

JSR Corporation

Materials Innovation

# Annual Report

**2016** For the year ended March 31, 2016



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## Financial Section

(Supplementary Volume)

### Forward-Looking Statements

Statements regarding the Company's future plans, strategies, projected performance and outlook are based on information available at the time of writing. Readers are cautioned that economic trends in JSR's target markets and other risks, and factors beyond the Company's control could cause actual results to differ materially from those projected by management.



## Profile

JSR Corporation (formerly Japan Synthetic Rubber Co., Ltd.) was established in December 1957 under the Special Measures Law for the Synthetic Rubber Manufacturing Industry with the aim of pioneering synthetic rubber production in Japan. Since that time, the Company has remained among Japan's market share leaders in synthetic rubber and other petrochemical materials. We also apply our polymer technologies in the field of fine chemicals to produce semiconductor materials, display materials, and other products, which command among the highest market shares in the industry.

JSR aims to leverage its stable core businesses of petrochemical products and fine chemical materials, to pursue sustained growth through life sciences business.

## Corporate Mission

# Materials Innovation

We create value through materials to enrich society, people and the environment



# Business Outline

JSR Group aims to create new value through materials and to help in solving social problems.

**Social Priorities**

1960s

Production of Synthetic Rubber in Japan

Petrochemicals played a vital role as industrial raw materials during Japan's postwar recovery and reconstruction phase. There was an urgent need to establish synthetic rubber manufacturing in Japan because reliance on imports left Japan vulnerable to a tight supply-demand environment.

1980s

Changes in the Industrial Structure

Electronic materials were vital to the emergence of the new computer industry and products such as electronically controlled appliances with embedded microchips, and digital communications devices.

2000s

Social Priorities for the Future

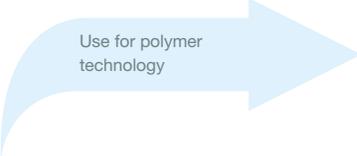
Awareness of environmental problems is reflected in the need to create environmentally responsible living. Another major social priority in Japan, which is leading the global trend toward super-aged societies, is the development of medical services.

**Our Businesses**



Fine Chemicals and Other Products Business

Use for polymer technology



Fine Chemicals Business

Semi-conductor Materials Business

- Lithography Materials
- Process Materials
- Device Integration Materials
- Chemical Mechanical Planarization Materials (CMPs)

Display Materials Business

- LCD Materials
- New FPD Materials

Strategic Businesses

Life Sciences Business

- in-vitro Diagnostics and Life Science Research
- Bioprocess Materials

Lithium Ion Capacitors Business

- Lithium Ion Capacitors

Petrochemical Products Business

Elastomers Business

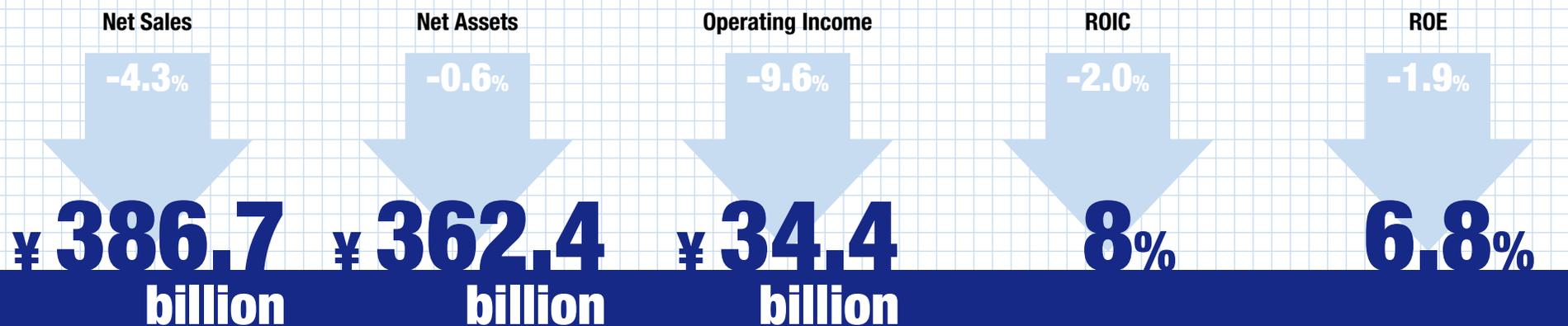
- General-Purpose Synthetic Rubbers
- Special-Purpose Synthetic Rubbers
- Thermoplastic Elastomers
- Emulsions

Plastics Business

- Wide Range of ABS Resins and ABS Alloys

## Consolidated Financial Highlights

In the FY ended March 2016, business results fell significantly below the initial forecast due to yearlong weak demand in the core businesses. Fourth quarter results in particular were affected by a sudden demand slowdown in our customers' markets and the impact of the weak yen.



Previous year  
¥ 404.1 billion

Previous year  
¥ 364.7 billion

Previous year  
¥ 38.1 billion

Previous year  
10%

Previous year  
8.7%

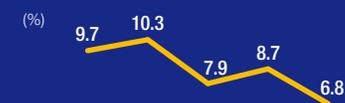
Although SSBR sales rose sharply, and the net sales of life sciences business showed growth, overall revenues declined due to a slump in elastomer product prices, weakness in the semiconductor market, and an abrupt second-half slowdown in the FPD market.

Net assets were lower, primarily because of a ¥10.3 billion year-on-year decrease in accumulated other comprehensive income. The equity ratio was 68.4%.

Income in the Petrochemical Products Business segment declined as higher profitability and income in the plastics business could not offset lower income in the elastomers business. Income in the Fine Chemicals and Other Products Business segment also declined on lower sales of semiconductor materials and display materials.

ROIC decreased as a result of factors including a year-on-year decrease in income, despite continuing investment to capture growth opportunities.

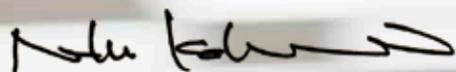
ROE decreased by 1.9 points because of factors including an increase in equity and a decrease of ¥5.9 billion in profit attributable to owners of parent.



Note: FY means year ended March 31

Our Strategy

# A Course Change to Realize the Business Vision



MITSUNOBU (Nobu) KOSHIBA  
Representative Director and President

In a difficult business environment, JSR has identified growth opportunities in each business. We are examining and selecting areas for allocation of enterprise resources. Nevertheless, our business vision is unchanged, and we will steadily invest in growth opportunities to realize the vision.



# The JSR Vision

The trends toward diversification and the formation of a multipolar world are expected to accelerate.

We see these environmental changes as opportunities to expand our corporate value through initiatives based on our business philosophy.

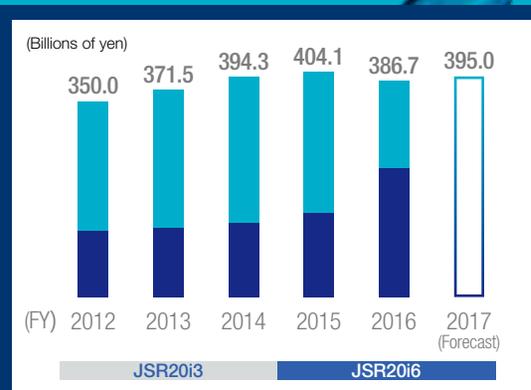
## Vision for 2020

- Establish a corporate structure resistant to changes.
- Build up competitiveness that enables us to achieve sustainable growth.
- Develop a third pillar of business.

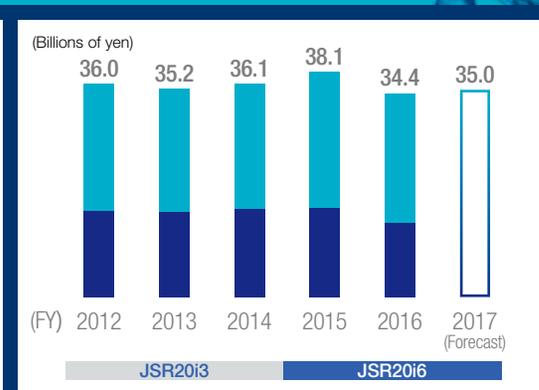
Become an esteemed company with ¥1 trillion market capitalization



Net Sales



Operating Income



■ Petrochemical Products Business □ Fine Chemical and Other Products Business

Note: FY means year ended March 31

Our Strategy

## To Our Shareholders

To what do you attribute the decline in revenues and income in fiscal year 2016?

**The main factor was greater than expected weakness in the demand environment for customers of our core businesses.**



Analysis of trends in JSR Group's key industries in the FY ended March 2016 indicates that while worldwide production of automobiles and tires increased slightly year on year, tire production in Japan slumped. Semiconductor production slowed abruptly as demand growth faltered and major production adjustments were implemented during the second half in the flat panel display (FPD) market. In addition, the yen strengthened at the fiscal year-end.

In this business environment, overall net sales in the Petrochemical Products Business segment declined year on year. In the Elastomers Business segment, although sales of Solution Styrene-Butadiene Rubber (SSBR) grew substantially, slumping domestic tire production had a significant negative effect on sales of other elastomers. In addition, the supply-demand balance in East Asia failed to improve due to a state of oversupply coupled with slowing demand growth, resulting in continued weakness in the elastomer products market. Operating income in the Petrochemical

Products Business fell year on year as an increase in operating income in the Plastics Business segment resulting from profitability improvement failed to compensate for a decline in operating income in the Elastomers Business segment. Net sales in the Fine Chemicals and Other Products Business segment increased year on year on a substantial increase in net sales in the life sciences area of the strategic business field, despite lower net sales in the Fine Chemicals business due to the impact of fluctuations in the FPD market. Operating income in the Fine Chemicals and Other Products Business segment declined year on year due to the significant impact of the net sales decrease in the Fine Chemicals business.

As a result, consolidated net sales in FY ended March 2016 were ¥386,709 million (down 4.3% year on year), operating income was ¥34,408 million (down 9.6%), and profit attributable to owners of parent was ¥24,069 million (down 19.6%).

Our Strategy

## To Our Shareholders

Will there be any changes in management policy in light of the current situation?

**Although our business vision remains unchanged, we will make course corrections in each business.**



In the 2000s, when the JSR20i3 mid-term management plan was launched, there was stable growth in the Petrochemical Products Business segment. We concentrated enterprise resources on the Fine Chemicals business, which benefited from an excellent market environment, as a growth driver. Even in those favorable circumstances, we foresaw market changes in the Fine Chemicals business and have invested cash flows generated during good times in areas offering prospects for market growth to prepare a third pillar of JSR Group's business portfolio. Nevertheless, from FY ended March 2015 to 2016 we anticipated continued low growth in our core businesses, the Petrochemical Products Business and Fine Chemicals business, and made course corrections in resource allocation. Although we were exploring next-generation growth scenarios in four areas, ultimately it was decided to concentrate enterprise resources on the life sciences business and develop it as a third pillar. From the time of the launch of JSR20i3 to the present, net sales have grown as a result of business scale expansion from these initiatives, selling, general and administrative expenses have increased simultaneously, and operating income has remained nearly flat.

In FY ending March 2017, the final year of JSR20i6, we anticipate continued low market growth and intensification of competition in the core businesses. Although our corporate vision will remain unchanged, we will examine business growth opportunities and carefully select areas for allocation of enterprise resources while preparing to reduce investment risk.

Our Strategy

## To Our Shareholders



What course corrections will be made to secure growth opportunities?

**We will review the balance between earnings opportunities and business costs and steadily develop growth sectors.**



The clearest answer will be to summarize our current operating policy. For the time being, we will not actively be making business investments, but rather pursuing steady growth.

In the Petrochemical Products Business, we will focus on SSBR, a product for which market growth is expected to continue. To accelerate global business expansion, we decided to augment supply capacity in a second phase of construction at JSR BST Elastomer Co., Ltd. (JBE) in Thailand and start up production in Hungary. These movements mark a shift to a policy of pursuing global expansion by leveraging JSR's technologies.

In the Fine Chemicals business, we have shifted from a global network of development sites and consolidated development at Yokkaichi, and our semiconductor materials have captured high market share in 20nm, 16nm, and 14nm node processes. The semiconductor industry is entering the multiple patterning era, and I think JSR occupies an advantageous position in the market. In our LCD materials business, while the business is developing favorably in China, it is not progressing in line with expectations in South Korea and Taiwan. We will pursue business cost reductions. With regard to strategic businesses, to turn around the lithium ion capacitor (LICs) business, we have withdrawn from the automotive market, where a certain level of demand existed, and will concentrate solely on high-output applications. In the life sciences area, positioned as JSR's third business pillar, MEDICAL & BIOLOGICAL LABORATORIES CO., LTD. (MBL) and KBI Biopharma, Inc. will act as drivers of value chain expansion.

By clearly defining a policy for each business in this way, we will pursue a balance between earnings opportunities and cost and make course corrections in preparation for growth over the medium to long term.

## To Our Shareholders

What is your thinking on capital strategy, including shareholder returns?

**We will take a flexible approach to shareholder returns, aiming for a gross payout ratio of 50% or higher.**

The Company considers its most important priority to be improvement of business results over the long term through reinforcement of research and development from a long-term perspective and measures to boost corporate competitiveness, such as new business development.

We will maintain continuous, stable dividend payments while taking into account business results and medium- and long-term capital requirements and considering the balance between shareholder returns and enhancement of internal reserves for future growth. We will flexibly make treasury stock purchases to supplement dividends as a form of shareholder return, taking into consideration the market environment. We will allocate internal reserves to a variety of investments that will lead to new growth and contribute to enhancement of corporate value. During the period of the JSR2016 mid-term management plan, we will aim for a gross payout ratio of 50% or higher through dividends and treasury stock purchases. The dividend per share for FY ended March 2016 was ¥50, up ¥10 from FY ended March 2015, and the dividend payout ratio was 47.2%. The gross payout ratio was 84.2%, substantially higher than the ratio of 64.5% in FY ended March 2015.

I request the continued support of our shareholders and investors in the years to come.



## Special Feature

# As a Third Pillar, Life Sciences Business

### Establishment of Business Unit and New Brand “JSR Life Sciences”

JSR has decided to develop the life sciences business as a third pillar. Therefore, JSR Life Sciences was established as a global business unit and given its own logo and brand identity in April 2016.



The new logo's selected colors were determined to be unique in the current marketplace, but the industry is clearly comfortable with blues and greens. JSR Life Sciences Bioprocess division has adopted the tagline of “Innovation from Lab Through Launch.” The new brand and business unit encompass all global life sciences-focused businesses and departments.

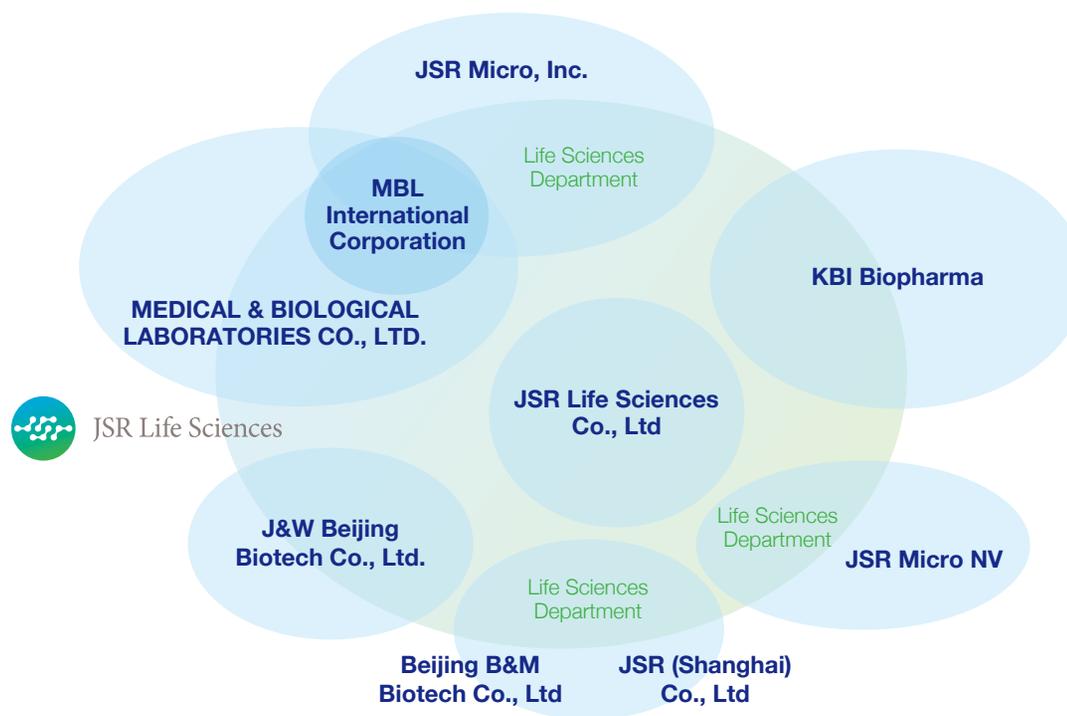
### Establishment of JSR-Keio University Medical and Chemical Innovation Center

Looking to the future and responding to the needs of clinical and medical research, we have agreed with Keio University to establish “JSR-Keio University Medical and Chemical Innovation Center” as a research base for manufacturers, academia, and medical researchers. The chemical materials researchers at JSR Group developing advanced materials and products can now work closely with Keio University School of Medicine, which is engaged in medical research ranging from

foundational to clinical. The joint research projects plans to cover the following fields: precision medicine, stem cell biology and cell based medicine, and designed medical

devices. The center will be constructed at Keio University in Tokyo, where Keio University Hospital resides. It is expected to begin operations from October 2017.

### JSR Group companies that collaborate to comprise JSR Life Sciences



# Special Feature

## JSR Life Sciences Global Structure

Together with JSR Group companies and strategic partners, JSR is engaging in diverse businesses ranging from seeds and functional materials to products meeting final needs in the

medical field. We have established an organizational framework for the biopharmaceutical and diagnostic/research reagent drug businesses and have newly established the Life Sciences Division in JSR. We also appointed an American as

the General Manager of JSR Life Sciences to oversee the business as a unified whole.

### Global Structure

#### J&W Beijing Biotech Co., Ltd.

\*JSR ownership: 75%

Established on Apr. 1, 2012

- Diagnostic reagent materials  
- Diagnostic intermediates  
(marketing/manufacturing/R&D in China)



#### Beijing B&M Biotech Co., Ltd

\*Subsidiary of MBL

- Diagnostic/research reagent material (distribution)
- Contract analysis/manufacturing of antigens



#### JSR Life Sciences Corporation

Established on Apr. 1, 2012

- Diagnostic/research reagent materials (manufacturing/distribution/R&D)
- Bioprocess materials (manufacturing/distribution/R&D)



#### JSR Micro, Inc.

- Diagnostic/research reagent materials (sales and marketing)
- Bioprocess materials (applications center of excellence, sales, marketing)



#### JSR Micro N.V.

- Diagnostic/research reagent materials (marketing in Europe)
- Bioprocess materials (marketing/material manufacturing/R&D)



#### MEDICAL BIOLOGICAL LABORATORIES CO., LTD.

\*JSR ownership as of Oct. 2015: 51%

- Research reagents/diagnostics (marketing/research/manufacturing)



#### Europe

- Advanced medical market

#### Asia

- Emerging countries market

#### Japan

- Particle material market

#### North America

- Advanced medical market

#### JSR Corporation

Establishment of Life Science Division in Apr. 2016

- Diagnostic & Research Reagents (marketing/overall management)
- Bioprocessing (marketing/overall management)  
(manufacturing/distribution/R&D)



#### MBL International Corp

\*JSR Micro, Inc ownership: 51%

- Research reagents/diagnostic (marketing/research/manufacturing)



#### KBI Biopharma, Inc.

\*JSR ownership since 2014: 51%

- Biopharmaceuticals (Contract analysis/manufacturing)

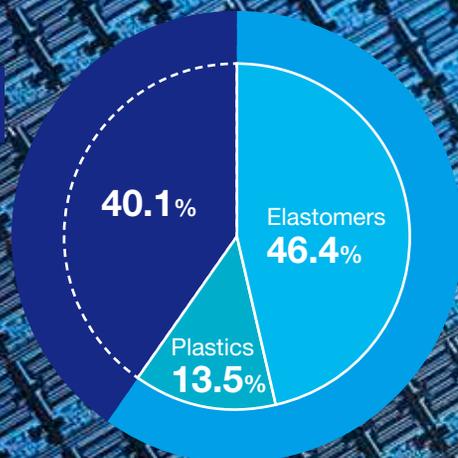


# Creating Corporate Value

The three strategic domains for JSR Group are Petrochemical Products, Fine Chemicals, and Strategic Businesses. In each of these areas, we are developing business activities based on medium- and long-term perspectives.

Revenue Breakdown by Business Segment

Fine Chemicals and Other Products Business

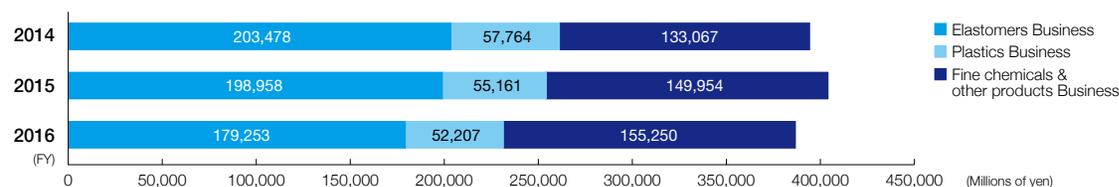


Petrochemical Products Business



# At a Glance

## Segment Sales



\* Note: FY means year ended March 31

### Petrochemical Products Business

#### Elastomers



##### General-Purpose Synthetic Rubbers

Solution Polymerization Styrene-Butadiene Rubber (SSBR), Emulsion polymerization Styrene-Butadiene Rubber (ESBR), Polybutadiene Rubber (BR)

##### Special-Purpose Synthetic Rubbers

Nitrile Rubber (NBR), Butyl Rubber (IIR) Ethylene-Propylene Rubber (EPM/EPDM)

##### Thermoplastic Elastomers (TPEs)

Syndiotactic 1, 2-Polybutadiene "JSR RB™"  
Hydrogenated Polymer "JSR DYNARON™"  
Styrene-Butadiene Thermoplastic Elastomers "JSR TR™"  
Styrene-Isoprene Thermoplastic Elastomers "JSR SIS™," etc.

##### Emulsion Products

Paper Coating Latex, SB Latex, Acrylic Emulsions, etc.

##### Performance Chemicals

High-Functional Dispersant "DYNAFLOW™"  
Organic/Inorganic Hybrid Coating Materials "GLASCA™"  
Battery Materials  
Thermal Management Materials

#### Plastics



##### Styrenic Resins

Acrylonitrile-Butadiene-Styrene (ABS) Plastic  
Acrylonitrile-Ethylene-Propylene-Styrene (AES) Plastic

### Fine Chemicals and Other Products Business

#### Fine Chemicals

##### Semiconductor Materials



##### Lithography Materials

Photoresists, multilayer materials, etc.

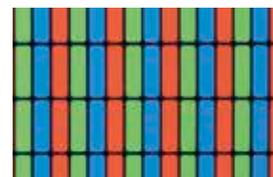
##### CMP (Chemical Mechanical Planarization) Materials

CMP slurries and pads

##### Packaging Materials

Thick-film photoresists, photosensitive insulation materials, etc.

##### Display Materials



##### LCD Materials

Alignment films, protective coatings, color pigment dispersed resists, photosensitive spacers, etc.

##### New FPD Materials

Optical Coatings, OLED, etc.

##### Optical Materials



##### Precision Materials and Processing Business

Heat-Resistant Transparent Resin "ARTON™"  
ARTON™ Optical Films, etc.

##### Optical Materials

UV Curing Optical Fiber Coatings, etc.

#### Strategic Businesses

##### Life Sciences Materials



##### in-vitro Diagnostic and Research Reagents

Beads for Clinical Diagnostics  
Research Reagents  
Magnetic Beads  
Size Standard Beads

##### Bioprocess Materials

Protein A affinity material  
Ion-exchange material

##### Lithium Ion Capacitors



##### Cells

Laminate Cell  
Prismatic Cell

##### Modules

Laminate Cell Module  
Prismatic Cell Module

# Petrochemical Products Business



## Elastomers

### Performance Overview

**-9.9%**

**¥179.3 billion**

Net Sales

**-30.2%**

**¥7.5 billion**

Operating Income

### The SSBR Business Strategy

In the Petrochemical Products Business, the butadiene-naphtha spread and the Company's business income are linked. The key factor that put downward pressure on the Group's overall income in FY ended March 2016 was first quarter and fourth quarter income in the Petrochemical Products Business. At this time, we forecast continuing market price stagnation in FY ending March 2017 and beyond.

- Year-on-year increase in automobile tire production in North America, China, and Europe; year-on-year decrease in Japan
- Year-on-year decrease in total elastomer sales volumes
- Significant increase in SSBR sales volumes thanks to the contribution from full-scale operation at JSR BST Elastomer Co., Ltd. (JBE), the joint venture in Thailand
- Year-on-year decrease in net sales on a decline in product prices accompanying falling raw materials prices and lower sales volumes

### Change in butadiene and naphtha prices

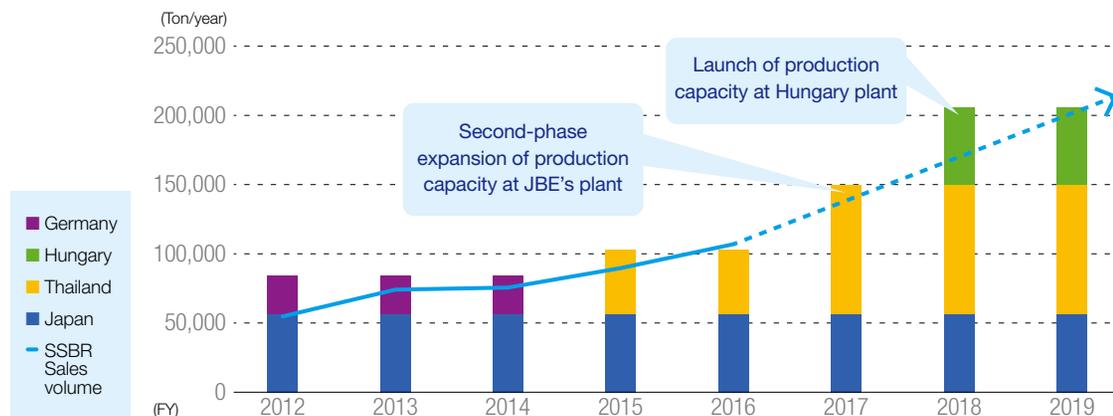


## Petrochemical Products Business

We also plan to increase supply capacity for SSBR, a product whose sales volume is steadily increasing, by 19% year on year in 2016 in a second phase of construction at JBE and also plan to start production in Hungary in 2018. In addition, our capacity utilization rate of nearly 100% is extremely high compared to other companies.

Production in Thailand started up behind schedule, due partly to manufacturing delays and partly to approval delays. Our SSBR is used in original equipment applications, and it took time to obtain approval from automakers. Because the product is used in original equipment, once approval has been obtained, demand can be expected to continuously increase. This is a business model that differentiates JSR from competitors. Future plans call for reinforcing the Group's sales bases in Europe, where SSBR demand will increase, and building a technical support system in China, where market needs exist. Although we are now introducing fourth-generation SSBR in Thailand, we are also establishing the technology for a fifth-generation product. In addition, we are working to introduce a product for the high-volume segment with the aim of increasing JSR's global market share for SSBR.

### Change in JSR's SSBR production capacity and sales volume



## Plastics

### Performance Overview

-5.4%  
**¥52.2 billion**  
 Net Sales

+80.0%  
**¥5.1 billion**  
 Operating Income

- Sales increase in Japan and overseas, despite a year-on-year decrease in domestic automobile production
- Year-on-year increase in sales volumes for industrial material applications due mainly to strong sales of materials for miscellaneous goods
- Year-on-year decrease in net sales as the sales volume increase failed to compensate for a decline in product prices accompanying falling raw materials prices
- Year-on-year increase in operating income from profitability improvement and higher sales volumes

### Preparing for a Leap Forward in Plastics

JSR, Ube Industries, and Mitsubishi Rayon are proceeding with integration of our ABS respective resins businesses through the merger of Techno Polymer, a wholly owned subsidiary of JSR, and UMG ABS, a company in which Ube Industries and Mitsubishi Rayon each holds a 50% equity interest. Due diligence is now underway. The three companies are proceeding with realignment of the synthetic resin industry to develop a business structure capable of stable supply into the future in the Japanese market, which is shrinking year by year. The aim is to actively pursue overseas sales expansion by combining the differentiated materials technologies of the merging companies.



# Fine Chemicals and Other Products Business

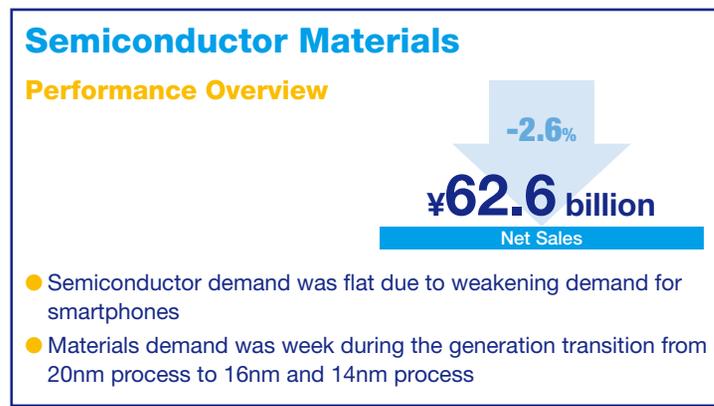
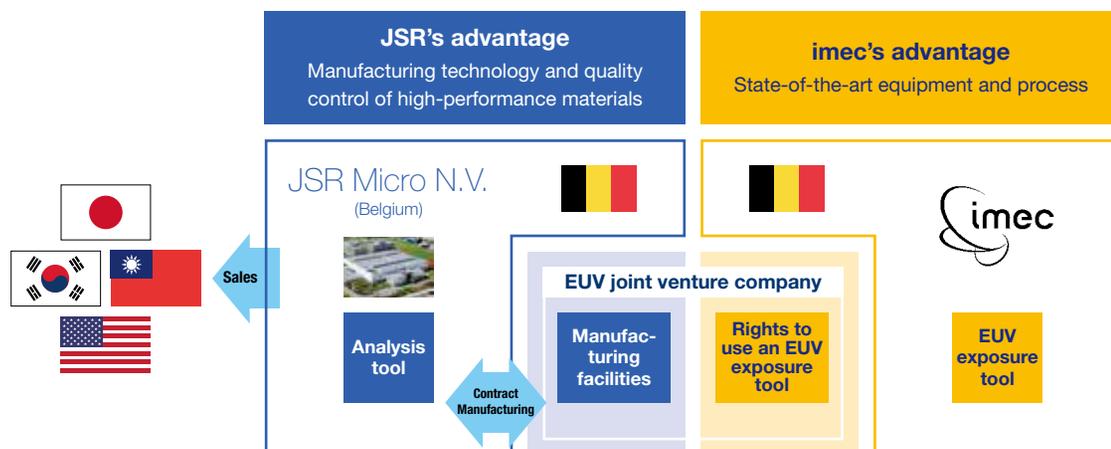


## Preparing for Commercialization of EUV Resists

In the Semiconductor Materials business, JSR lithography materials have captured a high market share in leading-edge 20nm processes, and we expect to keep the high share in next-generation 16nm and 14nm processes. Furthermore, we will focus on extreme ultraviolet (EUV) lithography materials. EUV lithography is expected to be a key technology that will

- Display materials business plunged sharply due to the demand slowdown of our customers
- Net sales of the life sciences business substantially expanded

## Image of an EUV joint venture company



## Fine Chemicals and Other Products Business

propel advancement of the semiconductor miniaturization and density growth predicted by Moore's law even in sub-10nm generations. In February 2016, JSR and imec, a world-leading nano-electronic R&D center, established joint venture company EUV Resist Manufacturing & Qualification Center N.V. (EUV RMQC). Investigation of practical application of EUV technology is gaining impetus in the semiconductor industry, and establishment of mass-production facilities and a quality assurance system is essential. EUV RMQC will leverage the key strengths of the JV partners, JSR's high-performance materials manufacturing technologies and quality control capabilities and imec's state-of-the-art equipment and processes, to provide EUV lithography materials technology to companies in the semiconductor industry that manufacture leading-edge devices.

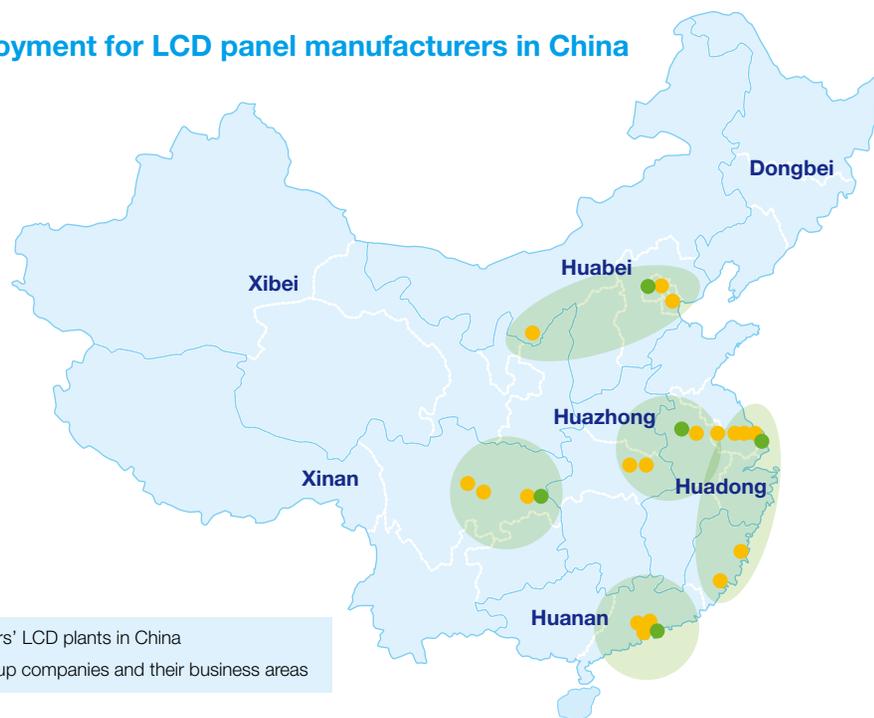
### Display Materials

#### Performance Overview



- Sudden slowdown in demand for large-screen TVs and multifunctional mobile devices from the second half onward
- Marked decline in selling prices due to intensifying competition

### Business deployment for LCD panel manufacturers in China



### Development of the Display Business in the Chinese Market

China's worldwide share of liquid crystal panel production is expected to exceed 20% in 2016. JSR entered the Chinese market, where continued high growth is expected, ahead of competitors and will proceed steadily with sales expansion in China. Specifically, we are constructing a plant at JSR Micro (Changshu) Co., Ltd. (JMCH), a joint venture established in China to manufacture display materials, and plan to start operation in 2016. In response to the commoditization of liquid crystal panels, we are working to secure business income through operational reforms and are pursuing expansion of the product line related to mobile products, from which continued growth can be expected. Furthermore, we will work to maintain income from the business overall through drastic structural reform of operations at each production site and aim to continuously expand the product portfolio.

# Fine Chemicals and Other Products Business

## Business Policies for Strategic Businesses

The Company will reposition its activities in the life sciences area, which has been positioned as a strategic business in the Fine Chemicals and Other Products Business segment, as a new pillar of the business portfolio comparable to the Fine Chemicals business. Building on our success in expanding the scale of this business, we will newly establish a Life Sciences Business Division and focus on two fields: bioprocess fields and diagnostic and research reagent fields. Although the importance of the Japanese market will not change, leading-edge technologies and markets in these fields are concentrated mainly in the United States and Europe. An American JSR senior officer will serve as general manager of the division and lead the business globally.

In the area of bioprocess materials, the Group will make efforts to increase KBI's contract development and manufacturing, biopharmaceuticals for which demand is growing year by year, in Europe as well as the United States. We will work to increase overseas sales of diagnostic and research reagent materials by leveraging the strengths of MBL. We are also considering entering new fields to further expand the business.

The diagnostic intermediates business of J&W Beijing Biotech Co., Ltd. (J&W), a joint venture in China, is also progressing steadily. In Japan, we are proceeding with construction of JSR-Keio University Medical and Chemical Innovation Center, a joint research facility with Keio University School of Medicine.

Although the Group completed construction of a new plant with the expectation of increasing sales in the lithium ion capacitors (LICs) business, JSR LICs were not adopted for high-volume applications. To turn the LICs business around, we have undertaken operating cost reductions and changed the market. We will aim to achieve profitability by focusing the business on applications where the ultra-low resistance, high voltage, and high durability characteristic of LICs can be expected to result in high added value.

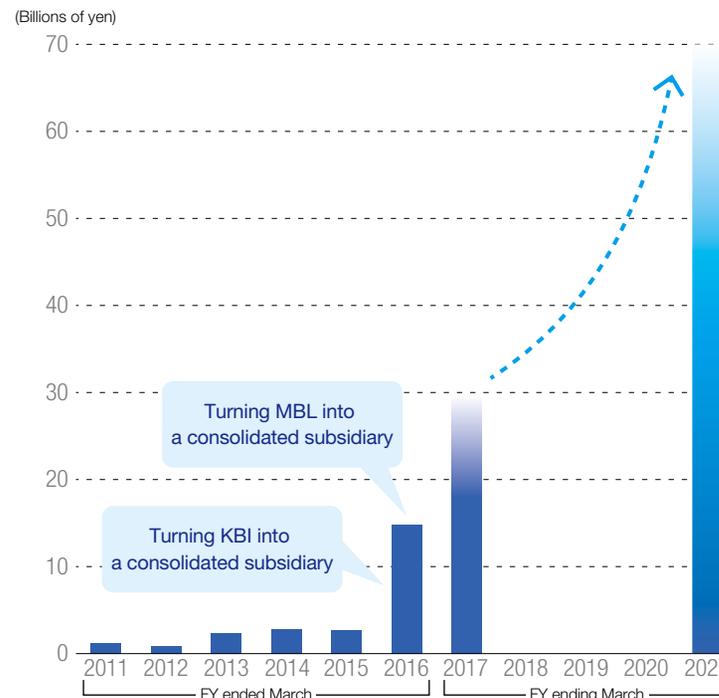
## Strategic Businesses

### Performance Overview



- Substantial increase in net sales due to the effect of two newly consolidated Group companies

## Sales of the Life Science Business



## R&D Policy and Organization



### We will use accumulated technologies to open up new fields of technology

We see our R&D achievements as keys that will unlock the future for JSR. We have consistently striven to enhance an R&D organization that has created many new high-performance materials based on our original technologies. JSR's involvement in the petrochemical field began at the time of our founding with elastomer technology. We have since developed our activities globally by creating highly competitive materials and technologies for a wide range of technology fields, including the seemingly disconnected area of IT. We have accumulated a record of continual research and development to expand business areas behind our main business. That is, not only to deepen our knowledge of our core polymer technology, but also to develop ways of combining it with other technical fields such as optics, inorganic chemistry, and precision processing technology. We continue to challenge ourselves to develop new fields that offer major growth potential, such as next-generation electronics, life sciences, environment, and energy.

### Number of Patents

The number of patents held by JSR is steadily increasing in Japan and overseas, mainly in the Fine Chemicals and Other Products Business.

As of March 31		2010	2011	2012	2013	2014	2015	2016
<b>Japan</b>	Petrochemical Products	374	377	387	358	334	308	303
	Fine Chemicals and Other Products	1,465	1,685	1,972	2,331	2,633	2,717	2,867
	Others	75	67	79	89	104	99	90
	Subtotal	1,914	2,129	2,438	2,778	3,071	3,124	3,260
<b>Overseas</b>	Petrochemical Products	492	489	507	523	516	531	545
	Fine Chemicals and Other Products	2,164	2,365	2,516	2,741	2,957	2,810	3,075
	Others	39	36	33	34	33	29	22
	Subtotal	2,695	2,890	3,056	3,298	3,506	3,370	3,642
<b>Total</b>	<b>4,609</b>	<b>5,019</b>	<b>5,494</b>	<b>6,076</b>	<b>6,577</b>	<b>6,494</b>	<b>6,902</b>	

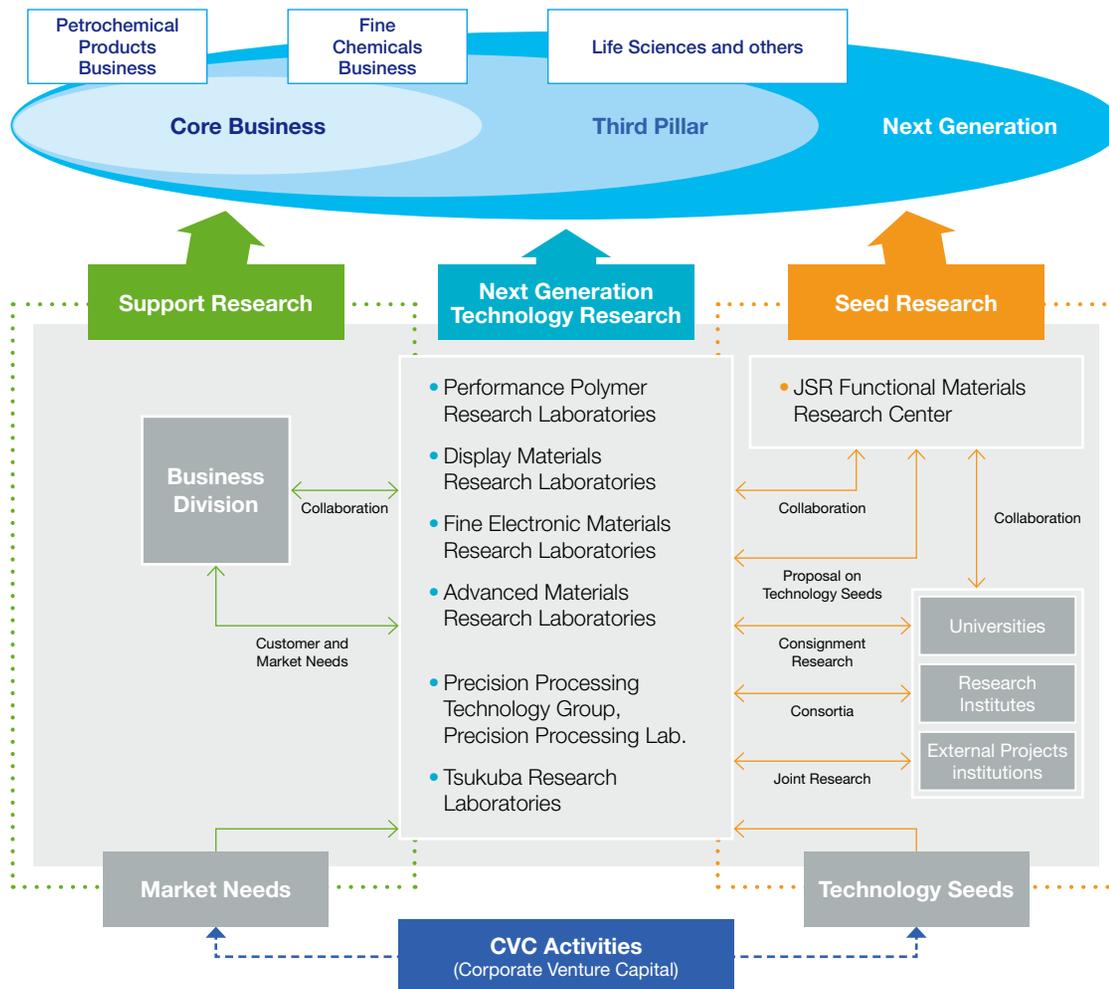
### Integrating R&D with business activities

After discovering seeds of innovation through our R&D activities, we need to link those seeds to actual business activities. Another example of the accelerating integration of R&D and business activities through direct interaction between our researchers and customers. The leading countries and regions for cutting-edge research vary according to every field such as elastomers, semiconductor materials, display materials, life sciences, environment, and energy. By locating our R&D and business sites in the most advanced areas, we are building a structure that will allow us to respond quickly to new trends. We also make extensive use of strategic investments and business partnerships to secure rapid access to the advanced specialist technologies and knowledge, and connect our businesses that we need for our next-generation business creation. We are evolving a structure that can provide new value to society by flexibly integrating R&D with business activities within JSR Group and beyond.

# R&D Policy and Organization

Creating materials for the future through materials innovation

## R&D Structure



## A Global Approach to Technology Innovation Centering on Four R&D Facilities in Japan

JSR currently has R&D facilities in Yokkaichi and Tsukuba in Japan. These R&D facilities support existing business activities while also helping to launch new businesses.

In our existing businesses, we are enhancing technical service support in a number of countries and constructing a system capable of providing timely support for customers' business promotion. To launch new businesses, they therefore participate in highly innovative and exploratory research initiatives with customers, domestic and international universities, and research institutes. Located within Kinki University's Molecular Engineering Institute, JSR Functional Materials Research Center is the focus of seed investigation and research in JSR Group. We have established JSR-Keio University Medical and Chemical Innovation Center, a joint research facility, within Keio University Shinanomachi Campus, and are conducting research relating to new medical fields to realize health and longevity.

JSR aims to become a corporate group that is essential to a wide range of stakeholders from its ability to create useful new value through its business activities. We will achieve this by integrating management based on our business philosophy with CSR as an indicator of the appropriateness of our business activities.



# Creating Sustainable Value





By integrating business management with CSR, we will generate income for society and JSR Group. We will also contribute to the creation of a sustainable society.



## Contributing to Society through Materials Innovation

JSR Group practices a unique brand of CSR. For us, CSR is becoming a company that continuously grows while contributing to society through the provision of essential materials and a company that discharges its responsibilities to stakeholders in accordance with the Corporate Mission.

### CSR Management

#### CSR Advancement Structure

JSR promotes CSR through a system of committees and a CSR Department established to reinforce CSR-related initiatives. There are four committees that function under the supervision of the CSR Committee: the Corporate Ethics Committee, which implements corporate ethics standards and works to prevent improper actions throughout the Group; the Responsible Care Committee, which works to realize a sustainable society through the implementation of initiatives that safeguard the environment, health, and safety; the Risk Management Committee, which seeks to further strengthen the Group's risk management system; and the Social Contribution Committee, which devises and promotes activities to help the Group make a contribution to society.

#### Compliance

JSR Group's concept of legal compliance is grounded in the principle of ethical action based on compliance with the law. The Corporate Ethics Committee promotes activities to encourage employees to maintain high ethical standards and act with fairness and integrity. We conduct a Corporate Ethics Awareness Survey at business sites in Japan and overseas to ascertain the state of awareness of corporate ethics among employees and identify issues and we prepare a follow-up plan to address any issues

identified in the survey. To strengthen compliance, in April 2013 we prepared the Compliance Handbook containing key points concerning laws and regulations to be observed and distributed it to all employees in Japan. In March 2015, JSR had issued a Korean compliance handbook based on Korean regulations and have distributed to JSR Group companies in Korea. We will thorough law compliance in Korea, too.

#### Risk Management

JSR Group considers preventing major crises from occurring and minimizing the effects of crises on business activities an important management priority and engages in risk management activities. Using an independently developed system, each division and Group company each year periodically identifies, assesses, and formulates countermeasures against a wide range of risks, including explosion, fire, major earthquake, and pandemic outbreak. We designate particularly serious risks as "major company-wide risks," and the Risk Management Committee and the CSR Committee manage improvement in risk management. JSR Holds crisis management training once a year, and our president directors the emergency headquarters. On FY ended March 2015, the training was held assuming that there was an earthquake under the capital of Japan (North of Tokyo bay). JSR will continue to prepare to ensure safety, reduce damage and continue business in case of serious crisis by various trainings.

## Contributing to Society through Materials Innovation

### Responsibility to Our Stakeholders

JSR's Group's Essential Elements include values to be shared among all JSR employees to enable them to act responsibly and with confidence towards all stakeholders. For JSR, the term "stakeholder" refers to all customers and business partners, employees, society, and shareholders.

### Responsibility to Customers and Business Partners

We believe that JSR Group's most important role is to offer innovative materials and excellent products that meet customer needs and contribute to a better society. We devote effort to initiatives to ensure the quality and safety of our products so that our customers can use them with peace of mind. These efforts are recognized and appreciated, and we have received top-rank supplier awards from global customers.

### Responsibility to Our Employees

JSR Group develops mechanisms and fosters a corporate culture that enables all employees to accurately recognize and solve issues and that maintains and enhances organizational capabilities. We have put in place JSR Group global personnel system and engage in personnel development and management at the Group and global levels. Throughout JSR Group, synergies are generated through the contributions of a diverse workforce.

### Responsibility to Society

JSR Group engages in responsible care management by means including the creation of highly trustworthy business sites and initiatives to reduce environmental impacts. We also engage in activities that contribute to development of a sustainable society, such as the promotion of biodiversity conservation and socially beneficial activities.

### Responsibility to Shareholders

Through investor relations activities, we strive to promptly and accurately communicate to shareholders and investors information about the business situation and corporate policies. We hold the Ordinary General Meeting of Shareholders at an early date, promptly send the notice of convocation to shareholders, enable the exercise of voting rights via the Internet, and take other measures to ensure smooth exercise of voting rights by shareholders. We hold quarterly results briefings, seminars for institutional investors and analysts, and technical seminars (JSR Tech Seminars) and promote wide-ranging two-way communication.

Aiming to increase corporate value by creating business opportunities through materials

- Constantly enhancing its management efficiencies
- Inspiring trust by being highly transparent and conducting sound corporate management practices
- In April 2009, JSR Group became a participant in the United Nations Global Compact. Amid growing calls for corporate social responsibility, the Global Compact enables companies that operate on a worldwide level to declare their commitment to observing the Compact's ten principles. The principles include human rights, labor, the environment, and anti-corruption. Having declared its participation in the Global Compact and its commitment to act responsibly as a member of the international community, JSR Group will work even harder to actively fulfill its social responsibilities.

## Contributing to Society through Materials Innovation

### JSR Recognized Internationally for Socially Responsible Investment

JSR has been selected for inclusion in three international indices and one investment universe for socially responsible investment (SRI).

In Japan, few companies are selected for inclusion in three indices.

Our selection proves that our corporate activities are highly valued around the world, and guarantees our value.

JSR has also been selected for inclusion in the Global Compact 100.

#### Recognition for Ethical Investment



##### **MS-SRI (Japan) \***

(January 4, 2016)

We have been selected as a member of the Morningstar Socially Responsible Investment Index, Japan's major SRI index, since 2009.



##### **FTSE4Good (U.K.)**

We have been listed in the FTSE4Good Index Series since 2004.



##### **EURONEXT Vigeo World 120 (France)**

We were selected as one of the top 120 global companies included in the Euronext Vigeo World 120 Index.



##### **ETHIBEL PIONEER & EXCELLENCE Investment Registers (Belgium)**

We have been reconfirmed for inclusion in the Ethibel Pioneer & Excellence Investment Registers since June 2015.

\* The Morningstar Socially Responsible Investment Index comprises 150 companies selected from among listed companies in Japan by assessing their social responsibility. This index does not guarantee future performance, accuracy, completeness, etc. Morningstar Japan K.K. and Morningstar, Inc. shall not bear any responsibility for damage that might result from use of the index. Copyright and all other rights rest with Morningstar Japan K.K. and Morningstar, Inc. Copies, reproductions, and citations without permission are prohibited.

# Corporate Governance System

## Aiming to Maintain a Trusted, Appealing Corporate Constitution

JSR is constantly improving its system of corporate governance with the aim of obtaining the trust of shareholders and all other stakeholders and building an appealing corporate constitution. We will strengthen and enhance our corporate governance to ensure that management processes are implemented fairly, transparently and promptly, by implementing initiatives targeting each of the items required under the corporate governance code.

Target Period: April 1, 2015—March 31, 2016

(Some parts include activities and initiatives conducted since April 2016)

### Strengthening Corporate Governance

#### 2004

- Term of office of directors reduced from two years to one year

#### 2005

- Introduction of the officer system
- Discontinuation of the retirement bonus system for directors and Audit & Supervisory Board members

#### 2011

- Invitation of two independent outside directors to its Board of Directors consisting of six directors

#### 2012

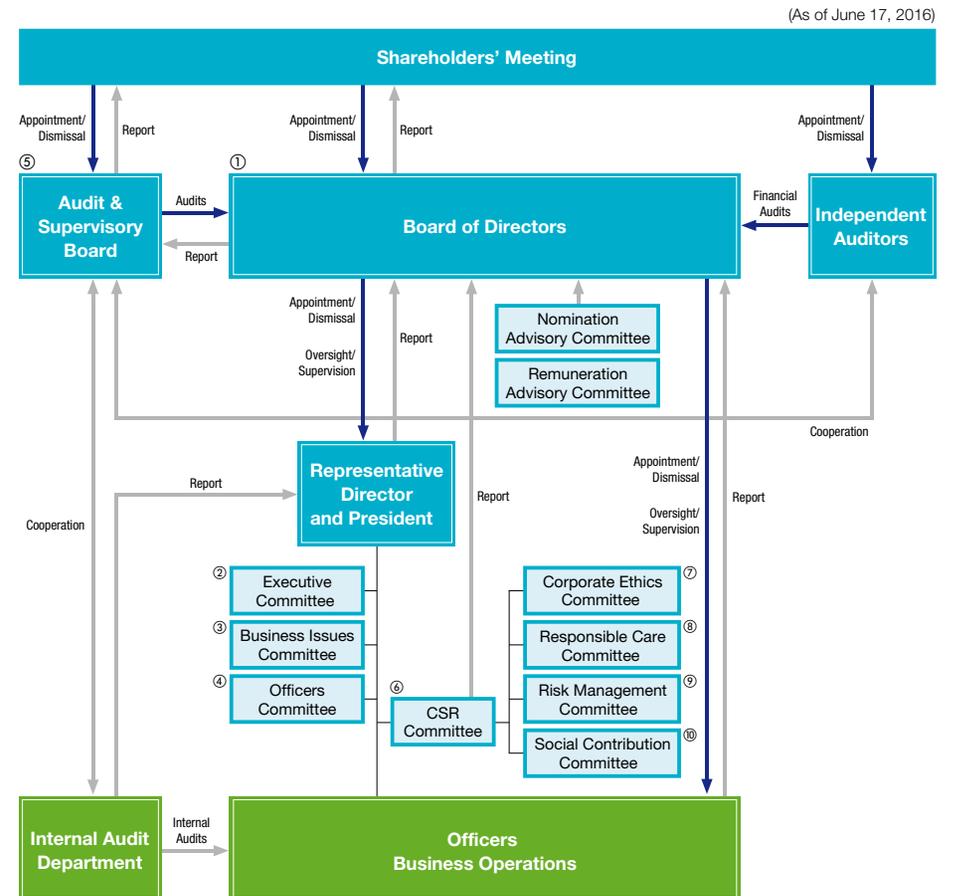
- Establishment of the Remuneration Advisory Committee, with participation by outside directors

#### 2014

- Appointment of three independent outside directors to its Board of Directors consisting of seven directors and appointment of two independent outside Audit & Supervisory Board members to its Audit & Supervisory Board consisting of three members

#### 2015

- Establishment of Nomination Advisory Committee of which majority members are outside directors in order to ensure the transparency of the policy and procedures of nominating candidates for directors and Audit & Supervisory Board members.
- Establishment of Remuneration Advisory Committee of which majority members are outside directors in order to ensure the objectivity and transparency of its directors' remuneration scheme.
- Introduction of Mid-term performance-based bonuses by using three years average of the consolidated ROE as performance evaluation reference.
- Disclosure of policies for cross shareholding, policies and procedures for nominating candidates for directors and Audit & Supervisory Board members, policies and procedures to determine remuneration for directors, and JSR's own criteria for judging independence for outside directors and Audit & Supervisory Board members.



# Corporate Governance System

## Directors and Corporate Auditors

(As of March 31, 2016)

Representative Director and President

**Mitsunobu Koshiba**

Representative Director

**Hozumi Sato**

Director

**Hisao Hasegawa**

**Hayato Hirano**

Standing Audit & Supervisory  
Board Member

**Shoichi Kataoka**

Outside Director

**Michio Kariya**

**Kazunori Yagi**

**Yuzuru Matsuda**

Outside Audit & Supervisory  
Board Member

**Hiroichi Uekusa**

**Hisako Kato**

## Officer System

Clear segregation of the management and business execution functions

JSR has introduced an officer system to separate Company-wide management monitoring by directors and business execution by officers. The system accelerates decision-making from the functions of business execution by directors and officers, respectively, and also strengthens the supervisory function of directors and clarifies roles and responsibilities.

## Audit System

Enhancement of the management monitoring function and assurance of transparency

Under the Company's audit system, business execution audits and account audits make significant contributions to fair, transparent, and timely management. Business audits cover the execution of duties by directors, and account audits cover financial statements submitted at Ordinary General Meetings of Shareholders. In order to further enhance monitoring and checking functions of its Audit & Supervisory Board, the Company appoints independent attorney and certified public accountant as outside Audit & Supervisory Board member.

## Internal Control System

Efforts to ensure the effectiveness of and improve internal controls

In accordance with The Companies Act of Japan, JSR Group has established a basic policy governing its internal control system. Guided by this policy, the Company works to strengthen and augment its internal controls. The Internal Audit Department systematically audits business execution and compliance systems in each division and Group company, and confirms that rigorous legal compliance is observed throughout the Group.

### Board of Directors

Management decisions that reflect outside opinions

The Board of Directors discusses and makes decisions on important business matters, and also supervises directors and officers' execution of business duties. The Board holds meetings monthly, in principle. It also includes three outside directors who, together with three Audit & Supervisory Board members (including two outside ones) engage in robust exchanges of opinions at Board meetings. By introducing independent and neutral outside directors with extensive business experience, we seek to reinforce the appropriateness of judgments made by management and monitor the legality of their execution of duties.

## Corporate Governance System

### Outside Directors (As of March 31, 2016)

The Company has appointed three outside directors in order to further reinforce the monitoring function of the Board of Directors. By welcoming outside directors with extensive experience and highly impartial, neutral perspectives, we will ensure more appropriate management decision-making and reinforce our ability to monitor the legality of business execution.

#### Michio Kariya

Michio Kariya served as president, CEO and COO of Nikon Corporation and is currently a executive advisor. Mr. Kariya has extensive experience in the management of Nikon, a globally renowned optical equipment company. He has helped strengthen corporate governance by deploying this experience to ensure reasonable judgments by management from external, independent and neutral perspectives, as well as management transparency and soundness. For this reason, Mr. Kariya has been named an outside director, as he was in the previous year.



#### Major activities in the year under review

Mr. Kariya participated in all 16 meetings of the Board of Directors held during the year under review, at which he contributed amply to fair and reasonable management decisions and transparent and sound management by addressing the Board as appropriate concerning matters under discussion. Mr. Kariya brought to the Board an independent outside perspective based on his extensive experience in the management of a company that operates an international business in optical machinery and equipment.

#### Kazunori Yagi

Kazunori Yagi is a corporate advisor for Yokogawa Electric Corporation. Mr. Yagi has extensive experience in the management of Yokogawa Electric, a globally renowned producer of control systems and measurement instruments. JSR anticipates that Mr. Yagi will help strengthen corporate governance by deploying this experience to ensure reasonable judgments by management from external, independent and neutral perspectives, as well as management transparency and soundness. For this reason, Mr. Yagi has been named an outside director as he was in the previous year.



#### Major activities in the year under review

Mr. Yagi participated in all 16 meetings of the Board of Directors held during the year under review, at which he contributed amply to fair and reasonable management decisions and transparent and sound management by addressing the Board as appropriate concerning matters under discussion. Mr. Yagi brought to the Board an independent outside perspective based on his extensive experience in the management of a company that operates an international business in control systems and measurement instruments.

#### Yuzuru Matsuda

Yuzuru Matsuda has served as the President and COO of KYOWA HAKKO KOGYO CO., LTD and Kyowa Hakko Kirin, Co. Ltd. Mr. Matsuda has vast experience in corporate management of global companies, especially in the field of medical products and biochemicals. Mr. Matsuda also possesses an independent perspective as an outside director. Mr. Matsuda has utilized his experiences and independent viewpoints to assist the Company in making crucial decisions, to supervise the Company at the Board



## Corporate Governance System

of Directors level, and to strengthen the fair corporate governance through enhancement of objective and reasonable business judgment and transparent and sound management. For this reason, Mr. Matsuda has been named an outside director as he was in the previous year.

### Major activities in the year under review

Mr. Matsuda participated in all 12 meetings of the Board of Directors held during the year under review after his appointment as a director. Mr. Matsuda has greatly contributed to continuous improvement of corporate value by ensuring reasonable judgment for, and accountable and sound management of, the businesses of the Company, by utilizing the range of his knowledge and vast experience on management of companies in the major global industries of medical products and biochemicals, and by providing necessary appropriate advice, as well as a neutral and independent viewpoint, at the Board of Directors meetings.

### ② Executive Committee

#### Rapid response to changes in the business environment

The Executive Committee holds extensive discussions on items concerning fundamental management initiatives, management policies, and management plans, along with important matters concerning the execution of business activities at each department. The committee thus gives direction concerning these issues. As required, certain items submitted to this committee are passed on to the Board of Directors for further discussion.

This committee is made up of the president, officers with directorship status, and officers appointed by the president, and responds to important business execution with the aim to expedite decision-making and improve the efficiency of such operations. As a rule, this committee meets once a week, and is chaired by the president. The standing Audit & Supervisory Board member also attends these committee meetings.

### ③ Business Issues Committee

#### Review of policies and strategies for individual projects

The Business Issues Committee engages in broad-ranging debate about items related to fundamental management policies and policies strategies, basic policies behind specific projects, and changes to business strategies. It also shares information to ensure a common understanding of such matters and discusses company directions. Its findings are reflected in deliberations of the Board of Directors and the Executive Committee. The Business Issues Committee, which meets once a week, consists of the president, officers with directorship status, and officers appointed by the president.

### ④ Officers Committee

#### Sharing of information on business conditions and issues

This committee is held in order to share information from all departments concerning the execution of business activities, to ensure members' thorough understanding of important business matters and to enhance their communications. This committee consists of the president, senior officers, officers and a standing Audit & Supervisory Board member, except overseas representatives. As a rule, this committee meets twice a month and is chaired by the president.

### ⑤ Audit & Supervisory Board

#### Auditing by specialists in an independent position

This Board meets every month as stipulated in the regulations governing this body. The Audit & Supervisory Board receive reports on important matters, hold discussions, and make decisions.

In accordance with standards for audits by Audit & Supervisory Board members of the Company, the Audit & Supervisory Board members attend meetings of the Board of Directors, and the standing corporate auditor attends Executive Committee and other important committee meetings to monitor how important decisions are reached and business activities are executed. The Audit & Supervisory Board

## Corporate Governance System

members also receive reports from the independent auditors, directors, and others. Through these activities, the Audit & Supervisory Board holds deliberations in order to form auditing opinions.

### Outside Audit & Supervisory Board Members

To ensure the fairness and transparency of management, the Company appoints one standing Audit & Supervisory Board members, as well as two outside Audit & Supervisory Board member. The outside Audit & Supervisory Board members have no personal, financial, or business interests in the Company. They are called upon to ensure the sound governance of the Company while drawing on their respective careers.

#### Hiroichi Uekusa

Hiroichi Uekusa has vast experience as a lawyer and does not concurrently hold the position of director in another company. Mr. Uekusa contributes to ensuring reasonable judgments by management, as well as management transparency and soundness by auditing the Company from a position of independence while drawing on the extensive knowledge and experience in legal matters he possesses as an attorney.



#### Major activities in the year under review

Mr. Uekusa attended all 16 meetings of the Board of Directors and all 18 meetings of the Audit & Supervisory Board held during the year under review. He contributed amply to the auditing of the Company and to fair and reasonable management decisions and transparent and sound management by addressing the Board of Directors and Audit & Supervisory Board as appropriate concerning matters under discussion. Mr. Uekusa brought to both boards an independent outside perspective based on his extensive experience as an attorney at law and his expert knowledge in a broad range of legal matters.

#### Hisako Kato

Hisako Kato as a Certified Public Accountant both in Japan and U.S. and a Certified Tax Accountant greatly contributes to further enhance its corporate governance by providing fair and reasonable judgment for, and accountable and sound management of, the businesses of the Company through utilization of her range of professional knowledge and vast experience on counting and tax matters, as well as independent and neutral view point as an independent outsider.



#### Major activities in the year under review

Ms. Kato attended all 16 meetings of the Board of Directors and all 18 meetings of the Audit & Supervisory Board held during the year under review. She contributed amply to the auditing of the Company and to fair and reasonable management decisions and transparent and sound management by addressing the Board of Directors and Audit & Supervisory Board as appropriate concerning matters under discussion. Ms. Kato brought to both boards an independent outside perspective based on her extensive experience as a certified public accountant, certified public tax accountant and her expert knowledge in a broad range of finance and accounting.

#### ⑥ CSR Committee

##### Implementation of CSR activities and rigorous compliance

The CSR Committee was established to ensure that JSR fulfills its responsibilities to society and complies with laws and regulations. Under the CSR Committee, four committees were established: the Corporate Ethics Committee, the Responsible Care Committee, the Risk Management Committee, and the Social Contribution Committee. The CSR Committee integrates and guides the activities of the above four committees and meets four times each year along with special meetings as necessary to further strengthen the Company's CSR efforts.

## Corporate Governance System

The CSR Committee is chaired by the officer responsible for CSR and consists of officers responsible for manufacturing, manufacturing technology, environment & safety, R&D, human resources development, accounting & financing, corporate planning, corporate communication, legal, general affairs, petrochemicals businesses, fine businesses and life sciences businesses and secretaries of the four committees listed above also attend meetings of the CSR Committee. The Committee clarifies the Company's stance toward CSR and works to strengthen CSR efforts at JSR.

### ⑦ Corporate Ethics Committee

#### Promotion of ethical business activities group-wide

The Corporate Ethics Committee, chaired by the officer in charge of general affairs, was established under the CSR Committee to implement corporate ethics standards and prevent improper actions throughout JSR Group. JSR Group Principles of Corporate Ethics have been prepared to provide a code of conduct for executives and employees. It is also prepared in Traditional Chinese, Thai, and Korean, in addition to English and Simplified Chinese, so that Group employees all over the world can become better acquainted with the Principles. As for the reporting system, along with the internal hotline linked to the Corporate Ethics Committee and the external hotline linked to an external attorney, JSR introduced a hotline that is linked to a specialized external agency and is also available in English, Chinese, Korean and Thai.

### ⑧ Responsible Care Committee

#### Working to enhance safety, the environment, and quality

JSR conducts a Responsible Care program to fulfill its obligations to achieve sustainable development. The Responsible Care Committee was established under the CSR Committee to ensure that Responsible Care activities are conducted effectively across the entire company. The committee is chaired by the officer for safety and environmental affairs, demonstrating Responsible Care position as a core component of JSR's

management. This committee approves Responsible Care plans, evaluates and verifies results of activities, and helps to maintain and upgrade JSR's programs to eliminate accidents, reduce environmental impact, manage chemical substances, and ensure safety of products. Details and results of Responsible Care activities are disclosed through the CSR Report and Responsible Care Reports prepared by Yokkaichi plant.

The CSR Report is audited by a third party to improve the reliability and transparency of the content. Through these activities, the committee is dedicated to winning greater trust from customers and addressing any concerns among residents in the neighborhoods of JSR's facilities.

To make the information widely available, the CSR Report is posted on the JSR website ([http://www.jsr.co.jp/jsr\\_e/csr/](http://www.jsr.co.jp/jsr_e/csr/)).

### ⑨ Risk Management Committee

#### Further strengthening risk management systems

JSR places strong management priority on preventing serious crises from occurring and on minimizing the impact of crises that do occur on its business activities. To this end, the Company established the Risk Management Committee under the CSR Committee, with the officer responsible for Corporate Planning as chair. The Committee decides policies and plans in response to crises, both present and potential, and promotes continuous improvement.

### ⑩ Social Contribution Committee

#### Examining and promoting socially beneficial activities

The Social Contribution Committee was established under the CSR Committee and is chaired by the officer responsible for Corporate Communications. JSR has been involved in many activities that contribute to society at the local level. JSR will expand its activities to cover the whole society and provide more active approaches. The Social Contribution Committee studies the formulation of new programs and pursues initiatives according to its "Basic Approach to Social Contribution," published in January 2009.

## Corporate Governance System

### Status of Internal Audit, Audits by Audit & Supervisory Board Members and Financial Audits

#### Management oversight from various perspectives

JSR has adopted the Audit & Supervisory Board member system. There are three Audit & Supervisory Board members, including two from outside JSR Group. These auditors are staffed by one individual. Audits are performed as described in the section concerning the Audit & Supervisory Board.

The Audit & Supervisory Board members work closely with the independent auditors. The Audit & Supervisory Board members receive reports on the financial accountant's audit plan and audit results. Furthermore, the Audit & Supervisory Board members and financial accountants exchange information and opinions as necessary in the course of each fiscal year. The internal audit has been conducted by the Internal Audit Department as a specialized internal auditing unit. The Audit & Supervisory Board members receive reports on the audit plan and audit results from the Internal Audit Department regularly, exchange opinions, and enhance the auditing system.

### Nomination

#### Deliberation on nominations for corporate officers by the Nomination Advisory Committee

JSR established the Nomination Advisory Committee of which majority members are independent outside directors in order to ensure the transparency of the policy and procedures of nominating candidates for directors and Audit & Supervisory Board members. The committee deliberates criteria for ensuring the diversity in breadth of knowledge, experience, and capability as well as the size necessary for the Board of Directors, criteria and procedures for the nomination, and candidates for future president, directors, officers with directorship status (including senior officers), and Audit & Supervisory Board members, and submits its findings to the Board of Directors.

### Remuneration

#### Deliberation on remuneration for corporate officers by the Remuneration Advisory Committee

The remuneration of the Company's directors consists of a basic salary, a bonus based on consolidated performance for the year, and stock options that serve as a long-term incentive. The level of remuneration is commensurate with the Company's business results and is compared with those of other companies in the same industry and of similar size. The total limit for monthly salaries is decided by resolution at the Ordinary General Meeting of Shareholders. Performance-based bonuses and stock options are also approved by resolution at the Ordinary General Meeting of Shareholders. Total remuneration paid in FY ended March 2016, was ¥196 million, paid to eight directors, including four outside directors. Audit & Supervisory Board members are paid a basic fixed salary that is not performance-based. In FY ended March 2016, total salaries paid to Audit & Supervisory Board members amounted to ¥43 million, including ¥28 million paid to internal Audit & Supervisory Board members and ¥15 million to outside Audit & Supervisory.

The Company recently established the Remuneration Advisory Committee of which majority members are independent outside directors. The Committee deliberates about matters such as the basic remuneration policies, the remuneration system, and the annual bonus scheme and reports to the Board of Directors.

# Directors, Audit & Supervisory Board Members, and Officers

(As of June 17, 2016)

## Directors and Audit & Supervisory Board Members



Chairman of the Board  
**Hozumi Sato**



Representative Director  
and President  
**Mitsunobu Koshiba**



Representative Director  
**Koichi Kawasaki**



Director  
**Nobuo Kawahashi**



Director  
**Takao Shimizu**



Standing Audit &  
Supervisory Board Member  
**Atsushi Kumano**



Outside Director  
**Kazunori Yagi**



Outside Director  
**Yuzuru Matsuda**



Outside Director  
**Shiro Sugata**



Outside Audit &  
Supervisory  
Board Member  
**Hiroichi Uekusa**



Outside Audit &  
Supervisory  
Board Member  
**Hisako Kato**

## Officers (\*Directors)

Executive Managing Officer  
**Koichi Kawasaki\***  
Procurement, Logistics, Manufacturing and  
Technology, Product Safety & Quality  
Assurance, Safety and Environment Affairs,  
General Manager of Manufacturing and  
Technology Group

Managing Officer  
**Nobuo Kawahashi\***  
Research & Development

Managing Officer  
**Hayato Hirano**  
Petrochemical Products Sector (including  
Plastics), General Manager of Petrochemical  
Products Div., President of Techno Polymer  
Co., Ltd. and Japan Butyl Co., Ltd.

Managing Officer  
**Katsuya Inoue**  
Business Planning and Business Develop-  
ment, Fine Chemical Business, General  
Manager of Business Planning and Fine  
Chemical Business, Chairman of JSR Micro  
(Changshu) Co., Ltd.

Senior Officer  
**Takatoshi Nagatomo**  
President of JSR MOL Synthetic Rubber Ltd.

Senior Officer  
**Takeshi Sugimoto**  
Electronic Materials Business, General  
Manager of Electronic Materials Division

Senior Officer  
**Eric Johnson**  
Life Science, North America Business,  
General Manager of Life Science Division,  
President of JSR Micro, Inc.

Senior Officer  
**Takao Shimizu\***  
Office of President, Accounting, Finance,  
Corporate Communications, IT Strategy,  
General Manager of Office of President

Senior Officer  
**Tsuyoshi Watanabe**  
China Business, Chairman of JSR (Shanghai)  
Co., Ltd.

Senior Officer  
**Kazumasa Yamawaki**  
Petrochemical Products Sector (deputy),  
Deputy General Manager of Petrochemical  
Products Division, General Manager of  
Business Planning Department, Petrochemi-  
cal Products, President of KRATON JSR  
ELASTOMERS K. K., Director of JSR  
Elastomer Europe GmbH

Senior Officer  
**Makoto Doi**  
Legal, General Affairs, CSR, General  
Manager of Legal Department

Officer  
**Eiichi Kobayashi**  
Executive Vice President of JSR Micro, Inc.

Officer  
**Hiroaki Nemoto**  
LCD Materials Business, Display Solution  
Business, General Manager of Display  
Solution Division, General Manager of Display  
Materials Research Laboratories, Represen-  
tative Director of JSR Micro Korea Co., Ltd.

Officer  
**Yoichi Mizuno**  
Optical Materials Business, General Manager  
of Optical Materials Division

Officer  
**Kiichiro Kamiya**  
Life Science (deputy), Deputy General  
Manager of Life Science Division, President  
of JSR Life Sciences Corporation, Director of  
MEDICAL & BIOLOGICAL LABORATORIES  
CO., LTD.

Officer  
**Mika Nakayama**  
Corporate Planning, Diversity Development,  
Group Companies Coordination, General  
Manager of Corporate Planning, General  
Manager of Diversity Development Office,  
General Manager of Group Companies  
Coordination Department

Officer  
**Yoshikazu Yamaguchi**  
General Manager of Department of Business  
Development for Fine Chemicals

Officer  
**Koichi Saeki**  
Yokkaichi Plant, Yokkaichi Plant Manager

Officer  
**Kazushi Abe**  
President of ELASTOMIX CO., LTD.,  
President of ELASROMIX (FOSHAN) CO.,  
LTD., The Chief Director of JSR Group  
Corporate Pension Fund

Officer  
**Seiji Takahashi**  
Manufacturing and Technology (deputy),  
General Manager of Yokkaichi Plant  
Production Department III, General Manager  
of Manufacturing & Technology Group, SSBF  
Global Manufacturing & Technology  
Management Dept.

Officer  
**Yasufumi Fujii**  
Human Resources, General Manager of  
Human Resources Development Depart-  
ment, The Chief Director of JSR Health  
Insurance Society, The Chief Director of JSR  
Pension Fund



**HEAD OFFICE**

**JSR Corporation**

1-9-2, Higashi-Shimbashi, Minato-ku, Tokyo 105-8640, Japan

**BRANCH OFFICES**

**Nagoya Branch**

**Taiwan Branch**  
**Singapore Branch**

**PLANTS**

**Yokkaichi Plant**

100 Kawajiri-cho Yokkaichi, Mie 510-8552, Japan

**Chiba Plant**

5, Chigusaigaan, Ichihara, Chiba 229-0108, Japan

**Kashima Plant**

34-1, Tohwada, Kamisu, Ibaraki 314-0102, Japan

**JAPAN**

**Elastomers Business**

**ELASTOMIX CO., LTD.**

Compounding of crude rubber and sales of compounded products.

**Japan Butyl Co., Ltd.**

Production, processing, and sales of butyl rubber.

**KRATON JSR ELASTOMERS K. K.**

Production, purchase, and sales of thermoplastic rubber.

**Emulsion Technology, Co., Ltd.**

Production and sale of acrylic emulsions, latex processed products including CL, adhesives, and cement admixture.

**Plastics Business**

**Techno Polymer Co., Ltd.**

Production, sales, and R&D of synthetic resin.

**JAPAN COLORING CO., LTD.**

Coloring of synthetic resin and sales of colored products.

**Fine Chemicals and Other Products Business**

**D-MEC LTD.**

Commissioned generation of 3D models, sales of solid modeling systems, and optically-hardened resins, and commissioned analysis by CAE.

**JSR Micro Kyushu Co., Ltd.**

Production of photoresist, semiconductors, and materials for displays.

**JSR Optech Tsukuba Co., Ltd.**

Production of UV curing type optical fiber coating materials.

**JAPAN FINE COATINGS Co., Ltd.**

Sales of coating materials for fiber-optic cables reinforced by ultraviolet or electron radiation and for other apparatus.

**JM Energy Corporation**

Development, manufacturing, and sales of lithium ion capacitors and modules.

**JSR Life Sciences Corporation**

Production and sales of life science related materials.

**MEDICAL & BIOLOGICAL LABORATORIES CO., LTD.**

Research, development, manufacturing, and sales of diagnostic and research reagents.

**ORGANOGENIX, Inc.**

Sales of three-dimensional (3D) cell culture plates, technology development, commissioned business, and consulting related to 3D cell culture.

**Business in Other Fields**

**JSR Trading Co., Ltd.**

Export, import, purchase, and sales of the following: various chemicals, machinery, equipment, physical distribution materials, living necessities, foodstuffs, beverages, and non-life insurance.

**JEY-TRANS CO., LTD.**

Freight forwarding, warehousing, and delivery management.

**JSR Logistics & Customer Center Co., Ltd.**

Customer service agent and logistics management.

**JSR ENGINEERING CO., LTD.**

Engineering and consultation for chemical engineering equipment.

**JSR Business Services Co., Ltd.**

Undertaking of general affairs, accounting, payroll calculation, and welfare.

**JN System Partners Co., Ltd.**

Computer system design, programming and system operation, and maintenance.

**CMIC JSR Biologics Co., Ltd.**

Developing design and manufacturing processes for next-generation antibodies

**OVERSEAS**

**Elastomers Business**

**Kumho Polychem Co., Ltd.(\*)**

Production and sales of ethylene-propylene rubber (EPR).

**ELASTOMIX (THAILAND) CO., LTD.**

Compounding of crude rubber and sales of compounded products.

**PT.ELASTOMIX INDONESIA**

Compounding of crude rubber and sales of compounded products.

**ELASTOMIX (FOSHAN) CO., LTD.**

Compounding of crude rubber and sales of compounded products.

**Tianjin Kuo Cheng Rubber Industry Co., Ltd.**

Compounding of crude rubber and sales of compounded products.

**JSR BST Elastomer Co., Ltd.**

Sales and manufacturing of SSBR (Solution Polymerization Styrene-Butadiene Rubber).

**JSR MOL Synthetic Rubber, Ltd.**

Sales and manufacturing of Solution Polymerization Styrene-Butadiene Rubber (SSBR).

**JSR Elastomer Korea Co., Ltd.**

Sales agency of products such as synthetic rubbers.

**JSR Elastomer Europe GmbH**

Sales agency of products such as synthetic rubbers.

**Plastics Business**

**Techno Polymer Hong Kong Co., Ltd.**

Sales and technical services of synthetic resin in Hong Kong and neighboring regions.

**Techno Polymer (Thailand) Co., Ltd.**

Sales and technical services of synthetic resin in ASEAN region.

**Techno Europe N.V.**

Sales and technical services of synthetic resin in Europe.

**Techno Polymer (Shanghai) Co., Ltd.**

Sales and technical services of synthetic resin in China.

**Techno Polymer Shanghai Technical Development Co., Ltd.**

Production and processing of plastics and technical services related to plastics in China.

**Techno Polymer Guangzhou Co., Ltd.**

Sales and technical services of synthetic resin in Guangzhou and neighboring regions.

**TECHNO POLYMER AMERICA, INC.**

Sales of plastics and technical services related to plastics in North America.

**Fine Chemicals and Other Products Business**

**JSR Micro N.V.**

Production and sales of semiconductor materials.

**JSR Micro, Inc.**

Production and sales of semiconductor materials.

**JSR Micro Korea Co., Ltd.**

Production, development, and sales of display materials and semiconductor materials.

**JSR Electronic Materials Korea Co., Ltd.**

Sales agent for semiconductor materials.

**JSR Micro (Changshu) Co., Ltd.**

Production of display materials.

**JSR Micro Taiwan Co., Ltd.**

Production, development, and sales of display materials.

**EUV Resist Manufacturing & Qualification Center N.V.**

EUV Resist Manufacturing (Production & Quality Control)

**JSR (Shanghai) Co., Ltd.**

Sales agency of products such as synthetic rubber, semiconductor materials, liquid crystal display materials, and performance chemicals.

**J&W Beijing Biotech Co., Ltd.**

R&D of intermediate diagnostics, wholesale of intermediate diagnostics, processed goods, electronic products, and hardware. Import and export of cargo, commission agency services (exclude auction), assignment of technologies, consulting, and services.

**KBI Biopharma, Inc.**

Biopharmaceutical contract development and manufacturing services.

**JSR Trading, Inc.**

Purchases and sales of synthetic rubber.

**JSR Trading (Shanghai) Co., Ltd.**

Export, import, and purchases of industrial-use chemical products.

**JSR Trading Bangkok Co., Ltd.**

Exports and imports, purchase and sales of chemicals and testing machinery.

## Corporate Data

(As of March 31, 2016)

### JSR Corporation

#### Established

December 10, 1957

#### Capital (Common Stock)

¥23,320 million

#### Employees

6,587

#### Closing date

JSR books are closed on March 31, each year.

### Shareholders Information (As of March 31, 2016)

#### Stock Listing

Tokyo Stock Exchange

#### Number of Shares Issued

226,074,545 shares

#### Number of Shareholders

17,449

#### Major Shareholders

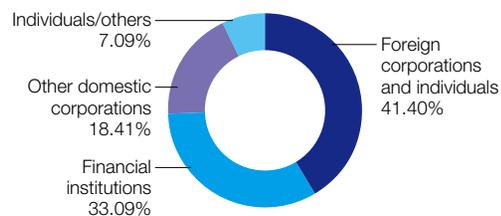
Name of shareholder	Percentage of shares held (%)	Number of shares held (thousands)
Bridgestone Corporation	12.35	27,866
Japan Trustee Services Bank, Ltd. (trust account)	4.37	9,855
The Master Trust Bank of Japan, Ltd. (trust account)	3.54	7,988
Japan Trustee Services Bank, Ltd. (trust account 9)	3.22	7,282
BNYML-NON TREATY ACCOUNT	2.92	6,602
JP MORGAN CHASE BANK 385632	2.57	5,809
STATE STREET BANK CLIENT OMNIBUS OM04	2.47	5,592
HSBC BANK PLC A/C CLIENTS 1	2.11	4,771
Mizuho Bank, Ltd.	1.87	4,225
Nippon Life Insurance Company	1.64	3,716

\* 488,223 shares of treasury stock held by the Company are not included in the above breakdown of major shareholders.

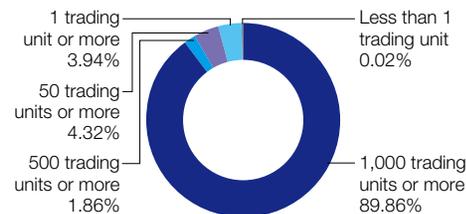
### Composition of Shareholders

	Shareholders	Shares held (thousands)
Individuals and others	16,607	16,030
Foreign corporations and individuals	484	93,604
Other domestic corporations	241	41,631
Financial institutions	77	71,646
Securities companies	40	3,164
<b>Total</b>	<b>17,449</b>	<b>226,075</b>

#### By Type of Shareholders



#### By Number of Shares Held



#### Ordinary General Meeting of Shareholders

The annual general meeting of shareholders is held in June each year. The 2016 annual general meeting was held on June 17, 2016.

#### Transfer Agent and Register

The Chuo Mitsui Trust and Banking Co., Ltd.

#### Auditors

KPMG AZSA & Co.

### Common stock price range

(Yen/share: Tokyo Stock Exchange)

		1st Q	2nd Q	3rd Q	4th Q
FY2006	High	2,395	2,635	3,150	2,810
	Low	2,000	2,175	2,370	3,040
FY2007	High	3,710	2,930	3,170	3,240
	Low	2,535	2,280	2,505	2,530
FY2008	High	2,985	3,120	3,020	2,875
	Low	2,540	2,445	2,465	1,886
FY2009	High	2,460	2,180	1,397	1,312
	Low	2,000	1,246	795	990
FY2010	High	1,687	1,960	1,959	1,974
	Low	1,162	1,561	1,545	1,714
FY2011	High	1,999	1,666	1,543	1,875
	Low	1,436	1,201	1,341	1,183
FY2012	High	1,724	1,655	1,582	1,790
	Low	1,413	1,221	1,218	1,408
FY2013	High	1,695	1,455	1,644	1,994
	Low	1,255	1,274	1,224	1,670
FY2014	High	2,360	2,073	2,049	2,085
	Low	1,748	1,713	1,663	1,694
FY2015	High	1,933	1,975	2,229	2,171
	Low	1,622	1,681	1,711	1,893
FY2016	High	2,296	2,227	2,054	1,903
	Low	1,998	1,626	1,688	1,455



# JSR Corporation

## FINANCIAL SECTION 2 0 1 6

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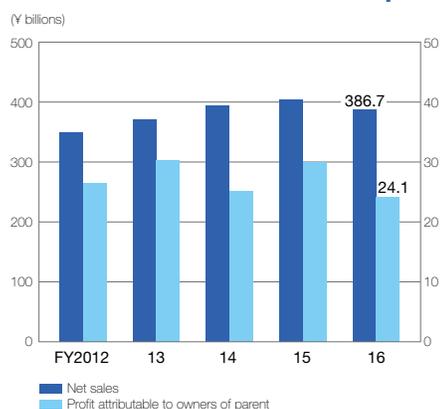


## TEN-YEAR SUMMARY

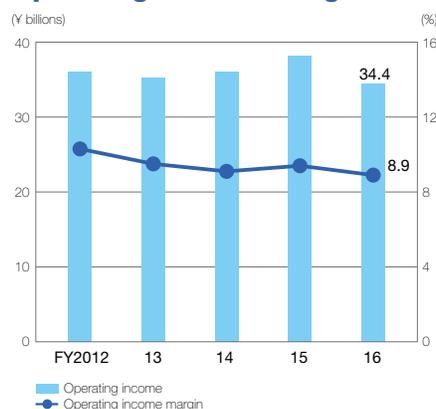
Years ended March 31	2007	2008	2009	2010
<b>For the fiscal year</b>				
Net sales	¥365,831	¥406,968	¥352,503	¥310,184
Costs and expenses	310,588	346,958	322,155	289,954
Operating income	55,243	60,010	30,348	20,230
Interest and dividend income	1,030	1,309	1,230	568
Interest expenses	(399)	(256)	(271)	(172)
Profit before income taxes	53,440	54,867	20,803	19,458
Profit attributable to owners of parent	33,655	36,994	13,981	13,645
Capital expenditures	22,094	29,076	19,081	17,707
Depreciation	18,133	21,180	24,833	22,380
<b>At fiscal year-end</b>				
Total assets	408,949	416,951	339,498	373,566
Long-term debt due after one year	2,745	1,525	1,500	1,500
Total liabilities	168,963	159,288	97,512	122,865
Equity	235,186	252,539	240,896	249,440
Current ratio (times)	1.8	1.9	2.5	2.3
Return on assets (%)	8.2	8.9	4.1	3.7
Return on equity (%)	15.0	15.2	5.7	5.6
Equity ratio (%)	57.5	60.6	71.0	66.8
<b>Per share of common stock (Yen and U.S. dollars)</b>				
Net income	133.10	147.26	56.36	55.87
Cash dividends	24.00	32.00	32.00	26.00
Equity	935.47	1,009.27	986.33	1,021.31

Note: U.S. dollar amounts are translated from yen, for convenience only, at a rate of \$1=¥112.68; the exchange rate prevailing at March 31, 2016.

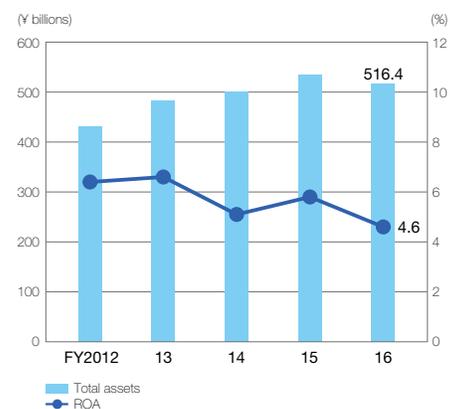
### Net Sales/ Profit attributable to owners of parent



### Operating Income/ Operating Income Margin

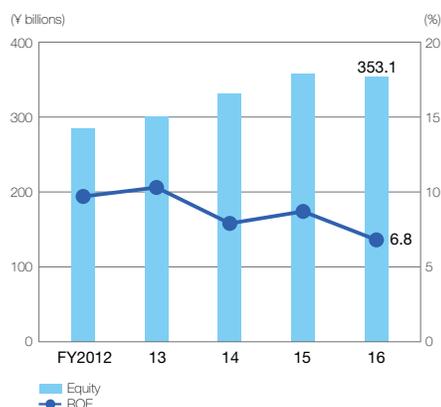


### Total Assets/ROA

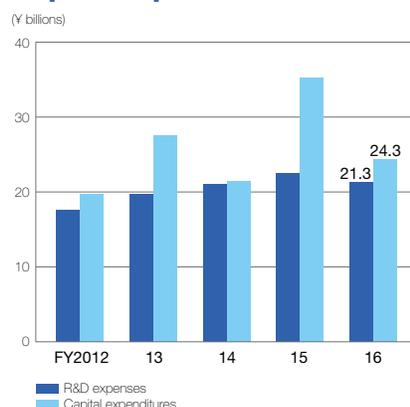


	2011	2012	2013	2014	2015	Millions of yen 2016	Thousands of U.S. dollars 2016
	¥340,666	¥349,947	¥371,487	¥394,309	¥404,073	¥386,709	\$3,431,924
	301,571	313,982	336,281	358,247	366,005	352,301	3,126,562
	39,095	35,964	35,206	36,062	38,068	34,408	305,362
	626	634	809	916	1,390	1,380	12,247
	(146)	(147)	(126)	(142)	(345)	(527)	(4,674)
	40,674	41,245	42,847	36,956	41,069	27,367	242,870
	27,571	26,407	30,278	25,173	29,919	24,069	213,601
	11,801	19,728	27,608	21,499	35,157	24,276	215,445
	19,245	17,784	19,145	18,096	17,407	18,508	164,257
	390,591	430,693	482,935	501,320	534,592	516,360	4,582,531
	1,028	500	6,626	11,069	20,387	22,249	197,456
	126,475	148,335	167,202	164,060	169,918	154,006	1,366,755
	262,679	280,955	308,641	331,284	358,303	353,145	3,134,049
	2.4	2.3	2.3	2.5	2.5	2.7	2.7
	7.1	6.4	6.6	5.1	5.8	4.6	4.6
	10.8	9.7	10.3	7.9	8.7	6.8	6.8
	67.3	65.2	63.9	66.1	67.0	68.4	68.4
	113.07	109.46	126.13	106.10	128.19	105.87	0.94
	32.00	32.00	34.00	38.00	40.00	50.00	0.44
	1,088.87	1,164.63	1,299.77	1,409.06	1,557.08	1,565.45	13.89

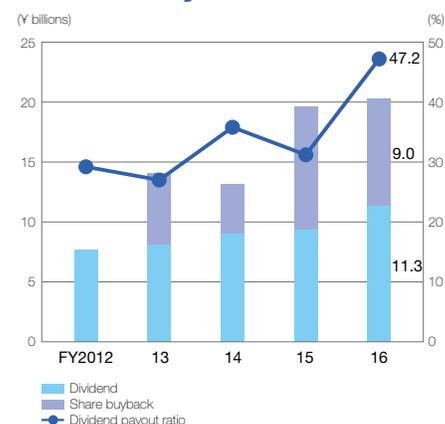
### Equity/ROE



### R&D Expenses/ Capital Expenditures



### Shareholder Return/ Dividend Payout Ratio



## MANAGEMENT'S DISCUSSION AND ANALYSIS

## Analysis of Operating Results

## Overview of FY ended March 2016

In the year under review, among JSR Group's main customer industries, automobile tire production and automobile production rose slightly above the previous year's level globally; domestic tire production was sluggish; demand for semiconductor production stagnated; the flat panel display (FPD) market slowed down rapidly due to a major production adjustment toward the latter half of the year; and the yen strengthened at the end of the year.

Amid these circumstances, the Petrochemicals Business of JSR Group saw significant growth in sales of Solution Styrene-Butadiene Rubber (SSBR) for fuel-efficient tires in the Elastomers Business, while other elastomers sales were largely impacted by sluggish domestic tire production, its main customer industry. In addition, the supply-demand balance failed to improve in East Asia due to excessive supply of elastomers coupled with stagnant growth in demand, which resulted in continued weakness of the elastomer products market. Thus, net sales of the Petrochemicals Business as a whole decreased from the previous year. Although operating income of the plastics Business increased on the back of improved profitability, it failed to offset the decline in operating income of the Elastomers Business, which led to a drop in operating income of the entire Petrochemicals Business from the previous year. The Fine Chemicals and Other Products Business saw a substantial increase in net sales from the previous year's level due to a significant rise in sales in the life sciences area of the strategic businesses field, despite a plunge in sales of the fine chemicals business from the previous year's level due to the weakness of the semiconductor market and the impact of a rapid slowdown of the FPD market in the latter half of the year. Operating income of the Fine Chemicals and Other Products Business fell below the previous year's level, as it was significantly affected by the drop in sales of the Fine Chemicals business. Ordinary income fell short of the previous year's level due to the impact of the drop in operating income and the increase in exchange losses in dollar denominated borrowings by a Thailand group company owing to the weakness of

the baht, despite an increase in earnings of affiliates in the Petrochemicals Business. Profit attributable to owners of parent fell below the previous year's level due to extraordinary losses recorded at a Group company that manufactures and sells Lithium Ion Capacitor.

Financial results for FY ended March 2016 consist of net sales of ¥386,709 million (down 4.3% year on year), operating income of ¥34,408 million (down 9.6%), and profit attributable to owners of parent of ¥24,068 million (down 19.6%).

## Review of Operations

*Elastomers Business Segment*

The production of automobile tires, one of the segment's main customer industries, increased from the previous year in North America, China, and Europe, while it fell below the previous year's level in Japan.

Under these conditions, with regard to the sales of synthetic rubbers, the sales volume of SSBR rose substantially on the back of the full-scale operation of SSBR at JSR BST Elastomer Co., Ltd. (JBE), a joint venture company in Thailand. However, the total sales volume of elastomers decreased from the previous year due in part to the drop in domestic production of automobile tires. Net sales fell below the previous year's level due to a decline in product prices on the back of a drop in raw material prices, as well as a decrease in sales volume. In addition, operating income dropped from the previous year due to a failure of improvement in margins (the difference between the selling price and major raw material prices), owing to the continued weakness of synthetic rubber prices on the back of excessive supply, as well as a drop in sales volume.

As a result, the Elastomers Business segment had net sales of ¥179,253 million (down 9.9% year on year) and operating income of ¥7,492 million (down 30.2%).

*Plastics Business Segment*

The production of automobiles, one of the segment's main customer industries, increased from the previous year in North America, China,

## Segment Sales/Operating Income (¥ millions)

Years ended March 31	2012	2013	2014	2015	2016
Elastomers Business	¥180,835	¥195,797	¥203,478	¥198,958	<b>¥179,253</b>
Operating income	19,358	17,923	17,330	10,736	<b>7,492</b>
Plastics Business	51,236	51,759	57,764	55,161	<b>52,207</b>
Operating income	2,138	2,962	3,919	2,842	<b>5,114</b>
Fine Chemicals and Other Products Business	117,876	123,931	133,067	149,954	<b>155,250</b>
Operating income	14,468	14,321	14,813	24,490	<b>21,803</b>
Net Sales	349,947	371,487	394,309	404,073	<b>386,709</b>
Operating income	¥ 35,964	¥ 35,206	¥ 36,062	¥ 38,068	<b>¥34,409</b>

and Europe, while it fell below the previous year's level in Japan.

Under these conditions, the sales volume of plastics products rose from the previous year due to an increase in sales of automobiles both in Japan and abroad, despite a year-on-year fall in automobile production in Japan, as well as robust sales for industrial material applications, mainly in miscellaneous goods. Net sales declined from the previous year as the increase in sales volume was not sufficient to make up for a fall in product prices owing to the drop in raw material costs. Operating income saw a year-on-year rise due to a recovery in profitability and an increase in sales volume.

As a result, the Plastics Business segment had net sales of ¥52,207 million (down 5.4% year on year) and operating income of ¥5,114 million yen (up 80.0%).

#### ***Fine Chemicals and Other Products Business Segment***

Net sales rose from the previous year, but operating income fell below that of the previous year in the Fine Chemicals and Other Products Business segment as a whole.

In the semiconductor materials business, sales dropped from the previous year due to sluggish growth of semiconductor demand as demand for smartphones weakened, in addition to sluggish demand for materials, since FY ended March 2016 coincided with the transition of the cutting-edge generation from 20nm to the next generation 14–16nm. In the display materials business, sales decreased from the previous year on the back of a rapid slowdown in demand for materials used in larger-size TVs and multi-functional mobile terminals in the latter half of the year, in addition to a notable drop in unit selling prices due to intensified competition in the materials market. In strategic businesses, sales in the life sciences area rose substantially owing to the effect of the two newly consolidated group companies.

As a result, the Fine Chemicals and Other Products Business segment had net sales of ¥155,250 million (up 3.5% year on year) and operating income of ¥21,803 million (down 11.0%).

#### ***Business Outlook for FY ending March 2017***

JSR Group's FY ending March 2017 outlook for its main customer industries is as follows. The Company forecasts that the production of

automobile tires and automobiles in Japan will remain unchanged from the previous year, but will grow globally. In particular, China and ASEAN are expected to see an increase, while Europe and North America are also expected to see a rise. Demand in the semiconductor market is likely to recover from the previous year's negative growth on the back of an expected increase in new demand for cutting-edge semiconductor chips such as for the use of big data. The outlook of the FPD market is unclear, although production of small- and medium-size panels for multi-functional mobile terminals is expected to recover, and the Chinese market is likely to continue growing.

In the Elastomers Business, although demand is expected to expand on a global basis compared to the previous year, substantial improvement in relative profitability cannot be expected, since excessive supply of synthetic rubber and butadiene is likely to continue especially in East Asia, while cheap naphtha prices are expected to continue. Under such circumstances, demand for SSBR is expected to grow steadily due to the growth of the fuel-efficient tire market. The Company will strive to expand sales globally by commencing commercial operation of the newly launched second phase facilities of our new plant in Thailand by the second half of the year, in addition to the first phase facilities, which have begun full-scale operation.

In the Fine Chemicals and Other Products Business, we will endeavor to increase sales of various semiconductor materials such as cutting-edge lithography materials, in which we have a large market share, packaging materials and CMP materials, amid the expected full-scale mass production of the 14–16nm generations, a cutting-edge process. JSR will also strive to increase sales of display materials by starting operation of the production facilities of JSR Micro (Changshu) Co., Ltd., a joint venture manufacturing company in China where growth is particularly expected, in addition to existing efforts.

The exchange rate is expected to be a strain on earnings as we forecast a stronger yen compared to the previous year. For the year ending March 31, 2017, JSR forecasts consolidated net sales of ¥395,000 million (up 2.1% year-on-year), operating income of ¥35,000 million (up 1.7%), and profit attributable to owners of parent of ¥24,500 million (up 1.8%). These forecasts assume an exchange rate of ¥110 per U.S. dollar and a naphtha price of ¥40,000 per kiloliter.

## **Analysis of Financial Position**

Total assets at the fiscal year ended on March 31, 2016, amounted to ¥516,360 million, down ¥18,232 million from a year earlier.

Current assets totaled ¥300,532 million, down ¥18,864 million, due to a decrease in securities and notes and accounts receivable-trade, despite an increase in cash and deposits.

Non-current assets totaled ¥215,827 million, up ¥631 million, due to an increase in long-term loans receivable and an increase in goodwill as we made an equity method affiliate a subsidiary.

Total liabilities amounted to ¥154,006 million, down ¥15,912 million from a year earlier, due to a decrease in notes and accounts payable—trade.

Total net assets amounted to ¥362,354 million, down ¥2,320 million from a year earlier.

## Analysis of Cash Flows

Cash and cash equivalents as of March 31, 2016 stood at ¥89,395 million, up ¥11,488 million from a year earlier.

Net cash provided by operating activities amounted to ¥48,128 million, down ¥3,352 million from the previous year. The main factors included profit before income taxes of ¥27,367 million, depreciation and amortization of ¥18,508 million, a decrease in notes and accounts payable of ¥17,160 million, and income taxes paid of ¥10,210 million.

Net cash used in investing activities totaled ¥19,038 million, down 35,798 million from the previous year. The main factors were ¥27,052

million in the purchase of non-current assets, ¥7,998 million in proceeds from a decrease in time deposits, ¥6,025 million in the purchase of shares of subsidiaries and associates, and ¥5,266 million in payments of loans receivable.

Net cash used in financing activities was ¥16,260 million, up ¥3,901 million from the previous year. The main factors were ¥10,242 million in cash dividends paid, ¥8,998 million in the purchase of treasury stock, and ¥7,373 million in proceeds from long-term loans payable.

## Profit Appropriation

With respect to profit appropriation, the Company regards business growth over the long term as its top priority. To generate sustainable long-term growth, the Company strives to increase its competitiveness by developing new businesses through the reinforcement of research and development activities.

The Company will appropriate profits by taking into account business performance and medium- to long-term demand for funds, while paying continuous, stable cash dividends based on consideration of a balance between appropriating profits and retaining earnings necessary for future business advancement.

Carefully considering the stock market environment, the Company will responsively and adaptively purchase treasury shares to complement dividend payments as a measure to return profits to sharehold-

ers. JSR allocates retained earnings to a variety of investments linked to future growth businesses, contributing to the enhancement of corporate value. During the period of the mid-term business plan JSR20i6 ("JSR twenty-sixteen"), the Company will strive to raise the ratio of return to shareholders including both share buybacks and cash dividends, of 50% or greater.

In accordance with this policy, we have decided to pay a year-end dividend of ¥25 per share, the same amount as the interim dividend. Including the interim dividend already paid, the total annual dividend for FY ended March 2016 will be ¥50 per share. With regard to the dividend for the next fiscal year (FY ending March 2017), JSR plans to pay ¥50 per year, consisting of an interim dividend of ¥25 and a year-end dividend of ¥25.

## Risk Information

JSR Group is exposed to the following risks that may impact on operating results, financial position, cash flows and other aspects of performance. Forward-looking statements in this discussion are based on JSR's judgments as of March 31, 2016. Risks at JSR include, but are not limited to, the following items:

### **(1) Changes in Demand due to Economic Trends**

In the major industries where JSR Group's products are sold, such as automobiles and electronics, demand is influenced by the economic climate in a country or region. An economic slowdown could reduce demand in an industry and adversely affect JSR Group's operating results.

### **(2) Fluctuation in Prices for Crude Oil, Naphtha and Other Major Raw Materials**

Higher prices for crude oil and naphtha, or changes in the markets for JSR's major raw materials, could raise prices of raw materials and

adversely affect JSR Group's operating results, especially in the petrochemical products sector of elastomers, emulsions and plastics.

### **(3) Fluctuation in Exchange Rates**

As JSR Group undertakes product exports in foreign currencies and imports goods such as raw materials, the Company takes measures to reduce risks such as entering into forward exchange contracts; however, fluctuation in exchange rates could give rise to adverse outcomes. In addition, operating results of consolidated subsidiaries and equity-method affiliates located overseas are converted into Japanese yen amounts for the purposes of preparing the consolidated financial statements. However, due to the yen's appreciation, JSR Group's business results could be adversely affected.

### **(4) Procurement of Raw Materials**

JSR Group works to ensure a stable supply of raw materials by procuring materials from a number of sources. However, an interrup-

tion to the supply of raw materials due to an accident, bankruptcy or quality problem at a supplier could adversely affect production activities and JSR Group's operating results.

#### **(5) Development of New Products**

Rapid technological progress is constantly taking place in the electronics industry, which is the primary source of demand for semiconductor manufacturing materials, FPD materials and optical materials, the major products of JSR Group's fine chemicals and other products business. JSR is constantly working on developing state-of-the-art materials in line with this progress. However, unforeseen changes in the industry or market could prevent the timely development of new products and adversely affect JSR Group's operating results.

#### **(6) R&D Involving Next-Stage Growth Businesses**

JSR Group makes substantial investments in R&D to create next-stage growth businesses. However, there is no guarantee that these R&D activities will always yield worthwhile results. Depending on R&D results, there could be an adverse effect on JSR Group's operating results.

#### **(7) Protection of Intellectual Property**

Protection of intellectual property is extremely important for JSR Group's business activities. JSR has established a system for protecting its intellectual property and takes various actions as required. However, a dispute about intellectual property with another company or an infringement on JSR's intellectual property by another company could adversely affect JSR Group's operating results.

#### **(8) Product Quality Assurance and Product Liability**

JSR Group has a product quality assurance system and product liability insurance. However, damage or injury caused by a product manufactured by JSR Group could adversely affect JSR Group's operating results.

#### **(9) Natural Disasters and Accidents**

To minimize the negative effect on its business activities of any disruption to manufacturing activities, all JSR Group manufacturing facilities have established countermeasures based on the identification of all potential sources of a crisis and conducts periodic inspections of facilities. The Group also works constantly on safety measures with regard to earthquakes and other natural disasters. However, a major natural disaster or accident that damages a production facility or disrupts manufacturing could adversely affect JSR Group's operating results.

JSR's main production facility, the Yokkaichi Plant, houses private power generation equipment, and the Kashima Plant is able to access electric power from shared power generation facilities when necessary. In the event that electric power shortages become severe due to

natural disasters and the like, however, JSR Group's operating results could be affected.

#### **(10) Environmental Issues**

Positioning environmental protection as an important element of its operations, JSR Group complies with all laws and regulations concerning the environment. The Group also takes actions aimed at reducing its environmental impact, lowering and eliminating waste materials, and cutting energy and resource consumption. The Group has taken many actions to prevent the external release of all types of chemicals.

However, in the event that a spill occurs or that environmental regulations become stricter, the Group's business activities could be restricted, the Group may have to pay compensation and other expenses, or the Group may have to make substantial capital expenditures. Any of these events could adversely affect JSR Group's operating results.

#### **(11) Overseas Operations**

JSR Group is aggressively expanding operations on a global scale, conducting manufacturing, sales and other activities in countries and regions in the North America, Europe, Asia and other parts of the world. Overseas operations are exposed to a number of risks that include, but are not limited to, an unfavorable political environment or economic trends; labor disputes and other problems due to differences in labor laws and other working conditions; difficulty in recruiting and retaining employees; an adverse impact on business activities due to an inadequate social infrastructure; and the impact of wars, terrorism and other social instability. Any of these events could adversely affect JSR Group's operating results.

#### **(12) Laws and Regulations**

In the countries where it operates, JSR Group is subject to various laws and regulations involving business and investment permits, export and import activities, trade, labor relations, intellectual property, taxes, foreign exchange and other items. The Group has established a clear compliance policy in order to ensure strict observance of laws and regulations as well as ethical standards. In the event that a law or regulation is violated, or a law or regulation becomes stricter or is significantly altered, there could be limitations to the Group's business activities or additional compliance costs. Any of these events could adversely affect JSR Group's operating results.

#### **(13) Litigation**

In conjunction with its business activities in Japan and overseas, JSR Group may be sued or be involved in other litigation concerning a dispute with a supplier, customer or other external party. The outcome of significant litigation could adversely affect JSR Group's operating results.

## CONSOLIDATED BALANCE SHEETS

JSR Corporation and Consolidated Subsidiaries  
As at March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
<b>ASSETS</b>			
<b>Current assets</b> (Note 18):			
Cash and deposits (Notes 3, 5 and 7)	¥ 47,984	¥ 52,081	\$ 462,205
Notes and accounts receivable—trade, net (Notes 4, 5, 7 and 17)	83,122	77,878	691,145
Short-term investment securities (Notes 3, 5 and 6)	67,997	60,010	532,574
Inventories (Note 7)	79,321	77,458	687,416
Other (Notes 3, 7, 9 and 14)	40,973	33,104	293,790
Total current assets	319,397	300,532	2,667,129
<b>Non-current assets</b> (Note 18):			
<b>Property, plant and equipment</b> (Note 16):			
Buildings and structures, net (Notes 7 and 10)	36,897	34,810	308,927
Machinery, equipment and vehicles, net (Notes 7 and 10)	41,582	37,058	328,879
Land (Notes 7 and 10)	17,762	17,136	152,073
Construction in progress	14,056	17,944	159,250
Other, net (Notes 7 and 10)	5,616	5,746	50,993
Total property, plant and equipment	115,913	112,694	1,000,123
<b>Intangible assets</b>			
Goodwill (Notes 16 and 18)	6,480	9,788	86,867
Other (Notes 7 and 10)	7,819	6,875	61,015
Total intangible assets	14,299	16,663	147,882
<b>Investments and other assets</b>			
Investment securities (Notes 5 and 6)	74,510	67,878	602,392
Long-term loans receivable	1,518	5,894	52,310
Other, net (Notes 4, 5, 7 and 9)	8,955	12,698	112,694
Total investments and other assets	84,983	86,470	767,397
Total non-current assets	215,195	215,827	1,915,401
Total assets (Note 16)	¥534,592	¥516,360	\$4,582,531

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
<b>Current liabilities</b> (Note 18):			
Notes and accounts payable—trade (Note 5)	¥ 72,442	¥ 53,836	\$ 477,778
Short-term loans payable (Notes 5 and 7)	18,640	20,840	184,949
Other (Notes 9 and 14)	35,245	34,646	307,475
Total current liabilities	126,327	109,322	970,202
<b>Non-current liabilities</b> (Note 18):			
Long-term loans payable (Notes 5 and 7)	20,387	22,249	197,456
Net defined benefit liability (Note 8)	13,746	15,180	134,719
Other (Notes 9 and 14)	9,458	7,254	64,377
Total non-current liabilities	43,591	44,684	396,553
Total liabilities	169,918	154,006	1,366,755
<b>Contingent liabilities</b> (Note 19)			
<b>Net assets</b> (Note 12)			
<b>Shareholders' equity</b>			
Common stock:			
Authorized—696,061,000 shares			
Issued—237,973,205 shares in 2015 and 226,074,545 shares in 2016	23,320	23,320	206,959
Capital surplus	25,179	25,179	223,459
Retained earnings	291,151	281,878	2,501,576
Treasury stock			
7,861,771 shares in 2015 and 488,223 shares in 2016	(15,329)	(957)	(8,491)
<b>Accumulated other comprehensive income</b>			
Unrealized gains on securities, net of taxes	19,257	15,231	135,174
Foreign currency translation adjustment	14,576	9,307	82,600
Remeasurements of defined benefit plans (Note 8)	149	(815)	(7,229)
<b>Subscription rights to shares</b> (Note 13)	852	930	8,254
<b>Non-controlling interests</b>	5,519	8,279	73,473
Total net assets	364,674	362,354	3,215,776
Total liabilities and net assets	¥534,592	¥516,360	\$4,582,531

See accompanying notes.

## CONSOLIDATED STATEMENTS OF INCOME

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
<b>Net sales</b> (Notes 16, 17 and 18)	¥404,073	¥386,709	\$3,431,924
<b>Costs and expenses</b> (Note 15):			
Cost of sales	300,304	280,176	2,486,472
Selling, general and administrative expenses	65,701	72,125	640,089
	366,005	352,301	3,126,562
<b>Operating income</b> (Note 16)	38,068	34,408	305,362
<b>Other income (expenses):</b>			
Interest income	241	237	2,107
Dividends income	1,149	1,143	10,139
Interest expenses	(345)	(527)	(4,674)
Foreign exchange gains (losses)	3,021	(3,036)	(26,944)
Share of profit (loss) of entities accounted for using equity method	(276)	1,849	16,405
Compensation income	1,895	—	—
Gain on step acquisitions (Note 18)	—	1,758	15,598
Gain on transfer from business divestitures	325	—	—
Loss on valuation of investment securities	(2,643)	(53)	(467)
Gain on sales of investment securities (Note 6)	—	634	5,622
Impairment loss (Note 10)	—	(7,539)	(66,911)
Other, net (Note 6)	(366)	(1,506)	(13,369)
	3,001	(7,042)	(62,492)
<b>Profit before income taxes</b> (Note 18)	41,069	27,367	242,870
<b>Income taxes</b> (Note 9):			
Current	11,202	5,073	45,022
Deferred	703	(37)	(327)
	11,905	5,036	44,695
<b>Profit</b>	29,164	22,330	198,175
<b>Loss attributable to non-controlling interests</b>	(755)	(1,738)	(15,426)
<b>Profit attributable to owners of parent</b> (Note 18)	¥ 29,919	¥ 24,069	\$ 213,601
	Yen		U.S. dollars (Note 1)
	2015	2016	2016
<b>Per share of common stock:</b>			
Profit attributable to owners of parent	¥ 128.19	¥ 105.87	\$ 0.94
Diluted profit attributable to owners of parent	127.87	105.60	0.94
Cash dividends applicable to the year	40.00	50.00	0.44

See accompanying notes.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
<b>Profit</b>	¥29,164	¥ 22,330	\$198,175
<b>Other comprehensive income</b>			
Unrealized gains on securities, net of taxes	7,718	(3,990)	(35,412)
Foreign currency translation adjustment	6,647	(4,320)	(38,338)
Remeasurements of defined benefit plans, net of tax (Note 8)	338	(907)	(8,050)
Share of other comprehensive income of entities accounted for using equity method	1,695	(1,187)	(10,536)
Other comprehensive income (Note 11)	16,398	(10,405)	(92,337)
<b>Comprehensive income</b>	¥45,562	¥ 11,926	\$105,838
Comprehensive income attributable to :			
Owners of parent	¥45,576	¥ 14,043	\$124,628
Non-controlling interests	(14)	(2,117)	(18,790)

See accompanying notes.

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2016

Millions of yen

	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains on securities, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests
<b>Balance at April 1, 2014</b>	237,973	¥23,320	¥25,180	¥269,621	¥(5,087)	¥11,467	¥6,972	¥(189)	¥793	¥5,183
Cumulative effects of changes in accounting policies	—	—	—	964	—	—	—	—	—	—
Restated balance	237,973	23,320	25,180	270,585	(5,087)	11,467	6,972	(189)	793	5,183
Changes of items during the period										
Dividends of surplus	—	—	—	(9,166)	—	—	—	—	—	—
Profit attributable to owners of parent	—	—	—	29,919	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	(10,271)	—	—	—	—	—
Disposal of treasury stock	—	—	(1)	(5)	29	—	—	—	—	—
Retirement of treasury stock	—	—	—	—	—	—	—	—	—	—
Change of scope of consolidation	—	—	—	(182)	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	7,790	7,604	338	59	336
Total changes of items during the period	—	—	(1)	20,566	(10,242)	7,790	7,604	338	59	336
<b>Balance at March 31, 2015</b>	237,973	¥23,320	¥25,179	¥291,151	¥(15,329)	¥19,257	¥14,576	¥149	¥852	¥5,519
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Restated balance	237,973	23,320	25,179	291,151	(15,329)	19,257	14,576	149	852	5,519
Changes of items during the period										
Dividends of surplus	—	—	—	(10,242)	—	—	—	—	—	—
Profit attributable to owners of parent	—	—	—	24,069	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	(8,998)	—	—	—	—	—
Disposal of treasury stock	—	—	—	(25)	52	—	—	—	—	—
Retirement of treasury stock	(11,899)	—	—	(23,319)	23,319	—	—	—	—	—
Change of scope of consolidation	—	—	—	243	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(4,026)	(5,268)	(963)	78	2,760
Total changes of items during the period	(11,899)	—	—	(9,274)	14,373	(4,026)	(5,268)	(963)	78	2,760
<b>Balance at March 31, 2016</b>	<b>226,074</b>	<b>¥23,320</b>	<b>¥25,179</b>	<b>¥281,878</b>	<b>¥(957)</b>	<b>¥15,231</b>	<b>¥9,308</b>	<b>¥(815)</b>	<b>¥930</b>	<b>¥8,279</b>

Thousands of U.S. dollars (Note 1)

	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains on securities, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests
<b>Balance at April 1, 2015</b>	237,973	\$206,959	\$223,459	\$2,583,878	\$(136,040)	\$170,902	\$129,357	\$ 1,321	\$7,565	\$48,976
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Restated balance	237,973	206,959	223,459	2,583,878	(136,040)	170,902	129,357	1,321	7,565	48,976
Changes of items during the period										
Dividends of surplus	—	—	—	(90,891)	—	—	—	—	—	—
Profit attributable to owners of parent	—	—	—	213,601	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	(79,853)	—	—	—	—	—
Disposal of treasury stock	—	—	—	(219)	460	—	—	—	—	—
Retirement of treasury stock	(11,899)	—	—	(206,948)	206,948	—	—	—	—	—
Change of scope of consolidation	—	—	—	2,155	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(35,728)	(46,753)	(8,549)	689	24,497
Total changes of items during the period	(11,899)	—	—	(82,302)	127,555	(35,728)	(46,753)	(8,549)	689	24,497
<b>Balance at March 31, 2016</b>	<b>226,074</b>	<b>\$206,959</b>	<b>\$223,459</b>	<b>\$2,501,576</b>	<b>\$ (8,485)</b>	<b>\$135,174</b>	<b>\$ 82,604</b>	<b>\$(7,228)</b>	<b>\$8,254</b>	<b>\$73,473</b>

See accompanying notes.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
<b>Cash flows from operating activities:</b>			
Profit before income taxes	¥ 41,069	¥ 27,367	\$ 242,870
Adjustments to reconcile profit before income taxes to cash provided by operating activities:			
Depreciation and amortization	17,407	18,508	164,257
Interest and dividends income	(1,390)	(1,380)	(12,247)
Interest expenses	345	527	4,674
Share of (profit) loss of entities accounted for using equity method	276	(1,849)	(16,405)
Compensation income	(1,895)	—	—
Loss (gain) on step acquisitions	—	(1,758)	(15,598)
Impairment loss	—	7,539	66,911
Loss (gain) on sales of investment securities	—	(634)	(5,622)
Loss (gain) on valuation of investment securities	2,643	53	467
Decrease (increase) in notes and accounts receivable—trade	8,875	4,831	42,874
Decrease (increase) in inventories	2,662	1,677	14,883
Increase (decrease) in notes and accounts payable—trade	(15,565)	(17,160)	(152,286)
Other, net	6,333	18,995	168,572
Subtotal	60,760	56,717	503,350
Interest and dividends income received	1,825	1,962	17,416
Interest expenses paid	(319)	(342)	(3,032)
Proceeds from compensation	1,895	—	—
Income taxes paid	(12,680)	(10,210)	(90,609)
Net cash provided by operating activities	51,481	48,128	427,125
<b>Cash flows from investing activities:</b>			
Decrease (increase) in time deposits	(11,548)	7,998	70,976
Net decrease (increase) in short-term investment securities	(2,000)	3,500	31,061
Purchase of non-current assets	(32,542)	(27,052)	(240,081)
Proceeds from sales of investment securities	103	1,285	11,408
Purchase of investment securities	(805)	(930)	(8,255)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(5,743)	—	—
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	3,954	35,095
Purchase of shares of subsidiaries and affiliates	(3,733)	(6,025)	(53,471)
Proceeds from sales of shares of subsidiaries and associates	—	779	6,917
Payments for investments in capital of subsidiaries and associates	—	(1,273)	(11,298)
Payments of loans receivable	(2,884)	(5,266)	(46,737)
Collection of loans receivable	3,071	3,113	27,631
Other, net	1,245	879	7,797
Net cash provided by (used in) investing activities	(54,836)	(19,038)	(168,957)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans payable	470	(2,768)	(24,563)
Repayment of long-term loans payable	(2,481)	(2,788)	(24,741)
Proceeds from long-term loans payable	9,102	7,373	65,429
Proceeds from share issuance to non-controlling shareholders	—	1,434	12,723
Purchase of treasury stock	(10,272)	(8,998)	(79,853)
Cash dividends paid	(9,136)	(10,242)	(90,891)
Cash dividends paid to non-controlling interests	(33)	(35)	(313)
Other, net	(9)	(236)	(2,094)
Net cash used in financing activities	(12,359)	(16,260)	(144,303)
Effect of exchange rate change on cash and cash equivalents	2,007	(1,342)	(11,908)
Net increase (decrease) in cash and cash equivalents	(13,707)	11,489	101,958
Cash and cash equivalents at beginning of year	91,115	77,906	691,393
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	498	—	—
Cash and cash equivalents at end of year (Note 3)	¥ 77,906	¥ 89,395	\$ 793,351

See accompanying notes.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2016

### 1. Basis of Consolidated Financial Statements

The accompanying consolidated financial statements of JSR Corporation (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries and affiliates are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile and make necessary amendments for consolidated financial statements required by Practical Issues Task Force No.18 issued by ASBJ. The accompanying consolidated financial statements have been restructured and translated into

English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2016, which was ¥112.68 to U.S.\$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

### 2. Summary of Significant Accounting Policies

**(a) Consolidation**—The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (33 and 43 subsidiaries in 2015 and 2016, respectively).

All significant intercompany accounts and transactions have been eliminated in consolidation.

Effective from the current consolidated fiscal year, the following companies have been included into the scope of consolidation;

MEDICAL & BIOLOGICAL LABORATORIES CO., LTD. and its 10 subsidiaries due to JSR acquired more than 50% of ownership of their voting rights on October 2, 2015. On the other hand, the following companies were excluded from the scope of consolidation;

Shanghai Rainbow Color Plastics Co., Ltd. due to transferring of all shares to outside of the group."

**(b) Equity method**—Investments in affiliated companies (all of those 20% to 50% owned and certain others 15% to 20% owned) were accounted for by the equity method (10 and 13 affiliated companies in 2015 and 2016, respectively). Unconsolidated subsidiaries and the other affiliated companies are stated at cost since their profit attributable to owners of parent and retained earnings in the aggregate are not material compared to consolidated profit attributable to owners of parent and retained earnings, respectively.

Effective from the current consolidated fiscal year, MEDICAL & BIOLOGICAL LABORATORIES CO., LTD. and its 10 subsidiaries were excluded from the companies to which the equity method is applied and have been consolidated since October 1, 2015 because JSR holds more than 50% of ownership voting rights.

Tri Chemical Laboratories, Inc. was excluded from the scope of consolidation due to transfer of all shares to outside the group.

**(c) Cash and cash equivalents**—In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and

short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

**(d) Short-term securities and investment securities**—The Company and its consolidated subsidiaries (the "Companies") had no trading securities or held-to-maturity debt securities. Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value and unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets via the Consolidated Statements of Comprehensive income. Realized gains and losses on sale of such securities are computed using moving-average cost. Available-for-sale securities with no available fair market values are stated at moving-average cost or amortized cost.

**(e) Inventories**—Inventories are stated at cost, which is determined mainly based on the average method (for the value stated on the balance sheet, book value is written down to reflect the lower profitability).

**(f) Property, plant and equipment, and depreciation**—Property, plant and equipment are stated at cost. Depreciation is calculated using the declining-balance method at rates based on their estimated useful lives except for buildings acquired after March 31, 1998, which are depreciated based on the straight-line method.

**(g) Intangible assets**—Goodwill is amortized by the straight-line method over the estimated useful lives up to twenty years.

Software for its own use is amortized over the estimated useful life (five years) using the straight-line method.

**(h) Leased assets**—Assets of finance leases are depreciated over the lease term using the straight-line method that residual value is zero.

**(i) Allowance for doubtful accounts**—Allowance for doubtful accounts is provided in amounts sufficient to cover possible losses on collection. Allowance for doubtful accounts consists of the estimated uncollectible amount with respect to specific items, and the amount calculated using the actual percentage of collection losses in the past with respect to other items.

**(j) Net Defined Benefit Liability**—Employees of the Companies are entitled, under most circumstances, to lump-sum severance payments or pension payments upon reaching the mandatory retirement age, or earlier in the case of voluntary or involuntary termination, based on the compensation at the time of severance and years of service.

In order to prepare for retirement benefit for employees, net defined benefit liability is provided by deducting projected fair value of the pension assets from the amount of retirement benefit obligation recognized to have incurred at the end of the current fiscal year.

The benefit formula basis is applied as the method for attributing expected retirement benefit to the relevant periods ending at the end of the current fiscal year.

Actuarial differences are recognized as expenses at once in the following period.

Unrecognized actuarial gains or losses are, after tax effect adjustment, recorded as re-measurements of defined benefit plans under accumulated other comprehensive income in the net assets section.

**(k) Provision for environmental measures**—A provision for environmental measures is provided based on estimated costs for the disposal of polychlorinated biphenyl (PCB) as mandated by the Law Concerning Special Measures Against PCB Waste.

**(l) Income taxes**—The Companies provide for income taxes applicable to all items included in the consolidated statements of income regardless of when such taxes are payable. Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

(i) Application of consolidated corporate-tax return system

The consolidated corporate-tax return system is applied.

**(m) Derivative and hedging activities**—The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading purposes or speculative purposes. Derivative financial instruments and foreign currency transactions are classified and accounted for as follows:

- (i) All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on these derivative transactions are recognized in the consolidated statements of income.
- (ii) The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market

value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income as incurred.

**(n) Foreign currency transactions**—The Companies translate assets and liabilities denominated in foreign currencies into Japanese yen at exchange rates prevailing at the balance sheet dates. Resulting exchange gains or losses are credited or charged to income as incurred.

**(o) Translation of foreign currency financial statements**—Financial statements of overseas subsidiaries are translated into Japanese yen using the respective year-end rate for assets and liabilities, the average rate for revenues and expenses, and the historical rates for shareholders' equity accounts. Foreign currency translation adjustments are contained in accumulated other comprehensive income and non-controlling interests.

**(p) Business combination**

(i) Change in Accounting Policies

The Companies have adopted the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), the "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ statement No. 22, September 13, 2013) and the "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013) from the current fiscal year. Under the adopted accounting standards, acquisition-related costs are recognized as expenses in the consolidated fiscal year in which costs are incurred. In addition, presentation of net income and non-controlling interest from shares of minor shareholders has been changed. To reflect the change in presentation, consolidated financial statement of previous fiscal year is reclassified.

For the application of the Accounting Standard Business Combinations, etc., in accordance with the transitional treatment prescribed in Paragraph 58-2 (4) of the Revised Accounting Standard for Business Combinations, in Paragraph 44-5 (4) of the Revised Accounting Standard for Consolidated Financial Statements and in Paragraph 57-4 (4) of the Revised Accounting Standard for Business Divestitures, it has been applied from the beginning of the current fiscal year.

The effect of this application is immaterial.

In the consolidated statement of cash flows, cash flows expensing related to commissions for the purchase of subsidiary shares associated with change in scope of consolidation are presented in operating activities.

There is no effect on the year-end balance of capital surplus in consolidated statement of changes in net assets of current fiscal year.

In addition, the effects on net assets per share, profit attributable to owners of parent per share and diluted profit attributable to owners of parent per share are immaterial.

**(q) Amounts per share of common stock**—The computation of

profit attributable to owners parent per share of common stock is based on the average number of shares outstanding during each fiscal year. Treasury stock has been excluded in the calculation of amounts per share of common stock.

Cash dividends per share represent actual amounts applicable to the respective years.

**(r) Reclassifications**—Certain prior year amounts have been reclassified and restated to conform to the current year presentation.

These reclassifications and restatements had no effect on previously reported results of operations or retained earnings.

**(s) New Accounting Pronouncements**—“Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, “Guidance No. 26”))

#### Overview

Following the framework in Auditing Committee Report No. 66 “Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets”, which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

- (i) Treatment for an entity that does not meet any of the criteria in types 1 to 5;
- (ii) Criteria for types 2 and 3;
- (iii) Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
- (vi) Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
- (v) Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

#### Effective Date

Effective from the beginning of the fiscal year ending March 31, 2017.

#### Effects of the application of the standards

The Company is in the process of measuring the effects of applying the revised accounting standard.

### 3. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2015 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cash and deposits	¥ 47,984	¥ 52,081	\$ 462,205
Short-term investment securities	67,997	60,010	532,574
Time deposits over three months	(14,182)	(5,825)	(51,695)
Negotiable certificates of deposit over three months	(26,000)	(22,500)	(199,681)
Current assets: Other (repurchase agreement)	2,106	5,628	49,948
Cash and cash equivalents	¥ 77,906	¥ 89,395	\$ 793,351

### 4. Allowance for doubtful accounts

Allowance for doubtful accounts as of March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Allowance for doubtful accounts			
Current assets: Notes and accounts receivable—trade	¥(326)	¥(418)	\$(3,711)
Investments and other assets: Other	(140)	(359)	(3,187)

## 5. Fair Value of Financial Instruments

The following is a summary of the amount on consolidated balance sheet, fair value and the difference between these two items by major

financial instruments as of March 31, 2015 and 2016. Financial instruments which fair value is extremely difficult to estimate is excluded from the following table.

	Millions of yen		
	Book value	Fair value	Difference
March 31, 2015:			
(1) Cash and deposits	¥ 47,984	¥ 47,984	¥ —
(2) Notes and accounts receivable—trade	83,449	83,449	—
(3) Short-term investment securities and investment securities	115,232	116,511	1,279
Total assets	¥246,665	¥247,944	¥1,279
(4) Notes and accounts payable—trade	72,442	72,442	—
(5) Short-term loans payable	16,107	16,107	—
(6) Long-term loans payable (included repayment due within one year)	22,920	22,599	(320)
Total liabilities	¥111,469	¥111,148	¥ (320)

March 31, 2016:			
(1) Cash and deposits	¥ 52,081	¥ 52,081	¥ —
(2) Notes and accounts receivable—trade	78,296	78,296	—
(3) Short-term investment securities and investment securities	94,895	94,895	—
Total assets	¥225,273	¥225,273	¥ —
(4) Notes and accounts payable—trade	53,836	53,836	—
(5) Short-term loans payable	14,346	14,346	—
(6) Long-term loans payable (included repayment due within one year)	28,744	28,335	(409)
Total liabilities	¥ 96,925	¥ 96,516	¥ (409)

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
March 31, 2016:			
(1) Cash and deposits	\$ 462,205	\$ 462,205	\$ —
(2) Notes and accounts receivable—trade	694,856	694,856	—
(3) Short-term investment securities and investment securities	842,163	842,163	—
Total assets	\$1,999,224	\$1,999,224	\$ —
(4) Notes and accounts payable—trade	477,778	477,778	—
(5) Short-term loans payable	127,315	127,315	—
(6) Long-term loans payable (included repayment due within one year)	255,090	251,461	(3,629)
Total liabilities	\$ 860,183	\$ 856,554	\$(3,629)

1. Method to determine the estimated fair values of financial instruments and other matters related to securities and derivative transactions

- (1) Cash and cash equivalents, and time deposits  
The carrying values of cash and cash equivalents, and time deposits approximate fair value because of their short maturities.
- (2) Notes and accounts receivable—trade  
The carrying values of notes and accounts receivable—trade approximate fair value because of their short maturities.
- (3) Short-term investment securities and investment securities  
The fair value of securities and investment securities are measured at the quoted market price of the stock exchange for the equity instruments. Negotiable deposit, commercial paper and cash in trust approximate fair value.
- (4) Notes and accounts payable—trade  
The carrying values of notes and accounts payable—trade

approximate fair values because of their short maturities.

- (5) Short-term loans payable  
Short-term loans payable approximate fair value.
- (6) Long-term loans payable

The fair value of long-term loans payable is measured at the present value by discounting expected repayments of principal and interest in the remaining period using an assumed interest rate on an equivalent new loan.

The fair value of long-term loans payable subject to a special accounting method for interest rate swaps which qualify for hedge accounting meet specific matching criteria is measured at the present value by discounting expected repayments of principal and interest together with the interest rate swaps in the remaining period using an assumed interest rate on an equivalent new loan.

2. Financial instruments for which it is extremely difficult to estimate the fair values were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2015	2016	2016	
Non-listed equity securities	¥27,276	¥32,993	\$292,802	
Investments in capital	3,948	5,784	51,330	

3. Redemptions schedule of monetary claims and securities with fixed maturities were as follows:

	Millions of yen				
	Due within one year	Due after one year and within five years	Due after five years and within ten years	Due over ten years	Total
March 31, 2015:					
(1) Cash and deposits	¥ 4,882	¥—	¥—	¥—	¥ 4,882
(2) Notes and accounts receivable—trade	83,449	—	—	—	83,449
(3) Short-term investment securities and investment securities					
Available-for-sale securities with fixed maturities					
Other	67,997	—	—	—	67,997
Total	¥156,328	¥—	¥—	¥—	¥156,328
March 31, 2016:					
(1) Cash and deposits	¥ 5,825	¥—	¥—	¥—	¥ 5,825
(2) Notes and accounts receivable—trade	78,296	—	—	—	78,296
(3) Short-term investment securities and investment securities					
Available-for-sale securities with fixed maturities					
Other	60,010	—	—	—	60,010
Total	¥144,132	¥—	¥—	¥—	¥144,132

	Thousands of U.S. dollars				Total
	Due within one year	Due after one year and within five years	Due after five years and within ten years	Due over ten years	
March 31, 2016:					
(1) Cash and deposits	\$ 51,695	\$—	\$—	\$—	\$ 51,695
(2) Notes and accounts receivable—trade	694,856	—	—	—	694,856
(3) Short-term investment securities and investment securities					
Available-for-sale securities with fixed maturities					
Other	532,574	—	—	—	532,574
Total	\$1,279,124	\$—	\$—	\$—	\$1,279,124

4. See Note 7 for scheduled repayments of long term debt.

## 6. Short-term investment securities and Investment Securities

(1) The following tables summarize the acquisition cost and book value of available-for-sale securities with available fair value as of March 31, 2015 and 2016:

(a) Securities with book value exceeding acquisition cost

	Millions of yen		
	2015		
	Acquisition cost	Book value	Difference
Equity securities	¥12,481	¥40,476	¥27,995

	Millions of yen		
	2016		
	Acquisition cost	Book value	Difference
Equity securities	¥12,483	¥34,591	¥22,108

	Thousands of U.S. dollars		
	2016		
	Acquisition cost	Book value	Difference
Equity securities	\$110,783	\$306,982	\$196,199

(b) Securities with book value not exceeding acquisition cost

	Millions of yen		
	2015		
	Acquisition cost	Book value	Difference
Equity securities	¥2,647	¥449	¥(2,198)

	Millions of yen		
	2016		
	Acquisition cost	Book value	Difference
Equity securities	¥2,724	¥294	¥(2,430)

	Thousands of U.S. dollars		
	2016		
	Acquisition cost	Book value	Difference
Equity securities	\$24,173	\$2,608	\$(21,565)

(2) Total sales of available-for-sale securities sold and the related gains and losses for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Total sales	¥103	¥1,285	\$11,408
Gain	1	634	5,622
Loss	—	—	—

## 7. Short-Term Loans Payable and Long-Term Loans Payable

Short-term loans payable at March 31, 2015 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Short-term loans principally from banks with interest rates 1.0% per annum (weighted average interest rate) at March 31, 2015 and 2016:			
Secured	603	1,110	9,847
Unsecured	15,504	13,236	117,468
	¥16,107	¥14,346	\$127,315

Long-term loans payable (included repayment due within one year) at March 31, 2015 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Loans principally from banks and insurance companies due through 2022 with interest rates 2.2% and 2.0% per annum (weighted average interest rate) in 2015 and 2016, respectively:			
Secured	773	752	6,675
Unsecured	22,147	27,991	248,415
	22,920	28,744	255,090
Less amount due within one year	2,533	6,494	57,634
	¥20,387	¥22,249	\$197,456

The following assets were pledged as collateral for secured loans at March 31.

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cash and deposits	¥ 408	¥ 445	\$ 3,951
Notes and accounts receivable—trade, net	1,508	3,767	33,432
Inventories	423	816	7,238
Current assets: Other	805	910	8,074
Buildings and structures, net	3,132	2,868	25,453
Machinery, equipment and vehicles, net	1,020	1,182	10,493
Land	4,468	4,593	40,765
Property, plant and equipment: Other, net	59	114	1,008
Intangible assets: Other	103	110	974
Investments and other assets: Other, net	75	160	1,416
Total	¥12,001	¥14,964	\$132,804

The annual maturities of long-term debt at March 31, 2016 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2017	¥ 6,494	\$ 57,634
2018	6,070	53,870
2019	6,038	53,584
2020	5,388	47,819
2021	3,533	31,359
2022 and thereafter	1,220	10,825
	¥28,744	\$255,090

## 8. Employees' Severance and Retirement Benefits

The Company and domestic consolidated subsidiaries have a corporate pension fund plan and a lump-sum payment plan which are defined benefit plans.

### Defined benefit plans

#### 1. Movement in retirement benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance at April 1	¥50,262	¥50,197	\$445,483
Cumulative effects of changes in accounting policies	(1,498)	—	—
Restated balance	48,764	50,197	445,483
Current service cost	2,389	2,590	22,987
Interest cost	376	286	2,540
Actuarial loss (gain)	1,097	1,292	11,465
Benefits paid	(2,389)	(2,685)	(23,827)
Other	(40)	(21)	(188)
Balance at March 31	¥50,197	¥51,659	\$458,460

#### 2. Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance at April 1	¥35,019	¥36,451	\$323,493
Expected return on plan assets	376	149	1,326
Actuarial loss (gain)	1,317	199	1,766
Contributions paid by the employer	1,566	1,618	14,361
Benefits paid	(1,798)	(1,909)	(16,945)
Other	(29)	(29)	(259)
Balance at March 31	¥36,451	¥36,479	\$323,741

## 3. Reconciliation from retirement benefit obligation and plan assets to liability (assets) for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Funded retirement benefit obligation	¥ 39,003	¥ 40,002	\$ 355,008
Plan assets	(36,451)	(36,479)	(323,741)
	2,552	3,523	31,267
Unfunded retirement benefit obligation	11,194	11,657	103,452
Total Net liability (assets) for retirement benefit at March 31	13,746	15,180	134,719
Net defined benefit liability	13,746	15,180	134,719
Total Net liability (assets) for retirement benefit at March 31	¥ 13,746	¥ 15,180	\$ 134,719

## 4. Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Current service cost	2,389	2,590	22,987
Interest cost	376	285	2,529
Expected return on plan assets	(376)	(149)	(1,326)
Net actuarial loss amortization	293	(220)	(1,952)
Total retirement benefit costs for the fiscal year ended March 31	¥2,682	¥2,506	\$22,238

## 5. Other comprehensive income on remeasurements of defined benefit plans, before tax

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Actuarial gains and losses	513	(1,313)	(11,651)
Total balance at March 31	¥513	¥(1,313)	\$(11,651)

## 6. Accumulated other comprehensive income on remeasurements of defined benefit plans, before tax

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Unrecognized actuarial gains and losses	220	(1,093)	(9,699)
Total balance at March 31	¥220	¥(1,093)	\$(9,699)

## 7. Plan assets

(1) Plan assets comprise:

	2015	2016
Bonds	71.5%	70.1%
Equity securities	8.0	8.3
Cash and cash equivalents	0.7	2.9
Alternative investments	19.8	18.7
Total	100.0%	100.0%

(2) Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered to determine long-term expected rate of return.

## 8. Actuarial assumptions

Principal actuarial assumptions at March 31

	2015	2016
Discount rate (mainly)	0.64%	0.40%
Long-term expected rate of return (mainly)	0.57	0.35

## 9. Income Taxes

Income taxes in the accompanying consolidated statements of income comprise corporation, enterprise and inhabitants' taxes. The statutory income tax rate was approximately 33.1%.

Amendments to the Japanese tax regulations were enacted in regular Diet session on March 29, 2016. Based on these amendments, the statutory income tax rate will be reduced from 32.3% to 30.9% effective from the year beginning April 1, 2016, and to 30.6% effective from the year beginning April 1, 2018, thereafter.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting deferred tax liabilities) decreased by ¥7 million (\$62 thousand) as of March 31, 2016, deferred income tax expense recognized for the fiscal year ended March 31, 2016 increased by ¥367 million (\$3,260 thousand), net unrealized gains on securities increased by ¥379 million (\$3,365 thousand), and remeasurements of defined benefit plans decreased ¥19 million (\$167 thousand).

The following table summarizes the significant differences between the statutory income tax rate and the Companies' effective tax rates for financial statement purposes for the years ended March 31, 2015 and 2016:

	2015	2016
Statutory income tax rate	35.6%	33.1%
Tax credit on research and development costs	(4.6)	(3.5)
Share of loss (profit) of entities accounted for using equity method	0.2	(2.2)
Valuation allowance	1.2	(10.6)
Effect of enacted changes in tax laws and rates on Japanese tax	1.8	1.3
Other	(5.2)	0.3
Effective tax rate	29.0%	18.4%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Deferred tax assets:			
Net defined benefit liability	¥ 4,429	¥ 4,181	\$ 37,104
Impairment loss	501	1,872	16,615
Unrealized gain on sale of inventories	1,550	1,295	11,489
Accrued bonuses	1,372	1,294	11,484
Loss carried forward	3,439	1,132	10,043
Unrealized gain on sale of non-current assets	959	850	7,545
Loss on valuation of investment securities	544	430	3,812
Other	2,929	3,545	31,458
Sub-total	15,723	14,598	129,550
Valuation allowance	(4,330)	(2,515)	(22,316)
Total deferred tax assets	11,393	12,083	107,234
Deferred tax liabilities:			
Unrealized gains on securities	(9,171)	(6,716)	(59,601)
Deferred gain on sales of non-current assets	(2,736)	(2,705)	(24,005)
Other	(1,539)	(1,652)	(14,660)
Total deferred tax liabilities	(13,446)	(11,073)	(98,266)
Net deferred tax assets (liabilities)	¥ (2,053)	¥ 1,011	\$ 8,968

## 10. Impairment loss of Non-current Assets

The Companies recognized impairment losses on the following group of noncurrent assets for the year ended March 31, 2015 and 2016.

Use	Location	Asset category	Millions of yen	Thousands of U.S. dollars
			2016	2016
Assets for fine chemicals and other products business	Hokuto City, Yamanashi Prefecture	Buildings and structures	¥2,287	\$20,300
		Machinery, equipment and vehicles	3,471	30,806
		Land	118	1,051
		Other	264	2,343
	Other	Land and buildings and Other	1,398	12,411
Total			¥7,539	\$66,911

The Companies have grouped their non-current assets into business units. Non-current assets that are idle or not being used for business activities are assessed individually. The book value of non-current asset was written down to its recoverable value.

## 11. Comprehensive income

Amounts reclassified to profit in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows;

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Unrealized gains on securities:			
Occurrence amount	¥ 8,288	¥ (6,451)	\$ (57,251)
Recycling	2,250	(581)	(5,155)
Before tax effect	¥10,538	¥ (7,032)	\$ (62,406)
Tax effect	(2,820)	3,042	26,994
Unrealized gains on securities, net of tax	7,718	(3,990)	(35,412)
Foreign currency translation adjustments			
Occurrence amount	¥ 6,647	¥ (4,320)	\$ (38,338)
Foreign currency translation adjustments	¥ 6,647	¥ (4,320)	\$ (38,338)
Remeasurements of defined benefit plans:			
Occurrence amount	¥ 220	¥ (1,093)	\$ (9,699)
Recycling	293	(220)	(1,952)
Before tax effect	513	(1,313)	(11,651)
Tax effect	(175)	406	3,601
Remeasurements of defined benefit plans, net of tax	338	(907)	(8,050)
Share of other comprehensive income of associates accounted for using equity method			
Occurrence amount	¥ 1,695	(1,187)	(10,536)
Share of other comprehensive income of associates accounted for using equity method	¥ 1,695	(1,187)	(10,536)
Total other comprehensive income before tax	¥19,393	¥(13,852)	\$(122,931)
Tax effect	¥ (2,995)	¥ 3,448	\$ 30,595
Other comprehensive income, net of tax	¥16,398	¥(10,404)	\$ (92,336)

## 12. Net Assets

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law ("the Law"), in the case where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividends or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Japanese laws and regulations.

At the annual shareholders meeting held on June 17, 2016, the shareholders resolved cash dividends amounting to ¥5,640 million (\$50,050 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2016. Such appropriations are recognized in the period in which they are resolved.

### 13. Stock Option Plans

The shareholders of the Company approved the issuance of stock options to the directors and the executive officers of the Company as follows:

Date of resolution of the general shareholders' meeting	June 17, 2005	June 16, 2006	June 15, 2007
The maximum number of shares to be issued	62,500 shares	39,100 shares	48,500 shares
Exercisable period of stock options	From June 18, 2005 to June 17, 2025	From August 2, 2006 to June 16, 2026	From July 11, 2007 to July 10, 2027
Stock subscription rights which have been vested outstanding as of March 31, 2016	22,000 shares	24,200 shares	35,900 shares
Exercise price per share	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01
Date of resolution of the general shareholders' meeting	June 13, 2008	June 16, 2009	June 18, 2010
The maximum number of shares to be issued	73,900 shares	80,200 shares	84,200 shares
Exercisable period of stock options	From July 16, 2008 to July 15, 2028	From July 15, 2009 to July 14, 2029	From July 14, 2010 to July 13, 2030
Stock subscription rights which have been vested outstanding as of March 31, 2016	55,400 shares	70,100 shares	81,900 shares
Exercise price per share	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01
Date of resolution of the general shareholders' meeting	June 17, 2011	June 15, 2012	June 21, 2013
The maximum number of shares to be issued	81,000 shares	95,200 shares	50,100 shares
Exercisable period of stock options	From July 13, 2011 to July 12, 2031	From July 11, 2012 to July 10, 2032	From July 17, 2013 to July 16, 2033
Stock subscription rights which have been vested outstanding as of March 31, 2016	81,000 shares	95,200 shares	50,100 shares
Exercise price per share	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01
Date of resolution of the general shareholders' meeting	June 17, 2014	June 17, 2015	
The maximum number of shares to be issued	55,800 shares	51,600 shares	
Exercisable period of stock options	From July 31, 2014 to July 30, 2034	From July 29, 2015 to July 28, 2020	
Stock subscription rights which have been vested outstanding as of March 31, 2016	54,000 shares	51,600 shares	
Exercise price per share	¥1 \$0.01	¥1 \$0.01	

The compensation cost recognized for these stock options for the years ended March 31, 2015 and 2016 was ¥83 million and ¥90 million (\$803 thousand) respectively, and was included in selling, general and administrative expenses in the consolidated statements of income.

## 14. Derivative Transactions

### (1) Qualitative disclosure about derivatives

The Companies enter into foreign exchange forward contracts and interest rate swap contracts as derivative financial instruments. The Companies deal with foreign exchange forward transactions to hedge exchange rate risks of trade receivables and payables denominated in foreign currency. Interest rate swap transactions are made in order to reduce interest rate risks on loans payable.

The Companies do not enter into derivatives for speculative transaction purposes. Hedge accounting is used for interest rate swaps in the case where there is a high degree of correlation between the hedging instruments and the hedged items.

Significant conditions surrounding hedging instruments are the

same as those for the items hedged, the risks of which will likely continue to be hedged through hedge transactions.

Foreign exchange forward contracts that the Companies entered have risks due to fluctuations in foreign exchange rates. Interest rate swap contracts that the Companies entered have risks due to fluctuations in interest rates. Due to the fact that counterparties to the Companies represent major financial institutions that have high creditworthiness, the Companies believe that the overall credit risk related to its financial instruments is insignificant.

Derivative transactions are executed and controlled based on the Companies' internal rules and are approved by the responsible officials. The balances of such transactions with counterparties are periodically confirmed.

### (2) Quantitative disclosure about derivatives

The following contract amounts are only nominal or notional amounts of derivatives, and do not necessarily indicate the magnitude of market risk associated with the derivative transactions.

Contract amounts, market values and recognized gains or losses on the derivative transactions, except those accounted for using hedge accounting, at March 31, 2015 and 2016 were as follows:

#### (a) Related to currencies

		Millions of yen			
		Contract amount	Over one year	Market value	Recognized gains or losses
March 31, 2015:					
Items not traded on exchanges					
Foreign exchange forward contracts					
Selling:	U.S. Dollars	¥1,812	¥—	¥(19)	¥(19)
	Euro	1,010	—	60	60
Buying:	U.S. Dollars	1,711	—	0	0
	Euro	768	—	(18)	(18)
	Swiss Franc	10	—	0	0
	Australian dollar	1	—	(0)	(0)
	Jananese Yen	851	—	(6)	(6)
Total		¥ —	¥—	¥ 17	¥ 17

		Millions of yen			
		Contract amount	Over one year	Market value	Recognized gains or losses
March 31, 2016:					
Items not traded on exchanges					
Foreign exchange forward contracts					
Selling:	U.S. Dollars	¥1,242	¥—	¥30	¥30
	Euro	1,711	—	30	30
	Chinese Yuan	22	—	0	0
Buying:	U.S. Dollars	1,318	—	(3)	(3)
	Euro	384	—	(2)	(2)
	Swiss Franc	0	—	(0)	(0)
	Japanese Yen	672	—	1	1
Total		¥ —	¥—	¥56	¥56

		Thousands of U.S. dollars			
		Contract amount	Over one year	Market value	Recognized gains or losses
March 31, 2016:					
Items not traded on exchanges					
Foreign exchange forward contracts					
	Selling:				
	U.S. Dollars	\$11,022	\$—	\$266	\$266
	Euro	15,183	—	264	264
	Chinese Yuan	199	—	4	4
	Buying:				
	U.S. Dollars	11,698	—	(30)	(30)
	Euro	3,410	—	(15)	(15)
	Swiss Franc	0	—	(0)	(0)
	Japanese Yen	5,964	—	8	8
	Total	\$ —	\$—	\$497	\$497

Market values are calculated using foreign exchange forward rates.

#### (b) Related to interests

		Millions of yen		
		Contract amount	Over one year	Market value
March 31, 2015:				
	Special treatment for interest rate swaps Interest rate swaps (paid fix / received floating) (Heaged item: Long-term loans payable)	¥21,437	¥19,202	¥(213)
	Total	¥21,437	¥19,202	¥(213)

		Millions of yen		
		Contract amount	Over one year	Market value
March 31, 2016:				
	Special treatment for interest rate swaps Interest rate swaps (paid fix / received floating) (Heaged item: Long-term loans payable)	¥16,158	¥2,817	¥(312)
	Total	¥16,158	¥2,817	¥(312)

		Thousands of U.S. dollars		
		Contract amount	Over one year	Market value
March 31, 2016:				
	Special treatment for interest rate swaps Interest rate swaps (paid fix / received floating) (Heaged item: Long-term loans payable)	\$143,400	\$25,000	\$(2,771)
	Total	\$143,400	\$25,000	\$(2,771)

## 15. Research and Development Expenses

Research and development expenses of the Companies for the years ended March 31, 2015 and 2016 were, ¥22,253 million and ¥21,260 million (\$188,679 thousand), respectively, which are included in selling, general and administrative expenses or manufacturing costs.

## 16. Segment Information

The Companies' business segments are classified into the following three business segments: (1) Elastomers business, (2) Plastics business, and (3) Fine chemicals and other products business.

A summary of net sales, costs and expenses, operating income, identifiable assets, depreciation, impairment loss and capital expenditures by segment of business activities for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen					
	Elastomers	Plastics	Fine chemicals and other products	Total	Reconciliation	Consolidated
For 2015:						
Sales to external customers	¥198,958	¥55,161	¥149,954	¥404,073	¥ —	¥404,073
Inter-segment sales/transfers	3,974	—	—	3,974	(3,974)	—
Sales total	202,932	55,161	149,954	408,047	(3,974)	404,073
Operating income	¥ 10,736	¥ 2,842	¥ 24,490	¥ 38,068	¥ —	¥ 38,068
Identifiable assets	¥233,286	¥35,108	¥158,802	¥427,196	¥107,396	¥534,592
Depreciation and amortization	7,521	1,114	8,772	17,407	—	17,407
Impairment loss	—	—	—	—	—	—
Capital expenditures	16,472	2,035	16,650	35,157	—	35,157
Amortization of goodwill	—	44	—	44	—	44
Goodwill	—	620	5,860	6,480	—	6,480

	Millions of yen					
	Elastomers	Plastics	Fine chemicals and other products	Total	Reconciliation	Consolidated
For 2016:						
Sales to external customers	¥179,253	¥52,207	¥155,250	¥386,709	¥ —	¥386,709
Inter-segment sales/transfers	3,734	—	—	3,734	(3,734)	—
Sales total	182,987	52,207	155,250	390,443	(3,734)	386,709
Operating income	¥ 7,492	¥ 5,114	¥ 21,803	¥ 34,408	¥ —	¥ 34,408
Identifiable assets	¥221,029	¥32,842	¥156,413	¥410,284	¥106,076	¥516,360
Depreciation and amortization	7,662	1,051	9,795	18,508	—	18,508
Impairment loss	—	—	7,539	7,539	—	7,539
Capital expenditures	15,278	837	8,161	24,276	—	24,276
Amortization of goodwill	—	45	401	446	—	446
Goodwill	—	585	9,204	9,788	—	9,788

	Thousands of U.S. dollars					
	Elastomers	Plastics	Fine chemicals and other products	Total	Reconciliation	Consolidated
For 2016:						
Sales to external customers	\$1,590,811	\$463,319	\$1,377,795	\$3,431,924	\$ —	\$3,431,924
Inter-segment sales/transfers	33,138	—	—	33,138	(33,138)	—
Sales total	1,623,949	463,319	1,377,795	3,465,062	(33,138)	3,431,924
Operating income	\$ 66,488	\$ 45,383	\$ 193,491	\$ 305,362	\$ —	\$ 305,362
Identifiable assets	\$1,961,562	\$291,465	\$1,388,114	\$3,641,141	\$941,390	\$4,582,531
Depreciation and amortization	67,995	9,331	86,931	164,257	—	164,257
Impairment loss	—	—	66,911	66,911	—	66,911
Capital expenditures	135,592	7,430	72,424	215,445	—	215,445
Amortization of goodwill	—	399	3,556	3,955	—	3,955
Goodwill	—	5,188	81,679	86,867	—	86,867

Assets in reconciliation are related mainly to Cash, Short-term investment securities and Investment securities of the Company.

Geographic segment information with respect to net sales for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen				Total
	Japan	Korea	China	Others	
For 2015:	¥188,833	¥47,544	¥45,229	¥122,467	¥404,073
For 2016:	<b>¥171,643</b>	<b>¥41,156</b>	<b>¥48,156</b>	<b>¥125,753</b>	<b>¥386,709</b>

	Thousands of U.S. dollars				Total
	Japan	Korea	China	Others	
For 2016:	<b>\$1,523,282</b>	<b>\$365,249</b>	<b>\$427,372</b>	<b>\$1,116,021</b>	<b>\$3,431,924</b>

The geographical segments consist of Japan, Korea, China and Others. Japan, Korea and China have been divided as independent segments considering the materiality of the sales. Main countries included in Others segment were as follows;

Taiwan, Thailand, United States, Belgium

Geographic segment information with respect to property, plant and equipment for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen			Total
	Japan	Thailand	Others	
For 2015:	¥76,654	¥25,623	¥13,636	¥115,913
For 2016:	<b>¥72,550</b>	<b>¥27,193</b>	<b>¥12,950</b>	<b>¥112,694</b>

	Thousands of U.S. dollars			Total
	Japan	Thailand	Others	
For 2016:	<b>\$643,859</b>	<b>\$241,334</b>	<b>\$114,930</b>	<b>\$1,000,123</b>

The geographical segments consist of Japan, Thailand and Others. Japan and Thailand have been divided as independent segments considering the materiality of the property, plant and equipment. Main countries included in Others segment were as follows;

Korea, China, Taiwan, United States, Belgium

## 17. Related Parties

### Related party transactions

Significant transactions and balances with related parties as of and for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
BRIDGESTONE Corporation (a major shareholder):			
Net Sales	¥36,888	¥31,174	\$276,657
Notes and accounts receivable—trade, net	12,777	10,611	94,167
JSR MOL Synthetic Rubber Ltd. (subsidiary):			
Undertaking capital increase	—	5,217	46,298

## 18. Business Combinations

Acquisition of MEDICAL & BIOLOGICAL LABORATORIES CO., LTD.

### 1. Summary of business combination

The Company purchased the 50.01% stake in MEDICAL & BIOLOGICAL LABORATORIES CO., LTD. on October 2, 2015.

#### (1) Name and business of the acquired company

Name of the acquired company: MEDICAL & BIOLOGICAL LABORATORIES CO., LTD.

Business: Research and development, manufacturing and distribution of in vitro diagnostics and reagent for fundamental research

#### (2) Major reason for business combination

The acquisition of MEDICAL & BIOLOGICAL LABORATORIES CO., LTD. will allow the Companies to build-up the companies' business foundation in the field of reagent business for drug development and diagnostic pharmaceuticals.

#### (3) Date of business combination

October 2, 2015

#### (4) Legal form of business combination

Acquisition of shares for cash consideration

#### (5) Company name after business combination

MEDICAL & BIOLOGICAL LABORATORIES CO., LTD.

#### (6) Percentage of acquired voting rights

Percentage of voting rights held immediately before business combination: 49.21%

Percentage of voting rights added on business combination date: 0.80%

Percentage of voting rights held upon acquisition: 50.01%

#### (7) Basis for determining the acquiring company

The Company acquired 50.01% of the voting rights in exchange for cash.

### 2. Period of operating results of the acquired company included in the consolidated financial statements

As the Company deemed the acquisition date as October 1, 2015, operating results were included in the consolidated financial statements from 3rd quarter, 2016.

### 3. Acquisition cost

Fair value of equity owned by the Company before business combination: ¥7,341 million (\$65,150 thousand).

Fair value of additional equity acquired by the Company on the date of business combination: ¥119 million (\$1,057 thousand).

Total acquisition cost: ¥7,460 million (\$66,207 thousand).

### 4. Main acquisition related costs

Fee paid to The Nomura Trust and Banking Co., Ltd.: ¥4 million (\$40 thousand).

5. Difference between Acquisition cost and accumulation of each deal.  
Gain on step acquisitions: ¥1,758 million (\$15,598 thousand).
6. Amount of goodwill, reason for recognition, and amortization method and period  
(1) Amount of goodwill: ¥3,734 million (\$33,138 thousand).  
(2) Reason for recognition: Goodwill was recognized as the excess of the acquisition cost over the net fair value of assets acquired and liabilities assumed.  
(3) Amortization method and period: Straight-line method over 20 years
7. Details on assets acquired and liabilities assumed on the date of business combination
- |                         |                                      |
|-------------------------|--------------------------------------|
| Current assets          | ¥ 8,125 million (\$ 72,111 thousand) |
| Non-current assets      | ¥ 4,329 million (\$ 38,420 thousand) |
| Total assets            | ¥12,455 million (\$110,531 thousand) |
| Current liabilities     | ¥ 2,700 million (\$ 23,965 thousand) |
| Non-current liabilities | ¥ 2,068 million (\$ 18,355 thousand) |
| Total liabilities       | ¥ 4,769 million (\$ 42,320 thousand) |
8. Effect on the consolidated statement of income assuming the business combination had been carried out on April 1, 2015.
- |   |                                    |
|---|------------------------------------|
| Net sales                               | ¥3,816 million (\$33,867 thousand) |
| Profit before income taxes              | ¥ 41 million (\$ 368 thousand)     |
| Profit attributable to owners of parent | ¥ 141 million (\$ 1,254 thousand)  |

The above amounts represent the difference between the actual figures and the estimates of the figures calculated based on the assumption that the business combination was completed at the beginning of the fiscal year ended March 31, 2016.

The amortized amount of goodwill was calculated assuming that the goodwill recognized at the time of the business combination had arisen at the beginning of the fiscal year ended March 31, 2016.

The above amounts are un-audited.

## 19. Contingent Liabilities

At March 31, 2016, the Companies were contingently liable as guarantors for loans of CMIC JSR Biologics Co., Ltd., JEY-TRANS CO., LTD., PT.ELASTOMIX INDONESIA and employees in the amount of ¥1,123 million (\$9,964 thousand), ¥156 million (\$1,384 thousand), ¥188 million (\$1,664 thousand) and ¥2 million (\$15 thousand), respectively.

## 20. Subsequent Events

At the June 17, 2016 annual meeting, the Company's shareholders approved the following appropriations of retained earnings: Payment of a year-end cash dividend of ¥25.00 (\$0.22) per share aggregating ¥5,640 million (\$50,050 thousand).



### Independent Auditor's Report

To the Board of Directors of JSR Corporation:

We have audited the accompanying consolidated financial statements of JSR Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSR Corporation and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

#### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

**KPMG AZSA LLC**  
KPMG AZSA LLC  
June 17, 2016  
Tokyo, Japan