

## BRIDGE REPORT



Kimiaki Tanaka President

## ZEON CORPORATION(4205)

## Company Information

|            |   |
|------------|---|
| Market     | TSE 1st Section   |
| Industry   | Chemicals   |
| President  | Kimiaki Tanaka  |
| HQ Address | Marunouchi 1-6-2, Chiyoda-ku, Tokyo   |
| Year-end   | March   |
| HOME PAGE  | <a href="http://www.zeon.co.jp/index_e.html">http://www.zeon.co.jp/index_e.html</a> |

## Stock Information

| Share Price | Shares Outstanding (including treasury shares) |          | Total market cap | ROE Act.  | Trading Unit |
|-------------|--|----------|------------------|-----------|--------------|
| ¥1,295      | 237,075,556 shares                             |          | ¥307,012 million | 7.9%      | 100 shares   |
| DPS Est.    | Dividend yield Est.                            | EPS Est. | PER Est.         | BPS Act.  | PBR Act.     |
| ¥21.00      | 1.6%   | ¥59.45   | ¥21.8            | ¥1,176.87 | 1.1x         |

\* Share price as of closing on November 9. Shares Outstanding, DPS and EPS are based on the results in the second quarter of the Fiscal year ending March 2021. ROE and BPS are the last quarter's results.

## Earnings Trend

| Fiscal Year    | Sales   | Operating Income | Ordinary Income | Net Income | EPS    | DPS   |
|----------------|---------|------------------|-----------------|------------|--------|-------|
| Mar. 2017      | 287,624 | 30,767           | 31,805          | 23,152     | 104.31 | 16.00 |
| Mar. 2018      | 332,682 | 38,881           | 40,893          | 13,056     | 58.81  | 17.00 |
| Mar. 2019      | 337,499 | 33,147           | 36,319          | 18,458     | 84.06  | 19.00 |
| Mar. 2020      | 321,966 | 26,104           | 28,744          | 20,201     | 92.44  | 21.00 |
| Mar. 2021 Est. | 275,000 | 16,000           | 19,000          | 13,000     | 59.45  | 21.00 |

\*Unit: million yen, yen. Net income is net income attributed to parent shareholders. The same shall apply hereafter.

This Bridge Report presents ZEON CORPORATION's earnings results for the second quarter of the fiscal year ending March 2021, and more.

## Table of Contents

### [Key Points](#)

#### [1. Company Overview](#)

#### [2. The second quarter of Fiscal Year ending March 2021 Earnings Results](#)

#### [3. Fiscal Year ending March 2021 Earnings Forecasts](#)

#### [4. Progress of “Mid-term Management Plan SZ-20 Phase III”](#)

#### [5. Conclusions](#)

#### [<Reference: Regarding Corporate Governance>](#)

#### [<Appendix: Fact Sheet>](#)

## Key Points

- For the second quarter of the fiscal year March 2021, sales decreased 25.9 billion yen year on year to 137.4 billion yen. The sales of elastomers business declined 20.6 billion yen due to the effects of economic deterioration caused by the U.S.-China trade conflict and the worldwide spread of the Covid-19. On the other hand, the sales of specialty materials business increased one billion yen due to strong sales of optical films. Operating income dropped 5.1 billion yen to 9.9 billion yen. The profit from elastomers declined 5.1 billion yen while the profit from specialty materials rose 500 million yen. Both sales and profits exceeded the first half forecast announced in July 2020. The second quarter (July-September) of the specialty materials segment achieved record-high sales and operating income.
- The company announced the full-year earnings forecast for the fiscal year March 2021. Sales are expected to decrease 14.6% to 275 billion yen, and operating income is forecasted to decline 38.7% to 16 billion yen. The dividend is to be 21 yen/share, unchanged from the previous year. The expected payout ratio is 35.3%.
- Although sales in the second half are at the same level as in the first half, operating income is estimated to be significantly lower than those in the second half of the previous year and the first half of this year, and the difficult environment is anticipated to continue. However, in the second quarter's (July-September) business confidence has bottomed out in the short term due to the flat sales of synthetic rubber, which witnessed a downturn in the first quarter and a rise in battery materials sales during the novel coronavirus pandemic.
- Although uncertain conditions persist, as the lockdown started again in Europe, we would like to pay attention to the extent to which specialty materials will lead in strong fields of optical films and battery materials, while elastomers are flat at a low level.

## 1. Company Overview

ZEON CORPORATION is a petrochemical manufacturer that maintains numerous products with a large share of the global markets including synthetic rubber used in automobile parts and tires, synthetic latex used in surgery-use gloves, and other products. The Company's strengths include its creative technology development function, R&D structure, and high earnings generation capability. Many of the products and materials manufactured by Zeon are used in a wide variety of products including automobile parts and tires, rubber gloves, disposable diapers, cell phones, LCD televisions, perfumes and other products commonly used in everyday life. The Zeon Group is comprised of the parent company, 60 subsidiaries and 8 affiliated companies. Zeon also has manufacturing and marketing facilities in 16 countries around the world.



(Source: the company)

### 1-1 Company Name and Management Vision

The company name “Zeon” is derived from the Greek word for earth “geo” (phonetically pronounced “zeo” in Japanese) and the English word reflecting eternity “eon,” and reflects the Company’s principle of **“deriving raw materials from the earth and perpetually contributing to human prosperity”** through the development and application of creative technologies.

(Zeon’s original name “Geon,” used at the time of its establishment, was derived from the trademark acquired for the vinyl chloride plastics “Geon” from B.F. Goodrich Company in the United States, with which it had capital and collaborative technological agreements. The company name was changed to “Zeon” when the capital agreement was dissolved in 1970.)

### 1-2 Corporate History

Zeon was established as a joint venture company formed by the Furukawa Group of companies: Nippon Light Metal Co., Ltd., Furukawa Electric Co., Ltd., and Yokohama Rubber Co., Ltd. in April 1950 to acquire and use the vinyl chloride resins technology from B.F. Goodrich Chemicals Co.

In 1951, Goodrich acquired 35% of the shares of Zeon for full-scale technological and capital partnership, and in 1952 mass production of vinyl chloride resins began in Japan for the first time.

In 1959, Goodrich transferred synthetic rubber manufacturing technologies to Zeon, which, in turn, started Japan’s first mass production of synthetic rubber. Manufacturing facilities were also expanded to match the growing demand for automobile parts.

In 1965, use of the Company’s unique technology called Geon Process of Butadiene (GPB) for the efficient manufacture of butadiene (main raw material of synthetic rubber) from C<sub>4</sub> fraction was operational.

Goodrich transferred its specialty synthetic rubber business to Zeon along with the shift in its main business focus toward vinyl chloride resins. Capital ties were dissolved in 1970. Along with these changes, the Company name was changed from Geon to Zeon in 1971.

Also, in 1971, Zeon developed a unique technology called Geon Process of Isoprene (GPI) and began using it to manufacture raw materials including high-purity isoprene, Petroleum plastics, and synthetic perfume ingredients from C<sub>5</sub> fraction.

After entering the 1980s, Zeon aggressively launched new businesses in various fields including photoresists and other information materials, synthetic fragrance, and medical-related applications in addition to its main synthetic rubber business.

In 1984, production of hydrogenated nitrile rubber Zetpol<sup>®</sup>, which currently has top share of the worldwide market, began at the Takaoka Plant.

In 1990, manufacture of cyclo olefin polymer (COP) ZEONEX<sup>®</sup>, which is the main product of the specialty material business using the GPI method to extract and synthesize products, was started at the Mizushima Plant.

In 1993, Zeon entered China with its electronics materials business.

In 1999, Zeon Chemicals L.P. (Consolidated subsidiary in the United States) acquired the specialty rubber business of Goodyear Tire & Rubber Company of the United States to become the world’s top manufacturer of specialty rubber.

In 2000, Zeon discontinued production of vinyl chloride resins at the Mizushima Plant, and thus withdrew from the Company’s founding

business.

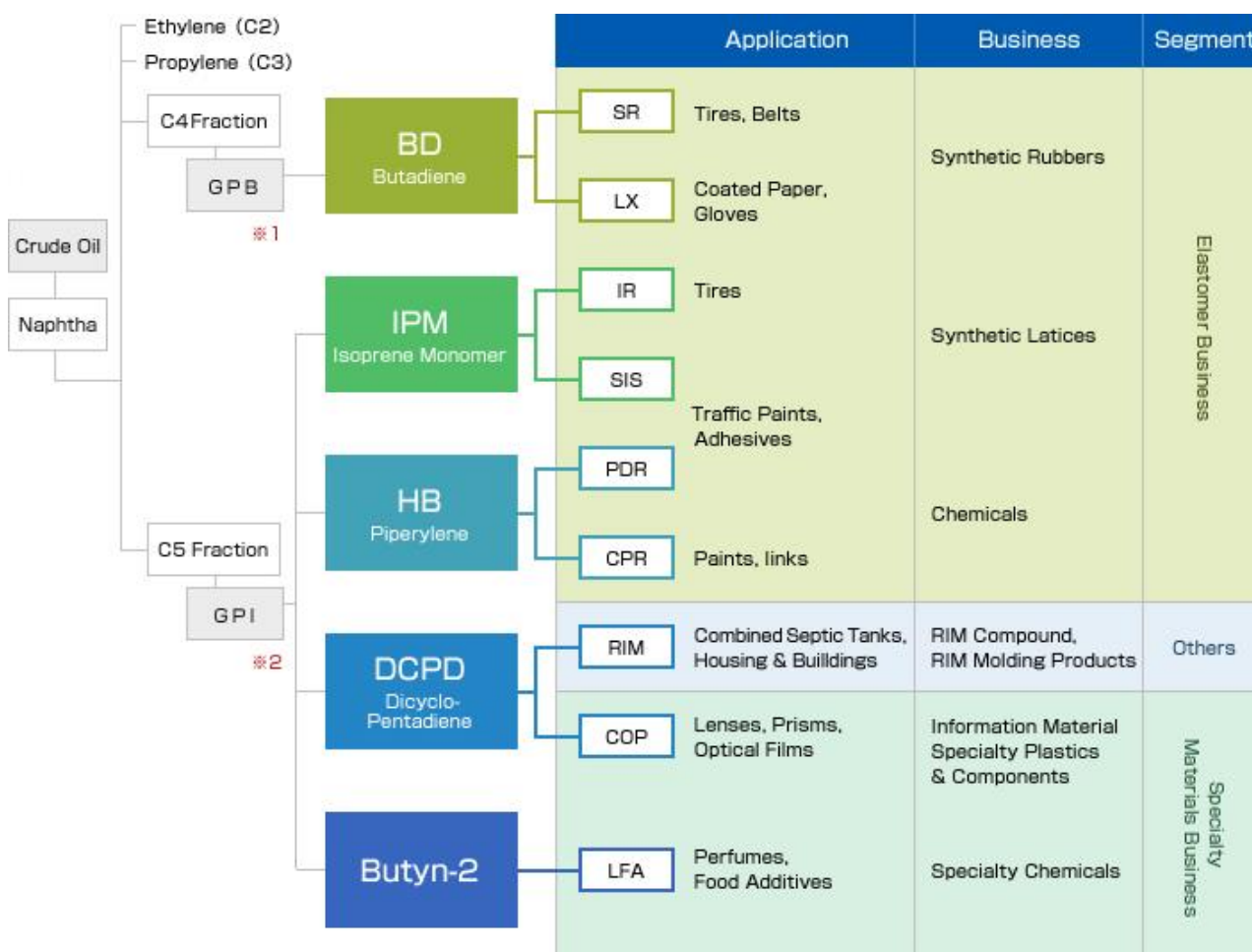
Since the 21<sup>st</sup> century came, the company has been operating business actively. For example, by releasing ZeonorFilm<sup>®</sup>, an optical film for LCD, strengthening global production and sales systems, starting the commercial operation of solution-polymerized styrene-butadiene rubber(S-SBR) in Singapore, upgrading the equipment for optical films for LCD in Himi-shi, Toyama Prefecture, starting the operation of the world's first mass-production factory for super-growth carbon nanotubes, and establishing a joint venture for manufacturing and selling S-SBR in cooperation with Sumitomo Chemical.

### 1-3 Business Description

Zeon's main products use various extracted from naphtha, which is extracted by distillation of crude oil.

When the naphtha is heated, carbon monoxide gas (C<sub>1</sub>), ethylene (C<sub>2</sub>), and propylene (C<sub>3</sub>) are extracted in sequence.

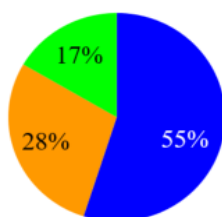
Zeon uses **butadiene** extracted in the GPB method developed in-house from C<sub>4</sub> fraction, **isoprene monomer**, **piperylene**, **dicyclopentadiene**, and **2-butyne** extracted from C<sub>5</sub> fraction using the GPI method, as raw materials to be processed into synthetic rubber, synthetic latex and various other materials.



(Source: the company)

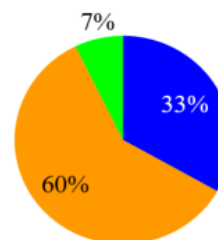
Zeon has three business segments: 1) the elastomer business, where manufactured basic materials are sold to customers; 2) the **specialty material business**, where basic materials are submitted to primary processing for sale to customers as processed materials, and 3) the **other business**.

Sales (FY3/20)



■ Elastomer Business ■ Specialty Material Business ■ Other Business

Operating Income (FY3/20)



■ Elastomer Business ■ Specialty Material Business ■ Other Business

\* Based on consolidated figures before companywide adjustments

\*Both are results for the fiscal year ended March 2020. Composition ratio is before elimination and company-wide.

## Elastomer Business

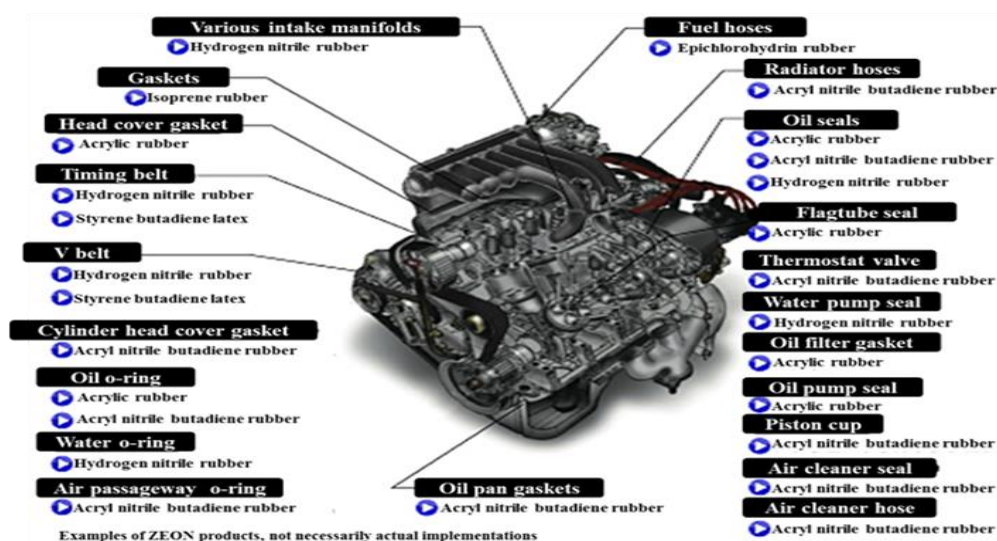
Elastomers are “high molecular compounds that have rubber-like elastic properties,” an example of which is synthetic rubber. As described in the corporate history section of this report, in 1959 Zeon became the first company in Japan to mass-produce synthetic rubber, which became the foundation underlying all of Zeon’s businesses. This business includes the segments of synthetic rubber, synthetic latex, and chemical products (Petroleum resins, thermoplastic elastomers) businesses.

### 1) Synthetic Rubber Business

Example of final product: Tires

Zeon provides the world’s leading tire manufacturers with the world’s highest-quality synthetic rubber for use in tires. Among the various types of synthetic rubber manufactured are styrene butadiene rubber (SBR), which promotes superior abrasion resistance, aging resistance and mechanical strength properties, butadiene rubber (BR), which includes a superior balance between elasticity, wear and low-temperature properties, and isoprene rubber (IR), which features similar properties as natural rubber but with higher quality stability. It is expected that the demand for S-SBR for fuel-efficient tires, which was developed by improving the characteristics of SBR, will grow rapidly. In order to increase the supplying capacity for coping with it, the first line of Singapore Factory started operation in September 2013, and the second line in April 2016. The supplying capacity of Singapore Factory is now 70,000 tons.

Example of product: Automobile Parts



(Source: the company)

Radiator hoses, fuel hoses, fan belts, oil seals, and various other car engine parts use specialty synthetic rubber that has superior oil resistance and heat deterioration-resistant qualities.



Zeon is the world's number one manufacturer of specialty synthetic rubber and features high quality levels and high market share of specialty synthetic rubber automobile parts. In particular, Zeon's Zetpol® hydrogenated nitrile rubber, used for timing belts, displays superior heat and oil resistance and mechanical strength characteristic and claims high share of the worldwide market.

Furthermore, a new grade of Zetpol® has vastly improved the performance of products using the original versions of Zetpol®.

Products using the new grade of Zetpol® are heat resistant at temperatures that exceed the limits for the original version of Zetpol® by 10 degrees centigrade, thereby extending the life of seals and gaskets, and are in strong demand for use in next generation bio-fuel engines. The new grade of Zetpol® is well suited to extrusion processing which is being leveraged to expand its usage in various hoses. Products using Zetpol® have also been well received by customers and are being used increasingly as a replacement material for more expensive competitive rubber in Japan, Asia, Europe, and North America.

## 2) Synthetic Latex Business

Synthetic latex is liquid rubber that synthetic rubber dispersed in water. It is used to manufacture gloves, paper coating, textile processing, adhesives, paints, and cosmetic puffs, etc. Zeon has high share of NBR latex used in cosmetic puffs in the world.

## 3) Chemicals Business

Zeon produces C<sub>5</sub> fraction by its unique in-house GPI method, and turn it into materials for adhesive tapes and hot melt adhesive traffic paint binder and a wide variety of other products.

## Specialty Material Business

Zeon deals in high value-added materials and parts that are created using its unique technologies including polymer design and processing technologies.

This is composed of the specialty plastics business, including optical plastics-related products and optical films, the specialty chemicals business, including specialty chemicals, battery materials, electronic materials and toners, and the medical devices business.

### ① Specialty material Business

#### ◎ Optical plastics-related products and optical films

Cyclo olefin polymer is thermoplastic polymer developed using raw material extracted from C<sub>5</sub> fraction using GPI methods and synthesized with Zeon's own unique technologies. The commercial products are ZEONEX® and ZEONOR®.

ZEONEX® leverages its high transparency, low water absorption, low absorptive and chemical resistance properties for use in camera and projector lenses and other optical applications and in medical use containers including syringes and vials.

ZEONOR® leverages its high transparency, transferability, and heat resistance properties for use as transparent general use engineering plastics used in light guide plates, automobile parts, semiconductor containers and a wide range of other product applications.

ZeonorFilm® is the world's first optical film by the melt extrusion method from the cyclo olefin polymer. It is excellent in optical properties, low water absorption / low moisture permeability, high heat resistance, low outgassing, and dimensional stability. Not only for displays for LCD TV, smartphones, and tablets, is it expected to be used in a wide range of applications such as OLED displays.



(Source: the company)

“Diagonally-stretched optical film” is also Zeon’s world first development.

The OELD application as anti-reflection film is progressing, and demand for small- to medium-sized flat panel display applications is growing. The company’s optical films are produced in 3 bases: Takaoka city, Toyama prefecture, Himi city, Toyama prefecture, and Tsuruga city, Fukui prefecture.

ZEOCOAT® is organic insulation material used in electronic devices such as cellphones, smartphones, and LCD televisions.

ZEOCOAT® was successful in improving both the picture quality and reliability of displays because of its high transparency, extremely low water absorption and low gas generation properties. Zeon will aggressively expand its marketing efforts for OELDs, which will be thinner displays than LCD, thin-film transistors using new semiconductors, and flexible displays.

### ◎ Battery Materials

Zeon provides materials for Li-ion battery in this segment; anode / cathode binders, binder for functional layer (heat resistant separator), and sealant. Currently, Li-ion batteries are widely used as a power source for mobile devices such as smartphone and notebook computers and there is a strong demand for batteries with higher capacity.

Adoption for electric vehicles, including hybrid and plug-in hybrid cars, and industrial power sources (such as smart grids, etc.) is expanding, since it is lightweight and compact and can store a lot of energy. On the other hand, there was a problem that lifetime tends to decrease under high temperature usage. The company has advanced the function of Li-ion battery binder and succeeded in developing an aqueous cathode binder, which greatly contributes to longer battery life. In addition, Zeon succeeded in commercializing anode binder, which can raise the storage capacity of Li-ion battery by 5% to 15%.

Zeon believes that its materials contribute to the safety, the longer life, and the more capacity of Li-ion batteries and lead to the widespread of hybrid and electric cars.

The company focused on the promising future of Li-ion batteries and worked on it for a long time. In this business segment for 2020, Zeon seeks to keep its top share in the Li-ion battery binder market, aims to expand the diffusion of new material functions that meet the needs of the application and propose functional materials to realize the next generation of new batteries.



(Source: the company)

### ◎ Specialty Chemicals

Zeon deals in specialty chemicals that use derivatives from C<sub>5</sub> fraction, such as synthesized fragrances for cosmetics and flavor used in foods, characteristic solvents, and plant growth regulator.

The Company holds the world’s top share of the synthesized fragrances in green note. They provide a wide range of specialty products including ingredients for intermediary bodies used in medical and agricultural chemicals, alternative solvents to CFCs, cleaning agents, urethane expanding agent, and functional ether agents.

## 2) Medical Devices Business

The medical device market is relatively well insulated from fluctuations in the economy and is anticipated to grow with the aging society in Japan and expansion in developing countries. Furthermore, medical device companies are subject to strict laws and regulations, and they need to submit approval applications to regulatory bodies. In addition, the need to develop relationships with healthcare professionals is critical and the subsequent high barriers to entry makes this a highly attractive market.

Along with the start of development of artificial kidneys in 1974, Zeon aggressively promoted its medical device business. In 1989, a subsidiary Zeon Medical Inc. was established to conduct development, manufacturing, sales, and all other functions of the medical field for the Zeon Group. Zeon has shown bountiful development track record both in gastroenterology and cardiovascular area.

“The Offset Balloon Catheter” as a means of differentiation in the gallstone removal process and with Japan’s first biliary covered stent “Zeostent Covered” in the area of gastroenterology products, and the world’s smallest diameter “XEMEX IABP Balloon PLUS” as a device to aid the heartbeat at times of acute myocardial infarction in the area of cardiovascular products.



(Source: the company)

Currently Zeon is focusing efforts in the development of the biliary stone removal devices that eliminate pain. Zeon has a lineup of products for extracting biliary stones ranging from extremely large stones to sludge and sand with products such as XEMEX Crusher Catheter, XEMEX Basket Catheter NT, Extraction Balloon Catheter, and is aiming at a 50% share of the gallstone removal market.

In March 2016, the Company launched the world’s first optical sensor FFR device as a type of guide wire. Because it uses an optical fiber sensor, mistaken readings of blood pressure measurements rarely occur. The operability as a guide wire has also gained a high evaluation.

\* FFR: fractional flow reserve ratio for quantitatively evaluating the severity of lesions and determining treatment strategies in diagnosing and treating coronary arteries.

### 【New Specialty Materials Development: ~Carbon Nano Tube (CNT)~ 】

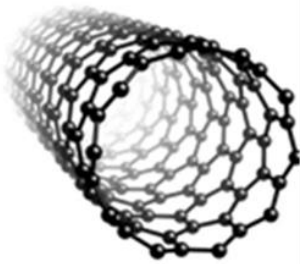
Aggressive R&D activities have allowed Zeon to launch various new materials into the market, and particularly high expectation is in the development of “single-wall carbon nanotubes (CNT)”.

#### 1) What is Single-Walled CNT?

**Carbon Nanotubes (CNTs)** are cylindrical nanostructure formed by hexagonal lattice of carbon atoms. In 1993, Sumio Iijima, Ph.D., head of the Applied Nanotube Research Center of the National Institute of Advanced Industrial Science and Technology (AIST), discovered this structure for the first time in the world and named *Carbon Nanotubes (CNTs)*. CNTs are categorized into single-walled and multiple-walled CNTs. Multiple-walled CNT is relatively easy to manufacture and the developments for commercial applications already started.



## BRIDGE REPORT



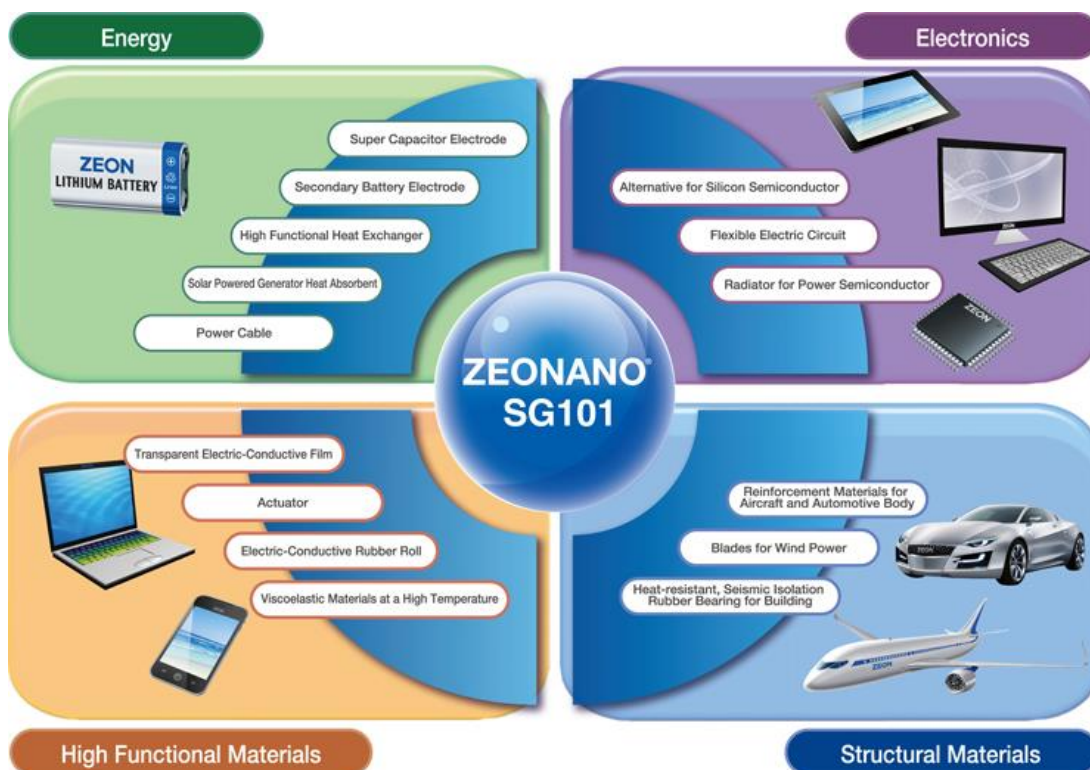
Single Wall Carbon Nanotube

(Source: the company)

At the same time, single-walled CNT exhibits the following properties and is superior to multiple-walled CNT:

- 20 times stronger than steel
- 10 times more heat conductive than copper
- Half as dense as aluminum
- 10 times the electron mobility of silicon
- lightweight but highly flexible
- has extremely high electric-and heat-conductivity properties

Possible CNT applications are electrical conductivity assistance agent in Li-ion batteries, transparent conductive film used in electronic paper and ultra-thin touch panel because of its high elasticity and strength, and as a thermal interface material. Because of its ability to absorb a wide spectrum of light, practical applications of single-walled CNT are being promoted in the area of electromagnetic wave absorbing materials for use in a wide range of fields including energy, electronics, structural materials, and other specialty materials.



(Source: Homepage of Zeon Nano Technology Co., Ltd.)

Conventional single-walled CNT has several major issues including high levels of impurities, low levels of productivity and high manufacturing costs, which are about several tens of thousands to hundreds of thousands of yen per gram.

## 2) Zeon's Efforts and Position

Against this backdrop, the company aims at establishing technologies that are necessary for the commercialization of new products using single-walled CNT developed in Japan with its numerous superior qualities in response to the worldwide social demands to realize a low-carbon society.

Using the synthesizing technology *super growth method* developed by Dr. Kenji Hata (Ph.D.) of the AIST as a base, Zeon has been conducting R&D for mass production and application development (Started supplying samples for mass production from AIST in April 2011) for compound materials at a validation plant that was established in December 2010 on the premises of the Tsukuba Center of the AIST.

Among the main reasons that the AIST Nanotube Application Research Center selected Zeon to become its partner were the impressive track record and results obtained by Kohei Arakawa, Zeon's former Managing Director, as a researcher in CNT R&D. The company is important to realize commercial applications of this new material.

## 3) Future Endeavors

Having established the mass production technology based on the *super growth* method, Zeon completed the CNT production facility and started mass production, the first in the world in November 2015 in its Tokuyama plant at Shunan-city, Yamaguchi Prefecture.

Zeon is the only company in the world that has established mass production technologies for single-wall CNT. About 100 companies around the world request for its product samples. Consequently, shipments of samples have already begun. Zeon has also begun to propose practical applications of this product.

At the same time, single-wall CNT is a type of nanomaterial that is extremely small and fiber shape. Therefore, there is a concern that it may have some impact upon biological processes depending upon its size and shape. Currently, the AIST is conducting standardization of the evaluation process, and activities for the OECD endpoint measurement are being conducted, with global standardization and legal and regulatory aspects being considered.

## Other Business

The combination liquid for Reaction Injection Molding (RIM) using the ingredient dicyclopentadiene (DCPD) as a raw material.

## 1-4 ROE Analysis

|                              | FY Mar.<br>14 | FY Mar.<br>15 | FY Mar.<br>16 | FY Mar.<br>17 | FY Mar.<br>18 | FY Mar.<br>19 | FY Mar.<br>20 |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>ROE (%)</b>               | <b>11.7</b>   | <b>9.8</b>    | <b>8.6</b>    | <b>10.3</b>   | <b>5.3</b>    | <b>7.2</b>    | <b>7.9</b>    |
| Net income margin (%)        | 6.63          | 6.20          | 6.12          | 8.05          | 3.92          | 5.47          | 6.27          |
| Total asset turnover (times) | 0.82          | 0.80          | 0.75          | 0.72          | 0.78          | 0.79          | 0.78          |
| Leverage (x)                 | 2.15          | 1.98          | 1.86          | 1.77          | 1.71          | 1.66          | 1.62          |

Since the ratio of net income to sales and leverage are showing a declining trend, ROE was below the 8% that Japanese companies are told to aim for. The company is expected to improve the profitability by focusing on the growth of the specialty materials segment.

## 1-5 Characteristics and Strengths

### 1. World's Leading Creative Technology Development Capability

The GPB method used to manufacture butadiene from C<sub>4</sub> fraction is the most important development in Japan's postwar history of chemicals and is licensed to 49 plants in 19 countries around the world.

In addition, the Mizushima Plant is the world's only plant with GPI method to extract high-purity isoprene and other effective substances from C<sub>5</sub> fraction. This Zeon's GPI method is a completely unique technology, which is not provided to other companies.

These two technologies represent the creative technological capabilities that are among the strengths of Zeon. They also are highly regarded and have received numerous awards in the global markets. Regarding technologies, Zeon has received 48 awards since 1960 including the GPB and GPI methods, in addition to 26 awards since 1982 for its environment conservation and safety efforts.

### 2. High Worldwide Share

Zetpol<sup>®</sup>, ZEONEX<sup>®</sup>, and ZEONOR<sup>®</sup> are representative of the products born from Zeon's highly creative technologies, which have allowed it to acquire high shares of worldwide markets. In addition, their Leaf alcohol for in cosmetics and food flavorings and NBR latex for cosmetic puffs have the world's top share.

### 3. R&D Structure that Continues to Yield Creative Technologies

Zeon seeks to conduct R&D activities based upon its basic corporate philosophy of “developing creative technologies in special fields of strength that enables Zeon to contribute to society by generating the world’s leading businesses.”

The Company’s main R&D center is in Kawasaki City, Kanagawa Prefecture. Zeon has also established the Precision Optics Laboratory and Medical Laboratory at the Takaoka Plant, the Specialty Chemical Product Research Facility at the Yonezawa Plant, the Toner Research Facility at the Tokuyama Plant and C<sub>5</sub> Chemicals Laboratory at the Mizushima Plant for more efficient R&D activities to be conducted closer to the manufacturing sites. The technical support bases are in the U.S., Germany, Singapore, and China.

The R&D personnel are never satisfied with the current conditions, and always keep conscious of the threat that their competitors pose in their research activities. Furthermore, Zeon bases its valuation on a positive point awarding system that places high priority on speed and creativity. R&D expenses were formerly measured as a percentage of sales, but now it has established an annual value amount of ¥16.0 billion as an investment budget to ensure that stable R&D activities can be maintained in the future.

## 2. The second quarter of the Fiscal Year ending March 2021 Earnings Results

### 2-1 Consolidated Earnings

|                  | FY 3/20 2Q | Ratio to sales | FY 3/21 2Q | Ratio to sales | YoY    | Compared with forecast |
|------------------|------------|----------------|------------|----------------|--------|------------------------|
| Sales            | 163,358    | 100.0%         | 137,415    | 100.0%         | -15.9% | +5.7%                  |
| Gross profit     | 47,361     | 29.0%          | 40,524     | 29.5%          | -14.4% | -                      |
| SG&A             | 32,341     | 19.8%          | 30,610     | 22.3%          | -5.4%  | -                      |
| Operating Income | 15,020     | 9.2%           | 9,913      | 7.2%           | -34.0% | +41.6%                 |
| Ordinary Income  | 16,045     | 9.8%           | 10,939     | 8.0%           | -31.8% | +36.7%                 |
| Net Income       | 11,550     | 7.1%           | 8,182      | 6.0%           | -29.2% | +48.8%                 |

\*Unit: million yen. The comparison is with that of the forecast published in July 2020.

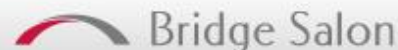
### Sales and Profit decreased

For the second quarter of the fiscal year March 2021, sales decreased 25.9 billion yen year on year to 137.4 billion yen. The sales of elastomers business declined 20.6 billion yen due to the effects of economic deterioration caused by the U.S.-China trade conflict and the worldwide spread of the Covid-19. On the other hand, the sales of specialty materials business increased one billion yen due to strong sales of optical films. Operating income dropped 5.1 billion yen to 9.9 billion yen. The profit from elastomers declined 5.1 billion yen while the profit from specialty materials rose 500 million yen. Both sales and profits exceeded the first half forecast announced in July 2020. The first-half (April-September) of the specialty materials segment achieved record-high sales and operating income.

### 2-2 Trends by Business Segments(total)

|                             | FY 3/20 2Q | FY 3/21 2Q | YoY    |
|-----------------------------|------------|------------|--------|
| Sales                       |            |            |        |
| Elastomer Business          | 91,920     | 71,271     | -22.5% |
| Specialty material Business | 45,471     | 46,505     | +2.3%  |
| Other Business              | 27,015     | 20,585     | -23.8% |
| adjustment                  | -1,048     | -946       | -      |
| <b>Total</b>                | 163,358    | 137,415    | -15.9% |
| Operating Income            |            |            |        |
| Elastomer Business          | 5,967      | 829        | -86.1% |
| Specialty material Business | 9,189      | 9,747      | +6.1%  |
| Other Business              | 1,170      | 459        | -60.8% |
| adjustment                  | -1,305     | -1,122     | -      |
| <b>Total</b>                | 15,020     | 9,913      | -34.0% |

\*Unit: million Yen

**BRIDGE REPORT****【Elastomers】**

Sales and profit decreased.

Sales declined 20.6 billion yen year on year to 71.3 billion yen. The prices of primary raw materials such as domestic naphtha have bottomed out. However, the demand for specialty rubber for the automobile industry and general industry applications is still weakening, although the market situations vary depending on the purpose of use. Thus, the market recovery is slow.

Sales for latex products are strong for medical and hygiene gloves, but still sluggish for general industry applications.

The demand for chemical products is firm, but market conditions are weak.

Operating income decreased 5.1 billion yen year on year to 800 million yen. Raw material prices bottomed out, producing positive effects, but it was affected by a decline in shipments due to the spread of the novel coronavirus and deteriorating market conditions in Asia.

**【Specialty Materials】**

Sales and profits increased.

Sales increased 1 billion yen year on year to 46.5 billion yen. The sales of specialty chemicals decreased overall. The shipment of battery materials is still sluggish, and the demand for toners has dropped due to the effects of the Covid-19. The performance of chemicals is almost flat.

On the other hand, the sales of specialty plastics business were robust for optical films, and the overall sales of specialty plastics increased. Operating income augmented 500 million yen to 9.7 billion yen. Although there was a decrease in prices, there were positive factors such as the rise in shipment volume, an increase in factory utilization rate, and a reduction of raw material prices.

(Trend of each item)

**\* Battery materials**

Shipment volume declined 12% year on year and increased 2% from the previous term.

For EVs, demand for finished vehicles is recovering. Still, the trend of self-manufacturing in Europe combined with the clearance of inventory stagnant in the supply chain led to a sluggish cargo movement. The sales for EVs declined 22% year on year and 8% from the previous term.

Sales volume increased 5% year on year except for EVs. It rose 19% from the previous term. As telework became common, the products for mobile devices sold well, and the performance of products for power tools such as household cleaners was robust. The performance of products for industrial use (ESS) remained unchanged.

**\* Optical plastics**

Shipment volume decreased 7% year on year and 21% from the previous term.

The sales of products for optical applications dropped 1% year on year and increased 10% from the previous term. The shipment volume is being controlled to adapt to the expansion of production capacity scheduled to be completed in July 2021 and the regular shut-down maintenance planned for the same year. The demand is robust.

The sales for medical applications and others decreased 11% year on year and 33% from the previous term. Although it fell below the previous year's level in the short term for maintaining the balance with local inventories, the sales of products for medical applications are strong. Like products for optical applications, supply is tight.

**\* Optical films**

Shipment volume increased 13% year on year and 14% from the previous term.

As for small and medium-sized applications, demand for mobile devices due to telework was strong.

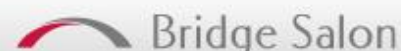
For large-size products, the decrease in demand due to the postponement of the Tokyo Olympics and Paralympics was factored in. However, the demand emerged by people staying home due to the Covid-19, and the sales to the Chinese market grew, so the shipment volume increased from the previous year.

**【Others】**

Sales and profits declined.

Due to the novel coronavirus's impact, both sales in the trading company sector and the RIM business were sluggish.

## BRIDGE REPORT



## 2-3 Financial standing and cash flows

## ◎Main Balance Sheet

|                    | End of<br>3/20 | End of<br>9/20 | Increase/<br>decrease |                                     | End of<br>3/20 | End of<br>9/20 | Increase/<br>decrease |
|--------------------|----------------|----------------|-----------------------|-------------------------------------|----------------|----------------|-----------------------|
| Current Assets     | 214,447        | 198,852        | -15,595               | Current liabilities                 | 112,410        | 93,832         | -18,578               |
| Cash               | 32,029         | 35,467         | +3,438                | Payables                            | 65,691         | 50,677         | -15,014               |
| Receivables        | 71,332         | 59,991         | -11,341               | ST Interest-<br>Bearing Liabilities | 10,960         | 10,960         | 0                     |
| Inventories        | 73,203         | 71,687         | -1,516                | Noncurrent<br>liabilities           | 32,363         | 31,596         | -767                  |
| Noncurrent Assets  | 190,684        | 196,457        | +5,773                | LT Interest-<br>Bearing Liabilities | 10,000         | 10,000         | 0                     |
| Tangible Assets    | 114,791        | 117,168        | +2,377                | Total Liabilities                   | 144,773        | 125,428        | -19,345               |
| Intangible Assets  | 3,669          | 3,491          | -178                  | Net Assets                          | 260,358        | 269,880        | +9,522                |
| Investment, Others | 72,224         | 75,798         | +3,574                | Capital                             | 257,217        | 266,981        | +9,763                |
| Total assets       | 405,131        | 395,308        | -9,823                | Total Liabilities and<br>Net Assets | 405,131        | 395,308        | -9,823                |

\*Unit: million yen. Receivables include electronically booked receivables; likewise, payables include electronically booked payables.

Current assets decreased 15.5 billion yen from the end of the previous term due to the decline in receivables and inventories etc. Total fixed assets increased 5.7 billion yen from the end of the previous term due to the increase in production facilities of optical films, the increase in investment securities, etc. and total assets decreased 9.8 billion yen from the end of the previous term.

Total liabilities decreased 19.3 billion yen from the end of the previous term due to the decrease in payables, etc. Net assets increased 9.5 billion yen from the end of the previous term owing to the increase in retained earnings and such.

As a result, the capital-to-asset ratio grew 4.0 points from the end of the previous term to 67.5%. D/E ratio was 0.08, unchanged from the end of the previous term.

## 3. Fiscal Year ending March 2021 Earnings Forecasts

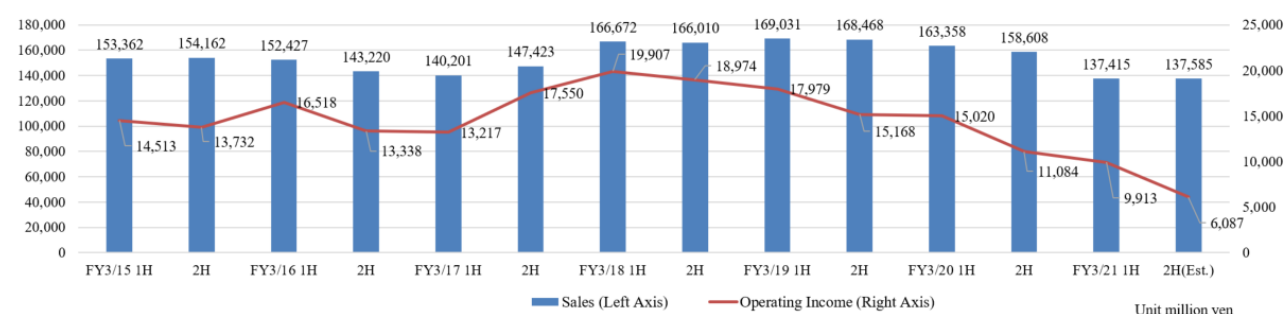
## (1) Earnings Forecast

|                  | FY 3/20 | Ratio to Sales | FY3/21(Est) | Ratio to Sales | YoY    | Progress rate |
|------------------|---------|----------------|-------------|----------------|--------|---------------|
| Sales            | 321,966 | 100.0%         | 275,000     | 100.0%         | -14.6% | 50.0%         |
| Operating Income | 26,104  | 8.1%           | 16,000      | 5.8%           | -38.7% | 62.0%         |
| Ordinary Income  | 28,744  | 8.9%           | 19,000      | 6.9%           | -33.9% | 57.6%         |
| Net Income       | 20,201  | 6.3%           | 13,000      | 4.7%           | -35.6% | 62.9%         |

\*Unit: million yen

## Sales and Profit decreased

The company announced the full-year earnings forecast for the fiscal year March 2021. Sales are expected to decrease 14.6% to 275 billion yen, and operating income is forecasted to decline 38.7% to 16 billion yen. The dividend is to be 21 yen/share, unchanged from the previous year. The expected payout ratio is 35.3%.





## (2) Current correspondence

Uncertainties surrounding the global economy, such as the spread of the novel coronavirus and the tension in the U.S.-China relations, are prevailing. Thus, the "Emergency Headquarters" will continue to take the lead in responding to unforeseen circumstances.

The company will continue to strive to maintain the supply chain and ensure the health and safety of employees and their families by thoroughly preventing infections at all business sites and manufacturing bases in Japan and overseas.

## 4. Progress of “Mid-term Management Plan SZ-20 Phase III”

Progress of “Mid-term Management Plan SZ-20 Phase III” covering a four-year period beginning from fiscal year March 2018 is as follows.

### (1) Groupwide Strategy

|                   |   |
|-------------------|---|
| Growth            | <ol style="list-style-type: none"> <li>1 “Reinforce” the combined strengths of the Zeon group. “Explore” ways of going beyond boundaries and collaborating with external players to provide solutions globally as a contribution to society.</li> <li>2 Accelerate the pace of new businesses creation and product development in “key development areas”: global environment, smart devices, and health and living.</li> </ol> |
| Corporate Culture | <ol style="list-style-type: none"> <li>3 Cultivate a corporate culture that places value on taking proactive action by harnessing diverse idea and trying them.</li> </ol>  |

As for the key development areas, the company applies for “global environment (e.g. energy conservation, automobile-related, power generation and storage)”, “health and living (e.g. self-driving cars, medical devices/materials, daily necessities)” and “smart devices (IoT-related),” which are estimated to have a high growth rate and probability of innovation.

### ◎Strategies by Business Segment

| Elastomer Business  | Specialty Materials Business  |
|---|---|
| <ul style="list-style-type: none"> <li>☆ Reinforce competitive business by responding globally to growth markets and raising cost effectiveness.</li> <li>☆ Explore new opportunities and achieve growth based on the trust built in the market and relationship with customers.</li> </ul> | <ul style="list-style-type: none"> <li>☆ Expand business in step with the speed of market growth and technological progress through focused investment of resources and stronger collaboration with outside players.</li> </ul> |

Under the themes of “speed,” “dialogue,” and “social contribution,” the company fosters more mutual trust with its group members. As the way it wants to be in FY 2020, the company pursues “Zeon makes the future today with the power of chemistry” and aims to achieve consolidated sales of more than 500 billion yen.

## (2) Performance of the entire company

### ① Overview

Sales and profits declined in the second quarter of the fiscal year March 2021 due to the U.S.-China trade friction and the deterioration of the global economy caused by the Covid-19.

The sales and profits of elastomers business deteriorated due to weakness in the automobile industry and general industry applications. On the other hand, as for specialty materials, sales and profits increased both year on year and compared to the previous term due to strong sales of specialty chemicals and optical film. Sales and operating income reached record highs in the first-half (April-September).

### ② ROE

ROE, which is regarded as an essential management index, is expected to drop to about 5% this term. However, the company will pay stable and continuous dividends following the basic policy.

## (3) Progress of phase III in each segment

### <Investment>

Regarding elastomers, the acrylic rubber manufacturing plant (production capacity: 5,000 tons per year), which was under construction

in Thailand, was completed in May 2020 and the company will start selling in April 2021.

Regarding specialty plastics, a new line of optical films for large TVs (Tsuruga Plant, the annual production capacity of 50 million m<sup>2</sup>) went into operation in April 2020 and the company started selling in October.

The expansion of optical plastic production capacity at the Mizushima Plant (4,600 tons per year) is scheduled to be completed in July 2021.

#### <Automotive related products>

Production of vehicles equipped with internal combustion engines is expected to return to the same level as in 2019 in 2027. However, it will gradually drop after that. From 2020, the number of vehicles equipped with batteries, such as EV and PHV, is expected to increase more rapidly.

For the time being, the vehicles equipped with internal combustion engines will continue to be mainstream, so the company plans to meet the market demand for important parts with specialty rubber products and technical support.

On the other hand, EV/PHV sales struggled due to the novel coronavirus crisis in the first half of the year. Nonetheless, sales are steadily recovering in China and the annual sales volume in Europe is larger than the previous year due to the effect of government subsidies. The company will strengthen sales of EV-related products such as battery materials in Europe and China.

#### <Specialty material: electronic film>

##### ◎ TVs

The trend of larger size and higher resolution will progress.

The 2,500-mm-wide line at the Tsuruga Plant will support larger sizes.

##### ◎ Smartphones

The number of smartphones sold is expected to decrease for the time being, and recovery is estimated in two years. The company is expecting replacement demand for "5G."

The company will capture the demand with original products such as touch sensors for OLEDs, anti-reflection, and retardation films.

##### ◎ Tablets

Sales are expanding due to remote work and education demand triggered by the Covid-19 crisis. Hence, the company will respond to the stable demand.

#### <News Release in the first half>

##### ◎ Product related

**\* Received the "2020 Technology Award" from Adhesion Society of Japan for research on label adhesives using asymmetric SIS.**

In June 2020, the research results of asymmetric SIS (styrene/isoprene/styrene block copolymer) received the "2020 Technology Award" from Adhesion Society of Japan. It was highly evaluated that the company's original technology improved the function of the hot melt adhesive for labels and contributed to the improvement of its industrial value.

Asymmetric SIS is a polymer originally developed by the company with a unique phase structure called a sphere structure while having high styrene content. It is obtained by intentionally giving both terminal styrene blocks of SIS, a thermoplastic block copolymer of styrene and isoprene, an asymmetric structure, and mixing symmetric styrene blocks with a symmetric low styrene ratio.

In recent years, its demand has been expanding mainly as a material for elastic films for disposable diapers. Moreover, focusing on the unique performance of "high styrene content and softness," the company has pursued the possibility of solving technical problems in various applications where SIS has been used so far.

The award-winning research was related to the application of asymmetric SIS to adhesive labels.

There are two types of adhesive labels that do not use organic solvents: "hot-melt type" and "acrylic emulsion type." The "acrylic emulsion type" is the mainstream in Japan. However, in the world market, the "hot-melt type," which has an excellent coating line speed, a wide selection of adherends, and good low-temperature tack, is also growing significantly.

SIS is mainly used as the base polymer for hot melt. However, while conventional SIS has excellent adhesive properties, in adhesive label applications, it had problems with high-speed punching workability (die-cutting property) and exudation of the softening agent to be blended for many years.

The company has enhanced its asymmetric SIS technology, worked to solve these problems, and succeeded in achieving high-speed die-cutting properties and the exudation resistance of softeners (oil retention) while maintaining good adhesive properties.

#### **\* Started sales of new positive tone photosensitive insulating dielectric**

In July 2020, the company developed and started selling the positive tone photosensitive insulating dielectric "ZEOCOAT® ZC100."

This product is an alkaline developable, positive-tone photosensitive insulating dielectric that can be cured at a low temperature of 180 °C and has high resolution and high insulation reliability.

As devices such as smartphones become more sophisticated and multifunctional, semiconductor packages and electronic components are required to be miniaturized and highly integrated. Since it is a positive tone photosensitive insulating dielectric with excellent resolution, it enables the miniaturization of devices. It can also be cured at low temperatures and has high insulation reliability, which improves the yield and reliability of the device.

The main applications of the product are next-generation wafer-level packages, which require further miniaturization and low-temperature processes,

#### **\* Release of a new FFR product**

In August 2020, the company's subsidiary Zeon Medical Inc. released "OptoMonitor® 3," a next-generation product of the FFR system.

The FFR system is a system aimed at measuring fractional flow reserve (FFR) ratio to quantitatively evaluate the severity of lesions and determine treatment strategies in the diagnosis and treatment of coronary arteries. It consists of a guidewire with a sensor for internal pressure measurement and a monitor that displays fractional flow reserve ratio. Zeon Medical has been expanding the usage of this system product mainly in Japan.

The next-generation monitor "OptoMonitor® 3" dramatically improves the connectivity with various diagnostic devices in the cardiac catheterization laboratory and provides the convenience of being able to respond to the work environment in the facility flexibly. It uses a 15-inch high-brightness liquid crystal display operated with a touch panel, enabling intuitive and stress-free operation.

#### **◎ Others**

##### **\* Expressed support for the "Task Force on Climate-related Financial Disclosures (TCFD)" proposal**

In August 2020, the company announced its support for the "Task Force on Climate-related Financial Disclosure (TCFD)" proposal.

The company is working on "contributing to society's sustainable development and the global environment through corporate activities" in its basic CSR policy. Based on the TCFD recommendations, it will analyze the risks and opportunities that climate change will have on its business in the future and reflect it in its management strategy. By doing so, the company will strengthen its management base. Also, by promoting the disclosure of information related to climate change, the company aims to foster further relationships of trust with stakeholders, realize a sustainable society, and improve corporate value.

Aside from supporting the TCFD, the company also participated in the "TCFD Consortium." The company will promote initiatives with other companies and financial institutions that support the TCFD recommendations and will utilize the knowledge gained from this consortium to consider effective initiatives and information disclosure.

## BRIDGE REPORT



### \* Established a new organization to promote digital transformation

In October 2020, the "Digital Transformation Promotion Division" was newly established. It aims to oversee and promote initiatives related to digital transformation, strengthen competitiveness, and support new businesses' creation and expansion.

The newly established Digital Transformation Promotion Division will develop digital measures linked to business strategies and product strategies to impact the business and provide accurate information necessary for management decisions more quickly. It will also enhance the ability to utilize digital information, accelerate production innovation, and promote autonomous digital transformation.

The company will establish the Digital Transformation Strategy Planning Department and the Digital System & Security Management Department under the new organization.

The Digital Transformation Strategy Planning Department will be responsible for strengthening business competitiveness, business innovation, new business creation support, digital human resources support, etc. utilizing digital transformation.

The Digital System & Security Management Department will handle various measures related to information sharing system management, system installation and maintenance, and information security.

### \* Participated in the "Intellectual Property Open Access Declaration Against COVID-19 "

In October 2020, the company agreed to and participated in the "Intellectual Property Open Access Declaration Against COVID-19 " to support countermeasures against COVID-19.

This pledge declares that it will not exercise patent rights, utility model rights, design rights, and copyrights for acts such as development, manufacturing, and sales aimed at ending the spread of COVID-19.

This will enable the best development and manufacturing without infringement investigations into the intellectual property rights covered by the pledge or complicated negotiations to obtain a license.

The company agrees with the purpose of the declaration. Hence, for a certain period, it will not seek compensation for acts whose sole purpose is to end the spread of COVID-19 and declares not to exercise its patent rights, utility model rights, design rights, and copyrights.

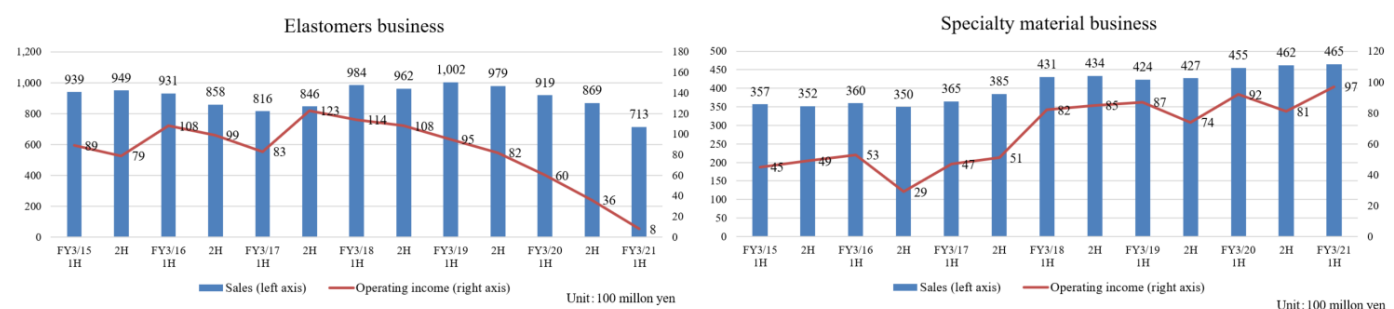
In the future, the company plans to consider the possibility of cooperating with other companies and organizations in measures to prevent the spread of COVID-19.

## 5. Conclusions

The company announced the full-year earnings forecast for the fiscal year March 2021. Although sales in the second half are at the same level as in the first half, operating income is estimated to be significantly lower than those in the second half of the previous year and the first half of this year, and the difficult environment is anticipated to continue.

However, in the second quarter's (July-September) business confidence has bottomed out in the short term due to the flat sales of synthetic rubber, which witnessed a downturn in the first quarter and a rise in battery materials sales during the novel coronavirus pandemic

Although uncertain conditions persist, as the lockdown started again in Europe, we would like to pay attention to the extent to which specialty materials will lead in strong fields of optical films and battery materials, while elastomers are flat at a low level.



## <Reference: Regarding Corporate Governance>

### ◎ Organization type, and the composition of directors and auditors

|                   |  |
|-------------------|--|
| Organization type | Company with auditors                  |
| Directors         | 7 directors, including 3 external ones |
| Auditors          | 5 auditors, including 3 external ones  |

### ◎ Corporate Governance Report

Last update date: : July, 3, 2020

#### Basic policy

Our company respects the interests of a broad range of stakeholders, including shareholders, and aims to earn revenue and continuously improve our corporate value while adjusting the relations of interests. To do so, we will make continuous efforts to establish a system for realizing efficient, sound business administration through corporate governance.

In addition, we will make decisions and execute business operations swiftly after clarifying the functions and roles of each institution and each in-company organization by developing internal control systems. We will properly monitor and disclose its progress and results and strive to improve the transparency of our business administration.

#### Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)

(All principles are stated based on the code before the revision in June 2018.)

Our company follows the principles of the corporate governance code.

#### Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)

| Principles  | Disclosure content  |
|---|---|
| 【 Principle 1-4 The so-called strategically held shares】        | <ul style="list-style-type: none"> <li>• Before strategically holding shares of any other companies, we consider carefully if the strategically held shares of a company strengthen the relationship between us and our business partners, the society and other stakeholders and will eventually enhance our corporate value in a medium- to long-term perspective.</li> <li>• As for shares held based on these considerations, the company will annually verify the appropriateness of holding shares of each company by considering the appropriateness of its holding purpose and whether the benefits, risks, etc. that come along are commensurate with the capital cost. Most recently, the Board of Directors made the verification in their meeting, which was held on October 31, 2019, and will decide whether to reduce shares of companies that are acknowledged to have lost their holding purpose.</li> <li>• We will determine when to exercise our voting right of strategically held shares based on a medium- to long-term viewpoint on enhancement of the corporate value of the company that we invest in.</li> </ul> |
| Principle 5-1 Policy on constructive dialogue with shareholders | <ul style="list-style-type: none"> <li>• In our company, the Department of Corporate Communications is in charge of interacting with our shareholders, and the executive responsible for CSR manages the office.</li> <li>• The Corporate Communication Dept. appropriately exchanges information with the Corporate Planning Dept., the Accounting &amp; Finance Dept., the General Affairs Dept., the Legal Affairs Dept., etc. and provides precise and unbiased information to our shareholders.</li> <li>• Our company will continuously strive to enrich methods of dialogue other than individual interviews, such as holding information sessions for investors on a quarterly basis, improving explanatory materials for</li> </ul>  |



## BRIDGE REPORT



our financial results disclosed on our website and participating in company information sessions for individual investors.

- The Corporate Communications Dept. collates and analyzes opinions obtained through interaction with our shareholders when necessary and report them to the Representative Director.

- Our company thoroughly manages unreleased important facts in accordance with the “Insider Trading and Timely Disclosure Management Rules”, and communicates with our shareholders to prevent information leak.

This report is intended solely for information purposes and is not intended as a solicitation for investment. The information and opinions contained within this report are made by our company based on data made publicly available, and the information within this report comes from sources that we judge to be reliable. However, we cannot wholly guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness, or validity of said information and opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

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**<Appendix : Fact Sheet>**

# Fact Sheet

## BRIDGE REPORT



## &lt;Major Shareholders&gt;

| Shareholder  | Number of Holding Shares (thousand) | Rate (%) |
|--|-------------------------------------|----------|
| Yokohama Rubber Co., Ltd.                            | 22,682                              | 10.38    |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 10,922                              | 5.00     |
| Japan Trustee Services Bank, Ltd. (Trust Account)    | 9,806                               | 4.49     |
| Mizuho Bank, Ltd                                     | 9,600                               | 4.39     |
| National Mutual Insurance Federation of Agricultural | 7,700                               | 3.52     |
| Asahi Mutual Life Insurance Company                  | 7,679                               | 3.51     |
| Asahi Kasei Corporation                              | 6,438                               | 2.95     |
| BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)           | 5,921                               | 2.71     |
| The Norinchukin Bank                                 | 4,000                               | 1.83     |
| Zeon Corporation Client Stock Ownership Association  | 3,783                               | 1.73     |
|  | 88,531                              | 40.51    |

\*Total number of shares issued at the end of the term common stock 237,075,556shares

As of Mar. 31, 2020

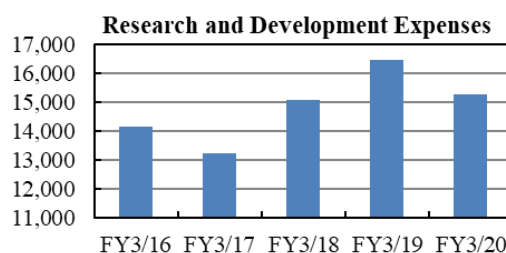
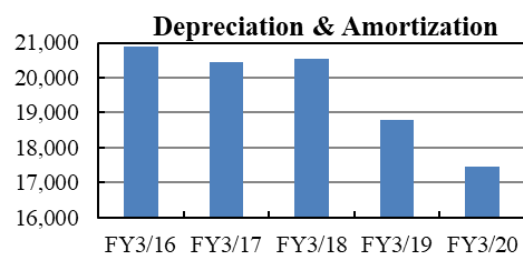
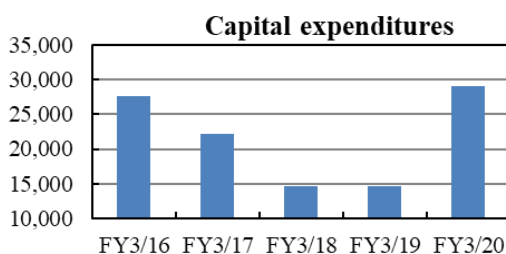
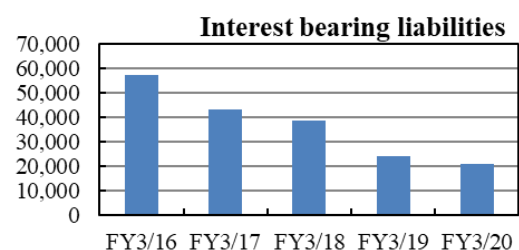
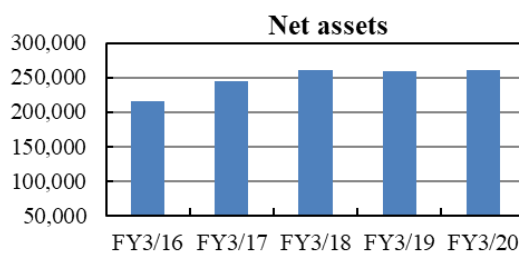
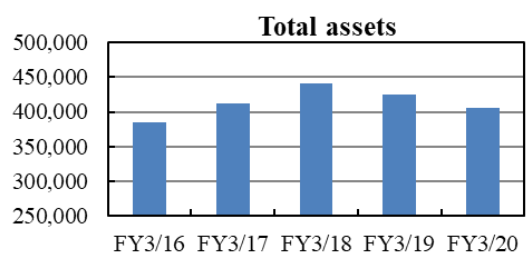
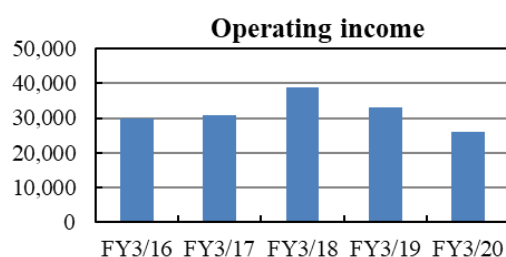
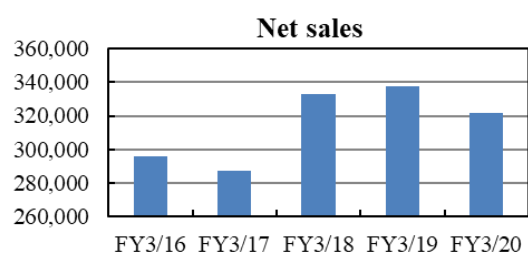
## BRIDGE REPORT



## &lt;Selected Financial Data&gt;

|                              | FY3/16  | FY3/17  | FY3/18  | FY3/19  | FY3/20  |
|------------------------------|---------|---------|---------|---------|---------|
| Net sales                    | 295,647 | 287,624 | 332,682 | 337,499 | 321,966 |
| Gross profit                 | 87,187  | 86,925  | 101,272 | 96,742  | 91,911  |
| Operating income             | 29,856  | 30,767  | 38,881  | 33,147  | 26,104  |
| Ordinary income              | 32,153  | 31,805  | 40,893  | 36,319  | 28,744  |
| Net income                   | 18,079  | 23,152  | 13,056  | 18,458  | 20,201  |
| EPS (JPY)                    | 79.9    | 104.3   | 58.8    | 84.1    | 92.4    |
| DPS (JPY)                    | 15.00   | 16.00   | 17.00   | 19.00   | 21.00   |
| Total assets                 | 384,753 | 411,415 | 440,519 | 424,937 | 405,131 |
| Net assets                   | 215,586 | 244,634 | 259,940 | 259,156 | 260,358 |
| Interest bearing liabilities | 57,064  | 43,177  | 38,573  | 24,125  | 20,960  |
| Capital expenditures         | 27,650  | 22,122  | 14,568  | 14,640  | 29,088  |
| Depreciation & Amortization  | 20,904  | 20,431  | 20,539  | 18,780  | 17,448  |
| R&D Expenses                 | 14,148  | 13,233  | 15,103  | 16,480  | 15,274  |

(Units: Million Yen)



## BRIDGE REPORT

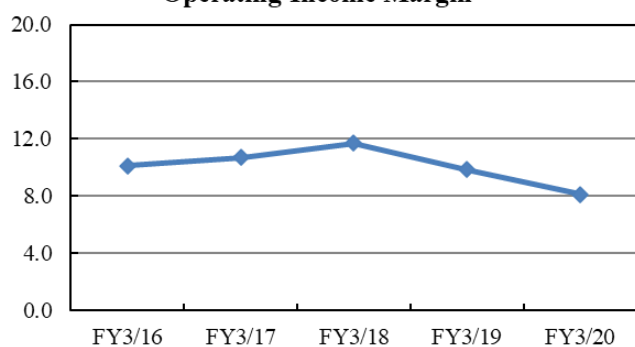


## &lt;Financial Summary&gt;

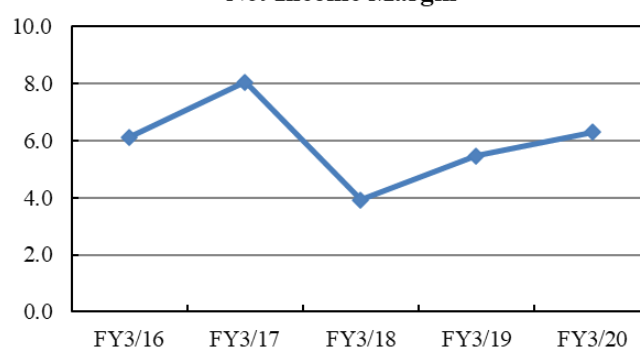
|                              | FY3/16 | FY3/17 | FY3/18 | FY3/19 | FY3/20 |
|------------------------------|--------|--------|--------|--------|--------|
| Operating Income Margin      | 10.1   | 10.7   | 11.7   | 9.8    | 8.1    |
| Net Income Margin            | 6.1    | 8.0    | 3.9    | 5.5    | 6.3    |
| Total Asset Turnover (times) | 0.82   | 0.72   | 0.78   | 0.78   | 0.78   |
| Capital Ratio                | 54.8   | 58.4   | 58.4   | 60.3   | 63.5   |
| ROE                          | 8.6    | 10.3   | 5.3    | 7.2    | 7.9    |
| R&D-to-Sales Ratio           | 4.8    | 4.6    | 4.5    | 4.9    | 4.7    |

(Unit: %)

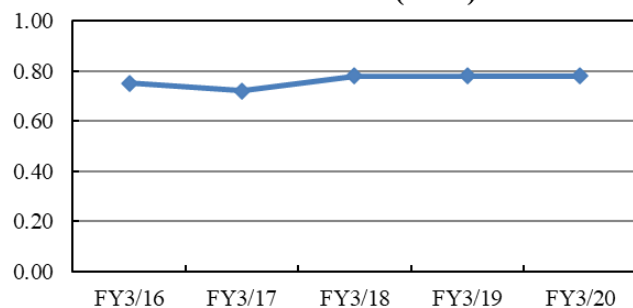
Operating Income Margin



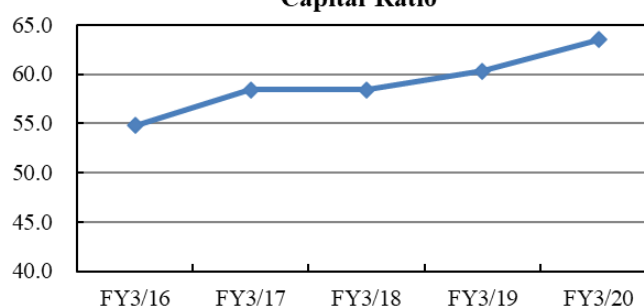
Net Income Margin



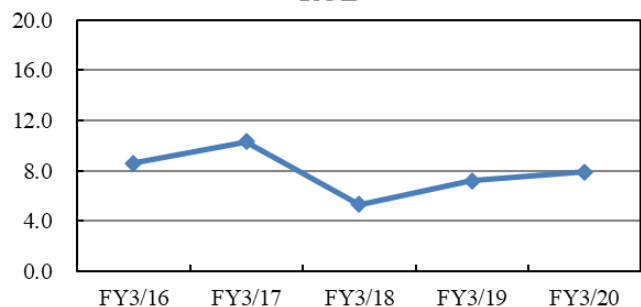
Total Asset Turnover (times)



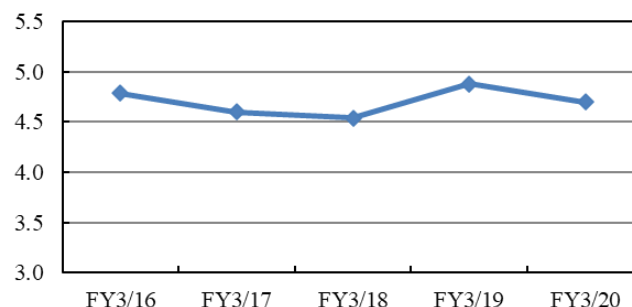
Capital Ratio



ROE



R&amp;D-to-Sales Ratio





## BRIDGE REPORT



## &lt;Segment Information&gt;

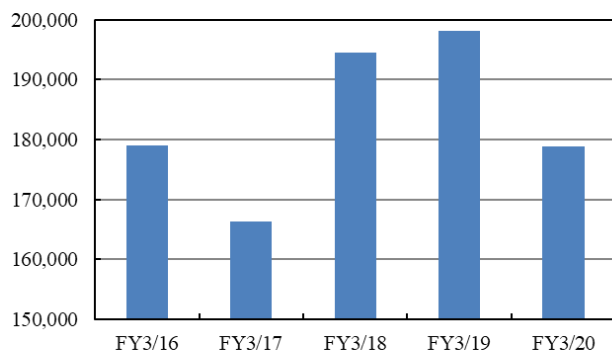
|                                   | FY3/16  | FY3/17  | FY3/18  | FY3/19  | FY3/20  |
|-----------------------------------|---------|---------|---------|---------|---------|
| Sales                             |         |         |         |         |         |
| Elastomer Business                | 178,940 | 166,243 | 194,570 | 198,087 | 178,847 |
| Specialty Material Business       | 70,979  | 74,980  | 86,479  | 85,142  | 91,749  |
| Others                            | 47,950  | 49,038  | 53,928  | 56,733  | 53,473  |
| Eliminations and corporate assets | -2,222  | -2,637  | -2,295  | -2,463  | -2,103  |
| Consolidated                      | 295,647 | 287,624 | 332,682 | 337,499 | 321,966 |
| Operating income                  |         |         |         |         |         |
| Elastomer Business                | 20,725  | 20,552  | 22,169  | 17,691  | 9,642   |
| Specialty Material Business       | 8,221   | 9,832   | 16,742  | 16,115  | 17,311  |
| Others                            | 2,503   | 2,865   | 3,206   | 2,786   | 2,098   |
| Eliminations and corporate assets | -1,592  | -2,482  | -3,237  | -3,446  | -2,948  |
| Consolidated                      | 29,856  | 30,767  | 38,881  | 33,147  | 26,104  |
| Total assets                      |         |         |         |         |         |
| Elastomer Business                | 193,560 | 201,054 | 213,137 | 209,089 | 189,618 |
| Specialty Material Business       | 80,916  | 82,673  | 88,122  | 89,402  | 101,425 |
| Others                            | 27,873  | 29,165  | 30,907  | 32,907  | 31,193  |
| Eliminations and corporate assets | 82,404  | 98,523  | 108,353 | 93,539  | 82,895  |
| Consolidated                      | 384,753 | 411,415 | 440,519 | 424,937 | 405,131 |
| Depreciation & Amortization       |         |         |         |         |         |
| Elastomer Business                | 9,693   | 9,929   | 10,208  | 8,864   | 8,432   |
| Specialty Material Business       | 8,569   | 7,845   | 7,781   | 6,793   | 6,089   |
| Others                            | 316     | 353     | 326     | 302     | 312     |
| Eliminations and corporate assets | 2,326   | 2,304   | 2,223   | 2,822   | 2,616   |
| Consolidated                      | 20,904  | 20,431  | 20,539  | 18,780  | 17,448  |
| Capital Expenditure               |         |         |         |         |         |
| Elastomer Business                | 15,665  | 11,166  | 7,998   | 5,744   | 7,792   |
| Specialty Material Business       | 7,521   | 7,644   | 3,644   | 6,234   | 17,965  |
| Others                            | 395     | 342     | 362     | 359     | 95      |
| Eliminations and corporate assets | 4,069   | 2,971   | 2,564   | 2,303   | 3,236   |
| Consolidated                      | 27,650  | 22,122  | 14,568  | 14,640  | 29,088  |

(Unit: Million Yen)

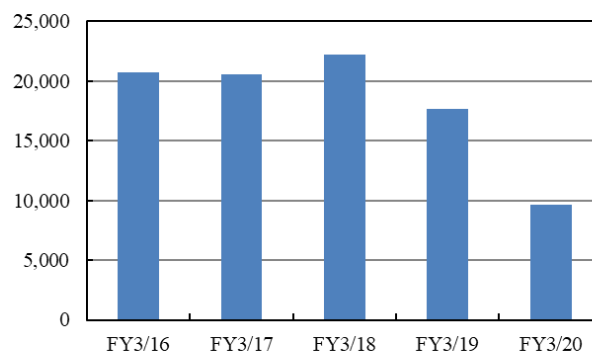
## BRIDGE REPORT



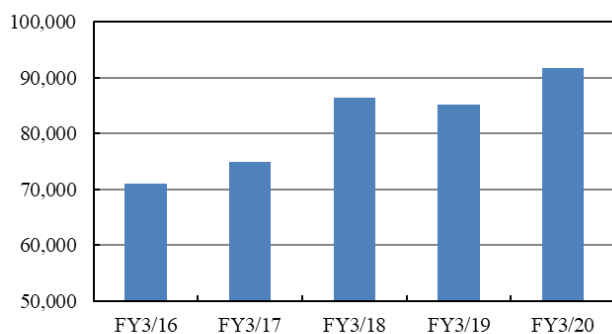
**Elastomer Business Sales**



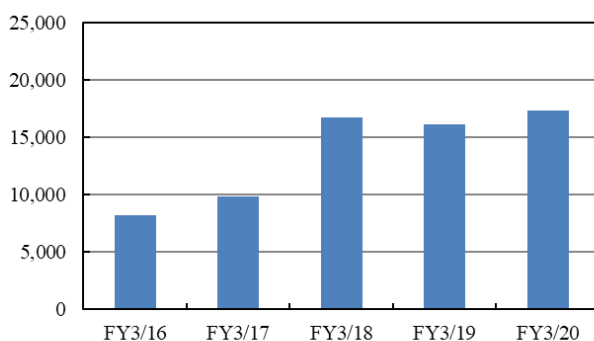
**Elastomer Business Operating income**



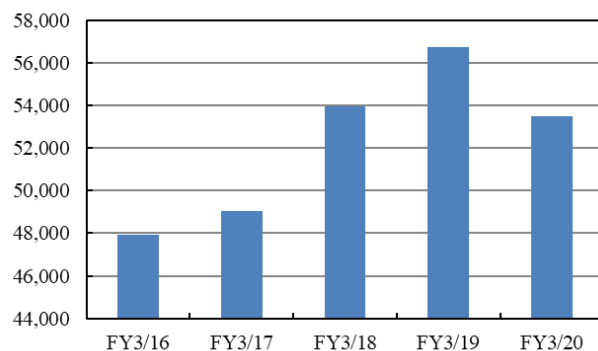
**Specialty Material Business Sales**



**Specialty Material Business Operating income**



**Others Sales**



**Others Operating income**

