ordinary income	293	329	-36	-11 %
Profit or loss on extraordinary item	-90	-169	80	- %
Income before income taxes	204	159	44	28 %
Net income	126	64	62	97 %

## Comparative analysis

Net sales: +3.5 billion yen, Operating income: -3.7 billion yen

- ◆ **Elastomers:** Net sales: Increased, Operating income: Decreased  
Net sales has increased due to the rise of the raw material prices, but delay to pass along the selling prices in the export market.
- ◆ **Specialty Materials:** Net sales: Decreased, Operating income: Decreased  
Steady sales in the Specialty Chemicals segment.  
Affected by the customers' inventory adjusting in Specialty Plastic segment.

(Unit : JPY100m)



### <Net sales>

Elastomers	+32
Specialty Materials	- 15
Others・Eliminations	+18

### <Operating income>

Elastomers	-22
Specialty Materials	- 4
Others・Eliminations	-10

## Elastomer Business

	FY2018 3Q	FY2017 3Q	Increase / Decrease	
			Amount	Rate
Sales volume (thousand tons)	453	459	-7	-1 %
Rubbers	256	267	-11	-4 %
Latexes	91	97	-6	-6 %
Chemicals	106	95	11	11 %
Net sales	1,492	1,460	32	2 %
Rubbers	1,043	1,041	2	0 %
Latexes	143	145	-2	-2 %
Chemicals	289	255	35	14 %
Others / Eliminations	17	19	-2	-9 %
Operating income	144	166	-22	-13 %
(Operating income ratio) (%)	9.7%	11.4%	-1.7 pt	

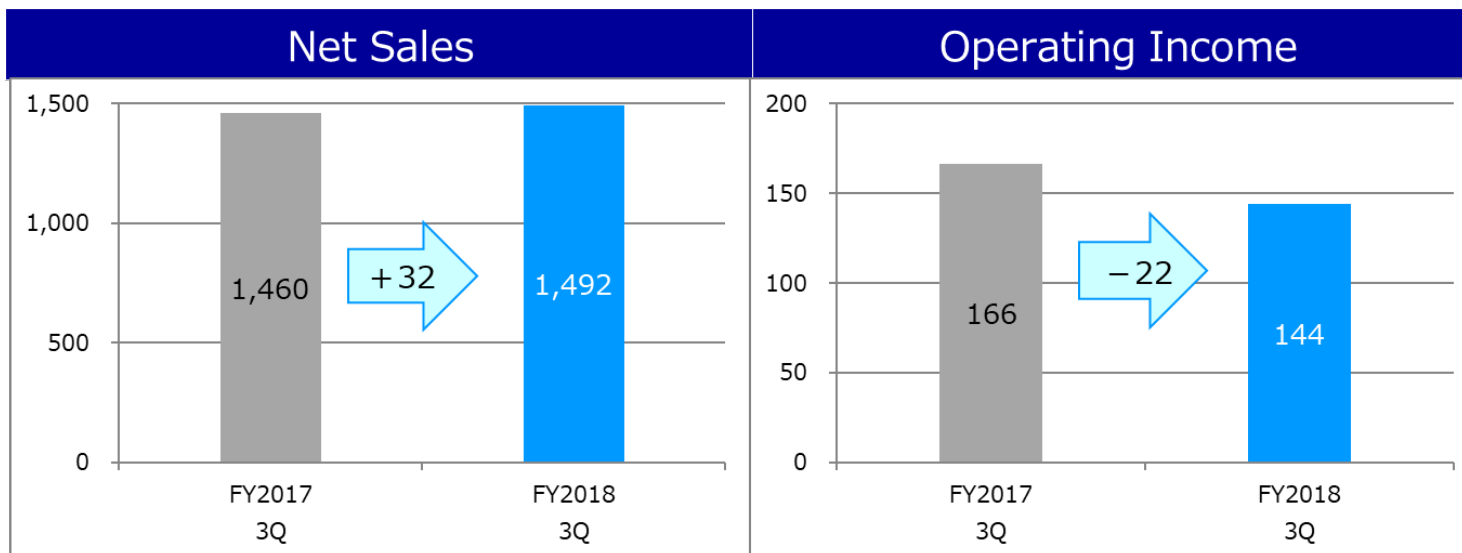
◆ **Elastomers:** Net Sales: Increased, Operating income: Decreased

- Net Sales has increased due to the rise of the selling prices in Rubbers and Chemicals.
- Chemicals business is generally robust. Working on to increase the selling price.

◆ Break down of YoY -4% for the rubbers sales volume:

- General-purpose rubbers: -6%: weak in export sales
- Specialty rubbers: 0%

## Elastomer Business



### ◆ Net Sales

- **Rubbers:** +2: Selling prices raised, solid business in oversea subsidiaries
- **Latexes:** -2: Domestic sales for resin modifier and export to China were weak at one point
- **Chemicals:** +35: Passed along the raise of the raw material prices to the selling prices
- **Others:** -2

### ◆ Operating Income Variance YoY

- **Quantity:** +10: Export sales volume increases in Chemicals
- **Price:** +36: Increase of selling prices, raising the price of Chemicals being accepted
- **Exchange rate:** -2: JPY 111.7/ \$ ⇒ JPY 110.8/ \$
- **Raw materials prices:** -60: Increase of the raw material prices
- **SG&A:** -7: Increase of the inventory cost in Rubbers (due to the periodic inspection) and the freight in Chemicals (sales volume growth)

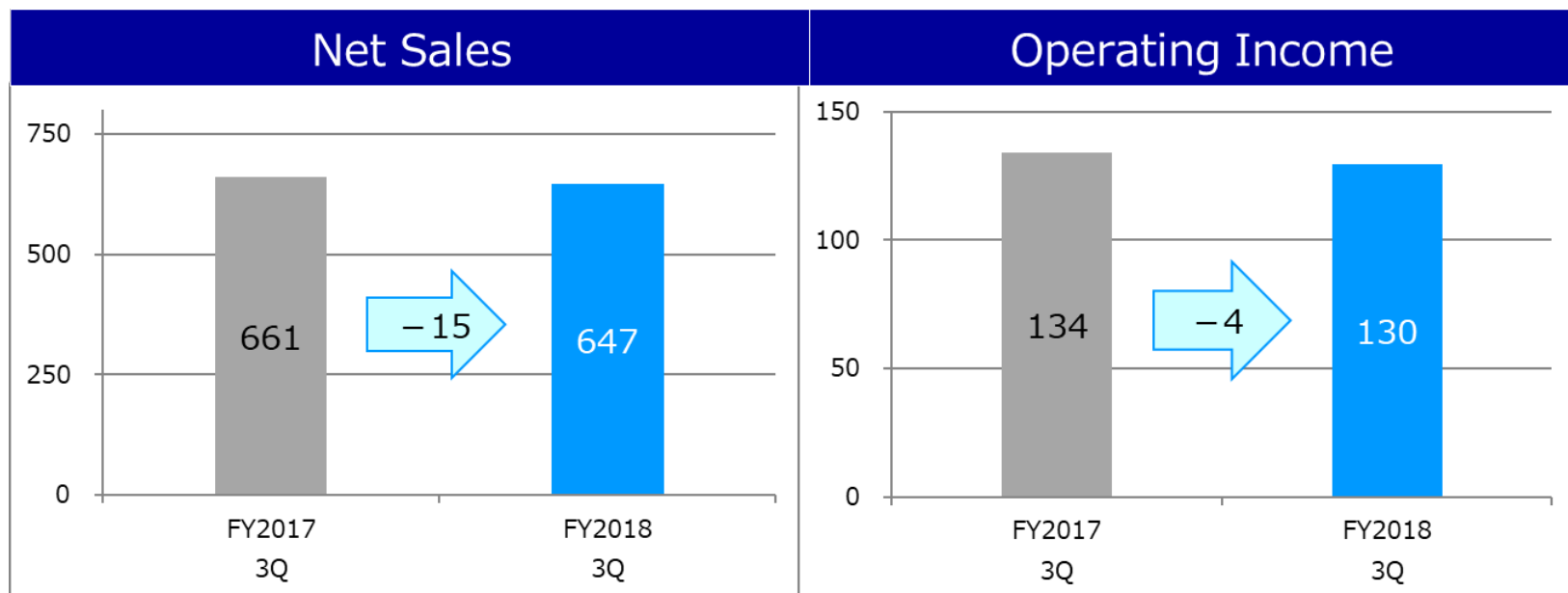


## Specialty Materials Business

	FY2018 3Q	FY2017 3Q	Increase / Decrease	
			Amount	Rate
Net sales	647	661	-15	-2 %
Specialty Chemicals	204	179	25	14 %
Specialty Plastics	402	441	-39	-9 %
Medical Devices etc.	41	42	-1	-3 %
Operating income	130	134	-4	-3 %
(Operating income ratio) (%)	20.0%	20.3%	-0.2 pt	

- ◆ Specialty Materials: Net Sales: Decreased, Operating income: Decreased
  - Healthy demand in Synthetic aroma chemicals and Battery materials
  - Solid sales in Cyclo Olefin Polymer. Weak demand in Optical Films due to the customers' inventory adjustment
- ◆ Break down of YoY +14% for the Specialty Chemicals sales:
  - Specialty Chemicals +4%, Electronic Materials -3%, Battery Materials +35%, Toner +4%
- ◆ Break down of YoY -9% for the Specialty Plastics sales:
  - Cyclo Olefin Polymer +6%, Optical Films -13%
- ◆ Sales volume growth rate for Optical Films -3%
- ◆ Proportion of the optical film sales for small-to-medium sized FPD to total optical film
  - FY2017-3Q: 30% ⇒ FY2018-3Q: 22%

## Specialty Materials Business



## ◆ Net Sales

- **Sp.Chem.:** +25: Solid demand in Battery Materials.
- **Sp.Plastics:** -39: Customers' inventory adjustment of Optical film
- **Medical etc.:** -1

## ◆ Operating Income Variance YoY

- **Quantity:** +15: Increase in Battery Materials and Cyclo Olefin Polymer
- **Price:** - 10: Sales mix variance in Battery Materials and Optical Films
- **Exchange rate:** -1: JPY111.7/\$ ⇒ JPY110.8/\$
- **Raw materials prices:** -5: Increase of the raw material prices
- **SG&A:** - 4: Increase of the freight in Battery Materials (sales volume growth)

## Others

	FY2018 3Q	FY2017 3Q	Increase / Decrease	
			Amount	Rate
Net sales	425	405	21	5 %
Operating income	20	25	-6	-23 %
(Operating income ratio) (%)	4.6%	6.3%	-1.7 pt	

- ◆ Others: Net Sales: Increased, Operating income: Decreased
  - Stable business in Trading.
  - RIM business is growing.

# Comparative Balance Sheets (Consolidated)

**ZEON**

(Unit : JPY100m)

Assets			
	E/Dec. 2018	E/Mar. 2018	Increase / Decrease
Current assets	2,260	2,249	11
Cash and bank deposits	321	417	-96
Notes and accounts receivable- trade	828	793	34
Accounts receivable-other	344	362	-19
Inventories	720	639	81
Other current assets	47	37	10
Fixed assets	1,915	2,157	-242
Property, Plant and Equipment	1,022	1,156	-134
Intangible assets	31	34	-3
Investment securities	771	874	-103
Other fixed assets	91	94	-3
<b>Total assets</b>	<b>4,175</b>	<b>4,405</b>	<b>-231</b>

Capital expenditures	92
Depreciation & amortization	-139
Other factors	-89
<b>Fixed assets</b>	<b>-136</b>

## ◆ Cash flows

	18Q3	17Q3
Cash flows from operating activities	264	356
Cash flows from investing activities	-152	-127
Free cash flows	112	229
Cash flows from financing activities	-216	-73
<b>Net increase (decrease) in cash and equivalents</b>	<b>-104</b>	<b>156</b>

Liabilities and Net Assets			
	E/Dec. 2018	E/Mar. 2018	Increase / Decrease
Current liabilities	1,280	1,393	-113
Notes and accounts payable-trade	865	840	25
Short-term interest-bearing debt	141	266	-125
Other current liabilities	274	287	-12
Long-term liabilities	364	413	-49
Long-term interest-bearing debt	120	120	0
Other long-term liabilities	244	293	-49
<b>Total net assets</b>	<b>2,530</b>	<b>2,599</b>	<b>-69</b>
Equity capital	2,500	2,572	-72
Other net assets	31	28	3
<b>Total liabilities and net assets</b>	<b>4,175</b>	<b>4,405</b>	<b>-231</b>
<b>Total interest-bearing debt</b>	<b>261</b>	<b>386</b>	<b>-125</b>
<b>Equity ratio</b>	<b>59.9</b>	<b>58.4</b>	<b>1.5</b>
<b>D/E Ratio</b>	<b>0.10</b>	<b>0.15</b>	<b>-0.05</b>

- ◆ Redeemed JPY 10 billion corporate bond. The equity capital ratio and D/E ratio improved due to the decrease in interest-bearing debt.

# Forecast of Operating Performance for FY2018

(Unit : JPY100m)

	FY2018	FY2017	Increase / Decrease	
			Amount	Rate
Net sales	3,400	3,327	73	2 %
Elastomer Business	1,990	1,946	44	2 %
Specialty Materials Business	850	865	-15	-2 %
Others	580	539	41	8 %
Eliminations	-20	-23	3	
Operating income	340	389	-49	-13 %
(Operating income ratio) (%)	10.0%	11.7%	-1.7 pt	
Elastomer Business	185	222	-37	-17 %
Specialty Materials Business	160	167	-7	-4 %
Others	-5	-0	-5	- %
Non-operating income & expenses	30	20	10	
Ordinary income	370	409	-39	-10 %
Net income	180	131	49	38 %
Dividend (JPY per stock)	19.00	17.00	2.00	12 %
Exchange rate (JPY/\$)	110.0	111.2	-1.2	-1 %
Exchange rate (JPY/€)	130.0	129.3	0.7	1 %
Naphtha price (JPY/kl)	49,500	41,800	7,700	18 %
Asian Butadiene price (USD/t)	1,400	1,218	182	15 %

Any forward-looking statements in this document are based upon information available to the company on the date of this release. These forward-looking statements are and will be, as the case may be, subject to many risks, uncertainties and factors relating to the company's operations and business environment which may cause the company's actual results to be materially different from any future results, expressed or implied, in these forward-looking statements.

## Next Announcement of Financial Statements

FY2018	Apr. 26th, 2019
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Subject to change without notice

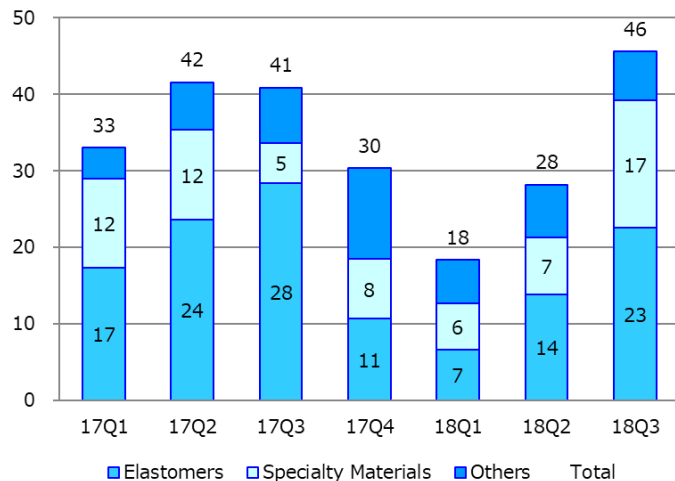
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In all cases, the original Japanese version shall take precedence.

(Unit : JPY100m)	2017				2018			Q2→Q3	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Amount	Rate
Sales volume (thousand tons)	149	154	156	162	159	149	145	-4	-3%
Rubbers	84	92	90	93	91	84	80	-4	-4%
Latexes	33	32	32	33	31	29	30	1	3%
Chemicals	32	30	34	36	37	35	34	-2	-5%
Net sales	828	839	843	817	837	854	855	2	0%
Elastomer Business	492	492	476	486	509	493	490	-3	-1%
Rubbers	345	350	347	339	363	340	339	-1	0%
Latexes	52	48	45	47	44	51	48	-3	-5%
Chemicals	88	89	77	93	98	96	95	-1	-1%
Others / Eliminations	6	6	7	7	4	6	7	1	23%
Specialty Materials B.	212	219	231	203	195	229	223	-6	-3%
Sp. Chemicals	55	58	66	64	66	68	70	1	2%
Sp. Plastics	144	146	150	124	116	148	138	-11	-7%
Medical, etc.	13	15	14	14	14	12	15	3	24%
Others / Eliminations	124	128	137	128	132	132	143	11	8%
Operating income	97	102	108	82	85	95	90	-5	-5%
Operating income ratio (%)	12%	12%	13%	10%	10%	11%	11%	-1 pt	
Elastomer Business	54	60	52	55	51	44	49	4	10%
Specialty Materials B.	41	41	52	33	34	53	42	-11	-21%
Others	1	2	3	-7	-1	-2	-0	2	-

# Reference: Capital Expenditures, Depreciation & Amortization and R&D Expenses

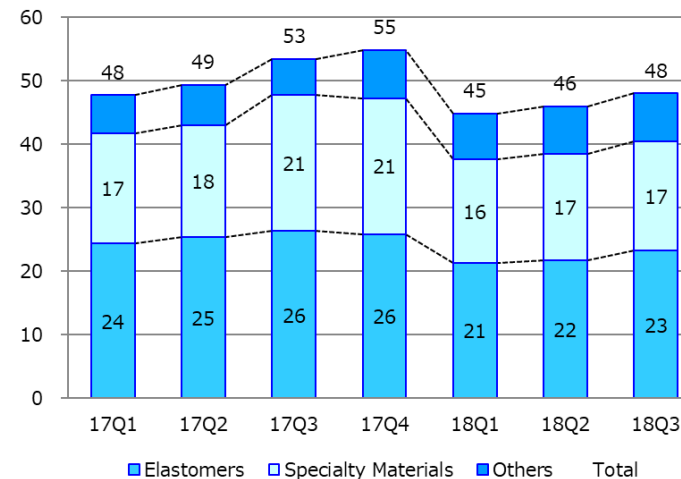
(Unit : JPY100m)

## Capital Expenditures



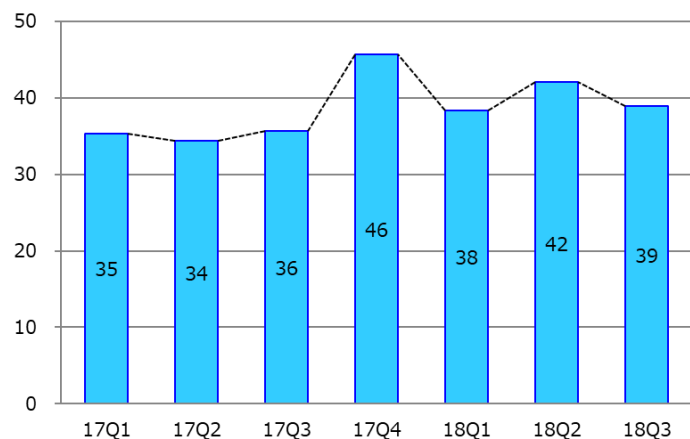
FY2018 Forecast  
JPY 14 billion

## Depreciation & Amortization



FY2018 Forecast  
JPY 20 billion

## R&D Expenses



FY2018 Forecast  
JPY 16 billion