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January 31, 2024

Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending March 31, 2024 (Under Japanese GAAP)

Company name: Zeon Corporation

Listing: Tokyo Stock Exchange

Securities code: 4205

URL: <https://www.zeon.co.jp/en/>

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Scheduled date to file quarterly securities report: February 5, 2024

Scheduled date to commence dividend payments: -

Preparation of supplementary material on quarterly financial results: Yes

Holding of quarterly financial results briefing: Yes (for equity analysts and institutional investors)

(Yen amounts are rounded down to millions, unless otherwise noted)

1. Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending March 31, 2024

(from April 1, 2023 to December 31, 2023)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
December 31, 2023	283,806	(3.5)	15,986	(42.6)	19,912	(35.9)	20,908	14.4
December 31, 2022	294,205	9.5	27,835	(23.5)	31,087	(20.5)	18,283	(33.2)

Note: Comprehensive income For the nine months ended December 31, 2023: ¥29,390 million [(10.8%)]
For the nine months ended December 31, 2022: ¥32,958 million [13.9%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2023	98.95	98.90
December 31, 2022	86.35	86.30

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
December 31, 2023	547,374	359,654	65.1
March 31, 2023	522,868	339,308	64.3

Reference: Equity

As of December 31, 2023: ¥356,584 million

As of March 31, 2023: ¥336,310 million

2. Cash Dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	—	18.00	—	18.00	36.00
Fiscal year ending March 31, 2024	—	20.00	—		
Fiscal year ending March 31, 2024 (Forecast)				20.00	40.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Forecasts for Consolidated Financial Results for the Fiscal Year Ending March 31, 2024 (April 1, 2023 to March 31, 2024)

(Percentages indicate year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full fiscal year	374,000	(3.8)	18,500	(31.9)	23,500	(25.1)	26,500	150.7	125.42

Note: Revision from most recently announced earnings forecast: Yes

* Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: Yes

Note: Details can be found in the addendum under “2. Quarterly Consolidated Financial Statements and Notes (Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements)” (p. 12).

(3) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: None

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2023:	229,513,656 shares
As of March 31, 2023:	229,513,656 shares

(ii) Number of treasury shares at the end of the period

As of December 31, 2023:	18,198,128 shares
As of March 31, 2023:	18,235,195 shares

(iii) Average number of shares during the period
(cumulative from the beginning of the fiscal year)

Six months ended December 31, 2023	211,293,242 shares
Six months ended December 31, 2022	211,733,751 shares

*Board Benefit Trust - Restricted Stock (BBT-RS) has introduced from the second quarter. Treasury shares held by the trust are deducted from the calculation of the number of treasury shares at the end of the period and the average number of shares during the period.

*Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

*Proper use of earnings forecasts, and other special matters

(Notes on statements about the future)

Earnings forecasts and other forward-looking statements in this report are based on information presently available to management and assumptions that management deems reasonable. They do not represent a commitment or promise by the Company. Actual earnings and other forecasts may differ significantly from those in this report in accordance with numerous factors.

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1. Qualitative Information related to the Consolidated Financial Results

(1) Explanation Concerning Operating Results

Looking back on the first nine months of the present fiscal year, the environment surrounding the Group remained uncertain due to sluggishness of the Chinese economy and circumstances in the Middle East on top of lingering concerns about the risk of economic downturn and fluctuations in financial and capital markets caused by continued tightening of monetary policies worldwide.

In the midst of this environment, the Group focused on thorough cost reductions through the ZΣ Campaign, our company-wide improvement initiative, and production reform activities. At the same time, in the Elastomer Business, we emphasized profitability and worked on global expansion of production and sales. In the Specialty Materials Business, we worked on development of new products with high added value and expanding the business.

As a result of the above, net sales for the first nine months came to ¥283,806 million, down ¥10,399 million from the same period of the previous year. Operating profit was down ¥11,849 million to ¥15,986 million, ordinary profit was down ¥11,175 million to ¥19,912 million, and profit attributable to owners of parent was up ¥2,625 million to ¥20,908 million.

Segment performance is provided below.

(Elastomer Business)

In synthetic rubbers, operating profit was down from the same period of the previous year due mainly to a drop in market prices despite net sales being up from the same period of the previous year owing primarily to an increase in shipments and the exchange rate as demand recovered, driven by applications in the automotive industry, our main market.

Net sales were down for synthetic latexes due to continued weak demand arising from ongoing excessive distribution inventory for medical use and disposable gloves, but operating profit remained flat thanks to efforts to reduce costs.

Both net sales and operating profit were down significantly for chemicals mainly as a result of reduced shipments caused by the delayed recovery in demand for adhesive tapes and labels and a drop in market prices.

As a result of the above, overall, net sales in the Elastomer Business were down ¥7,651 million to ¥159,682 million, and operating profit was down ¥6,045 million to ¥6,164 million.

(Specialty Materials Business)

In specialty plastics, although special telework demand for optical films for mobile devices ran its course, overall sales of specialty plastics exceeded those of the same period of the previous year due to a recovery in sales of optical films for large size TVs and firm demand for optical plastics for medical applications. On the other hand, operating profit was down overall due to an increase in expenses associated with the launch of operations on the new optical film production line.

For battery materials, both net sales and operating profit were down from the same period of the previous year. Sales were favorable in the third quarter, but the business has not recovered from the drop in demand in the second quarter caused by sluggishness of the Chinese economy.

Both net sales and operating profit were down for specialty chemicals due to the impact of easing of the supply-demand balance on synthetic fragrance sales as well as specialty solvent sales volume adjustments associated with regular maintenance of mainstay production plants.

Both net sales and operating profit were down for electronic materials in response to a decrease in semiconductor manufacturer utilization rates resulting from the slowdown in the semiconductor market.

Both net sales and operating profit were down for toner due to production adjustments by customers.

As a result of the above, overall, net sales in the Specialty Materials Business were down ¥2,430 million to ¥79,073 million, while operating income was down ¥6,349 million to ¥10,192 million.

(Other Businesses)

In other businesses, net sales of RIM products and others were higher than in the same period of the previous year.

As a result of the above, overall, net sales in other businesses were up ¥122 million to ¥48,585 million, while operating profit was up ¥1,335 million to ¥2,740 million.

(2) Explanation Concerning Financial Status

(Assets)

Total assets at the end of the quarter under review were ¥547,374 million, up ¥24,506 million from the end of the previous fiscal year. The main factor behind the increase was an increase in property, plant and equipment.

(Liabilities)

Total liabilities at the end of the quarter under review were ¥187,720 million, down ¥4,161 million from the end of the previous fiscal year. The main factor behind the increase was an increase in other current liabilities., etc.

(Net assets)

Net assets at the end of the quarter under review were ¥359,654 million, up ¥20,345 million from the end of the previous fiscal year.

(3) Explanation of Consolidated Forecast and Other Forecasts

The Company revised the forecasts for consolidated financial results for the fiscal year ending March 31, 2024 taking into account the most recent performance trends.

2. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	Previous fiscal year ended March 31, 2023	Nine months ended December 31, 2023
Assets		
Current assets		
Cash and deposits	30,082	45,494
Notes and accounts receivable - trade	79,622	84,096
Electronically recorded monetary claims – operating	3,972	4,252
Merchandise and finished goods	97,345	92,198
Work in process	7,657	7,811
Raw materials and supplies	22,450	22,542
Accounts receivable - other	43,816	38,171
Other	11,801	12,547
Allowance for doubtful accounts	(113)	(127)
Total current assets	296,631	306,984
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	41,912	45,226
Machinery, equipment and vehicles, net	31,467	40,499
Land	15,393	15,893
Construction in progress	20,425	25,300
Other, net	4,726	5,281
Total property, plant and equipment	113,924	132,199
Intangible assets		
Other	4,442	5,356
Total intangible assets	4,442	5,356
Investments and other assets		
Investment securities	100,113	94,107
Deferred tax assets	728	1,055
Other	7,249	7,891
Allowance for doubtful accounts	(219)	(219)
Total investments and other assets	107,871	102,835
Total non-current assets	226,237	240,390
Total assets	522,868	547,374

(Millions of yen)

	Previous fiscal year ended March 31, 2023	Nine months ended December 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	83,659	80,122
Electronically recorded obligations – operating	3,122	3,418
Short-term borrowings	8,960	8,960
Commercial paper	19,000	20,000
Income taxes payable	2,898	2,668
Provision for bonuses	2,625	800
Provision for repairs	5,634	3,272
Other provisions	47	12
Other	34,641	44,383
Total current liabilities	160,587	163,634
Non-current liabilities		
Deferred tax liabilities	2,272	2,555
Retirement benefit liability	13,759	13,955
Provision for repairs	930	1,247
Other provisions	46	145
Other	5,965	6,184
Total non-current liabilities	22,973	24,086
Total liabilities	183,560	187,720
Net assets		
Shareholders' equity		
Share capital	24,211	24,211
Capital surplus	19,137	19,599
Retained earnings	268,363	279,737
Treasury shares	(19,024)	(19,435)
Total shareholders' equity	292,688	304,112
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	31,538	31,766
Deferred gains or losses on hedges	(1)	(2)
Foreign currency translation adjustment	11,823	20,322
Remeasurements of defined benefit plans	262	387
Total accumulated other comprehensive income	43,623	52,472
Share acquisition rights	88	88
Non-controlling interests	2,910	2,982
Total net assets	339,308	359,654
Total liabilities and net assets	522,868	547,374

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

	First nine months of previous fiscal year (April 1, 2022 to December 31, 2022)	First nine months of present fiscal year (April 1, 2023 to December 31, 2023)
Net sales	294,205	283,806
Cost of sales	204,940	207,081
Gross profit	89,265	76,725
Selling, general and administrative expenses	61,430	60,739
Operating profit	27,835	15,986
Non-operating income		
Interest income	140	184
Dividend income	2,545	2,418
Foreign exchange gains	585	2,129
Share of profit of entities accounted for using equity method	93	80
Miscellaneous income	441	278
Total non-operating income	3,804	5,090
Non-operating expenses		
Interest expenses	67	50
Depreciation of inactive non-current assets	173	559
Loss on investments in partnership	51	348
Miscellaneous losses	260	208
Total non-operating expenses	551	1,164
Ordinary profit	31,087	19,912
Extraordinary income		
Gain on sale of non-current assets	3	8
Gain on sale of investment securities	47	11,036
Total extraordinary income	50	11,044
Extraordinary losses		
Loss on disposal of non-current assets	121	503
Impairment loss	5,732	1,575
Other	143	162
Total extraordinary losses	5,996	2,240
Profit before income taxes	25,142	28,716
Income taxes—current	6,642	7,880
Income taxes—deferred	18,500	20,836
Total taxes	217	(72)
Profit	18,283	20,908

(Millions of yen)

	Nine months of previous fiscal year (April 1, 2022 to December 31, 2022)	Nine months of present fiscal year (April 1, 2023 to December 31, 2023)
Profit	18,500	20,836
Other comprehensive income		
Valuation difference on available-for-sale securities	2,658	228
Deferred gains or losses on hedges	(7)	(1)
Foreign currency translation adjustment	11,507	8,024
Remeasurements of defined benefit plans, net of tax	18	124
Share of other comprehensive income of entities accounted for using equity method	281	180
Total other comprehensive income	14,458	8,555
Comprehensive income	32,958	29,390
Comprehensive income attributable to		
Owners of parent	32,431	29,318
Non-controlling interests	528	73

(3) Notes on Quarterly Consolidated Financial Statements

(Notes Related to the Assumptions of a Going Concern)

None.

(Notes on Any Significant Changes in the Amount of Shareholders' Equity)

None.

(Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements)

(Calculation of Tax Expenses)

For tax expenses, a reasonable estimate is made of the effective tax rate after tax effect accounting is applied to the pre-tax net income for the fiscal year including the second quarter under review, and pre-tax net income is multiplied by that rate.

(Deferral of Cost Variance)

Cost variance arising from seasonal fluctuations in operating rates is expected to be almost eliminated by the end of the cost accounting period. As such, the cost variance is deferred as current assets (other) and current liabilities (other).

(Segment Information)

I. First Nine Months of Previous Fiscal Year (April 1, 2022 - December 31, 2022)

1. Information on Sales and Profit/Losses per Segment

(Millions of yen)

	Reportable Segment			Other (*1)	Total	Adjustment (*2)	Amount Recorded in Quarterly Consolidated Statement of Income (*3)
	Elastomer Business	Specialty Materials Business	Total				
Net sales							
Revenue from contracts with customers	164,753	81,486	246,239	47,965	294,205	—	294,205
Net sales to third parties	164,753	81,486	246,239	47,965	294,205	—	294,205
Inter-segment sales and transfers	2,580	17	2,596	499	3,095	(3,095)	—
Total	167,333	81,503	248,836	48,464	297,300	(3,095)	294,205
Segment profit (loss)	12,209	16,541	28,750	1,405	30,155	(2,320)	27,835

*1. The "Other" classification is for business segments not included in a reportable segment and includes sales of RIM products, paints, etc.

2. ¥-2,320 million adjustment to segment profit includes ¥22 million in elimination of transactions between segments and ¥-2,342 million in company-wide expenses not allocated to reportable segments. Company-wide expenses are primarily selling, general and administrative expenses not belonging to reportable segments.

3. Segment profit is reconciled to operating income presented in the quarterly consolidated income statement.

4. The amount of revenue from other sources is insignificant, so it is classified and presented as revenue from customer contracts.

5. Revenue from goods or services transferred over a certain period of time is not presented as it is insignificant.

2. Impairment Losses on Non-current Assets, Goodwill, etc. for Each Reportable Segment

(Significant impairment losses on non-current assets)

The Company recorded an impairment loss in the Elastomer Business, Specialty Materials Business and companywide assets, which are not allocated to reportable segments. The amount of this impairment loss recorded in the first nine months of the present fiscal year was ¥70 million for the Elastomer Business, ¥162 million for the Specialty Materials Business and ¥5,500 million for companywide assets.

II. First Nine Months of Present Fiscal Year (April 1, 2023 - December 31, 2023)
 1. Information on Sales and Profit/Losses per Segment and Profit Disaggregation

(Millions of yen)

	Reportable Segment			Other (*1)	Total	Adjustment (*2)	Amount Recorded in Quarterly Consolidated Statement of Income (*3)
	Elastomer Business	Specialty Materials Business	Total				
Net sales							
Revenue from contracts with customers	156,737	79,044	235,781	48,024	283,806	—	283,806
Net sales to third parties	156,737	79,044	235,781	48,024	283,806	—	283,806
Inter-segment sales and transfers	2,945	29	2,974	561	3,535	(3,535)	—
Total	159,682	79,073	238,755	48,585	287,341	(3,535)	283,806
Segment profit (loss)	6,164	10,192	16,356	2,740	19,096	(3,110)	15,986

*1. The “Other” classification is for business segments not included in a reportable segment and includes sales of RIM products, paints, etc.

2. ¥3,110 million adjustment to segment profit includes ¥25 million in elimination of transactions between segments and ¥3,135 million in company-wide expenses not allocated to reportable segments. Company-wide expenses are primarily selling, general and administrative expenses not belonging to reportable segments.

3. Segment profit is reconciled to operating income presented in the quarterly consolidated income statement.

4. The amount of revenue from other sources is insignificant, so it is classified and presented as revenue from customer contracts.

5. Revenue from goods or services transferred over a certain period of time is not presented as it is insignificant.

2. Impairment Losses on Non-current Assets, Goodwill, etc. for Each Reportable Segment

(Significant impairment losses on non-current assets)

The Company recorded an impairment loss in the Elastomer Business, Specialty Materials Business and companywide assets, which are not allocated to reportable segments. The amount of this impairment loss recorded in the first nine months of the present fiscal year was ¥1,149 million for the Elastomer Business, ¥124 million for the Specialty Materials Business and ¥302 million for companywide assets.

(Significant Subsequent Events)

(Impact of the 2024 Noto Earthquake on the Company’s Financial Position and Operating Results)

The 2024 Noto earthquake, which occurred in January 2024, caused the suspension of operations at the Himi Futagami Plant (Himi City, Toyama; Takaoka City, Toyama), the Company’s plastic film production base, and other facilities. It also resulted in damage to some property, plant and equipment and inventories.

Based on calculations using currently available information, the Company estimates that it will incur a disaster loss of approximately ¥1.8 billion due to losses during the suspension of operations resulting from damage to production facilities, associated restoration costs, disposal of inventories, and other expenses. The amount of damages may change due to changes in estimates for repairs to non-current assets and other such factors.