

(TSE Code 4185)
May 25, 2017

Dear Shareholders,

Notice of Convening of the 72nd Ordinary General Meeting of Shareholders
of
JSR Corporation

We are pleased to announce the convening of the 72nd Ordinary General Meeting of Shareholders of JSR Corporation as detailed below:

You are cordially invited to attend the meeting, and we do hope you will be able to attend and participate.

If you are unable to attend the meeting in person, please exercise your voting rights by returning the ballot form or by electromagnetic transmission (Internet, etc.) in accordance with the guide on the next page after reviewing the "Reference Materials for the General Meeting of Shareholders" attached hereto and indicating your approval or disapproval for each agenda item.

Sincerely,

Mitsunobu Koshiha
Representative Director and President
JSR Corporation
1-9-2, Higashi-Shinbashi
Minato-ku, Tokyo

1. Date and Time June 16, 2017 (Friday) 10:00 a.m. (Reception from 9:00 a.m.)

2. Venue Conrad Tokyo
Annex 2F, "Kazanami"
1-9-1, Higashi-Shinbashi, Minato-ku, Tokyo, Japan

3. Agenda

Matters to be Reported

1. Business Report, Consolidated Financial Statements for the 72nd Fiscal Term (from April 1, 2016 to March 31, 2017) and Audit Report thereon by the Accounting Auditors and the Audit & Supervisory Board
2. Non-Consolidated Financial Statements for the 72nd Fiscal Term (from April 1, 2016 to March 31, 2017)

Matters to be Resolved

- Proposal 1. Appropriation of surplus
- Proposal 2. Election of seven (7) Directors
- Proposal 3. Election of one (1) Audit & Supervisory Board Member
- Proposal 4. Election of two (2) Substitute Audit & Supervisory Board Members
- Proposal 5. Payment of annual bonuses to Directors
- Proposal 6. Setting maximum amount of remuneration for annual bonuses to Directors
- Proposal 7. Determining amount of remuneration for granting restricted stock shares to Directors

4. Matters related to exercising your voting rights

(1) Participating in the General Meeting of Shareholders in person:

Please hand over the ballot form attached hereto at the reception.

(2) By Post:

Please return the ballot form attached hereto after indicating your approval or disapproval so that your ballot reaches us by 5:45 p.m. on Thursday, June 15, 2017 (Japan Time).

(3) Voting via electromagnetic transmission (Internet, etc.):

Please exercise your voting rights via Internet by accessing our web site for online voting (<http://www.web54.net>) by 5:45 p.m. on Thursday, June 15, 2017 (Japan Time) after reviewing the “Reminders for Exercising Voting Rights via Internet” on page 21 (of this translation).

Please note, however, that the above web site for online voting is only available in the Japanese language.

(4) Exercising your voting rights in duplicate:

- i) If you exercise your voting rights in duplicate by post and via electromagnetic transmission (Internet, etc.), we will treat the voting made via electromagnetic transmission (Internet, etc.) as the effective one.
- ii) If you exercise your voting rights via electromagnetic transmission (Internet, etc.) more than once, we will treat the last vote as the effective one.

(5) Voting by Proxy:

If you would like to exercise your voting rights by proxy, please assign another shareholder of the Company as your proxy and make such proxy submit to the Company a certificate evidencing the power to vote on your behalf.

(6) Use of Electronic Proxy Voting Platform:

If you are a shareholder among institutional investors, you may be able to exercise your voting rights through the Electronic Proxy Voting Platform operated by ICJ Inc. for its participants as a way to exercise your voting rights.

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Notice

Should it become necessary to correct the information contained in the “Reference Materials for the General Meeting of Shareholders”, “Business Report”, “Non-Consolidated Financial Statements” and/or “Consolidated Financial Statements”, we will post the correction on our web site ([http://www.jsr.co.jp/jsr\\_e/ir/shareholder.shtml](http://www.jsr.co.jp/jsr_e/ir/shareholder.shtml)).

## **Reference Materials for the General Meeting of Shareholders**

### **Agenda and Reference Materials**

#### **Proposal 1. Appropriation of surplus**

The Company considers it vitally important to improve corporate performance on a long-term basis by strengthening its research and development activities from a long-term viewpoint and enhancing competitiveness through development of new businesses. Our basic policy for dividends is, based upon the above understanding, to sustain continual and stable dividends considering an appropriate balance between distribution of profits to our shareholders and enhancement of the internal reserve required for future growth of the Company, taking into account the performance and the capital requirement.

The Company will comprehensively consider acquiring treasury shares as a measure for distributing the profit to shareholders while taking market environment into account. The Company will effectively utilize its internal reserves for investments that ensure further future growth and higher corporate values of the Company.

The Company would like to propose the following year-end dividends after thorough consideration of the points mentioned above.

##### **(1) Form of dividend**

Cash

##### **(2) Matters regarding disbursements of dividends to shareholders and total amount thereof**

The Company would like to distribute ¥25 per ordinary share of the Company as year-end dividends.

The total amount of year-end dividends will therefore amount to ¥5,562,850,325.

Accordingly, total dividends per share for this fiscal year (inclusive of interim dividends) will be ¥50, and the total amount of dividends distributed will be ¥11,124,786,775.-


##### **(3) Effective Date of dividend distribution**


June 19, 2017


## Proposal 2. Election of seven (7) Directors


As the tenures of all eight (8) current Directors will expire at the close of this ordinary general meeting of shareholders, the Company proposes, in consideration of the appropriate composition of board members to ensure continuing growth of corporate value, that the following seven (7) Directors be newly elected. The following candidates for Directors were nominated based on the deliberation of the Company's Nomination Advisory Committee of which the majority members are Independent Outside Directors and the chair of which is an Independent Outside Director.


The candidates for Directors are as follows:

| No. | Name<br>(Date of Birth)                                                                                                                                                                                                                                                           | Brief personal record, position, responsibilities,<br>and other important concurrent positions held                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
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| 1   | <p>Mitsunobu Koshiba<br/>(November 9, 1955)</p>  <p><u>Re-appointment</u></p> <p>Number of the Company shares owned: 30,300</p> <p>Record of attendance at BOD meetings: 17/17 times (100%)</p> | <p>Oct. 1981 Joined JSR</p> <p>Jun. 2004 Director, General Manager, Electronic Materials Division</p> <p>Jun. 2005 Senior Officer, General Manager, Electronic Materials Division</p> <p>Jun. 2006 Managing Director, General Manager, Electronic Materials Division</p> <p>Jun. 2008 Senior Managing Director</p> <p>Apr. 2009 Representative Director and President (current position)</p> <p>Reasons for the Nomination of this Candidate for Director:<br/>Since joining JSR, Mr. Mitsunobu Koshiba has worked in the field of JSR's electronic material businesses, and has been engaged in JSR's research and development as well as the establishment of JSR's overseas offices in Europe and America. As General Manager of Electronic Materials Division, he has advanced the globalization and expansion of JSR's businesses. After assuming the office of Representative Director and President, he has also pushed forward JSR's midterm management plans (JSR20i3, JSR20i6) to realize the JSR's objectives for 2020. Additionally, Mr. Koshiba has enhanced the Company's corporate governance standards, thereby enhancing the trust of all stakeholders of the Company. Mr. Koshiba is expected to continue to contribute his vast experience and knowledge to help the Company in making crucial decisions and to supervise the performance of duty at the BOD level, thereby contributing further to the enhancement of JSR's corporate value. For the above reasons, he has been nominated as a candidate for Director.</p> |

| No. | Name<br>(Date of Birth)                                                                                                                                                                                                                                                                                 | Brief personal record, position, responsibilities,<br>and other important concurrent positions held                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
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| 2   | <p>Koichi Kawasaki<br/>(April 20, 1957)</p>  <p><u>Re-appointment</u></p> <p>Number of Company shares owned: 12,100</p> <p>Record of attendance at BOD meetings: 13/13 times held after assuming his office (100%)</p> | <p>Apr. 1983 Joined JSR</p> <p>Jun. 2003 Head, the First Manufacture and Technology Center</p> <p>Jun. 2005 Officer, General Manager, Manufacturing &amp; Technology Division</p> <p>Jun. 2007 Director and Senior Officer, General Manager, Manufacturing &amp; Technology Division</p> <p>Jun. 2008 Director and Senior Officer, General Manager, Elastomer Business Division</p> <p>Jun. 2011 Managing Officer, General Manager, Petrochemical Products Division</p> <p>Jun. 2014 Executive Managing Officer, General Manager, Petrochemical Products Division</p> <p>Jun. 2016 Representative Director and Executive Managing Officer, General Manager, Manufacturing &amp; Technology Group (current position)</p> <p>(Current responsibilities)<br/>Manufacturing and Technology, Product Safety &amp; Quality Assurance, Procurement, Logistics, and Safety and Environment Affairs</p> <p>Reasons for the Nomination of this Candidate for Director:<br/>For many years since joining JSR, Mr. Koichi Kawasaki has been engaged in JSR's production, manufacturing &amp; technology-related businesses.<br/>After assuming the position in charge of JSR's petrochemical products businesses, he has been recently responsible for Manufacturing and Technology, Product Safety &amp; Quality Assurance, Procurement, Logistics and Safety and Environment Affairs. Throughout his career, he has contributed to the enhancement of JSR's corporate value.<br/>Mr. Kawasaki is expected to contribute his vast experience and knowledge to help the Company in making crucial decisions and to supervise the performance of duty at the BOD level, thereby continually contributing further to the enhancement of JSR Group's corporate value. For the above reasons, he has been nominated as a candidate for Director.</p> |


| No. | Name<br>(Date of Birth)                                                                                                                                                                                                                                                                               | Brief personal record, position, responsibilities,<br>and other important concurrent positions held                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
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| 3   | <p>Nobuo Kawahashi<br/>(July 23, 1956)</p> <p><u>Re-appointment</u></p>  <p>Number of Company shares owned: 4,500</p> <p>Record of attendance at BOD meetings: 13/13 times held after assuming his office (100%)</p> | <p>Apr. 1981    Joined JSR</p> <p>Jun. 2002    Head, Functional Materials Development Laboratory, Fine Electronic Materials Research Laboratories</p> <p>Jun. 2008    Officer, General Manager, Display Material Business Division and New FPD Materials Division</p> <p>Jun. 2009    Officer, General Manager, Electronic Materials Division</p> <p>Jun. 2010    Officer and President of JSR Micro Korea Co., Ltd.</p> <p>Jun. 2011    Senior Officer and President of JSR Micro Korea Co., Ltd.</p> <p>Apr. 2014    Senior Officer, General Manager, Research and Development Division</p> <p>Jun. 2016    Director and Managing Officer (current position)</p> <p>(Current responsibilities )<br/>Research and Development</p> <p>Reasons for the Nomination of this Candidate for Director:<br/>For many years since joining JSR, Mr. Nobuo Kawahashi has been engaged in JSR's research and development. He has served as the General Manager at JSR's Display Material Business Division and Electronic Materials Division. He also served as President of JSR Micro Korea Co., Ltd. He is currently in charge of research and development, and has, throughout his career, contributed to the enhancement of JSR's corporate value. Mr. Kawahashi is expected to contribute his vast experience and knowledge to help the Company in making crucial decisions and to supervise the performance of duty at the BOD level, thereby continually contributing further to the enhancement of JSR Group's corporate value. For the above reasons, he has been nominated as a candidate for Director.</p> |


| No. | Name<br>(Date of Birth)                                                                                                                                                                                                                                                                              | Brief personal record, position, responsibilities,<br>and other important concurrent positions held                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
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| 4   | <p>Takao Shimizu<br/>(March 10, 1957)</p>  <p><u>Re-appointment</u></p> <p>Number of Company shares owned: 4,371</p> <p>Record of attendance at BOD meetings: 13/13 times held after assuming his office (100%)</p> | <p>Apr. 1982    Joined the Ministry of International Trade and Industry (currently known as the Ministry of Economy, Trade and Industry)</p> <p>Sep. 2005    Chief of the Product Safety Division, Consumer Affairs Division, Commerce and Information Policy Bureau, Ministry of Economy, Trade and Industry</p> <p>Jul. 2006    General Manager, Industrial Technology, Agricultural and Marine Products Division, Japan External Trade Organization</p> <p>Sep. 2009    Joined JSR</p> <p>Apr. 2011    General Manager, Business Planning Department, Strategic Business</p> <p>Jun. 2012    Officer, General Manager, Corporate Planning Department</p> <p>Jun. 2015    Senior Officer, General Manager of Office of President</p> <p>Jun. 2016    Director and Senior Officer, General Manager of Office of President</p> <p>(Current responsibilities)<br/>Office of President, Accounting and Finance, Corporate Communications and IT Strategy</p> <p>Reasons for the Nomination of the Candidate for Director:<br/>Mr. Takao Shimizu joined JSR after having served as the Chief of the Product Safety Division, Consumer Affairs Division of the Commerce and Information Policy Bureau at the Ministry of Economy, Trade and Industry, as well as the General Manager of the Industrial Technology, Agricultural and Marine Products Division at the Japan External Trade Organization. Since joining JSR, he assumed responsibilities of Corporate Planning, Office of President and CSR and has recently been responsible for the Office of President, Accounting and Finance, Corporate Communication and IT strategy. Throughout his career, he has contributed to the enhancement of JSR's corporate value. Mr. Shimizu is expected to contribute his vast experience and knowledge to help the Company in making crucial decisions and to supervise the performance of duty at the BOD level, thereby continually contributing further to the enhancement of JSR Group's corporate value. For the above reasons, he has been nominated as a candidate for Director.</p> |

| No. | Name<br>(Date of Birth)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Brief personal record, position, responsibilities,<br>and other important concurrent positions held                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
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| 5   | <p data-bbox="220 264 411 324">Yuzuru Matsuda<br/>(June 25, 1948)</p>  <p data-bbox="220 757 464 846"> <u>Outside Director</u><br/> <u>Re-appointment</u><br/> <u>Independent Director</u> </p> <p data-bbox="220 875 539 936">Number of Company shares owned: None</p> <p data-bbox="220 965 603 1025">Term of office:<br/>2 year at the close of this meeting</p> <p data-bbox="220 1055 560 1115">Record of attendance at BOD meetings: 17/17 times (100%)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <p data-bbox="639 264 1457 360">Apr.1977 Joined KYOWA HAKKO KOGYO CO., LTD. (“KHK”) (currently known as Kyowa Hakko Kirin Co., Ltd (“KH Kirin”))</p> <p data-bbox="639 360 1401 427">Jun. 2000 Officer, Head of the Pharmaceutical Research Institute Laboratory, KHK</p> <p data-bbox="639 427 1401 495">Jun. 2002 Executive Director and Director of Corporate Planning Department, KHK</p> <p data-bbox="639 495 1289 528">Jun. 2003 President and Chief Operating Officer, KHK</p> <p data-bbox="639 528 1214 562">Oct. 2008 President and Chief Officer, KH Kirin</p> <p data-bbox="639 562 1082 595">Mar. 2012 Senior Advisor, KH Kirin</p> <p data-bbox="639 595 1457 663">Jun. 2012 President of Kato Memorial Bioscience Foundation, a public interest incorporated association (current position)</p> <p data-bbox="639 663 1241 696">Mar. 2014 Retired from Senior Advisor, KH Kirin</p> <p data-bbox="639 696 1457 730">Jun. 2014 Outside Director, KUBOTA Corporation (current position)</p> <p data-bbox="639 730 1369 797">Jun. 2014 Outside Director, BANDAI NAMCO Holdings Inc. (current position)</p> <p data-bbox="639 797 1374 831">Jun. 2015 Outside Director, JSR Corporation (current position)</p> <p data-bbox="639 831 1457 1010"> (Important concurrent positions held)<br/> President of Kato Memorial Bioscience Foundation, a public interest incorporated association<br/> Outside Director. KUBOTA Corporation<br/> Outside Director, BANDAI NAMCO Holdings Inc. </p> <p data-bbox="639 1010 1457 1541"> Reasons for Nomination of this Candidate for Outside Director:<br/> Mr. Yuzuru Matsuda served as the President and Chief Officer of KYOWA HAKKO KOGYO CO., LTD and Kyowa Hakko Kirin, Co., Ltd. and the Advisor of Kyowa Hakko Kirin Co., Ltd. He has vast experience in corporate management for global companies especially in the field of medical and biochemical products and pharmaceuticals. He also possesses an independent perspective as outside personnel.<br/> He has utilized his experiences and independent viewpoints to help the Company in making crucial decisions, to supervise the performance of duty at the BOD level, and to strengthen the Company’s fair corporate governance through enhancement of fair and reasonable business judgment and transparent and sound management, thereby continually contributing further to the enhancement of JSR Group’s corporate value. He is, therefore, nominated again as a candidate for Outside Director. </p> |
|     | <p data-bbox="220 1541 1054 1574">The following are the items relating to the candidate for Outside Director:</p> <p data-bbox="240 1574 1457 2107"> (1) Mr. Yuzuru Matsuda is a candidate for Outside Director.<br/> (2) Summary of agreement to limit Outside Directors’ liabilities proposed to be entered into with Mr. Matsuda:<br/> The Company had previously, pursuant to Paragraph 1 of Article 423 of the Companies Act, entered into an agreement with Mr. Matsuda to limit his liabilities to the maximum permitted extent as set forth in Paragraph 1 of Article 425 of the Companies Act. If this proposal is approved and resolved as originally proposed at this general meeting, the Company intends to renew the agreement with Mr. Matsuda.<br/> (3) The Company has registered Mr. Matsuda with the Tokyo Stock Exchange as an Independent Director/Auditor, as such term is defined by the Exchange. If this proposal is approved and resolved as originally proposed at this general meeting, he will be re-appointed as an Independent Director/Auditor.<br/> (4) Mr. Matsuda meets the “Criteria for judging independence of outside directors and audit &amp; supervisory board members”, as set forth on page 21 of this translation.<br/> (5) There are some ongoing transactions involving the purchase of testing reagents and other products between the group companies of Kyowa Hakko Kirin Co., Ltd. (where Mr. Matsuda served as President and Chief Officer) and those of JSR Corporation. The value of such transactions in the business year (from April 2016 to March 2017) amounts to less than 0.1% of JSR Corporation’s </p> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |



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|  | <p>consolidated net sales for the business year.</p> <p>(6) KUBOTA-AGRI-SERVICE Corporation, a subsidiary of KUBOTA Corporation (where Mr. Matsuda currently holds an important position), was subject to on-site investigation by the Japan Fair Trade Commission in November 2013 for violating the antitrust laws of Japan in relation to its acceptance of orders from agricultural cooperatives for the construction of joint drying facilities. The Commission issued a cease and desist order against, and imposed a penalty payment on KUBOTA-AGRI-SERVICE Corporation in March 2015. A penalty was also imposed on KUBOTA Corporation for the same violation. Mr. Matsuda assumed the position of Outside Director of KUBOTA Corporation in June 2014, after such violation was revealed, and has committed to reorganize KUBOTA Corporation and enhance its compliance standards, as well as conclusively prevent a recurrence of the abovementioned violations in all KUBOTA Corporation group companies.</p> |
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| No. | Name<br>(Date of Birth)                                                                                                                                                                                                                                                                                                                                                                                                          | Brief personal record, position, responsibilities,<br>and other important concurrent positions held                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
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| 6   | <p>Shiro Sugata<br/>(November 17, 1949)</p>  <p><u>Outside Director</u><br/><u>Re-appointment</u><br/><u>Independent Director</u></p> <p>Number of Company shares owned: None</p> <p>Term of office:<br/>1 year at the close of this meeting</p> <p>Record of attendance at BOD meetings: 13/13 times held after assuming his office (100%)</p> | <p>Apr. 1972 Joined USHIO INC.<br/>Jan. 1993 President, BLV LICHT-UND VAKUUMTECHNIK GmbH<br/>Mar. 1994 General Manager, Technical Research Institute, USHIO INC.<br/>Jun. 2000 Director, Senior Officer, USHIO INC.<br/>Apr. 2004 Director, Executive Managing Officer, USHIO INC.<br/>Jun. 2004 Representative Director, Executive Managing Officer, USHIO INC.<br/>Mar. 2005 Representative Director and President, USHIO INC.<br/>Apr. 2013 Vice Chairman, Executive Director, Japan Association of Corporate Executives<br/>Oct. 2014 Director and Advisor, USHIO INC.<br/>Apr. 2015 Chairman, Organization and Membership Committee, Japan Association of Corporate Executives<br/>Jun. 2016 Outside Director, JSR Corporation (current position)<br/>Jun. 2016 Advisor, USHIO INC. (current position)<br/>Jun. 2016 Outside Director, Yokogawa Electric Corporation</p> <p>(Important concurrent positions held)<br/>Advisor USHIO INC.<br/>Outside Director, Yokogawa Electric Corporation</p> <p>Reasons for the Nomination of this Candidate for Outside Director:<br/>Mr. Shiro Sugata served as the Representative Director and President of USHIO INC., where he currently serves as Advisor. He also served as Vice Chairman, Executive Director at the Japan Association of Corporate Executives.<br/>He has vast experience in the corporate management of global companies especially in the field of optical application products and industrial machineries. He also has experience obtained through activities in the business community and possesses the perspective of independent outside personnel.<br/>He has utilized his experiences and independent viewpoints to help the Company in making crucial decisions, to supervise the performance of duty at the BOD level, and to strengthen the Company's fair corporate governance through enhancement of fair and reasonable business judgment and transparent and sound management, thereby continually contributing further to the enhancement of JSR Group's corporate value. He is, therefore, nominated again as a candidate for Outside Director.</p> |
|     |                                                                                                                                                                                                                                                                                                                                                                                                                                  | <p>The following are the items relating to the candidate for Outside Director:</p> <ol style="list-style-type: none"> <li>(1) Mr. Shiro Sugata is a candidate for Outside Director.</li> <li>(2) Summary of agreement to limit Outside Directors' liabilities proposed to be entered into with Mr. Sugata:<br/>The Company had previously, pursuant to Paragraph 1 of Article 423 of the Companies Act, entered into an agreement with Mr. Sugata to limit his liabilities to the maximum permitted extent as set forth in Paragraph 1 of Article 425 of the Companies Act. If this proposal is approved and resolved as originally proposed at this general meeting, the Company intends to renew the agreement with Mr. Sugata.</li> <li>(3) The Company has registered Mr. Sugata with the Tokyo Stock Exchange as an Independent Director/Auditor, as such term is defined by the Exchange. If this proposal is approved and resolved as originally proposed at this general meeting, he will be re-appointed as an Independent Director/Auditor.</li> <li>(4) Mr. Sugata meets the "Criteria for judging independence of outside directors and audit &amp; supervisory board members", as set forth on page 21 of this translation.</li> <li>(5) There have been some ongoing transactions involving the purchase of devices between the group companies of USHIO INC. (where Mr. Sugata served as Representative Director and President and is serving as Advisor) and those of JSR Corporation. The value of such transactions in the previous business year (from April 2014 to March 2016) amounted to less than 0.1% of USHIO INC's consolidated net sales for the previous business year.</li> </ol>                                                                                                                                                                                                                                                                                                                                                                                                                        |


| No. | Name<br>(Date of Birth)                                                                                                                                                                                                                                             | Brief personal record, position, responsibilities,<br>and other important concurrent positions held                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
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| 7   | <p>Tadayuki Seki<br/>(December 7, 1949)</p>  <p><u>Outside Director</u><br/><u>New-appointment</u><br/><u>Independent Director</u></p> <p>Number of Company shares owned: None</p> | <p>Apr. 1973 Joined ITOCHU Corporation<br/>Jun. 2004 Executive Officer and Chief Financial Officer, Food Company, ITOCHU Corporation<br/>Apr. 2007 Managing Executive Officer, General Manager, Finance Division, ITOCHU Corporation<br/>Jun. 2009 Representative Director, Managing Director, Chief Officer for Finance, Accounting, Risk Management and CFO, ITOCHU Corporation<br/>May 2011 Representative Director, Senior Managing Executive Officer, CFO, ITOCHU Corporation<br/>Apr. 2013 Representative Director, Executive Vice President, CFO, ITOCHU Corporation<br/>Apr. 2015 Advisor, ITOCHU Corporation<br/>May 2016 Outside Director, PARCO CO., LTD. (current position)<br/>Jun. 2016 Outside Director, NIPPON VALQUA INDUSTRIES, LTD. (current position)<br/>Apr. 2017 Advisory Member, ITOCHU Corporation</p> <p>(Important Concurrent Positions held)<br/>Advisory Member, ITOCHU Corporation<br/>Outside Director, PARCO CO., LTD.<br/>Outside Director, NIPPON VALQUA INDUSTRIES, LTD.</p> <p>Reasons for the Nomination of this Candidate for Outside Director:<br/>Mr. Tadayuki Seki served as the Representative Director and Executive Vice President and thereafter as the Advisor at ITOCHU Corporation. He has vast experience in the corporate management of a general trading company which operates a global trading business and possesses the perspectives of independent outside personnel. He is expected to contribute his experiences and independent viewpoints to help the Company in making crucial decisions, to supervise the performance of duty at the BOD level, and to strengthen the Company's fair corporate governance through enhancement of fair and reasonable business judgment and transparent and sound management, thereby continually contributing further to the enhancement of JSR Group's corporate value. He is, therefore, nominated as a candidate for Outside Director.</p> |
|     |                                                                                                                                                                                                                                                                     | <p>The following are the items relating to the candidate for Outside Director:</p> <ol style="list-style-type: none"> <li>(1) Mr. Tadayuki Seki is a candidate for Outside Director.</li> <li>(2) Summary of agreement to limit Outside Directors' liabilities proposed to be entered into with Mr. Seki:<br/>If this proposal is approved and resolved as originally proposed at this general meeting, the Company intends, pursuant to Paragraph 1 of Article 423 of the Companies Act, to enter into an agreement with Mr. Seki to limit his liabilities to the maximum permitted extent as set forth in Paragraph 1 of Article 425 of the Companies Act.</li> <li>(3) If this proposal is approved and resolved as originally proposed at this general meeting, the Company will register Mr. Seki with the Tokyo Stock Exchange as an Independent Director/Auditor, as such term is defined by the Exchange.</li> <li>(4) Mr. Seki meets the "Criteria for judging independence of outside directors and audit &amp; supervisory board members", as set forth on page 21 of this translation.</li> <li>(5) There have been some ongoing transactions involving the sales and purchase of synthetic rubber and plastics between the group companies of ITOCHU Corporation (where Mr. Seki served as Representative Director and Executive Vice President) and those of JSR Corporation. The values of such transaction in the previous business year (from April 2015 to March 2016) amounted to less than 0.4% of JSR Group's consolidated net sales and less than 0.1% of those of ITOCHU Corporation, respectively, for the previous business year.</li> </ol>                                                                                                                                                                                                                                                                       |

Note: No conflict of interest exists between the Company and each of the candidates for Directors.

### Proposal 3. Election of one (1) Audit & Supervisory Board Member

As the tenure of Mr. Hiroichi Uekusa, who is an Audit & Supervisory Board Member, will expire at the close of this ordinary general meeting of shareholders, the Company proposes the that following one (1) Audit & Supervisory Board Member be newly elected. The Audit & Supervisory Board has consented to the submission of this proposal in advance based on the deliberation of the Company's Nomination Advisory Committee of which the majority members are Independent Outside Directors, and the chair of which is an Independent Outside Director.

The candidate for the Audit & Supervisory Board Member is as follows:


| No. | Name<br>(Date of Birth)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Brief personal record, position,<br>and other important concurrent positions held                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
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| 1   | <p>Sumio Moriwaki<br/>(March 3, 1957)</p>  <p>Outside Audit &amp; Supervisory Board Member<br/>New-appointment<br/>Independent Audit &amp; Supervisory Board Member</p> <p>Number of Company shares owned:<br/>None</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <p>Apr. 1981 Registered as Attorney at Law (current position)<br/>Apr. 1981 Joined ISHII LAW OFFICE<br/>Apr. 1991 Partner, ISHII LAW OFFICE (current position)<br/>Apr. 1999 Professor,<br/>The Legal Training and Research Institute of Supreme Court (Attorney's training in civil laws)<br/>Apr. 2007 Guest Professor, The University of Tokyo Faculty of Law and Graduate Schools for Law and Politics<br/>May 2015 Committee Chairman, Reserch Committee of Legal System at Japan Federation of Bar Associations</p> <p>(Important concurrent position held)<br/>Partner, ISHII LAW OFFICE</p> <p>Reason for the Nomination of this Candidate for Outside Audit &amp; Supervisory Board Member:<br/>Mr. Sumio Moriwaki has a vast legal expertise and experience as a lawyer. It is expected that he will utilize his vast experience, knowledge, and sophisticated expertise as well as his viewpoint as an independent outsider to audit the Directors' decision-making and execution of operation, and to commit to enhancing fair and reasonable judgment for, and accountable and sound management of, the businesses of the Company. Thus he is appointed as a candidate for Outside Audit &amp; Supervisory Board Member. Mr. Sumio Moriwaki has had no experience in corporate management. The Company, however, believes that he will be able to appropriately perform his duty for the reasons set forth above.</p> |
|     | <p>The following are the items relating to the candidate for Outside Audit &amp; Supervisory Board Member:</p> <ol style="list-style-type: none"> <li>(1) Mr. Sumio Moriwaki is a candidate for an Outside Audit and Supervisory Board Member.</li> <li>(2) No conflict of interest exists between Mr. Moriwaki and the Company.</li> <li>(3) Summary of agreement to limit the Audit &amp; Supervisory Board Members' liabilities:<br/>If this proposal is approved and resolved as originally proposed at this general meeting,, the Company intends, pursuant to Paragraph 1 of Article 423 of the Companies Act, to enter into an agreement with Mr. Moriwaki to limit his liabilities the maximum extent permitted under Paragraph 1 of Article 425 of the Companies Act.</li> <li>(4) If this proposal is approved and resolved as originally proposed at this general meeting, the Company will register Mr. Moriwaki with the Tokyo Stock Exchange as an Independent Director/Auditor, as such term is defined by the Exchange.</li> <li>(5) Mr. Moriwaki meets the "Criteria for judging independence of outside directors and audit &amp; supervisory board members", as set forth on page 21 of this translation.</li> <li>(6) No conflict of interest exists between ISHII LAW OFFICE, where Mr. Moriwaki serves as a partner, and the Company.</li> </ol> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |


#### Proposal 4. Election of two (2) Substitute Audit & Supervisory Board Members

As a provision for the contingency of a shortage in the number of Audit & Supervisory Board Members required by law, the Company proposes that the following two (2) Substitute Audit & Supervisory Board Members be elected. Mr. Makoto Doi is proposed to substitute for Mr. Atsushi Kumano, an Audit & Supervisory Board Member, and Mr. Akira Chiba is proposed to substitute for either Ms. Hisako Kato, an Outside Audit & Supervisory Board Member, or for Mr. Sumio Moriwaki, who will be an Outside Audit & Supervisory Board Member if Proposal 3 is approved and resolved as originally proposed at this general meeting.

The Audit & Supervisory Board has consented to the submission of this proposal in advance based on the deliberation of the Company's Nomination Advisory Committee of which the majority members are Independent Outside Directors, and the chair of which is an Independent Outside Director.

The details of the candidates for Substitute Audit & Supervisory Board Members are as follows:

| No. | Name<br>(Date of Birth)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Brief personal record, position<br>and other important concurrent positions held                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1   | <p>Makoto Doi<br/>(December 25, 1959)</p>  <p>Number of Company shares owned:<br/>10,100 shares</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <p>Apr. 1983    Joined Sumitomo Metal Industries, Ltd. (currently known as NIPPON STEEL &amp; SUMITOMO METAL CORPORATION)</p> <p>Nov. 2002    Joined Unicharm Corporation</p> <p>Dec. 2003    Joined JSR</p> <p>Jun. 2012    Officer and General Manager, Legal Department</p> <p>Jun. 2016    Senior Officer,<br/>General Manager, Legal Department (current position)</p> <p>(Current responsibilities)<br/>Legal, General Affairs and CSR</p> <p>Reason for the Nomination of this Candidate for Substitute Audit &amp; Supervisory Board Member:<br/>Mr. Makoto Doi has sophisticated knowledge about legal affairs. Since joining JSR, he has been engaged in the legal affairs of JSR by virtue of his expertise. Currently, he serves as a senior officer responsible for legal, general affairs and CSR. He is expected to contribute his vast experience, knowledge, and sophisticated expertise to audit the Directors' in their decision-making and in respect of the Company's operations through the enhancement of its fair and reasonable judgment and transparent and sound management. He is, therefore, nominated as a candidate for Substitute Audit &amp; Supervisory Board Member.</p> |
|     | <p>The following are the items relating to the candidate for Substitute Audit &amp; Supervisory Board Member:</p> <p>(1) No conflict of interest exists between Mr. Doi and the Company.</p> <p>(2) Summary of agreement to limit the Audit &amp; Supervisory Board Members' liabilities proposed to be entered into with Mr. Doi:<br/>If this proposal is approved and resolved as originally proposed at this general meeting and should Mr. Doi assume the position of Audit &amp; Supervisory Board Member, the Company intends, pursuant to Paragraph 1 of Article 423 of the Companies Act, to enter into an agreement with him to limit his liabilities to the maximum extent permitted as set forth under Paragraph 1 of Article 425 of the Companies Act.</p> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

| No. | Name<br>(Date of Birth)                                                                                                                                                   | Brief personal record, position, ,<br>and other important concurrent positions held                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2   | <p>Akira Chiba<br/>(September 11, 1953)</p>  <p>Number of Company shares owned: None</p> | <p>Oct. 1984 Joined Tetsuzo Ota &amp; Co. (currently known as Ernst &amp; Young ShinNihon LLC )</p> <p>Mar. 1989 Registered as Certified Public Accountant (current position)</p> <p>Aug. 2000 Partner, Century Ota Showa &amp; Co (currently known as Ernst &amp; Young ShinNihon LLC)</p> <p>May 2007 Executive Partner, Ernst &amp; Young ShinNihon (currently known as Ernst &amp; Young ShinNihon LLC)</p> <p>Jun. 2015 Retired from Ernst &amp; Young ShinNihon LLC</p> <p>Jul. 2015 Representative, Chiba Certified Public Accountant Office (current position)</p> <p>Apr. 2017 Auditor, Organization for Cross-regional Coordination of Transmission Operation JAPAN (current position)</p> <p>(Important concurrent position held)<br/>Representative, Chiba Certified Public Accountant Office<br/>Organization for Cross-regional Coordination of Transmission Operation JAPAN</p> <p>Reason for the Nomination of a Candidate for Substitute Outside Audit &amp; Supervisory Board Member:<br/>Mr. Akira Chiba has vast expertise and experience in financing, accounting and auditing as a Certified Public Accountant. It is expected that he will utilize his vast experience, knowledge, and sophisticated expertise as well as his viewpoint as an independent outsider to audit the Directors' decision-making and execution of operation and to commit to enhancing fair and reasonable judgment for, and accountable and sound management of, the businesses of the Company. Thus, he is appointed as a candidate for Outside Substitute Audit &amp; Supervisory Board Member. Mr. Akira Chiba has no experience in corporate management. The Company, however, believes that he will be able to appropriately perform his duty for the reasons set forth above.</p> |
|     |                                                                                                                                                                           | <p>(1) Mr. Akira Chiba is a candidate for Substitute Outside Audit &amp; Supervisory Board Member.</p> <p>(2) No conflict of interest exists between Mr. Chiba and the Company.</p> <p>(3) Summaries of agreement to limit the Audit &amp; Supervisory Board Members' liabilities:<br/>If Proposal 3 and this proposal are approved and resolved as originally proposed at this general meeting and should Mr. Chiba assume the position of Outside Audit &amp; Supervisory Board Member, the Company intends to enter into an agreement with him to limit the liabilities under Paragraph 1 of Article 423 of the Companies Act to the maximum amount set forth under Paragraph 1 of Article 425 thereof.</p> <p>(4) If the Proposal 3 and this proposal are approved and resolved as originally proposed at this general meeting and should he assume the position of Outside Audit &amp; Supervisory Board Member, the Company will register Mr. Chiba with the Tokyo Stock Exchange as an Independent Director/Auditor, as such term is defined by the Exchange.</p> <p>(5) Mr. Chiba meets the "Criteria for judging independence of outside directors and audit &amp; supervisory board members", as set forth on page 21 of this translation.</p> <p>(6) No conflict of interest exists between the Company and each of, Ernst &amp; Young ShinNihon, currently known as Ernst &amp; Young ShinNihon LLC (where Mr. Chiba served as an Executive partner) and Chiba Certified Public Accountant Office (where Mr. Chiba serves as Representative).</p>                                                                                                                                                                                                                             |



### **Proposal 5. Payment of annual bonuses to Directors**

The Company would like to pay, considering the business performance of the JSR Group for the current fiscal term, annual bonuses to five (5) Directors (excluding Outside Directors) who are incumbent as of the end of the current fiscal term in a total amount of ¥48 million.

The above annual bonuses are to be paid in accordance with the annual business performance by comparing the target and the actual amount of the consolidated net sales and the consolidated operating profit of the Company respectively. The Remuneration Advisory Committee, of which the majority members are Independent Outside Directors and the chair of which is an Independent Outside Director, has approved as appropriate the method of calculation and the amount thereof.

### **Proposal 6. Setting maximum amount of remuneration for annual bonuses to Directors**

The Company has paid annual bonuses to Directors (excluding Outside Directors; hereinafter in this proposal to be referred to as “Eligible Directors”) that are linked to the achievement of the performance targets of the Company during each business year based upon the deliberation of the Remuneration Advisory Committee of which the majority members are Independent Outside Directors and the chair of which is an Independent Outside Director (hereinafter in this proposal to be referred to as “Remuneration Advisory Committee”) and the approval of the ordinary general meeting of shareholders.

The Company would like to pay annual bonuses to Eligible Directors based upon the resolution of the Board of Directors and the deliberation of the Remuneration Advisory Committee within the range of the maximum amount approved at this general meeting in order to enhance the deliberation for determining of the amount of the annual bonuses and ensure realization of flexible and appropriate allocation of the annual bonuses.

1. Maximum Amount:

Annual amount for ¥216 million yen, which is in addition to and separate from the basic remuneration paid to Directors, the stock option to Eligible Directors (which will be replaced with remuneration for granting restricted stock if proposal 7 is approved and resolved as originally proposed at this general meeting) and mid-term performance-linked bonuses to Eligible Directors.

2. Performance-linked Structure:

- 1) The Remuneration Advisory Committee reflects to the Board of Directors about the criteria for the annual review on the consolidated annual business performance after examining the appropriateness thereof.
- 2) Amount for the annual bonus will vary from 0% to 200% of the standard in proportion to the level of achievement of the target set forth at the beginning of each year.

If Proposal 2 is approved and resolved as originally proposed at this general meeting, the number of Eligible Directors will be four (4).

The Remuneration Advisory Committee has approved the content of this proposal.

## **Proposal 7. Determining amount of remuneration for granting restricted stock shares to Directors**

As a part of reviewing the remuneration package for Directors, the Company proposes that a restricted stock plan (hereinafter in this proposal to be referred to as the “Plan”), replacing the current stock option plan be newly introduced as follows. The Plan, pursuant to which the Company will annually provide remuneration for granting restricted stock shares to Directors (excluding Outside Directors; hereinafter in this proposal to be referred to as “Eligible Directors”), aims to provide incentives for Eligible Directors to continuously enhance the Company’s value over the medium to long term as well as to facilitate earlier sharing of values between Eligible Directors and the shareholders as compared to the stock option plan by having Eligible Directors hold shares upon granting thereof.

The Company has established the remuneration package for Officers with approval of its shareholders in order to ensure sustainable growth and medium to long term improvement in its corporate value by steadily pursuing its management plans and business strategies while maintaining accountability to its shareholders, as follows:

- (i) basic remuneration paid in fixed amounts with the maximum amount being ¥30 million per month (as approved at the 44th Ordinary General Meeting of Shareholders held on June 29, 1989);
- (ii) annual bonuses for Eligible Directors that are linked to the achievement of the performance targets of the Company during each business year, with the maximum amount being ¥216 million per year (if Proposal 6 is approved and resolved as originally proposed at this general meeting);
- (iii) the stock option plan for Eligible Directors with the maximum amount being 100 million per year, with the intent of having Eligible Directors share with the shareholders the effects of changes in stock prices (as approved at the 62nd Ordinary General Meeting of Shareholders held on June 15, 2007); and
- (iv) mid-term performance-linked bonuses for Eligible Directors that are linked to the achievement of the performance targets of the Company over the medium to long term, with the maximum amount being ¥270 million per year (as approved at the 70th Ordinary General Meeting of Shareholders held on June 17, 2015).

If this proposal is approved and resolved as originally proposed, the Company will abolish the stock option plan for Directors listed in (iii) above, except for the stock options already granted thereunder, and will not issue any new stock options under the stock option plan to Eligible Directors.

The new remuneration for granting restricted stock shares to Eligible Directors on this proposal will be monetary claims (hereinafter to be referred to as “Monetary Remuneration Claims”), and their aggregated amount shall be up to ¥100 million per year, in addition to and separate from the amounts in (i), (ii) and (iv) above, as deemed reasonable for the purpose above. The specific time of the provision and allocation thereof to each Eligible Director will be decided by the Board of Directors based on a deliberation of the Remuneration Advisory Committee of which the majority members are Independent Outside Directors and the chair of which is an Independent Outside Director (hereinafter in this proposal to be referred to as “Remuneration Advisory Committee”). For the avoidance of doubt, Outside Directors will not receive remuneration for granting restricted stock shares. Please note that the above amount of remuneration does not include salaries for the employee status of Directors who also have duties in their capacity as employees.

If Proposal 2 is approved and resolved as originally proposed at this general meeting, the number of Eligible Directors will be four (4).

### **Content of the Plan**

Under the Plan, the Company annually provides Eligible Directors with Monetary Remuneration Claims for granting restricted stock shares. Eligible Directors pay in all of the Monetary Remuneration Claims as in-kind contributions to the Company of common shares to be issued or disposed of by the Company. Further, the Company enters into an agreement for the allotment of restricted stock shares (hereinafter to be referred to as the “Allotment Agreement”) with each Eligible Director which sets forth the matters concerning the granting of restricted stock shares and disposition thereof and other necessary matters.

The total number of common shares to be issued or disposed of by the Company under the Plan shall not exceed 100,000 shares per year. However, if a split-up (including allotment without contribution) or consolidation of the Company’s common shares is carried out or if any other event that requires adjustment of the total number of the Company’s common shares to be issued or disposed of as restricted stock shares arises, on and after the date on which this proposal is approved and resolved, the total number shall be adjusted to the reasonable extent.



The amount to be paid in per restricted stock share under the Plan will be a reasonable amount equal to the closing price of the Company's common shares on the Tokyo Stock Exchange for the last business day preceding the day of the resolution by the Board of Directors (if no transaction is executed on such business day, the closing price for the last traded day preceding such business day) or other appropriate price which would not be specially favorable to Eligible Directors who subscribe the Company's common shares under the Plan.

The Allotment Agreement to be executed between the Company and each Eligible Director shall include the matters as outlined below.

**(1) Transfer restricted period**

Eligible Directors shall not transfer, pledge or otherwise dispose of the shares allotted (hereinafter to be referred as the "Allotted Shares") under the Allotment Agreement for three (3) years (hereinafter to be referred to as the "Restricted Period"; such restriction hereinafter to be referred to as the "Transfer Restriction").

**(2) Removal of Transfer Restriction upon expiration of Restricted Period**

The Company will remove the Transfer Restriction for all of the Allotted Shares at the time when the Restricted Period expires provided that the relevant Eligible Director has been continuously serving as Director, Executive Officer, Audit & Supervisory Board Member, employee or in any position similar thereto (hereinafter collectively to be referred to as the "Position") of the Company or its subsidiary during the Restricted Period. Upon expiration of the Restricted Period, the Company, in principle, shall acquire the Allotted Shares without paying any consideration for the Allotted Shares for which the Transfer Restriction is not removed.

**(3) Treatment of Allotted Shares upon retirement etc.**

If an Eligible Director retires from any Position before the Restricted Period expires, the Company shall automatically acquire the relevant Allotted Shares without paying any consideration unless there is any due reason as determined by the Board of Directors such as expiration of their term of office or the death of the Eligible Director. If there is any due reason as determined by the Board of Directors such as expiration of their term of office or the death of the Eligible Director, the Company shall make reasonable adjustments to the number of the Allotted Shares for which the Transfer Restriction is removed and the time of removal of the Transfer Restriction as necessary.

**(4) Treatment of Allotted Shares upon reorganization etc.**

During the Restricted Period, if any matter concerning reorganization of the Company is decided, including a merger agreement under which the Company shall be a disappearing company, a share exchange agreement or a plan for a transfer of shares under which the Company shall be a wholly-owned subsidiary, the Company shall make reasonable adjustments to the number of the Allotted Shares for which the Transfer Restriction is removed and the time of removal of the Transfer Restriction as necessary.

**(5) Other matters to be decided by the Board of Directors**

Details of the matters mentioned above and other matters related to the Plan and the method of amendment of the Allotment Agreement shall be decided by the Board of Directors and set forth therein.

The Remuneration Advisory Committee has approved the content of this proposal.

**[Reference]**

If both of Proposals 6 and 7 are approved and resolved as originally proposed, “ (3) Policies for determining the amount of remuneration for Directors and Audit & Supervisory Board Members of the Company or the method of calculation thereof” in pages X and Y in this translation will be altered to those as described below;

**Policies for determining the amount of remuneration for Directors and Audit & Supervisory Board Members of the Company or the method of calculation thereof**

**1) Principles on remuneration for Directors and Audit & Supervisory Board Members**

The Company has set forth the following basic policies in order to ensure continuous and sustainable growth and medium to long term improvement in corporate value by steadily pursuing its management plans and business strategies while maintaining transparency and accountability to its shareholders;

Remuneration framework should:

- i. attract, secure, and reward diverse and excellent personnel for the purpose of further enhancing and improving its competitive advantages;
- ii. encourage the management to demonstrate healthy entrepreneurial spirits by motivating them to achieve the objectives of business strategies aiming at continuous growth while addressing the incentives reflecting the latent risks therein;
- iii. promote medium to long term improvement in corporate value by sharing the benefit between management and shareholders via the reinforcement of stock ownership during his/her term of office as Directors; and
- iv. be subject to deliberation of the remuneration advisory committee of which majority members are Independent Outside Directors and of which chair is an Independent Outside Director (hereinafter to be referred to as “Remuneration Advisory Committee”), and therefore be objective and transparent especially in the determination process and method thereof

**2) Remuneration structure**

- i. Remuneration for Directors of the Company consists of a) Basic Remuneration as a fixed remuneration, b) Annual Bonuses linked to the annual business performance of the Company, c) Restricted Stock Shares as remuneration for Directors designed to facilitate earlier sharing of values between Directors and the shareholders, and d) Mid-term Performance-linked Bonuses that are linked to the level of achievement of medium to long term business results.  
However, remuneration for Independent Outside Directors and Audit & Supervisory Board Members, in the light of their roles, consists only of basic remuneration.
- ii. The standard amount of Annual Bonuses is around 25-30% of the basic remuneration depending upon the position; the annual amount of Stock Option as Remuneration to Directors is around 15-25% of the basic remuneration depending upon the position; and the annual standard amount of the Mid-term Performance-linked Bonuses is around 30-50% of the basic remuneration depending upon the position respectively.
- iii. The Company recommends the reinforcement of stock ownership while in office by granting Restricted Stock Shares as remuneration to Directors.

**3) Performance-linked structure**

- i. Annual Bonuses are determined based on the evaluation of business performance in terms of annual consolidated business results and individual evaluation including the achievement level of assigned segments and duties.  
The Company uses both consolidated net sales and consolidated operating profit as performance evaluation references and the level of achievement relative to their respective targets set at the beginning of the fiscal year will be reflected in the pay-out ratio which may vary from 0-200% with 100% being standard for 100% level of achievement.
- ii. Mid-term Performance-linked Bonuses are determined based on the evaluation of business performance in terms of mid- to long-term consolidated business results.  
The Company uses 3 year average of the consolidated ROE (return on equity ratio) as performance evaluation reference and the level of achievement relative to its target set at the beginning of each period will be reflected in the pay-out ratio which may vary from 0-150% with 100% being standard for 100% level of achievement.

The targets used in the above respective evaluations of business performance are determined by the Board of Directors based on deliberation of the Remuneration Advisory Committee.

**4) Method to determine remuneration level**

- i. The Company determines the level of remuneration to its Directors by referring to directors' remuneration survey from an outside specialist institution, and by annual benchmarking companies similar to the Company in business scope, industry and business category, and considering latent risks related to the achievement of business targets.
- ii. The determination of remuneration levels is subject to deliberation by the Remuneration Advisory Committee.

**5) Process to determine remuneration**

- i. For the purpose of ensuring objectivity, transparency and accountability during the course of monitoring and reviewing remuneration structures, the Company has set up the Remuneration Advisory Committee, which deliberates and reports to the Board of Directors in a timely fashion the basic remuneration policy, remuneration structure, method for reflecting business performances, determination of targets and evaluation of business performance.
- ii. In the Remuneration Committee, in order to ensure the appropriate commitment and advices from the Independent Outside Directors in deliberation of the remuneration structure, the Company provides them with sufficient information in advance such as annual committee schedule, possible agendas, and advices attained from outside specialists.
- iii. The Remuneration for Audit & Supervisory Board Member is determined through consultation among the Audit & Supervisory Board Members.

## [Reference]

### Criteria for judging independence of outside directors and audit & supervisory board members

JSR has set criteria for judging the independence of outside directors and audit & supervisory board members (hereinafter collectively or independently referred as “outside officers” or “outside officer”). If an outside officer (including a candidate) falls under any of the following categories, the Company judges such person does not have sufficient independence.

- (1) Executive (\*1) of JSR or its consolidated subsidiary (JSR Group) or ex-executive
- (2) Major shareholder of JSR (any shareholder who directly or indirectly holds 10% or more of the voting rights)
- (3) Executive of a company, etc. that falls under any of the following
  - 1) Major shareholder of JSR
  - 2) Major business partner of the JSR Group (\*2)
  - 3) Major creditor of the JSR Group (\*3)
  - 4) Company, etc. in which the JSR Group holds 10% or more of the voting rights
- (4) Certified Public Accountant who belongs to an accounting firm that serves as the JSR Group Independent Auditor
- (5) Expert, such as a consultant, accountant, lawyer, judicial scrivener, or patent agent, etc., who receives a large amount (\*4) of monetary consideration or other property benefits from the JSR Group
- (6) Person who receives a large amount of donations from the JSR Group (\*5)
- (7) Executive of a company, between which and JSR outside directors are mutually appointed (\*6)
- (8) Person with a close relative (\*7) who falls under any of the above paragraphs from (1) to (7) (limited to an important person (\*8) excluding paragraphs (4) and (5))
- (9) Person who fell under any of the above paragraphs from (2) to (8) in the past five years
- (10) Person who is deemed to have special reasons that would cause a conflict of interest with JSR, notwithstanding the provisions of the preceding paragraphs

- (\*1) Executive refers to a director (excluding an outside director), an officer, an executive officer and an employee.
- (\*2) Major business partner refers to a company whose annual transactions with JSR exceed 2% of the consolidated sales of JSR or such company.
- (\*3) Major creditor refers to a financial institution whose loans to JSR exceed 2% of the consolidated total assets of JSR or such financial institution.
- (\*4) A large amount refers to: 10 million yen or more per year in case such expert is an individual; and 2% or more of annual total revenue of such organization in case such expert is an organization such as an enterprise or association. However, when a consideration for services directly offered by such expert exceeds 10 million yen, even if the amount does not exceed 2% of consolidated total assets of JSR or such financial institution, such amount is considered to be a large amount.
- (\*5) Person who receives a large amount of donations refers to a person who receives donations of 10 million yen or more per year from the JSR Group.
- (\*6) Mutually appointed relationship refers to a relationship in which an executive of the JSR Group serves as an outside officer of a company and an executive of such company serves as outside officer of JSR.
- (\*7) Close relative refers to a spouse and a relative within the second degree.
- (\*8) Important person refers to an executive including a director, an officer, an executive officer and a person in the position of general manager or higher or an executive who has authority equivalent to those persons.

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## **Reminders for Exercising Voting Rights via Internet**

Dear shareholders,

You may exercise your voting rights via Internet solely by accessing our web site designed for online voting (<http://www.web54.net>). Please check the items listed below when exercising your voting rights via Internet.

Please also note that you need, for online voting, “Voting Code” and “Password” indicated in the right part of the ballot form.

### ■ Remarks on the Password

1. Please securely keep your Password until the close of the Ordinary General Shareholders Meeting as the Password can prove your legitimacy as a shareholder of the Company. In addition, we will be unable to answer any inquiries relating to the Password by phone etc.
2. The access to the web site for online voting will be locked if you enter wrong Password a certain times, in such an event, please follow the instructions to be provided on the screen.

### ■ System Requirements for Online Voting

1. The following system environments are required for accessing our web site for online voting;
  - (1) The resolution rate of the screen shall be higher than 800 (horizontal) x 600 (vertical) (SVGA)
  - (2) Microsoft® Internet Explorer Ver.5.01SP2 or later and Adobe® Acrobat® Reader™ Ver.4.0 or later, or Adobe® Reader® Ver6.0 or later must be installed in your PC.
2. You, as a user of online voting system, will have to bear all of the costs related to connecting to your Internet provider, as well as communication charges for accessing the web site for online voting.
3. It is possible for you to vote with mobiles including smartphone on full browser function, but you may not be able to do with some models.

### ■ Contact point for inquiries relating to how to operate your PCs, etc.

1. Inquiries relating to operation of your PCs for exercising your voting rights via Internet:  
“Web Support” (dedicated phone line) , Stock Transfer Agency,  
Sumitomo Mitsui Trust Bank, Limited.  
Tel: 0120-652-031 (free dial)  
accessible from 9:00-21:00
2. Inquiries relating to your registered address, number of shares owned, or other:  
Operating Center, Stock Transfer Agency,  
Sumitomo Mitsui Trust Bank, Limited.  
Tel: 0120-782-031 (free dial)  
accessible from 9:00-17:00 only on weekdays (excluding national holidays)

## **(Appendix to the Notice of the 72nd Ordinary General Meeting of Shareholders)**

### **Business Report**

For the period from April 1, 2016 to March 31, 2017 ("the current fiscal year")

#### **1. Items relevant to the Current Status of the JSR Group**

##### **(1) Business Developments and Results**

In fiscal year ending on March 31, 2017 ("FY March 2017"), among the JSR Group's main customer industries, automobile tire production and automobile production rose slightly from the previous year on global basis. Domestic tire production, however, declined from the previous year because of sluggish production in the first half of the year, which returned to the same level as previous year in the latter half of the year. Demand in the semiconductor grew, and production in the flat panel display (FPD) market was robust. The exchange rate had a stronger yen compared to the previous year.

Amid these circumstances, the Petrochemical Products Business of the JSR Group saw a rise in net sales of the Elastomers Business rose over the previous year due to an increase in exports and significant growth in sales of solution polymerized styrene-butadiene rubber (SSBR) for fuel-efficient tires despite a sluggish elastomer products market in the first half of the year and saw a decline in net sales of the Plastics Business from the previous year due to decrease in product prices caused by a fall in raw material prices. Thus, net sales of the Petrochemical Products Business as a whole remained unchanged from the previous year.

Operating profit of the Elastomers Business rose from the previous year owing to improved profitability attributable to a market recovery and an increase in sales volume in the latter half of the year despite worsened profitability due to a strong yen and deteriorating market conditions in the first half of the year. Operating profit of the Plastics Business fell below the previous year as due to worsening profitability arising from a decrease in product prices associated with a fall in raw material prices. As a result, operating profit of the Petrochemical Products Business as a whole decreased from the previous year.

The Fine Chemicals and Other Products Business of the JSR Group saw, in the Fine Chemicals Business, a rise in sales volume of semiconductor materials and display materials increase above the previous year's levels due to steady growth of the respective markets but a reduction in net sales below the previous year's level due to strong yen and a decrease in prices resulting from intensifying competition in display materials, and saw a notable increase of net sales in the Life Sciences Business, a new business mainstay of the JSR Group. Thus, net sales of the Fine Chemicals and Other Products Business as a whole increased compared to the previous year.

Operating profit of the Fine Chemicals and Other Products Business fell below the previous year's level, as it was significantly affected by the decrease in sales of the Fine Chemicals Business.

Ordinary profit increased compared to the previous year due to a reduction in the exchange losses in Group companies that occurred in the previous year among other factors.

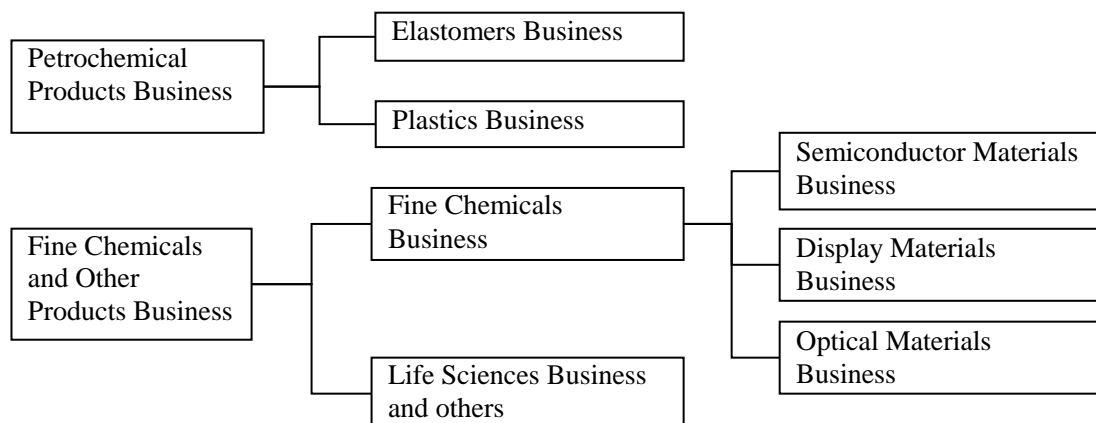
Profit attributable to owners of parent rose above the previous year's level due to the fact that impairment losses in Group companies of the previous year did not apply to this fiscal year, profit from sales of deposits and securities, and other factors.

In FY March 2017, we reported net sales of 390,599 million yen (up 1.0% year-on-year), operating profit of 32,370 million yen (down 5.9% year-on-year), ordinary profit of 36,264 million yen (up 7.8% year-on-year), and profit attributable to owners of parent of 30,078 million yen (up 25.0% year-on-year).

## Business Segment Overview

The JSR Group's business is classified into three reporting segments: Elastomers, Plastics, and Fine Chemicals and Other Products. The positioning of the reporting segments is shown as below.

:



### <Elastomers Business Segment>

The production of automobile tires, one of the segment's main customer industries, increased in North America, China, and Europe but fell in Japan compared with those in the previous year.

Under these circumstances, the Elastomers Business's net sales increased over the previous year as a result of, despite poor sales for domestic tire market, an increase in export and significant increase in sales of SSBR that contributed to attainment of high-level operations by the first phase plant for SSBR for fuel-efficient tires at JSR BST Elastomer Co., Ltd. (JBE), a joint venture in Thailand.

Operating profit also increased over the previous year as a result of improvement in profitability owing to increase in product prices reflecting the rising prices for butadiene, a major raw material, and to sales volume expansion in the second half of the year although there were, in the first half of the year, narrower product margins caused by a sluggish elastomer products prices reflecting excessive supply in East Asian market.

As a result, the Elastomers Business segment posted operating profit of 8,340 million yen (up 11.3% year-on-year) on net sales of 185,345 million yen (up 3.4% year-on-year).

### <Plastics Business Segment>

Reflecting robust global production of automobiles, a major customer industry for this segment, sales volume of plastics increased from the previous year due to increase in sales volume for automobiles.

Net sales declined from the previous year, as a result of strong yen and decrease in product prices caused by decline in raw material prices.

Operating profit also declined from the previous year due to narrower product margins caused by a decrease in product prices.

As a result, the Plastics Business segment posted operating profit of 3,773 million yen (down 26.2% year-on-year) on net sales of 46,035 million yen (down 11.8% year-on-year).

### <Fine Chemicals and Other Products Business Segment>

In the Semiconductor Materials Business, sales volume grew particularly for cutting-edge photoresists reflecting steady growth in semiconductors demand. Net sales, however, decreased from those of the previous year as a result of strong yen.

In the Display Materials Business, sales volume increased from the previous year supported by robust FPD panel production. Net sales, however, decreased from the previous year due to lower product prices resulting from intensified competition in the market and a strong yen.

Net sales of the Life Sciences Business grew significantly owing to the consolidation of MEDICAL & BIOLOGICAL LABORATORIES CO., LTD. (MBL) in the latter half of the year and increased sales by KBI Biopharma, Inc. (KBI).

Operating profit in the Fine Chemicals and Other Products Business segment as a whole fell below that of the previous year affected by a decrease in sales by the Fine Chemicals Business..

As a result, the Fine Chemicals and Other Products Business segment posted operating profit of 20,257 million yen (down 7.1% year-on-year) on net sales of 159,218 million yen (up 2.6% year-on-year).

## **(2) Capital Expenditure**

The JSR Group's capital expenditure totaled 31.8 billion yen in the current fiscal year including those for the construction of a production plant for SSBR at JSR MOL Synthetic Rubber Ltd, its subsidiary in Hungary and other items.

## **(3) Financing**

In the current fiscal year, the JSR Group did not procure funds through capital increases or issuance of corporate bonds. The total amount of loans payable by the JSR Group at the end of the current fiscal year was 62.1 billion yen.

## **(4) Issues to be addressed for the JSR Group**

### **[Progress under the “JSR20i6” Mid-term Business Plan]**

“JSR20i6” is JSR Group's mid-term business plan covering the three fiscal years commencing on April 1, 2014 and ending on March 31, 2017. This period, positioned as the “Path to Growth”, is the second of three phases of mid-term business plans toward fulfilling the Group's 2020 vision. The JSR Group, much to our regret, failed to achieve its initial earnings targets for the current fiscal year, the final year of the “JSR20i6”, as business circumstances underperformed our initial projections.

Nevertheless, JSR Group has made progress in various key initiatives in each of our business segments, as detailed below.

In the Elastomers Business, with regard to solution polymerized styrene butadiene rubber (SSBR) of which global demand is expected to expand for fuel-efficient tires, JSR BST Elastomer Co., Ltd. (JBE), a joint venture in Thailand for supplying SSBR, has been steadily expanding its sales. In addition, for the purpose of meeting further growing demand for SSBR, the JSR Group has started to construct SSBR production plant at JSR MOL Synthetic Rubber Ltd. (JMSR), a joint venture in Hungary, scheduled to be on stream in 2018.

In the Semiconductor Materials Business, our lithography materials have captured a sizable market share in the cutting-edge 14 nm and 10 nm process nodes. In addition, with regard to extreme ultraviolet radiation (EUV) lithography materials regarded as a key future technology for finer 7nm and subsequent process nodes, the JSR Group established EUV Resist Manufacturing & Qualification Center N.V. (EUV RMQC), a joint venture with imec, a leading nanoelectronics research institute in Belgium to provide production and quality assurance services, which started production of EUV resist. On the other hand, JSR Group is pushing ahead expansion of our device integration materials, by collaborating with a U.S. company on the joint development for new technologies to achieve even higher integration densities for the future.

In the Display Materials Business, the JSR Group has steadily expanded its sales in Chinese market where high growth rates are projected and has been constructing a plant at JSR Micro (Changshu) Co., Ltd. (JMCH), a joint venture set up in China to manufacture display materials, which is scheduled to start production in fiscal year ending on March 31, 2018.

In order to cope with commoditization of liquid crystal display panels, the JSR Group has been implementing various business reforms to secure profitability of the business while expanding and diversifying its products lines to include those relating to mobile devices with growth potentiality.

In the Life Sciences Business, the third pillar of the JSR Group's businesses alongside the Petrochemical Products Business and Fine Chemicals Business, the JSR Group has steadily increased the sales from KBI Biopharma, Inc. (KBI), a US based biopharmaceutical process development and manufacturing services company it consolidated in the first half of the previous year. It also has expanded the size of Life Sciences Business by consolidation of MEDICAL & BIOLOGICAL LABORATORIES CO., LTD. (MBL) in the second half of the last fiscal year. The diagnostic intermediates business of J&W Beijing Biotech Co., Ltd. (J&W), a joint venture in China, has also been experiencing steady progress. Moreover, in order to pave the way to future business expansion, the JSR Group is constructing the JSR-Keio University Medical and Chemistry Innovation



Center (JKiC), a joint research facility with Keio University, scheduled to open in October 2017. The Center will propel the R&D of novel materials and products anticipated to underpin new strides forward in the medical field.

#### **[Establishment of a new “JSR20i9” Mid-term Business Plan]**

As the conclusion of “JSR20i6” mid-term business plan that ended with FY March 2017, JSR Group will embark on a new mid-term business plan “JSR20i9”, the third (and final) phase toward fulfilling the Group’s 2020 vision. Under this plan, spanning the three-year period from fiscal year starting on April 1, 2017 and ending on March 31, 2019, JSR Group will strive to further strengthening its competitiveness.

#### **<Petrochemical Products Business Segment>**

In the Elastomers Business, forecasts suggest stable growth in global production of both automobile tires and automobiles in our key customer industries. Under these circumstances, the JSR Group is committed to increase sale of SSBR by capturing the opportunities of globally expanding demand for SSBR.

With respect to production capacities of SSBR, the JSR Group is currently operating at full capacities at both Yokkaichi and the Phase 1 plant at JBE in Thailand. It will further expand production capacity by adding that of the Phase 2 Plant at JBE which started up in October last year and that of new JMSR plant in Hungary scheduled to be on steam in 2018.

As for marketing SSBR, the JSR Group will effectively utilize its global marketing network for SSBR consisting of JSR Elastomer Europe GmbH (Germany), JSR Elastomer Korea Co., Ltd. (South Korea), and JSR (Shanghai) Co., Ltd. (China). In addition, it will set up Tianjin Technology Center, which will provide direct technical support to local customers in China, where predictions are for robust growth in demand for fuel-efficient tires.

Thus, the JSR Group is committed to expand sales of SSBR by exploiting the global demand growth for SSBR.

In the Plastics Business, the JSR Group will consolidate the businesses of Techno Polymer Co., Ltd. and UMG ABS, Ltd., and set up a new company in October 2017, through which the JSR Group is determined to enhance production efficiencies and strengthen cost competitiveness, and thereby ensure stable domestic supply and expand overseas sales.

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

In the Semiconductor Materials Business, new demand for cutting-edge semiconductor chips is expected to accelerate from smartphones, data centers, and other fields. Under these circumstances, the JSR Group is committed to develop and further expand sales of lithography materials, CMP materials, cleaning solutions, and device integration materials, of which finer geometries and/or higher device densities features will satisfy the requirement from cutting-edge semiconductor chips for higher performance and lower power consumption.

In particular, the JSR Group will proceed with mass production trial of EUV lithography materials at EUV RMQC in Belgium, in order to materialize, as soon as possible, commercialization of EUV lithography ready for the 7 nm and subsequent process nodes.

In the Display Materials Business, demand for liquid crystal display (LCD) panels is expected to steadily grow although there will be intense competition between LCD materials due to commoditization of LCD panels. Especially in China where strong growth is projected, the JSR Group will exploit the Chinese market’s growth by operating a new plant at JMCH in fiscal year ending on March 31, 2018, a joint venture in China.

In order to cope with the commoditization of LCD panels, the JSR Group will pursue continuing business reforms to secure profitability of the business, streamline the organization, and expand and diversify the scope of the products to include those relating to mobile devices with growth potentiality.

In the Life Sciences Business, the JSR Group will concentrate on the bioprocess field, in relation to biopharmaceutical production, and the in vitro diagnostic and research drug field. In the area of bioprocess materials, the Group will focus on expanding KBI’s contract R&D and production business for biopharmaceuticals as well as boosting sales of Amsphere<sup>TM</sup> A3, a carrier for refining antibody drugs, which we expect a significant demand escalation

in the coming years. As for in vitro diagnostic and research drug materials, we will promote overseas sales expansion, building on the strengths of MBL. JSR Group will also aim to enlarge the Life Sciences Business

through joint R&D into novel materials and products with Keio University's School of Medicine at JKIC.

## **<Other Issues to be Addressed>**

### **Development of Human Resources**

Developing human resources is one of the most important issues to address for an enterprise to achieve sustainable growth. Based on our human resource development policy that emphasizes the self-reliant growth of employees, the JSR Group encourages people and organizations to act voluntarily sharing the Group's targets and values. In addition to pursuing the penetration of the Group's Essential Elements and the enhancement of its corporate culture, the JSR Group will continuously implement measures for developing human resources with a global mind to strengthen its organizational capabilities. It will further promote diversity at work, in conjunction with the progress of globalization of businesses..

The JSR Group has also actively promoted enhancement in workforce diversity through setting up a Diversity Development Office in fiscal 2015 and other measures. In order to establish the working environment that ensures participation of diversified employees and enhances productivity at work, the JSR Group will actively promote the "work-life management" activities we pursued in the past re-named as those for "Work Style Reform" in the "JSR20i9" mid-term business plan. In addition, the JSR Group will pursue "JSR Health Promotion" to strengthen health of its employees based upon the understanding that employee's good health is prerequisite for achieving higher productivity work.

The JSR Group was selected as "Nadeshiko Brand" for fiscal 2016 as was for fiscal 2015 by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange, to commend listed companies that excels in promoting participation of women in the workplace.

In addition, the JSR Group was certified as "a 2017 Certified Health and Productivity Management Organization (White 500)" by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi, as a listed corporation practicing exceptional health and productivity management.

### **Corporate Governance**

JSR Corporation, as a company with auditing and supervisory functions, has been enhancing our corporate governance system while principally maintaining a core system of monitoring and supervising execution of its businesses by the Board of Directors and audit & supervisory board members.

JSR Corporation has endeavored to reinforce its function of management supervision as well as to ensure rational, timely and effective decision making and execution of businesses through introduction of an officer system and appointment of three independent outside directors with extensive business experiences and two independent outside audit & supervisory board members with extensive expertise and ranges of experience.

In addition, JSR Corporation has strived to continuously improve its corporate value in mid-long term while ensuring transparent and sound the management decisions including those for candidates for and reward for board members through establishing the Nomination Advisory Committee and the Remuneration Advisory Committee respectively chaired by an independent outside director and of which majority are independent outside directors and through introduction of performance-linked annual and mid-term buses to its directors.

JSR Corporation carried out, with assistance from an external consultant, an evaluation of effectiveness of Board of Directors and acknowledged. The Company acknowledged that the Board of Directors is managed in an effective and appropriate manner after reviewing the size, composition, and specific operating policies etc. thereof. The Company will continue similar exercise every year in order to further improve effectiveness of the Board of Directors to ensure continuing improvement in its corporate value.

### **Corporate Social Responsibility**

The JSR Group aims to establish good relationships with our stakeholders based on our Corporate Mission and to become a corporate citizen that is both trusted and required by the wider public. To this end, the Group will strive to resolve socially important issues by viewing business management to implement our Corporate Mission and corporate social responsibility (CSR) as one. The CSR Committee oversees four CSR promotional activities — corporate ethics, responsible care, risk management, and social contributions. The JSR Group will cope with its key issues by classifying them into three different categories in relation to business activities of the JSR Group such as; i) social issues to be solved by business activities, ii) social issues as a result of the business activities, and iii) issues that forms the foundation of business activities.

The JSR Group will solve social issues as specified in i) above by providing with environmentally friendly products such as SSBR and with products and/or services from Life Sciences Business necessary for a sustainable society where people enjoy health and longevity, social issues as specified in ii) above, by activities for enhancement of health and safety, reduction environmental impact and promotion of supply chain management, and issues as specified in iii) above by enhancing corporate governance and risk management. The JSR Group is committed to addressing the challenges specified above through steady implementation of its new mid-term business plan “JSR20i9”.

## (5) Development of Assets and Business Results

| Category                                |               | The 69th Term<br>Apr 2013-<br>Mar 2014 | The 70th Term<br>Apr 2014-<br>Mar 2015 | The 71st Term<br>Apr 2015-<br>Mar 2016 | The 72nd Term<br>Apr 2016-<br>Mar 2017 |
|-----------------------------------------|---------------|----------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|
| Net sales                               | (JPY million) | 394,309                                | 404,073                                | 386,709                                | 390,599                                |
| Operating profit                        | (JPY million) | 36,061                                 | 38,068                                 | 34,408                                 | 32,370                                 |
| Profit attributable to owners of parent | (JPY million) | 25,172                                 | 29,918                                 | 24,068                                 | 30,078                                 |
| Net profit per share                    | (JPY)         | 106.10                                 | 128.19                                 | 105.87                                 | 134.43                                 |
| Total Assets                            | (JPY million) | 501,319                                | 534,592                                | 516,359                                | 576,016                                |

(Notes)

1. In the 69th Term, profit attributable to owners of parent decreased despite increase in net sales.
2. In the 70th Term, both net sales and income attributable to owners of parent increased as a result of increase in net sales of fine chemicals and other products business despite decrease in that of petrochemical products business.
3. In the 71st Term, both net sales and profit attributable to owners of parent decreased as a result of decrease in net sales of petrochemical products business despite increase in those of fine chemicals and other products business despite.
4. Results for the 72nd Term are as shown in the “Business Developments and Results” in (1) above.

## (Reference) Financial Outlook for the next fiscal year

| Category                                |               | 73rd Term<br>Apr 2017-<br>Mar 2018 |
|-----------------------------------------|---------------|------------------------------------|
| Net sales                               | (JPY million) | 405,000                            |
| Operating profit                        | (JPY million) | 35,000                             |
| Profit attributable to owners of parent | (JPY million) | 26,500                             |
| Net profit per share                    | (JPY)         | 119.09                             |

(Note)

Financial Outlook provided in the table left hand side is based on information available at the time of writing and assumptions deemed reasonable, however, actual results may differ materially depending upon various factors.

**(6) Principal Subsidiaries and Affiliates (as of March 31, 2017)****1) Principal Subsidiaries**

| Company Name                                | Capital             | Shareholding ratio (%) | Main business                                                                                                           |
|---------------------------------------------|---------------------|------------------------|-------------------------------------------------------------------------------------------------------------------------|
| ELASTOMIX Co., Ltd.                         | JPY 415 million     | 98.5                   | Production and sale of carbon master batches and rubber compounds                                                       |
| ELASTOMIX (THAILAND) CO., LTD.              | Baht 75 million     | 90 (65)                | Production and sale of carbon master batches and rubber compounds                                                       |
| JSR BST Elastomer Co., Ltd.                 | Baht 5,220 million  | 51                     | Production and sale of solution polymerized SBR (SSBR)                                                                  |
| JSR MOL Synthetic Rubber Ltd.               | EUR 17 thousand     | 51                     | Production and sale of solution polymerized SBR (S-SBR)                                                                 |
| Emulsion Technology Co., Ltd.               | JPY 168 million     | 100                    | Production and sale of latex compounds                                                                                  |
| Techno Polymer Co., Ltd.                    | JPY 3,000 million   | 100                    | Production, processing and sale of plastics                                                                             |
| JAPAN COLORING CO., LTD.                    | JPY 280 million     | 100 (25)               | Production and sale of plastics color compounds                                                                         |
| JSR Micro N.V.                              | EUR 11,155 thousand | 100                    | Production and sale of semiconductor materials                                                                          |
| JSR Micro, Inc.                             | USD 21,700 thousand | 100 (21.9)             | Production and sale of semiconductor materials                                                                          |
| JSR Micro Korea Co., Ltd.                   | KRW 2,000 million   | 100                    | Production and sale of display materials                                                                                |
| JSR Micro Taiwan Co., Ltd.                  | NTD 200 million     | 100                    | Production and sale of display materials                                                                                |
| MEDICAL & BIOLOGICAL LABORATORIES CO., LTD. | JPY 4,482 million   | 50.4                   | Research, development, manufacturing, import, export and sale of reagents for medical and biological applications       |
| KBI Biopharma, Inc.                         | USD 49,867 thousand | 90                     | Contract development and manufacturing of biopharmaceuticals                                                            |
| JM Energy Corporation                       | JPY 300 million     | 100                    | Development, manufacture and sale of lithium ion capacitors and modules                                                 |
| JSR Trading Co., Ltd.                       | JPY 480 million     | 100                    | Procurement, sale and import and export of chemicals, etc., casualties insurance agency and life insurance solicitation |

(Notes)

- Figures in the above “Capital” column are rounded down to the unit numbers indicated in each column.
- Figures in the above “Shareholding ratio” column, rounded down to one decimal places, represent shareholding ratio owned by the Company and its subsidiary (ies) as a whole while those in the brackets in the right hand side indicate the ratio owned by subsidiary(ies) of the Company.
- JSR MOL Synthetic Rubber Ltd. is added to the list above from the current fiscal year.
- Among the consolidated subsidiaries of JSR in Japan and overseas, only major subsidiaries in the light of business forms and/or the amount of sales are disclosed in the list above from the last fiscal year.

**2) Principal Affiliates**

| Company Name               | Capital            | Shareholding ratio (%) | Main business                                                       |
|----------------------------|--------------------|------------------------|---------------------------------------------------------------------|
| Japan Butyl Co., Ltd.      | JPY 3,168 million  | 50                     | Production and sale of butyl rubber                                 |
| Kumho Polychem Co., Ltd.   | KRW 21,500 million | 50                     | Production, purchasing and sale of ethylene propylene rubber (EPDM) |
| KRATON JSR ELASTOMERS K.K. | JPY 1,500 million  | 50                     | Production and sale of thermoplastic elastomers (TPE)               |

(Notes)

1. Figures in the above “Capital” column are rounded down to the unit numbers indicated in each column.
2. JAPAN FINE COATINGS Co., Ltd. is excluded from the list above.
3. Among the non-consolidated affiliates of JSR in Japan and overseas, only major affiliates in the light of business forms and/or the amount of sales are disclosed in the list above from the last fiscal year.

**(7) Major Business Activities (as of March 31, 2017)**

Manufacturing and sales of the following products

| Business Segments                          |                                     |                         | Products / Materials                                                                                                                                                                                              |
|--------------------------------------------|-------------------------------------|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Petrochemical Products Business            | Elastomers                          | Synthetic Rubbers       | Synthetic rubber such as styrene butadiene rubber, polybutadiene rubber, ethylene propylene rubber, etc. and carbon master batches and rubber compounds                                                           |
|                                            |                                     | TPEs                    | Thermoplastic elastomers and processed products                                                                                                                                                                   |
|                                            |                                     | Emulsions               | Paper coating latex, general purpose industrial latex, acrylic emulsion, latex compounds, etc.                                                                                                                    |
|                                            |                                     | Functional Chemicals    | Highly functional coating materials, high performance dispersants, functional particles for industrial use, latent heat storage materials, materials for heat resistant paint, battery materials, etc.            |
|                                            |                                     | Others                  | Chemical products such as butadiene monomer                                                                                                                                                                       |
|                                            | Plastics                            |                         | ABS resin, AES resin, AS resin, ASA resin, etc.                                                                                                                                                                   |
| Fine Chemicals and Other Products Business | Fine Chemicals Business             | Semiconductor materials | Lithography materials (photoresists, multi-layered materials), CMP materials, packaging materials, etc.                                                                                                           |
|                                            |                                     | Display materials       | Color liquid crystal display ( LCD) materials, anti-reflection film materials, functional coating materials, etc.                                                                                                 |
|                                            |                                     | Optical materials       | Heat-resistant transparent resin and functional film, high-performance UV curable resin, stereolithography, etc.                                                                                                  |
|                                            | Life sciences Businesses and others |                         | Life sciences (in vitro reagents for diagnostics and/or research, raw materials for such reagents, bioprocess materials, contract development and manufacturing of biopharmaceuticals) and Lithium ion capacitors |

**(8) Sales Offices, Plants, and other facilities (as of March 31, 2017)****1) The Company**

|                         |                                                 |                  |
|-------------------------|-------------------------------------------------|------------------|
| Head Office             | 1-9-2, Higashi-Shinbashi, Minato-ku, Tokyo      |                  |
| Business & Sales Office | Nagoya Branch                                   | Nagoya, Aichi    |
| Plants                  | Yokkaichi Plant                                 | Yokkaichi, Mie   |
|                         | Chiba Plant                                     | Ichihara, Chiba  |
|                         | Kashima, Plant                                  | Kamisu, Ibaraki  |
| Research Institutes     | Performance Polymer Research Laboratories       | Yokkaichi, Mie   |
|                         | Display Materials Research Laboratories         | Yokkaichi, Mie   |
|                         | Fine Electronic Materials Research Laboratories | Yokkaichi, Mie   |
|                         | Advanced Materials Research Laboratories        | Yokkaichi, Mie   |
|                         | Tsukuba Research Laboratories                   | Tsukuba, Ibaraki |
| Branch Offices          | Singapore Branch                                | Singapore        |
|                         | Taiwan Branch                                   | Taiwan           |

(Notes)

1. The Company closed Wallisellen office in Switzerland effective from July 1, 2016 and transferred the business operated to JSR Elastomer Europe GmbH.
2. Effective from April 1, 2017, the Company established Yokkaichi Research Center and thereunder reorganized such Research Laboratories as Performance Polymer, Display Solution Materials (renamed), Fine Electronic Materials, Advanced Materials Research, and Edge Computing (newly established).

**2) Principal Subsidiaries and Affiliates**

| Business Segments                          | Company                                      | Location of Head Office |
|--------------------------------------------|----------------------------------------------|-------------------------|
| Elastomer s Business                       | ELASTOMIX Co., Ltd.                          | Yokkaichi, Mie          |
|                                            | ELASTOMIX (THAILAND) CO., LTD.               | Thailand                |
|                                            | JSR BST Elastomer Co., Ltd.                  | Thailand                |
|                                            | JSR MOL Synthetic Rubber Ltd.                | Hungary                 |
|                                            | Japan Butyl Co., Ltd.*                       | Kawasaki, Kanagawa      |
|                                            | Kumho Polychem Co., Ltd.*                    | South Korea             |
|                                            | KRATON JSR ELASTOMERS K.K.*                  | Minato-ku, Tokyo        |
|                                            | Emulsion Technology Co., Ltd.                | Yokkaichi, Mie          |
| Plastic Business                           | Techno Polymer Co., Ltd.                     | Minato-ku, Tokyo        |
|                                            | JAPAN COLORING CO., LTD.                     | Yokkaichi, Mie          |
| Fine Chemicals and Other Products Business | JSR Micro N.V.                               | Belgium                 |
|                                            | JSR Micro, Inc.                              | United States           |
|                                            | JSR Micro Korea Co., Ltd.                    | South Korea             |
|                                            | JSR Micro Taiwan Co., Ltd.                   | Taiwan                  |
|                                            | MEDICAL & BIOLOGICAL LABORATORIES CO., LTD.* | Nagoya, Aichi           |
|                                            | KBI Biopharma, Inc.                          | United States           |
|                                            | JM Energy Corporation                        | Hokuto, Yamanashi       |
|                                            | JSR Trading Co., Ltd.                        | Minato-ku, Tokyo        |

(Note) \* denotes principal affiliates

**(9) Employees (as of March 31, 2017)**

| Number of employees | Increase/decrease from previous term |
|---------------------|--------------------------------------|
| 6,790               | Increase by 203                      |

**(10) Major Lenders (as of March 31, 2017)**

| Lenders                                | Outstanding amount of loans |
|----------------------------------------|-----------------------------|
| Mizuho Bank, Ltd.                      | 3,000 JPY million           |
| Sumitomo Mitsui Banking Corporation    | 2,000                       |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 2,000                       |

(Note) The above are the Company's major lenders.

## 2. Shares of the Company (as of March 31, 2017)

|                                                    |                     |
|----------------------------------------------------|---------------------|
| (1) Total number of shares authorized to be issued | 696,061,000 shares  |
| (2) Total number of issued shares                  | 226,074,545 shares* |
| (3) One unit of shares                             | 100                 |
| (4) Number of shareholders                         | 16,586              |
| (5) Major Shareholders                             |                     |

| Name of shareholder                                  | Investments in the Company              |                        |
|------------------------------------------------------|-----------------------------------------|------------------------|
|                                                      | Number of shares held (thousand shares) | Shareholding Ratio (%) |
| Bridgestone Corporation                              | 22,366                                  | 10.05                  |
| Japan Trustee Services Bank, Ltd. (trust account)    | 9,391                                   | 4.22                   |
| The Master Trust Bank of Japan, Ltd. (trust account) | 9,175                                   | 4.12                   |
| BNYMSAMV AS AGENT/CLIENTS LUX UCITS NON TREATY 1     | 8,685                                   | 3.90                   |
| STATE STREET BANK CLIENT OMNIBUS OM04                | 6,779                                   | 3.04                   |
| Japan Trustee Services Bank, Ltd. (trust account 9)  | 6,213                                   | 2.79                   |
| JP MORGAN CHASE BANK 385632                          | 4,993                                   | 2.24                   |
| Mizuho Bank, Ltd.                                    | 4,225                                   | 1.89                   |
| HSBC BANK PLC A/C CLIENTS 1                          | 4,191                                   | 1.88                   |
| Japan Trustee Services Bank, Ltd. (trust account 9)  | 3,867                                   | 1.73                   |

(Notes)

1. The numbers in the columns under “Number of shares held” are rounded down to thousands of shares.
2. The shareholding ratio is calculated by using 225,514,013 shares (calculated by deducting number of treasury shares (3,560,532 shares) from Total number of issued shares (226,074,545 shares) and rounded down to two decimal places.
3. The Company acquired 3,125,000 treasury shares for JPY4,524,439,400 upon the resolution of Board of Directors Meeting held on July 27, 2016.



**3. Matters Related to stock acquisition rights (subscription rights to shares) of the Company  
(as of March 31, 2017)**

**(1) Stock acquisition rights held by the Directors and Audit & Supervisory Board Members of the Company at the end of the current fiscal year**

| Description | Name of stock acquisition rights (issuing date)                                    | The number of stock acquisition rights | Class and number of shares to be issued upon exercising the rights | Amount to be paid per share for exercising the rights | Period for exercising stock acquisition rights | Number of holders |
|-------------|------------------------------------------------------------------------------------|----------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------|------------------------------------------------|-------------------|
| Directors   | JSR Corporation Stock acquisition rights for 2005 (June 17, 2005)                  | 61 units                               | Ordinary shares 6,100 shares                                       | JPY 1                                                 | From June 18, 2005 to June 17, 2025            | 3                 |
|             | JSR Corporation Stock acquisition rights for 2006 (for Directors) (August 1, 2006) | 38 units                               | Ordinary shares 3,800 shares                                       | JPY 1                                                 | From August 2, 2006 to June 16, 2026           | 2                 |
|             | JSR Corporation Stock acquisition rights for 2006 (for Officers) (August 1, 2006)  | 8 units                                | Ordinary shares 800 shares                                         | JPY 1                                                 | From August 2, 2006 to June 16, 2026           | 1                 |
|             | JSR Corporation Stock acquisition rights for 2007 (July 10, 2007)                  | 74 units                               | Ordinary shares 7,400 shares                                       | JPY 1                                                 | From July 11, 2007 to July 10, 2027            | 3                 |
|             | JSR Corporation Stock acquisition rights for 2008 (July 15, 2008)                  | 137 units                              | Ordinary shares 13,700 shares                                      | JPY 1                                                 | From July 16, 2008 to July 15, 2028            | 4                 |
|             | JSR Corporation Stock acquisition rights for 2009 (July 14, 2009)                  | 217 units                              | Ordinary shares 21,700 shares                                      | JPY 1                                                 | From July 15, 2009 to July 14, 2029            | 4                 |
|             | JSR Corporation Stock acquisition rights for 2010 (July 13, 2010)                  | 228 units                              | Ordinary shares 22,800 shares                                      | JPY 1                                                 | From July 14, 2010 to July 13, 2030            | 4                 |
|             | JSR Corporation Stock acquisition rights for 2011 (July 12, 2011)                  | 253 units                              | Ordinary shares 25,300 shares                                      | JPY 1                                                 | From July 13, 2011 to July 12, 2031            | 4                 |
|             | JSR Corporation Stock acquisition rights for 2012 (July 10, 2012)                  | 325 units                              | Ordinary shares 32,500 shares                                      | JPY 1                                                 | From July 11, 2012 to July 10, 2032            | 5                 |
|             | JSR Corporation Stock acquisition rights for 2013 (July 16, 2013)                  | 181 units                              | Ordinary shares 18,100 shares                                      | JPY 1                                                 | From July 17, 2013 to July 16, 2033            | 5                 |
|             | JSR Corporation Stock acquisition rights for 2014 (July 30, 2014)                  | 208 units                              | Ordinary shares 20,800 shares                                      | JPY 1                                                 | From July 31, 2014 to July 30, 2034            | 5                 |
|             | JSR Corporation Stock acquisition rights for 2015 (July 28, 2015)                  | 195 units                              | Ordinary shares 19,500 shares                                      | JPY 1                                                 | From July 29, 2015 to July 28, 2020            | 5                 |
|             | JSR Corporation Stock acquisition rights for 2016 (July 27, 2015)                  | 292 units                              | Ordinary shares 29,200 shares                                      | JPY 1                                                 | From July 28, 2016 to July 27, 2021            | 5                 |

| Description                      | Name of stock acquisition rights (issuing date)                   | The number of stock acquisition rights | Class and number of shares to be issued upon exercising the rights | Amount to be paid per share for exercising the rights | Period for exercising stock acquisition rights | Number of holders |
|----------------------------------|-------------------------------------------------------------------|----------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------|------------------------------------------------|-------------------|
| Audit & Supervisory Board Member | JSR Corporation Stock acquisition rights for 2010 (July 13, 2010) | 34 units                               | Ordinary shares 3,400 shares                                       | JPY 1                                                 | From July 14, 2010 to July 13, 2030            | 1                 |
|                                  | JSR Corporation Stock acquisition rights for 2011 (July 12, 2011) | 33 units                               | Ordinary shares 3,300 shares                                       | JPY 1                                                 | From July 13, 2011 to July 12, 2031            | 1                 |
|                                  | JSR Corporation Stock acquisition rights for 2012 (July 10, 2012) | 39 units                               | Ordinary shares 3,900 shares                                       | JPY 1                                                 | From July 11, 2012 to July 10, 2032            | 1                 |
|                                  | JSR Corporation Stock acquisition rights for 2013 (July 16, 2013) | 18 units                               | Ordinary shares 1,800 shares                                       | JPY 1                                                 | From July 17, 2013 to July 16, 2033            | 1                 |
|                                  | JSR Corporation Stock acquisition rights for 2014 (July 30, 2014) | 20 units                               | Ordinary shares 2,000 shares                                       | JPY 1                                                 | From July 31, 2014 to July 30, 2034            | 1                 |
|                                  | JSR Corporation Stock acquisition rights for 2015 (July 28, 2015) | 20 units                               | Ordinary shares 2,000 shares                                       | JPY 1                                                 | From July 29, 2015 to July 28, 2020            | 1                 |

**(Note)**

1. The Company has not issued stock acquisition rights to either its Outside Directors or Audit & Supervisory Board Members as remuneration for exercising duties as Outside Directors or Audit & Supervisory Board Members.
2. Stock Option held by Audit & Supervisory Board Member is those issued to him when he served as an Officer of the Company.

**(2) Stock acquisition rights issued to employees during the current fiscal year**

| Qualified individuals   | Name of stock acquisition rights (issuing date)                   | The number of stock acquisition rights | Class and number of shares to be issued upon exercising the rights | Amount to be paid per share for exercising the rights | Period for exercising stock acquisition rights | Number of employees issued |
|-------------------------|-------------------------------------------------------------------|----------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------|------------------------------------------------|----------------------------|
| Officers of the Company | JSR Corporation Stock acquisition rights for 2016 (July 27, 2015) | 450 units                              | Ordinary shares 45,000 shares                                      | JPY 1                                                 | From July 28, 2016 to July 27, 2021            | 18                         |

#### 4. Matters Related to Directors and Audit & Supervisory Board Members

##### (1) Directors and Audit & Supervisory Board Members of the Company (as of March 31, 2017)

| Position                                   | Name              | Title and Responsibilities as Officers and Important concurrent positions held, etc.                                                                                                                                             |
|--------------------------------------------|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Director and Chairman                      | Hozumi Sato       | Responsible for LIC business, Emerging Businesses and Director, MEDICAL & BIOLOGICAL LABORATORIES CO., LTD.                                                                                                                      |
| Representative Director and President      | Mitsunobu Koshiba |                                                                                                                                                                                                                                  |
| Representative Director                    | Koichi Kawasaki   | Executive Managing Officer responsible for Manufacturing and Technology, Product Safety & Quality Assurance, Procurement, Logistics, and Safety and Environment Affairs, and General Manager, Manufacturing and Technology Group |
| Director                                   | Nobuo Kawahashi   | Managing Officer responsible for Research & Development                                                                                                                                                                          |
| Director                                   | Takao Shimizu     | Senior Officer responsible for Office of President, Accounting, Finance, Corporate Communications, and T Strategy, and General Manager of Office of President                                                                    |
| Director                                   | Kazunori Yagi     | Outside Audit & Supervisory Board Member, Yokogawa Bridge Holdings Corporation, Outside Audit & Supervisory Board Member, TDK Corporation, and Outside Director, OYO Corporation                                                 |
| Director                                   | Yuzuru Matsuda    | President of Kato Memorial Bioscience Foundation, a public interest incorporated association, Outside Director, KUBOTA Corporation, Outside Director, BANDAI NAMCO Holdings Inc.                                                 |
| Director                                   | Shiro Sugata      | Advisor USHIO INC.<br>Outside Director, Yokogawa Electric Corporation<br>Vice Chairman, Executive Director, Japan Association of Corporate Executives                                                                            |
| Full-time Audit & Supervisory Board Member | Atushi Kumano     |                                                                                                                                                                                                                                  |
| Audit & Supervisory Board Member           | Hiroichi Uekusa   | Lawyer,<br>Partner, Minato - Kyouwa Law Office and Professor, University of Tsukuba Law School                                                                                                                                   |
| Audit & Supervisory Board Member           | Hisako Kato       | Certified Public Accountant, Certified Tax Accountant, and Representative, Hisako Kato Accounting Office and<br>Outside Audit & Supervisory Board Member, NTT Urban Development Corporation                                      |

(Notes)

1. Messrs. Kazunori Yagi, Yuzuru Matsuda, and Shiro Sugata are Outside Directors.
2. Mr. Hiroichi Uekusa and Ms. Hisako Kato are Outside Audit & Supervisory Board Members.
3. Ms. Hisako Kato, Audit & Supervisory Board Member, is a certified public accountant both in Japan and US and a certified tax accountant, having sufficient knowledge of financing and accounting.
4. Messrs. Kazunori Yagi, Yuzuru Matsuda and Shiro Sugata, Directors, and Mr. Hiroichi Uekusa and Ms. Hisako Kato, Audit & Supervisory Board Members are registered as independent directors/auditors at Tokyo Stock Exchange in accordance with its definitions.
5. The Company has business transactions with TDK Corporation where Mr. Kazunori Yagi, Director, has important concurrent positions involving sales of electronics materials of which value was less than 0.1% of the net sales of the Company for the previous fiscal year ending on March 31, 2016 and with OYO Corporation (“OYO”) involving purchase of services of analyzing soils for the Company of which value was less than 0.1% of the net sales of OYO for the fiscal year ending on December 31, 2016 while no conflict of interest exists between the Company and Yokogawa Bridge

Holdings Corporation.

6. No conflict of interest exists between the Company and Kato Memorial Bioscience Foundation, a public interest incorporated association, KUBOTA Corporation and BANDAI NAMCO Holdings Inc., where Mr. Yuzuru Matsuda, Director, has important concurrent positions.
7. The Company has business transactions with USHIO Inc. where Mr. Shiro Sugata, Director, has concurrent important positions involving purchase of devises of which value was less than 0.1% of USHIO Inc.'s net sales for the previous fiscal year ending on March 31, 2016, and with Yokogawa Electric Corporation ("YEC") involving purchase of control systems of which value was less than 0.1% of net sales of YEC for the previous fiscal year ending on March 31, 2016, and with Japan Association of Corporate Executives involving payment of membership fees etc of which value is less than 0.2% of the total revenue of the Association for previous fiscal year ending on March 31, 2016
8. No conflict of interest exists between the Company and Minato-Kyouwa Law Office nor University of Tsukuba Law School, where Mr. Hiroichi Uekusa, Audit & Supervisory Board Member, has important concurrent positions.
9. No conflict of interest exists between the Company and either Hisako Kato Accounting Office or NTT Urban Development Corporation where Ms. Hisako Kato has important concurrent positions
10. The Company has entered into an agreement with each of Outside Directors and Audit & Supervisory Board Members that limits the liabilities under Paragraph 1 of Article 423 of the Companies Act to the maximum amount set forth under Paragraph 1 of Article 425 thereof.
11. The following are the list of Director and Audit & Supervisory Board Member who retired during the current fiscal year (Titles are stated as of the date of retirement );  
Director: Messrs. Hisao Hasegawa, Hayato Hirano, and Michio Kariya (retired on June 17, 2016)  
Audit and Supervisory Member: Mr. Shoichi Kataoka (retired on June 17, 2016)

**(Reference) : Officers of the Company (as of March 31, 2017)**

| Position                   | Name                | Responsibilities and Title                                                                                                                                                                                                                                      |
|----------------------------|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Executive Managing Officer | Koichi Kawasaki*    | Responsible for Manufacturing and Technology, Product Safety & Quality Assurance, Procurement, Logistics, and Safety and Environment Affairs<br>General Manager, Manufacturing and Technology Group                                                             |
| Managing Officer           | Nobuo Kawahashi*    | Responsible for Research & Development                                                                                                                                                                                                                          |
| Managing Officer           | Hayato Hirano       | Responsible for Petrochemical Products Sector (including Plastics)<br>General Manager, Petrochemical Products Division, President, Techno Polymer Co., Ltd., and President, Japan Butyl Co., Ltd.                                                               |
| Managing Officer           | Katsuya Inoue       | Responsible for Business Planning and Investment & Business Development, Fine Chemical Business<br>General Manager, Investment & Business Development, Fine Chemical, and Chairman, JSR Micro (Changshu) Co., Ltd.                                              |
| Senior Officer             | Takatoshi Nagatomo  | President, JSR MOL Synthetic Rubber , Ltd.                                                                                                                                                                                                                      |
| Senior Officer             | Takeshi Sugimoto    | Responsible for Electronic Materials Business<br>General Manager, Electronic Materials Division                                                                                                                                                                 |
| Senior Officer             | Eric Johnson        | Responsible for Life Sciences and North America Business<br>General Manager, Life Sciences Division, and President, JSR Micro, Inc.                                                                                                                             |
| Senior Officer             | Takao Shimizu*      | Responsible for Office of President, Accounting, Finance, Corporate Communications, and IT Strategy<br>General Manager, Office of President                                                                                                                     |
| Senior Officer             | Tsuyoshi Watanabe   | Responsible for China Business<br>Chairman, JSR (Shanghai) Co., Ltd.                                                                                                                                                                                            |
| Senior Officer             | Kazumasa Yamawaki   | Responsible for Petrochemical Products Sector (deputy)<br>Deputy General Manager, Petrochemical Products Div., General Manager, Business Planning Dept. Petrochemical Products, President, KRATON JSR ELASTOMERS K. K., and Director, JSR Elastomer Europe GmbH |
| Senior Officer             | Makoto Doi          | Responsible for Legal, General Affairs, and CSR<br>General Manager, Legal Department                                                                                                                                                                            |
| Officer                    | Eiichi Kobayashi    | Executive Vice President, JSR Micro, Inc.                                                                                                                                                                                                                       |
| Officer                    | Hiroaki Nemoto      | Responsible for Liquid Crystal Display Materials Business and Display Solution Business<br>General Manager, Display Solution Business, Chairman, JSR Micro (Changshu) Co., Ltd., and President, JSR Micro Korea Co., Ltd                                        |
| Officer                    | Yoichi Mizuno       | Responsible for Optical Materials Business<br>General Manager, Optical Materials Division                                                                                                                                                                       |
| Officer                    | Kiichirou Kamiya    | Responsible for Life Sciences Business (Deputy)<br>President, JSR Life Sciences Corporation and Director, MEDICAL & BIOLOGICAL LABORATORIES CO., LTD.                                                                                                           |
| Officer                    | Mika Nakayama       | Responsible for Corporate Planning and Diversity Development<br>General Manager, Corporate Planning Department and Diversity Development Department                                                                                                             |
| Officer                    | Yoshikazu Yamaguchi | General Manager, Investment & Business Development, Fine Chemical Business                                                                                                                                                                                      |

| Position | Name            | Responsibilities and Title                                                                                                                                                              |
|----------|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Officer  | Kouichi Saeki   | Responsible for Yokkaichi Plant<br>Yokkaichi Plant Manager                                                                                                                              |
| Officer  | Kazushi Abe     | President, ELASTOMIX CO., LTD.<br>President, ELASROMIX (FOSHAN) CO., LTD. and<br>The Chief Director, JSR Group Corporate Pension Fund                                                   |
| Officer  | Seiji Takahashi | General Manager, Yokkaichi Plant Production Department<br>III, and SSBR Global Manufacturing & Technology<br>Management Dept. Manufacturing & Technology Group                          |
| Officer  | Yasufumi Fujii  | Responsible for Human Resources<br>General Manager, Human Resources Development Dept.,<br>The Chief Director, JSR Health Insurance Society, and The<br>Chief Director, JSR Pension Fund |

(Note) [\*] denotes Officers concurrently serving as Directors

The followings are the changes in responsibilities and/or title of the Officers after the organizational reform on April 1, 2017

| Position         | Name                | Responsibilities and Title                                                                                                                                                                                                                                |
|------------------|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Managing Officer | Katsuya Inoue       | Responsible for Business Planning and Investment &<br>Business Development, Fine Chemical Business<br>General Manager, Investment & Business Development,<br>Fine Chemical, and<br>Chairman, JSR Micro (Changshu) Co., Ltd.                               |
| Officer          | Hiroaki Nemoto      | Responsible for Display Solution Business<br>President, JSR Micro Korea Co., Ltd                                                                                                                                                                          |
| Officer          | Yoichi Mizuno       | Responsible for Edge Computing Business<br>General Manager, Edge Computing Division                                                                                                                                                                       |
| Officer          | Mika Nakayama       | General Manager, Intellectual Property Department                                                                                                                                                                                                         |
| Officer          | Yoshikazu Yamaguchi | Responsible for Corporate Planning and Group Companies<br>Coordination<br>General Manager, Corporate Planning Dept. and Group<br>Companies Coordination Dept.                                                                                             |
| Officer          | Yasufumi Fujii      | Responsible for Human Resources and Diversity<br>Development<br>General Manager, Human Resources Development Dept.<br>and Diversity Development Office,<br>The Chief Director, JSR Health Insurance Society, and The<br>Chief Director, JSR Pension Fund. |

**(2) Amount of remuneration for Directors and Audit & Supervisory Board Members**

| Classification                                                                                                                                                                       | Director  |                    | Audit & Supervisory Board Member |                    |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|--------------------|----------------------------------|--------------------|
|                                                                                                                                                                                      | Number    | Amount             | Number                           | Amount             |
|                                                                                                                                                                                      | (people)  | (JPYmillion /year) | (people)                         | (JPYMillion /year) |
| Basic Remuneration based on resolution of the general meeting of shareholders<br>(for Outside Directors and Outside Audit & Supervisory Board Members included in the above figures) | 11<br>(4) | 234<br>(39)        | 4<br>(2)                         | 45<br>(16)         |
| Annual Bonuses for this fiscal term<br>(for Outside Directors and Outside Audit & Supervisory Board Members included in the above figures)                                           | 5<br>(-)  | 48<br>(-)          | -<br>(-)                         | -<br>(-)           |
| Stock Option as Remuneration to Directors<br>(for Outside Directors and Outside Audit & Supervisory Board Members included in the above figures)                                     | 7<br>(-)  | 33<br>(-)          | -<br>(-)                         | -<br>(-)           |
| Total<br>(for Outside Directors and Outside Audit & Supervisory Board Members included in the above figures)                                                                         | 11<br>(4) | 316<br>(39)        | 4<br>(2)                         | 45<br>(16)         |

(Notes)

1. The numbers of the Directors and Audit & Supervisory Board Members and the amount of remunerations thereto in the table above include three (3) Directors and one (1) Audit & Supervisory Board Member who retired during the current fiscal year.
2. The maximum amount for Basic Remuneration for Directors was set at JPY 30 million per month by the resolution of the 44th ordinary general meeting of shareholders held on June 29, 1989.
3. The maximum amount for Basic Remuneration for Audit & Supervisory Board Members was set at JPY 10 million per month by the resolution of the 60th ordinary general meeting of shareholders held on June 17, 2005.
4. The amount for Annual Bonuses is subject to approval on the Proposal 5 of the agenda at this ordinary general meeting of shareholders.
5. The Board of Directors may, upon its resolution, grant Stock Option as Remuneration to Directors as long as the maximum annual amount does not exceed JPY 100 million in accordance with the resolution of the 62nd ordinary general meeting of shareholders held on June 15, 2007.  
The amounts in the “Stock Option as Remuneration to Directors” column in the above table are those of the fair value of the stock acquisition rights issued to the Directors of the Company as remuneration and recorded as expenses for the current fiscal year.
6. The above figures do not include the salaries for the employee portion of the Directors who concurrently serve as employees.
7. The above figures are rounded down to JPY1 million.

**(3) Policies for determining the amount of remuneration for Directors and Audit & Supervisory Board Members of the Company or the method of calculation thereof**

**1) Principles on remuneration for Directors and Audit & Supervisory Board Members**

The Company has set forth the following basic policies in order to ensure continuous and sustainable growth and medium to long term improvement in corporate value by steadily pursuing its management plans and business strategies while maintaining transparency and accountability to its shareholders;

Remuneration framework should:

- i. attract, secure, and reward diverse and excellent personnel for the purpose of further enhancing and improving its competitive advantages;
- ii. encourage the management to demonstrate healthy entrepreneurial spirits by motivating them to achieve the objectives of business strategies aiming at continuous growth while addressing the incentives reflecting the latent risks therein;
- iii. promote medium to long term improvement in corporate value by sharing the benefit between management and shareholders via the reinforcement of stock ownership during his/her term of office as Directors; and
- iv. be subject to deliberation of the remuneration advisory committee of which majority members are Independent Outside Directors (hereinafter to be referred to as “Remuneration Advisory Committee”), and therefore be objective and transparent especially in the determination process and method thereof

**2) Remuneration structure**

- i. Remuneration for Directors of the Company consists of a) Basic Remuneration as a fixed remuneration, b) Annual Bonuses linked to the annual business performance of the Company, c) Stock Option as Remuneration to Directors designed for having Directors share the benefits and risks of changes in stock prices with shareholders, and d) Mid-term Performance-linked Bonuses that are linked to the level of achievement of medium to long term business results. However, remuneration for Independent Outside Directors and Audit & Supervisory Board Members, in the light of their roles, consists only of basic remuneration.
- ii. The standard amount of Annual Bonuses is around 25-30% of the basic remuneration depending upon the position; the annual amount of Stock Option as Remuneration to Directors is around 15-25% of the basic remuneration depending upon the position; and the annual standard amount of the Mid-term Performance-linked Bonuses is around 30-50% of the basic remuneration depending upon the position respectively.
- iii. The Company recommends the reinforcement of stock ownership while in office via the exercise of Stock Option as Remuneration to Directors.

**3) Performance-linked structure**

- i. Annual Bonuses are determined based on the evaluation of business performance in terms of annual consolidated business results and individual evaluation including the achievement level of assigned segments and duties.  
The Company uses both consolidated net sales and consolidated operating profit as performance evaluation references and the level of achievement relative to their respective targets set at the beginning of the fiscal year will be reflected in the pay-out ratio which may vary from 0-200% with 100% being standard for 100% level of achievement.
- ii. Mid-term Performance-linked Bonuses are determined based on the evaluation of business performance in terms of mid- to long-term consolidated business results.  
The Company uses 3 year average of the consolidated ROE (return on equity ratio) as performance evaluation reference and the level of achievement relative to its target set at the beginning of each period will be reflected in the pay-out ratio which may vary from 0-150% with 100% being standard for 100% level of achievement.

The targets used in the above respective evaluations of business performance are determined by the Board of Directors based on deliberation of the Remuneration Advisory Committee.



**4) Method to determine remuneration level**

- i. The Company determines the level of remuneration to its Directors by referring to directors' remuneration survey from an outside specialist institution, and by annual benchmarking companies similar to the Company in business scope, industry and business category, and considering latent risks related to the achievement of business targets.
- ii. The determination of remuneration levels is subject to deliberation by the Remuneration Advisory Committee.

**5) Process to determine remuneration**

- i. For the purpose of ensuring objectivity, transparency and accountability during the course of monitoring and reviewing remuneration structures, the Company has set up the Remuneration Advisory Committee, which deliberates and reports to the Board of Directors in a timely fashion the basic remuneration policy, remuneration structure, method for reflecting business performances, determination of targets and evaluation of business performance.
- ii. In the Remuneration Committee, in order to ensure the appropriate commitment and advices from the Independent Outside Directors in deliberation of the remuneration structure, the Company provides them with sufficient information in advance such as annual committee schedule, possible agendas, and advices attained from outside specialists.
- iii. The Remuneration for Audit & Supervisory Board Member is determined through consultation among the Audit & Supervisory Board Members.

### (3) Matters related to Outside Directors and Outside Audit & Supervisory Board Members

#### 1) Major activities during the current fiscal year

| Name            | Position                                 | Major activities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------|------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Kazunori Yagi   | Outside Director                         | Mr. Yagi participated in all 17 meetings of the Board of Directors held during the current fiscal year.<br>Mr. Yagi has been greatly contributing to continuous improvement of the corporate values through ensuring reasonable judgment for, and accountable and sound management of, the businesses of the Company, by utilizing range of his knowledge and vast experience on management of the company that pursues major global businesses of manufacturing and providing services of industrial automation and control systems, and by providing necessary appropriate advices, as well as neutral and independent view point, at the Board of Directors meetings etc. from time to time,                                                   |
| Yuzuru Matsuda  | Outside Director                         | Mr. Matsuda participated in all 17 meetings of the Board of Directors held during the current fiscal year.<br>Mr. Matsuda has been greatly contributing to continuous improvement of the corporate values through ensuring reasonable judgment for, and accountable and sound management of, the businesses of the Company, by utilizing range of his knowledge and vast experience on management of the company that pursues major global businesses of medical products and biochemical , and by providing necessary appropriate advices, as well as neutral and independent view point, at the Board of Directors meetings etc. from time to time.                                                                                             |
| Shiro Sugata    | Outside Director                         | Mr. Sugata participated in all 13 meetings of the Board of Directors held during the current fiscal year after his appointment as a Director.<br>Mr. Sugata has been greatly contributing to continuous improvement of the corporate values through ensuring reasonable judgment for, and accountable and sound management of, the businesses of the Company, by utilizing range of his knowledge and vast experience on management of the company that pursues major global businesses of optical application products and on business communities , and by providing necessary appropriate advices, as well as neutral and independent view point, at the Board of Directors meetings etc. from time to time.                                   |
| Hiroichi Uekusa | Outside Audit & Supervisory Board Member | Mr. Uekusa participated in all 17 meetings of the Board of Directors and in all 18 meetings of the Audit & Supervisory Board held during the current fiscal year.<br>Mr. Uekusa has been effectively performing the audit of the Company and greatly contributing to ensure reasonable judgment for, and accountable and sound management of, the businesses of the Company by utilizing range of his professional knowledge and vast experience on legal matters as a Lawyer and by providing necessary and appropriate advices, as well as neutral and independent view point, at the Board of Directors meetings etc. from time to time.                                                                                                       |
| Hisako Kato     | Outside Audit & Supervisory Board Member | Ms. Kato participated in all 17 meetings of the Board of Directors and in all 18 meetings of the Audit & Supervisory Board held respectively during the current fiscal year.<br>Ms. Kato has been effectively performing the audit of the Company and greatly contributing to ensure and reasonable judgment for, and accountable and sound management of, the businesses of the Company, by utilizing range of her professional knowledge and vast experience on financing and accounting matters as a Certified Public Accountant both in Japan and US and a Certified Tax Accountant by providing necessary and appropriate advices, as well as neutral and independent view point, at the Board of Directors meetings etc. from time to time. |

## 5. Accounting Auditors

(1) Name KPMG AZSA LLC

### (2) Amount of remuneration for Accounting Auditors for the current fiscal year

- 1) Amount of remuneration as Accounting Auditors of the Company  
Amount of remuneration for services under Paragraph 1, Article 2 of the Certified Public Accountant Act; JPY 56 million
- 2) Total amount of remuneration to be paid by the Company and its subsidiaries; ¥JPY 72 million

(Notes)

1. The Audit & Supervisory Board of the Company has made its consent to the remuneration for Accounting Auditors of the Company under Paragraph 1 and 2, Article 399 of the Companies Act by judging it appropriate after reviewing the performance by the Accounting Auditors until the previous fiscal year, the transition of the amount of remuneration until now, and the audit plan and the calculation basis of the quotation for the current fiscal year.
2. In the contract for auditing services between the Company and the Accounting Auditors, no apparent distinction is made between the remunerations of audits under the Companies Act and those under the Securities and Exchange Law. Since it is virtually impossible to make a distinction between the two, the figure for remunerations paid in 1) above includes that under the Securities and Exchange Act.
3. The Company entrusted to its Accounting Auditors consulting services for introducing International Financial Reporting Standards as non-auditing services other than audit certification services set forth under Article 2.1 of Public Accountant Act.
4. Among principle subsidiaries and affiliates of the Company, accounting firms other than Accounting Auditors of the Company have been performing audits for overseas subsidiaries and affiliates.

### (3) Policies for determining dismissal or non-reappointment of Accounting Auditors

The Audit & Supervisory Board of the Company will dismiss the Accounting Auditor upon the consent of all the Audit & Supervisory Board Members if such Accounting Auditor is deemed to have fallen under any of the items in Paragraph 1, Article 340 of the Companies Act. In the event that the Audit & Supervisory Board decides to propose dismissal or non-reappointment any of Accounting Auditors at a general meeting of shareholders considering performance of executing duties and audit qualities thereof, the Board of Directors will, upon request from Audit & Supervisory Board, present such proposals at the general meeting of shareholders.

## **Structures to Ensure Propriety of Business Conduct and Outline of Operating Status of Systems for Ensuring the Propriety of Business Conduct**

### **1. Structures to Ensure Propriety of Business Conduct**

The Board of Directors of the Company made the resolution at its meeting on the “Policies for establishing an internal control system” with regard to the structures to ensure propriety of business conduct of the Company as detailed below;

#### **(1) Basic policies for management**

“JSR Group” (which hereinafter means JSR group companies consisting of the Company and those whose parent company under the Companies Act is the Company) holds and relies on the following Corporate Mission and Management Policies for managing and conducting its businesses.

##### **Corporate Mission:**

Materials Innovation:

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

##### **Management Policies:**

- Persistently challenge “revolution”, constantly “evolve” globally and strive to be a technology oriented company.
- Pursue efficient, transparent, and sound management practices, and strive to be a company trusted by stakeholders.
- Practice Responsible Care for the world’s future.

#### **(2) Structures to ensure that execution of duties of directors and employees of JSR Group complies with the laws and ordinances and the Articles of Incorporation**

- 1) Under the rules of the Board of Directors and other relevant rules, the Board of Directors of the Company inclusive of independent Outside Directors supervises the execution of duties of Directors and Officers (hereafter including Executive Vice President, Executive Managing Officers, Managing Officers and Senior Officers) of the Company, as well as makes decisions on important management matters of the Company and on fundamental management matters of JSR Group.  
As for supervising the execution of duties of the directors and employees of the “Group Companies” (which hereinafter means companies that belong to JSR Group but other than the Company), an Officer in charge of the business division of the Company responsible for the relevant Group Companies as specified under “the Code of Group Companies Management” (“Responsible Business Division”), is responsible for such monitoring and direction.
- 2) The Company has established CSR Committee chaired by the Officer in charge for CSR (Corporate Social Responsibility) and consisting of four committees such as Corporate Ethics Committee, Responsible Care Promotion Committee, Risk Management Committee and Social Contribution Committee, which directs and supervises the activities to ensure and promote CSR of JSR Group including compliance with laws, ordinances and other rules.
- 3) The Company has established “JSR Group Principles of Corporate Ethics” as a code of conduct for the directors and employees of JSR Group, which JSR Group endeavors to make thoroughly understood and penetrated among their respective directors and employees by continual education and promotion under the supervision of the Corporate Ethics Committee.
- 4) The Company has, in accordance with the Financial Instruments and Exchange Act, established and been managing and maintaining the internal control system to ensure appropriateness of financial report of JSR Group.
- 5) The Company has established an organization specialized in internal auditing independent from the business execution divisions (“Internal Auditing Office”) in order to monitor and internally audit the effectiveness of the internal control system of JSR Group.
- 6) The Company has established consulting and reporting channel so that any directors and employees of JSR Group can report directly to the Corporate Ethics Committee of respective Group Companies to which they belong or of the Company, or through designated external hotlines involving outside attorneys (which may be done anonymously) when they become aware of internal actions that violate or are likely to violate the compliance rules. The Company has also established suppliers’ hotlines as a contact point for the suppliers of JSR Group to report the issues relating to compliance rules to the Company. The Company ensures that, in any case, the person who made such reports suffers no

disadvantageous treatment as a result of such reporting.

- 7) The JSR Group's basic principle against the anti-social forces is to cut off all relationships including but not limited to any business transactions with such forces. The management and the entire organization of the Company or, as the case may be, of respective Group Companies shall resolutely and firmly reject any claims or requirements made by anti-social forces in collaboration with external expert entities such as the police forces.

### **(3) Structures to ensure efficient execution of duties of directors of JSR Group**

1) At the Company,

- i. the Board of Directors holds regular meetings on monthly basis in principle and ad hoc basis if required in order to deliberate and resolve important matters relating to the execution of businesses and to monitor and direct the execution of duties of Directors and Officers.  
Executive Committee consisting of President, Executive Vice President, Executive Managing Officer, Managing Officers, and Senior Officers and/or Officers designated by President holds meetings on weekly basis in principle in order to deliberate, direct and/or receive reports on fundamental policies, management policies, management plans of JSR Group and/or major business execution issues from business divisions. After review and deliberation by the Executive Committee, major issues will be brought up to the Board of Directors for resolution while the rest will be determined by the President.  
In addition, Business Issue Committee consisting of President, Executive Vice President, Executive Managing Officer, Managing Officers, and Senior Officers and/or Officers designated by President holds meetings on weekly basis in principle in order to, through discussion and sharing information and views, clarify and determine the direction of the key issues relating to fundamental policies and/or management policies and the fundamental policies or changes in business strategy behind the individual business decisions well in advance, which will be further reviewed and discussed at the Board of Directors Meetings or Executive Committee.
- ii. the officer system has been adopted in order to clearly distinguish managerial decision-making and monitoring functions from those of business execution and to enhance respective functions. Officers Committee consisting of President and all of the Officers except for those reside abroad holds two meetings on monthly basis (Officers reside abroad will attend such meeting on quarterly basis) in principle for the purpose of sharing common and thorough understanding on the status and major issues relating to the management and the performance of the Company.
- iii. "the Code of Group Companies Management" for the management of Group Companies has been established. Relevant Responsible Business Divisions are responsible for administration and management of respective Group Companies, while other corporate functional departments such as safety and environmental affairs, accounting, finance, general affairs, legal affairs and CSR, provide supports and services to Group Companies.

2) Group Companies;

- i. As Group Companies in Japan does not have the board of directors, executive committee of the company consisting of the president, other key management personnel, and audit & advisory board members of the Company, and representatives from the Responsible Business Divisions of the Company holds meetings on regular basis and deliberates and decides important business matters in accordance with the relevant internal rules and regulations.
- ii. At overseas Group Companies, the board of directors holds meetings on regular basis and deliberates and decides important business matters in accordance with the relevant internal rules and regulations.
- 3) The JSR Group has established its mid-term business plan "JSR 20i6" (\*)considering possible changes in business environment in the future, of which implementation plans were broken down into corporate annual targets and budget of JSR Group as a whole. Each of the companies of JSR Group and the business divisions thereof will set up and implement its action plans to achieve the objectives.  
(\*) Mid-term business plan "JSR 20i6" ends on March 31, 2017 and new mid-term business plan "JSR 20i9" will commence on April 1, 2017.
- 4) The tenure of office of directors of JSR Group is one year so that JSR Group can quickly cope with the ever-changing business environment.

**(4) Structures for loss and risk management and other rules of JSR Group**

- 1) The Company has been continually monitoring the risks associated with the execution and progress of the businesses of JSR Group by way of reporting and discussion at the meetings of the Board of Directors, Executive Committee, Business Issues Committee, Officers Committee, and/or other important meetings as well as controlling budget.
- 2) As for the major risks other than those described in the preceding paragraph 1) above, Risk Management Committee of the Company chaired by the Officer responsible for Corporate Planning determines appropriate countermeasures in relation to the degree of visible or potential risks, as well as enhances preparation and implementation of the risk management plans of JSR Group made by the relevant Committees (Corporate Ethics Committee, Responsible Care Promotion Committee) or by individual business divisions, or proceeds group-wide risk management activities.
- 3) In the event of serious crisis of the JSR Group, the “Emergency Headquarters” (“Anti-Disaster Headquarters” in the case of accidents or disaster) directed by the President of the Company will be set up in order to proceed necessary crisis management in accordance with the “Risk Control Manual.”

**(5) Structures for maintenance and management of information relating to execution of duties of Directors of the Company**

The Company has, in accordance with the relevant laws and “Rules for Documents and Information Management”, been properly maintaining the relevant documents and/or those in electromagnetic forms in relation to the execution of duties of Directors and Officers such as minutes of meetings of the shareholders, the Board of Directors, Executive Committee, Business Issues Committee and Officers Committee, and authorization documents so as to make such documents easily accessible by the Directors and Audit & Supervisory Board Members of the Company.

**(6) Structures for reporting the execution of duties by directors and/or employees of the Group Companies to the Company**

- 1) The relevant Responsible Business Divisions of the Company reports business results and financial statements of the Group Companies in charge to Executive Committee and the Board of Directors on regular basis.
- 2) The Audit & Supervisory Board Member of a Group Company on regular basis reports to Audit & Advisory Board Members and Internal Audit Office of the Company the results of the audit made at the Group Company.

**(7) Matters related to audit by Audit & Supervisory Board Members**

- 1) Matters related to employees assisting Audit & Supervisory Board Members and ensuring his/her independence  
The Company has appointed a personnel whose responsibilities are to assist Audit & Supervisory Board Member (“the Assistant”). Any personnel decisions on the Assistant are subject to prior consultation and approval by the Audit & Supervisory Board. In addition, solely Audit & Supervisory Board Member is responsible for evaluating the performance of the assistant.
- 2) Matters related to effectiveness of command by an Audit & Advisory Board Member to its Assistant  
The Assistant shall follow instructions and command solely made by the Audit & Advisory Board Member.
- 3) Structures for Directors and employees of the Company, for directors and employees of the Group Companies or for those who received reports from them, to report to Audit & Supervisory Board Members of the Company.
  - i. Audit & Supervisory Board Members ensures that they can review important decisions on the execution of duties through participation to the meetings of the Board of Directors, Executive Committee, Business Issues Committee and Officer Committee and the circulation of major authorization documents after approval by the relevant personnel.
  - ii. Such corporate administrative department including general affairs, legal and CSR as designated by Audit & Advisory Board Members regularly, or upon request, report to Audit & Advisory Board Members on the progress and operating status of internal control system such as compliance with rules and regulations and risk management.
  - iii. Internal Auditing Office regularly, or upon request, reports the results of internal auditing on JSR Group to Audit & Advisory Board Members.

- iv. Directors and employees of the Company promptly and effectively report to Audit & Supervisory Board Members such items, but not limited to, as the facts that might cause material damages to the Company and/or the JSR Group, and/or materially violate the laws and/or articles of incorporation of the Company, or as specified in advance in accordance with the prior agreement with the Audit & Supervisory Board Members.
  - v. Directors and/or employees of JSR Group promptly report to Audit & Supervisory Board Members relating to execution of businesses.
- 4) Structures to ensure that persons who report to Audit & Advisory Board Members do not suffer disadvantageous treatment as a result of such report.  
The JSR Group prohibits disadvantageous treatment against its directors and employees solely because they had reported to Audit & Advisory Board Members.
- 5) Matters on policies related to procedures for advance payment or pay back of audit expenses and handling of audit expenses and others  
The Company bears all the expenses incurred in relation to execution of duties of Audit & Advisory Board Members unless such expenses are deemed unnecessary
- 6) Other structures to ensure effectiveness of auditing by Audit & Supervisory Board Members  
The Audit & Supervisory Board Members maintain cooperation and communication from time to time with relevant parties such as Internal Auditing Office, the Accounting Auditors, Audit & Supervisory Board Members of the Group Companies.

#### **(8) Policies for establishing an internal control system for a Listed Subsidiary Group of the Company**

Policies for establishing an internal control system for the “Listed Subsidiary Group” (which means a corporate group consisting of companies whose parent company under the Companies Act is a listed subsidiary of the Company) are as detailed below:

- 1) In order to respect the independence of the Listed Subsidiary Group, the matters described above under “(3) Structures to ensure the efficient execution of duties of the Directors of the JSR Group” are not applied to the Listed Subsidiary Group, and the policies for establishing an internal control system for the Listed Subsidiary Group are respected.
- 2) However, with the aim of ensuring the propriety of the business conduct of the JSR Group as a whole including the Listed Subsidiary Group, the following measures are taken.
  - i. Significant decision-making in the Listed Subsidiary Group is conducted by decision-making bodies such as the Board of Directors or the Management Committee, etc., of a listed subsidiary. It is not required to obtain a prior approval from decision-making bodies such as the Board of Directors or the Management Committee, etc., of the Company.
  - ii. A listed subsidiary submits the minutes of its Board of Directors and/or the Management Committee along with attachments to the relevant Responsible Business Divisions of the JSR Group and the Audit & Supervisory Board Members.
  - iii. The Relevant Responsible Business Divisions of the JSR Group review the minutes and report the contents to the Board of Directors and/or the Management Committee of the Company in accordance with designated criteria. Thereby, the Company confirms that the propriety of the business conduct of the Listed Subsidiary Group has been ensured at the Board of Directors and/or the Management Committee of the Company.
  - iv. In accordance with “the Code of Group Companies Management,” the relevant Responsible Business Divisions of the JSR Group supervise and advise on the management of the respective Listed Subsidiary Group, while other management divisions such as safety and environmental affairs, accounting, finance, general affairs, legal affairs, and CSR, provide support and services to the listed subsidiaries.
  - v. The Internal Auditing Office of the Company audits the effectiveness of the internal control systems in order to ensure the appropriateness of the financial report by the Listed Subsidiary Group in accordance with the Financial Instruments and Exchange Act, as well as the effectiveness of the internal control systems, in order to ensure the propriety of the business conduct of the Listed Subsidiary Group.
  - vi. The Audit & Supervisory Board Members of the Company review the minutes prescribed in ii) above and receive reports as prescribed in iii) above at the Board of Directors and/or the Management Committee, in order to ensure the propriety of the business conduct of the Listed Subsidiary Group.
  - vii. While respecting the independence of the Listed Subsidiary Group, the Company endeavors to establish a unified and effective internal control system for the JSR Group from now on.

## **2. Outline of Operating Status of Systems for Ensuring the Propriety of Business Conduct**

The Company and the Group Companies establish and appropriately operate internal control systems pursuant to the policies detailed above. Key measures taken by the JSR Group during the current fiscal year that are deemed important for the internal control are outlined below:

### **(1) Compliance measures**

#### **1) Corporate ethics:**

The Company made efforts to disseminate the principles of corporate ethics throughout the JSR Group not only by providing with employees of the JSR Group regular training/education at work places and e-learning sessions but also by issuing Group Principles of Corporate Ethics in Indonesian language JSR additionally to the existing Japanese, English, Korean, Chinese and Thai versions.

In addition, the JSR Group has been conducting corporate ethics awareness surveys every year targeting JSR Group companies both in Japan and overseas, in order to acknowledge the status of conformity with laws and regulations as well as the JSR Group Principles of Corporate Ethics and the status of corporate ethics activities. While reporting the survey results to the Officer Committee, feedback is provided to each of the Group Companies and is reflected in the following year's corporate ethics promotion activities of the JSR Group as a whole and each of the Group companies.

The JSR Group, has been endeavoring to establish a global system to ensure adherence to laws and regulations by establishing internal regulations and by vigorously pursuing annual review on the status of compliance with laws and regulations at JSR Group companies both in Japan and overseas.

In FY ended on March 31, 2017 ("FY March 2017"), The JSR Group issued Chinese version of the "Compliance Handbook" in accordance with the laws in China in addition to the existing Japanese version (corresponding to Japanese laws) and Korean version (corresponding to Korean laws)

#### **2) Hotline reporting channels:**

The JSR Group has introduced a "Corporate Ethics Hotline" as an internal reporting system. Specifically, issues can be reported to the Corporate Ethics Committee of the Company and of the respective Group Companies via an internal hotline, or to external attorneys or specialized organizations via an external hotline. The external hotline, which is operated by outside specialized organizations, offers services in Japanese, English, Korean, Chinese and Thai, making it easy for overseas offices to use the services.

In FY 2017, 6 matters were reported to the hotline. The reported matters are investigated, a summary of the results is regularly reported to the Corporate Ethics Committee, the CSR Committee, the Internal Auditing Office, the Audit & Supervisory Board Members, and the President, and feedback is provided to the persons who made such reports. There was no report through the suppliers' hotline, in FY March 2017.

### **(2) Risk management measures**

#### **1) Identification and management of key risks:**

At the JSR Group, the Risk Management Committee of the Company specifies key risks (risks other than business risks) in accordance with the degree of impact and frequency of occurrence, and promotes activities to reduce such risks by designating the divisions in charge. As a part of BCM (Business Continuity Management) activities, the Company establishes the system and reviews its operational status to minimize the impact of the business interruption to the businesses of the JSR Group

#### **2) Crisis management training:**

The JSR Group has been endeavoring to minimize the impact and to enhance the capability of business continuity in an event of a crisis by conducting crisis management drills on regular basis at each plants and offices in anticipation of damages by large-scale earthquake or serious accidents. In FY March, 2017, crisis management drills were conducted at the head quarter of the Company based on assumptions of Nankai Trough earthquake and information security crisis and those of crisis management were conducted at respective offices at the plants and research laboratories areas, on the hypothesis of disasters.

### **(3) Internal audit measures**

- 1) The Internal Audit Office, the department in charge of internal auditing at the Company, assessed the status of establishment of internal control systems and their operational status for financial reporting in accordance with the criteria prescribed by the Financial Services Agency, targeting 13 group companies in Japan and overseas including the Company, and confirmed that the status of establishment of internal control systems and their operational status have been functioning effectively.
- 2) In order to confirm the effective functioning of internal control systems of the JSR Group, the Internal



Audit Office conducts operational audits (including compliance audits) of the JSR Group as a whole, including overseas group companies. Operational audits are aimed at confirming the status of internal control with a focus on key operational processes (purchasing, production, sales, IT security control, etc.).

- 3) Members of the Internal Audit Office concurrently serve as Audit & Supervisory Board Members of major subsidiaries in Japan and overseas. They attend the Management Committee of each subsidiary, monitor and direct the execution of duties of Directors of each subsidiaries, and conduct audits on earnings, etc.

**(4) Audits by Audit & Supervisory Board Members**

Audit & Supervisory Board Members attended important meetings including the Board of Directors' Meeting, the Management Committee, etc., performed on-site audits on plants and group companies, and conducted half-yearly interviews with administration divisions while reviewing important documents such as authorization documents, etc. In addition to holding liaison meetings for Audit & Supervisory Board Members of the JSR Group, which comprise Audit & Supervisory Board Members of the Company and of Group companies, in order to promote information sharing, information and opinions were exchanged with the Internal Audit Office and Accounting Auditors regularly and as required, with the aim of reinforcing collaboration and enhancing the effectiveness of audits.

**(5) Status of amendments to basic policies for establishing an internal control system**

Pursuant to the commencement of new mid-term business plan, a partial amendment was made to the basic policies for establishing an internal control system in accordance with the approval at the Board of Directors Meeting on April 10, 2017.

Please note that this is an English translation of the original "Consolidated Financial Statements" which are written in Japanese; therefore, in the event of any conflict between the Japanese original and this English translation, the Japanese original shall be controlling in all respects.

**Consolidated Balance Sheet**  
(as of March 31, 2017)

(in millions of yen)

| Items                                    | Current Fiscal Year | Previous Fiscal Year (Reference) | Items                                         | Current Fiscal Year | Previous Fiscal Year (Reference) |
|------------------------------------------|---------------------|----------------------------------|-----------------------------------------------|---------------------|----------------------------------|
|                                          | Amount              | Amount                           |                                               | Amount              | Amount                           |
| <b>Assets</b>                            |                     |                                  | <b>Liabilities</b>                            |                     |                                  |
| <b>Current Assets</b>                    | <b>348,212</b>      | <b>300,532</b>                   | <b>Current Liabilities</b>                    | <b>139,663</b>      | <b>109,322</b>                   |
| Cash and deposits                        | 98,933              | 52,081                           | Notes and accounts payable-trade              | 75,026              | 53,836                           |
| Notes and accounts receivable-trade, net | 90,695              | 77,878                           | Short-term loans payable                      | 23,740              | 20,840                           |
| Short-term investment securities         | 42,000              | 60,010                           | Income taxes payable                          | 8,360               | 1,915                            |
| Inventories                              | 81,918              | 77,458                           | Other                                         | 32,536              | 32,730                           |
| Other                                    | 34,667              | 33,104                           | <b>Non-current Liabilities</b>                | <b>59,639</b>       | <b>44,683</b>                    |
| <b>Non-current Assets</b>                | <b>227,805</b>      | <b>215,827</b>                   | Long-term loans payable                       | 38,381              | 22,249                           |
| <b>Property, plant and equipment</b>     | <b>130,160</b>      | <b>112,693</b>                   | Net defined benefit liability                 | 13,904              | 15,180                           |
| Buildings and structures, net            | 33,903              | 34,809                           | Other                                         | 7,354               | 7,254                            |
| Machinery, equipment and vehicles, net   | 53,507              | 37,058                           | <b>Total Liabilities</b>                      | <b>199,302</b>      | <b>154,005</b>                   |
| Land                                     | 15,734              | 17,135                           | <b>Net Assets</b>                             |                     |                                  |
| Construction in progress                 | 18,804              | 17,944                           | <b>Shareholders' equity</b>                   | <b>335,940</b>      | <b>329,420</b>                   |
| Other, net                               | 8,212               | 5,745                            | Common stock                                  | 23,320              | 23,320                           |
| <b>Intangible assets</b>                 | <b>17,186</b>       | <b>16,663</b>                    | Capital surplus                               | 17,469              | 25,179                           |
| Goodwill                                 | 8,817               | 9,788                            | Retained earnings                             | 300,547             | 281,877                          |
| Other                                    | 8,369               | 6,875                            | Treasury stock                                | (5,396)             | (956)                            |
| <b>Investments and other assets</b>      | <b>80,459</b>       | <b>86,470</b>                    | <b>Accumulated Other Comprehensive Income</b> | <b>25,454</b>       | <b>23,724</b>                    |
| Investment securities                    | 61,684              | 67,877                           | Unrealized gains on securities, net of taxes  | 17,311              | 15,231                           |
| Net defined benefit asset                | 373                 | —                                | Foreign currency translation adjustment       | 7,231               | 9,307                            |
| Other, net                               | 18,401              | 18,592                           | Remeasurements of defined benefit plans       | 913                 | (814)                            |
| <b>Total Assets</b>                      | <b>576,016</b>      | <b>516,359</b>                   | <b>Subscription rights to shares</b>          | <b>912</b>          | <b>930</b>                       |
|                                          |                     |                                  | <b>Non-controlling interests</b>              | <b>14,409</b>       | <b>8,278</b>                     |
|                                          |                     |                                  | <b>Total Net Assets</b>                       | <b>376,715</b>      | <b>362,353</b>                   |
|                                          |                     |                                  | <b>Total Liabilities and Net Assets</b>       | <b>576,016</b>      | <b>516,359</b>                   |

(Note) Amounts are rounded off to the nearest millions of yen.

**Consolidated Statement of Income**  
(from April 1, 2016 to March 31, 2017)

(in millions of yen)

| Items                                                          | Current<br>Fiscal Year | Previous<br>Fiscal Year<br>(Reference) |
|----------------------------------------------------------------|------------------------|----------------------------------------|
|                                                                | Amount                 | Amount                                 |
| <b>Net Sales</b>                                               | <b>390,599</b>         | <b>386,709</b>                         |
| <b>Cost of sales</b>                                           | <b>274,614</b>         | <b>280,175</b>                         |
| <b>Gross profit</b>                                            | <b>115,985</b>         | <b>106,533</b>                         |
| <b>Selling, general and administrative expenses</b>            | <b>83,615</b>          | <b>72,125</b>                          |
| <b>Operating profit</b>                                        | <b>32,370</b>          | <b>34,408</b>                          |
| <b>Non-operating income</b>                                    | <b>6,400</b>           | <b>4,794</b>                           |
| Dividends income                                               | 1,143                  | 1,142                                  |
| Foreign exchange gains                                         | 1,676                  | —                                      |
| Share of profit of entities accounted for using equity method  | 714                    | 1,848                                  |
| Gain on investments in partnership                             | 1,188                  | 322                                    |
| Other                                                          | 1,680                  | 1,480                                  |
| <b>Non-operating expenses</b>                                  | <b>2,506</b>           | <b>5,568</b>                           |
| Interest expenses                                              | 699                    | 526                                    |
| Loss on abandonment of non-current assets                      | 283                    | 254                                    |
| Foreign exchange losses                                        | —                      | 3,036                                  |
| Other                                                          | 1,525                  | 1,751                                  |
| <b>Ordinary profit</b>                                         | <b>36,264</b>          | <b>33,633</b>                          |
| <b>Extraordinary income</b>                                    | <b>5,187</b>           | <b>2,391</b>                           |
| Gain on sales of non-current assets                            | 630                    | —                                      |
| Gain on sales of investment securities                         | 2,868                  | 633                                    |
| Gain on sales of shares of subsidiaries and associates         | 939                    | —                                      |
| Gain on transfer of business                                   | 749                    | —                                      |
| Gain on step acquisitions                                      | —                      | 1,757                                  |
| <b>Extraordinary loss</b>                                      | <b>3,124</b>           | <b>8,658</b>                           |
| Loss on valuation of shares of subsidiaries and associates     | 598                    | —                                      |
| Loss on valuation of investment securities                     | 415                    | 52                                     |
| Impairment loss                                                | 2,111                  | 7,539                                  |
| Other                                                          | —                      | 1,066                                  |
| <b>Profit before income taxes</b>                              | <b>38,327</b>          | <b>27,366</b>                          |
| <b>Income taxes</b>                                            | <b>8,037</b>           | <b>5,036</b>                           |
| Income tax-current                                             | 9,938                  | 5,073                                  |
| Income tax-deferred                                            | (1,901)                | (36)                                   |
| <b>Profit</b>                                                  | <b>30,291</b>          | <b>22,330</b>                          |
| <b>Profit (loss) attributable to non-controlling interests</b> | <b>213</b>             | <b>(1,738)</b>                         |
| <b>Profit attributable to owners of parent</b>                 | <b>30,078</b>          | <b>24,068</b>                          |

(Note) Amounts are rounded off to the nearest millions of yen.

**Consolidated Statements of Changes in Net Assets**  
(from April 1, 2016 to March 31, 2017)

(in millions of yen)

|                                                                                           | Shareholders' equity |                 |                   |                |                            |
|-------------------------------------------------------------------------------------------|----------------------|-----------------|-------------------|----------------|----------------------------|
|                                                                                           | Common stock         | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of the current fiscal year                                       | 23,320               | 25,179          | 281,877           | (956)          | 329,420                    |
| Changes of items during the current fiscal year                                           |                      |                 |                   |                |                            |
| Dividends from surplus                                                                    |                      |                 | (11,202)          |                | (11,202)                   |
| Profit attributable to owners of parent                                                   |                      |                 | 30,078            |                | 30,078                     |
| Purchase of treasury stock                                                                |                      |                 |                   | (4,526)        | (4,526)                    |
| Disposal of treasury stock                                                                |                      | 8               |                   | 87             | 94                         |
| Retirement of treasury stock                                                              |                      |                 |                   |                | —                          |
| Change of scope of consolidation                                                          |                      |                 | (207)             |                | (207)                      |
| Change in ownership interest of parent due to transactions with non-controlling interests |                      | (7,718)         |                   |                | (7,718)                    |
| Net changes of items other than shareholders' equity                                      |                      |                 |                   |                | —                          |
| Total changes of items during the current fiscal year                                     | —                    | (7,711)         | 18,669            | (4,439)        | 6,519                      |
| <b>Balance at the end of the current fiscal year</b>                                      | <b>23,320</b>        | <b>17,469</b>   | <b>300,547</b>    | <b>(5,396)</b> | <b>335,940</b>             |

|                                                                                           | Accumulated other comprehensive income       |                                         |                                         |                                              | Subscription rights to shares | Non-controlling interests | Total net assets |
|-------------------------------------------------------------------------------------------|----------------------------------------------|-----------------------------------------|-----------------------------------------|----------------------------------------------|-------------------------------|---------------------------|------------------|
|                                                                                           | Unrealized gains on securities, net of taxes | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                               |                           |                  |
| Balance at the beginning of the current fiscal year                                       | 15,231                                       | 9,307                                   | (814)                                   | 23,724                                       | 930                           | 8,278                     | 362,353          |
| Changes of items during the current fiscal year                                           |                                              |                                         |                                         |                                              |                               |                           |                  |
| Dividends from surplus                                                                    |                                              |                                         |                                         | —                                            |                               |                           | (11,202)         |
| Profit attributable to owners of parent                                                   |                                              |                                         |                                         | —                                            |                               |                           | 30,078           |
| Purchase of treasury stock                                                                |                                              |                                         |                                         | —                                            |                               |                           | (4,526)          |
| Disposal of treasury stock                                                                |                                              |                                         |                                         | —                                            |                               |                           | 94               |
| Retirement of treasury stock                                                              |                                              |                                         |                                         | —                                            |                               |                           | —                |
| Change of scope of consolidation                                                          |                                              |                                         |                                         | —                                            |                               |                           | (207)            |
| Change in ownership interest of parent due to transactions with non-controlling interests |                                              |                                         |                                         | —                                            |                               |                           | (7,718)          |
| Net changes of items other than shareholders' equity                                      | 2,079                                        | (2,077)                                 | 1,727                                   | 1,730                                        | (18)                          | 6,130                     | 7,842            |
| Total changes of items during the current fiscal year                                     | 2,079                                        | (2,077)                                 | 1,727                                   | 1,730                                        | (18)                          | 6,130                     | 14,361           |
| <b>Balance at the end of the current fiscal year</b>                                      | <b>17,311</b>                                | <b>7,231</b>                            | <b>913</b>                              | <b>25,454</b>                                | <b>912</b>                    | <b>14,409</b>             | <b>376,715</b>   |

(Note) Amounts are rounded off to the nearest millions of yen.

## Notes on Consolidated Financial Statements

### 1. Notes on significant matters serving as the basis for the production of consolidated financial statements

#### (1) Matters related to the scope of consolidated accounting

##### 1) Number of consolidated subsidiaries and names of major consolidated subsidiaries

Number of consolidated subsidiaries: 43 companies

Names of consolidated subsidiaries:

ELASTOMIX Co., Ltd., JSR TRADING, INC., ELASTOMIX (THAILAND) CO., LTD.,  
ELASTOMIX (FOSHAN) CO., LTD., JSR BST Elastomer Co., Ltd., JSR MOL Synthetic Rubber  
Ltd.,  
PT.ELASTOMIX INDONESIA, JSR Trading Bangkok Co., Ltd., Emulsion Technology Co., Ltd.,  
Techno Polymer Co., Ltd., JAPAN COLORING CO., LTD.,  
Techno Polymer Hong Kong Co., Ltd., Techno Polymer (Thailand) Co., Ltd.,  
Techno Polymer (Shanghai) Co., Ltd., TECHNO POLYMER AMERICA, INC.,  
Techno Polymer Guangzhou Co., Ltd., Techno Europe N.V.,  
JSR Micro Kyushu Co., Ltd., D-MEC LTD., JSR Micro N.V.,  
JSR Micro, Inc. and its 2 subsidiaries, JSR Micro Korea Co., Ltd., JSR Micro Taiwan Co., Ltd.,  
JSR (Shanghai) Co., Ltd., JSR ENGINEERING CO., LTD.,  
JSR Logistics & Customer Center Co., LTD., JSR Trading Co., Ltd., JSR Business Services Co.,  
Ltd.,  
JM Energy Corporation, JSR Trading (Shanghai) Co., Ltd., JSR Life Science Corporation,  
J & W Beijing Biotech Co., Ltd., KBI Biopharma Inc. and KBI Biopharma Boulder, LLC,  
MEDICAL & BIOLOGICAL LABORATORIES Co., LTD., and its 6 subsidiaries

Effective from the current consolidated fiscal year, JSR MOL Synthetic Rubber Ltd.,  
PT.ELASTOMIX INDONESIA, and Techno Europe N.V., were included in the scope of application of  
consolidated accounting due to increase of their impact. JSR Optech Tsukuba Co., Ltd. was excluded  
from the scope of application of consolidated accounting due to transfer of all shares to an external  
entity.

##### 2) Names of major non-consolidated subsidiaries etc.

Names of major non-consolidated subsidiaries:

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

Reasons for exclusion from the scope of consolidation:

Non-consolidated subsidiaries are excluded from the scope of application of consolidated accounting  
as their net assets, sales, profit or loss (the amount corresponding to equity), retained earnings (the  
amount corresponding to equity), etc. are all small in scale, and, even when combined, they do not  
have a significant impact on consolidated financial statements.

#### (2) Matters related to application of the equity method

##### 1) Number of associates and names of major associates to which the equity method is applied;

Number of associates to which the equity method is applied: 12 companies

Names of major associates to which the equity method is applied:

Japan Butyl Co., Ltd., Kumho Polychem Co., Ltd., KRATON JSR ELASTOMERS K.K.,  
JAPAN FINE COATINGS Co., Ltd., Tianjin Kuo Cheng Rubber Industry Co., Ltd.,  
JSR Electronic Materials Korea Co., Ltd., JN System Partners Co., Ltd., JEY-TRANS CO., LTD.,  
4 equity method companies associated with MEDICAL & BIOLOGICAL LABORATORIES Co.,  
LTD.

##### 2) Names of non-consolidated subsidiaries and associates to which the equity method is not applied

Names of major companies:

Non-consolidated subsidiaries: Techno Polymer Shanghai Technical Development Co., Ltd. etc.

Associates: Kyodo Polymer Co., Ltd. etc.

Reason for non-application of the equity method:

Non-consolidated subsidiaries (Techno Polymer Shanghai Technical Development Co., Ltd. etc.) and associates (Kyodo Polymer Co., Ltd. etc.) are excluded from the scope of application of the equity method as they are small in scale from the perspectives of consolidated profit or loss and retained earnings, etc. and, even when combined, they do not have significant effect on consolidated financial statements.

3) Matters to be specially mentioned concerning the procedure for application of the equity method

Regarding the companies to which the equity method is applied, JSR Group used the financial statements covering the fiscal year of these companies if their account closing dates differ from the consolidated account closing date.

(3) Matters related to the fiscal year of consolidated subsidiaries, etc.

The end of the fiscal year of the following 16 subsidiaries is December 31;

JSR TRADING, INC., ELASTOMIX (THAILAND) CO., LTD.,  
ELASTOMIX (FOSHAN) CO., LTD., JSR BST Elastomer Co., Ltd., PT.ELASTOMIX  
INDONESIA,  
Techno Polymer (Shanghai) Co., Ltd., Techno Polymer Guangzhou Co., Ltd.,  
JSR Trading (Shanghai) Co., Ltd., JSR(Shanghai) Co., Ltd., J & W Beijing Biotech Co., Ltd.,  
6 subsidiaries of MEDICAL & BIOLOGICAL LABORATORIES Co., LTD.

On preparation of the consolidated financial statements, JSR Group consolidated the financial statements of JSR BST Elastomer Co., Ltd on the basis of its provisional settlement of account as of the consolidated account closing date. Regarding other 15 subsidiaries, JSR Group consolidated their financial statements as of the end of their fiscal year, and made relevant adjustment required in consolidated accounting for the significant transactions which had taken place prior to the end of the consolidated account closing date.

As from the current consolidated fiscal year, KBI Biopharma Inc. and KBI Biopharma Boulder, LLC changed their fiscal year end from December 31 to March 31 in accordance with the consolidated fiscal year end. These two subsidiaries' three-month profits and losses from January 1, 2016 to March 31, 2016 are brought in through the consolidated statement of income. As a result, their fiscal year of 2016 consists of 15 months from January 1, 2016 to March 31, 2017. The impact of this change on the consolidated profit and loss is insignificant.

## 2. Matters related to accounting standards

(1) Standards and methods of valuation applicable to significant assets

1) Securities

Available-for-sale securities:

|                                      |     |                                                                                                                                                                                                                                                                     |
|--------------------------------------|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Securities carrying market value     | ... | Valued by market method based on fair market value prevailing on the account closing date. Any valuation difference is recorded directly in shareholders' equity, and the cost of sale of relevant securities was calculated on the basis of moving average method. |
| Securities not carrying market value | ... | Valued by cost method based on moving average method or by depreciation cost method.                                                                                                                                                                                |

2) Derivatives

Valued by market method

3) Inventories

Mainly stated at cost based on gross average method (devalued book value on the balance sheet in the event of lower profitability)

(2) Standard and method of depreciation applicable to significant depreciable assets

1) Property, plant and equipment (excluding lease assets)

The straight-line method is applied.

- 2) Intangible assets (excluding lease assets)  
 The straight-line method is applied.  
 The costs of software for the Group's own use are amortized over the estimated useful life (5 years) using the straight-line method.
- 3) Lease assets  
 The straight-line method is applied regarding lease period as useful life and up to no residual value.
- (3) Standards applicable to reporting of significant reserves
  - 1) Allowance for doubtful accounts  
 In order to prepare for loss on claims, potentially unrecoverable amounts is reported considering loss rate in the past in the case of general claims, and individually considering possible recoverable amount in the case of specific claims with doubtful nature.
  - 2) Provision for Directors' bonuses  
 In order to prepare for payment of Directors' the amount that is deemed to have accrued at the end of the current consolidated fiscal year is reported on the basis of anticipated amounts.
  - 3) Provision for environmental measures  
 JSR Group recorded its estimate of the cost of disposing of polychlorinated biphenyl (PCB) and other materials.
- (4) Amortization of goodwill  
 Goodwill is amortized by the straight-line method over the period (the reasonable number of years but not longer than 20 years) during which the goodwill is expected to be materialized.
- (5) Other significant matters serving as the basis for the production of consolidated financial statements
  - 1) Hedge accounting  
 A special-measures treatment is applied to interest rate swap transactions if the requirements for special-measures treatment are fulfilled.
  - 2) Accounting treatment method applicable to consumption tax, etc.  
 The accounting treatment of the consumption tax and the local consumption tax is based on the tax exclusion method.
  - 3) Accounting policy of net defined benefit asset/liability  
 In order to prepare for payment of employees' retirement benefits, net defined benefit asset/liability is reported by deducting the amount of annuity assets from that of retirement benefits obligations based on the projected benefits obligations and annuity assets deemed to have accrued at the end of the current consolidated fiscal year. The benefit formula standard is applied for the method of attributing expected retirement benefits to the period. Actuarial gain or loss is recognized as expense in lump sum during the following consolidated fiscal year. Unrecognized actuarial gain or loss is, after tax effect adjustment, recorded as remeasurements of defined benefit plans under accumulated other comprehensive income in the net assets section.
  - 4) Application of consolidated corporate-tax return system  
 The consolidated corporate-tax return system is applied.

### **3. Changes in accounting policies that are difficult to separate from changes in accounting estimates**

#### **Change in the depreciation method of property, plant and equipment**

Effective from the current consolidated business year, the Company and some of its consolidated subsidiaries has altered the method of depreciation for property, plant and equipment ("tangible assets") from declining balancing method to straight-line method although they had traditionally adopted the declining balance method for tangible assets excluding lease assets with the exception of adopting straight-line method for buildings (other than the equipment attached thereto) acquired on or after April 1, 1998.

The Company has been actively pursuing global expansion of its business in accordance with its Mid-Term Business Plan. From the current consolidated business year onward, it has and will accelerate overseas investments for such as establishment of overseas sales offices and production sites and expansion of the overseas production capacities.

The Company came to the conclusion, upon changes in the resource allocation and after reviewing the method for depreciation of the JSR Group, that it was appropriate to uniformly adopt straight-line method of depreciation for tangible assets of the JSR Group due to the following reasons; straight-line method would more accurately reflect economic reality of depreciating the tangible assets of the JSR Group which were constructed after establishment of sound technologies and development of the products and which therefore had generally long stable usable life; adoption of straight-line method would further contribute globalization of the JSR Group as this would enable the Company to compare cost structures among the JSR Group companies and subsequently to determine an appropriate allocation of resources as well as to make it easier to analyze business performances of multi-national companies operating globally.

As a result, depreciation expense on the straight-line basis incurred in the current fiscal year decreased by 3,273 million yen which brought the increase by the same amount on the Group's consolidated operating profit, ordinary profit and profit before income taxes, compared to what they otherwise would have been had the traditional depreciation method been used.

#### 4. Changes in presentation

(1) Changes in presentation of consolidated balance sheet

“Long-term loans receivable” disclosed as an independent item in Investments and other assets in the previous fiscal year is included in “Other” for the current fiscal year due to decrease of materiality.

“Income taxes payable” included in “Other” in Current liabilities in the previous fiscal year is disclosed as an independent item for the current fiscal year due to increase of materiality.

(2) Changes in presentation of consolidated statement of income

“Interest income” disclosed as an independent item in Non-operating income in the previous fiscal year is included in “Other” for the current fiscal year due to decrease of materiality.

“Gain on investments in partnership” and “Loss on abandonment of non-current assets” included in “Other” in Non-operating income/expenses respectively in the previous fiscal year is disclosed as independent items in the respective classifications for the current fiscal year due to increase of materiality.

#### 5. Notes on consolidated balance sheet

(1) Assets pledged and claims related thereto

|                                  |                                                               |                 |
|----------------------------------|---------------------------------------------------------------|-----------------|
| Assets pledged                   | Current assets                                                | ¥7,069 million  |
|                                  | Property, plant and equipment                                 | ¥9,146 million  |
|                                  | Intangible assets                                             | ¥172 million    |
|                                  | Investment and other assets                                   | ¥956 million    |
|                                  | Total                                                         | ¥17,343 million |
|                                  |                                                               |                 |
| Liabilities related to the above | Short-term loans payable (liabilities from bank transactions) | ¥2,244 million  |
|                                  | Long-term loans payable (liabilities from bank transactions)  | ¥1 million      |
|                                  | Total                                                         | ¥2,245 million  |
|                                  |                                                               |                 |

(2) Allowance for doubtful accounts directly deducted from assets

|                               |                                          |               |
|-------------------------------|------------------------------------------|---------------|
| Current Assets;               | Notes and accounts receivable-trade, net | ¥ 647 million |
| Investments and other assets; | Other                                    | ¥ 471 million |

(3) Accumulated depreciation on property, plant and equipment (including accumulated impairment loss):  
¥ 373,589 million

(4) Export exchange notes discounted: ¥ 233 million



|                              |                 |
|------------------------------|-----------------|
| (5) Guarantee obligations    |                 |
| CMIC JSR Biologics Co., Ltd. | ¥ 1,674 million |
| JSR Micro(Changshu)Co., Ltd  | ¥ 588 million   |
| JEY-TRANS CO., LTD.          | ¥ 104 million   |
| Employees                    | ¥ 1 million     |
| Total                        | ¥ 2,367 million |

The guarantee obligation for CMIC JSR Biologics Co., Ltd. is joint and several sureties. The Group and its partner jointly provide 100% guarantee for the debt of CMIC JSR Biologics Co., Ltd.

The guarantee obligation for JSR Micro (Changshu) Co., Ltd. is joint and several sureties. Total amount of the guarantee obligation (including other company's obligation) is ¥ 1,154 million.

## 6. Notes on consolidated statement of income

### Impairment loss on non-current assets

The book value of the business-use asset listed below has been devalued to its recoverable amount as it is unlikely to use the asset in the future. The amount decreased ( ¥ 2,111 million) was recognized as impairment loss.

| Description                             | Place    | Type | Amount<br>(in millions of yen) |
|-----------------------------------------|----------|------|--------------------------------|
| Asset for Strategic Business and Others | Tsu, Mie | Land | ¥ 2,111                        |

## 7. Note on Statements of changes in net assets

- (1) Class and number of issued shares at the end of the current consolidated fiscal year:  
226,074,545 ordinary shares

(2) Matters related to dividends from surplus

1) Amount of dividends paid

| Resolution                                                | Class of shares | Total amount of dividends (million yen) | Dividends per share (yen) | Record date        | Effective date of dividends |
|-----------------------------------------------------------|-----------------|-----------------------------------------|---------------------------|--------------------|-----------------------------|
| Ordinary General Meeting of Shareholders on June 17, 2016 | Ordinary shares | 5,639                                   | 25                        | March 31, 2016     | June 20, 2016               |
| Board of Directors Meeting on October 24, 2016            | Ordinary shares | 5,562                                   | 25                        | September 30, 2016 | November 24, 2016           |
| Total                                                     |                 | 11,202                                  | 50                        |                    |                             |

2) Dividends of which record dates belong to the current consolidated fiscal year and of which effective dates of dividends fall after the end of the current consolidated fiscal year

The Company will propose, at its ordinary general meeting of shareholders to be convened on June 16, 2017, an agenda for term-end dividends for appropriation of surplus as detailed below;

Item related to ordinary share dividends

|                             |                   |
|-----------------------------|-------------------|
| Dividends in total          | ¥ 5,562 million   |
| Source of dividends         | Retained earnings |
| Amount per share            | ¥ 25              |
| Record date                 | March 31, 2017    |
| Effective date of dividends | June 19, 2017     |

(3) Class and number of shares to be issued or transferred upon exercise of the stock acquisition rights at the end of the current consolidated fiscal year

307,100 ordinary shares

## 8. Notes on financial instruments

(1) Matters relating to status of financial instruments.

JSR Group limits its scope of operation to short-term deposit etc. for the purpose of investment of the surplus fund while it utilizes loans from financial institutions such as banks etc, for the purpose of fund raising.

With regard to the credit risks of customers in relation to notes and accounts receivable, the Group endeavors to minimize such risks in accordance with the provisions under the internal regulation named “Rules for Credit Management”. Securities contain negotiable certificates of deposit or money trust, of which credit risks are low. Shares account for the majority of investment securities.

Due dates of notes and accounts payable arrive within one year after the closing date of the accounting period. Loans are used as operating capital (mainly short-term) and equipment investment capital (long-term).

(2) Matters related to market value etc. of the financial instruments

There is no significant difference between the book value on the consolidated balance sheet and the market value of the financial instruments as of March 31, 2017 (consolidated account closing date).

## 9. Notes on per-share information

|                      |           |
|----------------------|-----------|
| Net assets per share | ¥1,624.14 |
| Profit per share     | ¥134.43   |

## 10. Other

(1) Application of “Revised Implementation Guidance on Recoverability of Deferred Tax Assets”

The Group applies “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (Implementation Guidance on Accounting Standards, No.26 issued on March 28, 2016) as from the current consolidated fiscal year.

(2) Change on treatment of research and development (“R&D”) expenses

Effective from the current consolidated fiscal year, the Company and some of its consolidated subsidiaries JSR Group has posted all R&D expenses as general and administrative expenses upon reorganization of research laboratories, which enhances more fundamental and extensive R&D activities of the JSR Group with innovative communication and collaboration. In the past, however, they had traditionally classified R&D expenses related to fundamental research as administrative expenses while those related to products development as cost of manufacturing as R&D for products development often involved improvement in existing products and were viewed as a part of manufacturing activities.

R&D expenses for ¥9,074 million yen were included in cost of manufacturing in the previous fiscal year.

(3) Shareholders agreement for integration of ABS resin business

On March 30, 2017, Ube Industries, Ltd.(“Ube”), JSR Corporation(“JSR”), and Mitsubishi Rayon Co., Ltd.(“MRC”) signed a shareholders agreement to integrate the ABS resin business of Techno Polymer Co., Ltd., a wholly-owned subsidiary of JSR, and UMG ABS, Ltd.(“UMG ABS”), a 50/50 joint venture between Ube and MRC, and to jointly operate the integrated new company scheduled to be effective on October 1, 2017.

The integration will take the form of an absorption-type split, with UMG ABS as the absorbed company and Techno Polymer as the successor company. Upon completing the absorption-type split, Techno Polymer will allocate common shares to UMG ABS so that, on the day that the absorption-type split takes effect, JSR will own 51% and UMG ABS will own 49% of the issued shares of the new company.

This absorption-type split becomes effective only after all procedures regulated by competition laws and other related laws of countries concerned have completed.

Please note that this is an English translation of the original "Non-Consolidated Financial Statements" which are written in Japanese; therefore, in the event of any conflict between the Japanese original and this English translation, the Japanese original shall be controlling in all respects.

**Balance Sheet**  
(as of March 31, 2017)

(in millions of yen)

| Items                                                            | Current Fiscal Year | Previous Fiscal Year (Reference) | Items                                                                       | Current Fiscal Year | Previous Fiscal Year (Reference) |
|------------------------------------------------------------------|---------------------|----------------------------------|-----------------------------------------------------------------------------|---------------------|----------------------------------|
|                                                                  | Amount              | Amount                           |                                                                             | Amount              | Amount                           |
| <b>Assets</b>                                                    |                     |                                  | <b>Liabilities</b>                                                          |                     |                                  |
| <b>Current Assets</b>                                            | <b>232,372</b>      | <b>207,097</b>                   | <b>Current Liabilities</b>                                                  | <b>103,680</b>      | <b>76,679</b>                    |
| Cash and deposits                                                | 53,945              | 25,022                           | Accounts payable-trade                                                      | 58,447              | 40,167                           |
| Notes receivable                                                 | 49                  | 62                               | Short-term loans payable                                                    | 8,420               | 8,920                            |
| Accounts receivable-trade, net                                   | 61,285              | 47,896                           | Accounts payable-other                                                      | 4,746               | 4,081                            |
| Short-term investment securities                                 | 42,000              | 59,999                           | Accrued expenses                                                            | 11,917              | 11,683                           |
| Inventories                                                      | 43,704              | 42,846                           | Income taxes payable                                                        | 6,828               | —                                |
| Accounts receivable-other                                        | 27,784              | 23,674                           | Deposits received from subsidiaries and associates                          | 12,933              | 11,367                           |
| Deferred tax assets                                              | 1,766               | 901                              | Other                                                                       | 388                 | 459                              |
| Other                                                            | 1,839               | 6,693                            |                                                                             |                     |                                  |
| <b>Non-current Assets</b>                                        | <b>175,560</b>      | <b>163,033</b>                   | <b>Non-current Liabilities</b>                                              | <b>18,389</b>       | <b>17,244</b>                    |
| <b>Property, plant and equipment</b>                             | <b>60,191</b>       | <b>59,281</b>                    | Long-term loans payable                                                     | 500                 | —                                |
| Buildings, net                                                   | 17,232              | 17,924                           | Provision for retirement benefits                                           | 12,228              | 11,506                           |
| Structures, net                                                  | 4,346               | 4,378                            | Deferred tax liabilities                                                    | 4,551               | 4,383                            |
| Machinery and equipment, net                                     | 18,942              | 16,227                           | Other                                                                       | 1,110               | 1,353                            |
| Vehicles, net                                                    | 41                  | 39                               |                                                                             |                     |                                  |
| Tools, furniture and fixtures, net                               | 5,505               | 3,687                            | <b>Total Liabilities</b>                                                    | <b>122,069</b>      | <b>93,924</b>                    |
| Land                                                             | 13,686              | 15,314                           | <b>Net Assets</b>                                                           |                     |                                  |
| Construction in progress                                         | 440                 | 1,709                            | <b>Shareholders' equity</b>                                                 | <b>267,887</b>      | <b>260,287</b>                   |
| <b>Intangible assets</b>                                         | <b>4,051</b>        | <b>2,842</b>                     | <b>Common stock</b>                                                         | <b>23,320</b>       | <b>23,320</b>                    |
| Software                                                         | 1,050               | 830                              | <b>Capital surplus</b>                                                      | <b>25,187</b>       | <b>25,179</b>                    |
| Other                                                            | 3,000               | 2,011                            | Legal capital surplus                                                       | 25,179              | 25,179                           |
| <b>Investments and other assets</b>                              | <b>111,318</b>      | <b>100,909</b>                   | Other capital surplus                                                       | 8                   | —                                |
| Investment securities                                            | 38,737              | 36,992                           | <b>Retained earnings</b>                                                    | <b>224,776</b>      | <b>212,744</b>                   |
| Shares of subsidiaries and associates                            | 53,350              | 44,712                           | Legal retained earnings                                                     | 3,710               | 3,710                            |
| Investments in capital of subsidiaries and associates            | 6,043               | 4,855                            | Other retained earnings                                                     | 221,065             | 209,033                          |
| Long-term loans receivable from subsidiaries and associates, net | 11,279              | 12,206                           | Reserve for special depreciation                                            | 11                  | 16                               |
| Long-term prepaid expenses                                       | 706                 | 844                              | Reserve for advanced depreciation of non-current assets                     | 5,360               | 5,770                            |
| Other                                                            | 1,202               | 1,298                            | Reserve for special account for advanced depreciation of non-current assets | 505                 | —                                |
|                                                                  |                     |                                  | General reserve                                                             | 42,431              | 42,431                           |
|                                                                  |                     |                                  | Retained earnings brought forward                                           | 172,758             | 160,815                          |
|                                                                  |                     |                                  | <b>Treasury stock</b>                                                       | <b>(5,396)</b>      | <b>(956)</b>                     |
|                                                                  |                     |                                  | <b>Valuation and translation adjustments</b>                                | <b>17,064</b>       | <b>15,002</b>                    |
|                                                                  |                     |                                  | Unrealized gains on securities, net of taxes                                | 17,064              | 15,002                           |
|                                                                  |                     |                                  | <b>Subscription rights to shares</b>                                        | <b>912</b>          | <b>915</b>                       |
|                                                                  |                     |                                  | <b>Total Net Assets</b>                                                     | <b>285,863</b>      | <b>276,205</b>                   |
| <b>Total Assets</b>                                              | <b>407,931</b>      | <b>370,130</b>                   | <b>Total Liabilities and Net Assets</b>                                     | <b>407,931</b>      | <b>370,130</b>                   |

(Note) Amounts are rounded off to the nearest millions of yen.

**Statement of Income**  
(from April 1, 2016 to March 31, 2017)

(in millions of yen)

| Items                                                      | Current<br>Fiscal Year | Previous<br>Fiscal Year<br>(Reference) |
|------------------------------------------------------------|------------------------|----------------------------------------|
|                                                            | Amount                 | Amount                                 |
| <b>Net Sales</b>                                           | <b>233,321</b>         | <b>230,723</b>                         |
| <b>Cost of sales</b>                                       | <b>165,690</b>         | <b>169,770</b>                         |
| <b>Gross profit</b>                                        | <b>67,632</b>          | <b>60,952</b>                          |
| <b>Selling, general and administrative expenses</b>        | <b>48,669</b>          | <b>38,269</b>                          |
| <b>Operating profit</b>                                    | <b>18,962</b>          | <b>22,682</b>                          |
| <b>Non-operating income</b>                                | <b>10,104</b>          | <b>12,065</b>                          |
| Interest income                                            | 103                    | 293                                    |
| Dividends income                                           | 6,844                  | 10,619                                 |
| Gain on investments in partnership                         | 1,188                  | 322                                    |
| Foreign exchange gains                                     | 1,229                  | —                                      |
| Other                                                      | 740                    | 829                                    |
| <b>Non-operating expenses</b>                              | <b>1,338</b>           | <b>1,583</b>                           |
| Interest expenses                                          | 52                     | 68                                     |
| Loss on abandonment of non-current assets                  | 217                    | 145                                    |
| Taxes and dues                                             | 210                    | 388                                    |
| Other                                                      | 860                    | 981                                    |
| <b>Ordinary profit</b>                                     | <b>27,729</b>          | <b>33,164</b>                          |
| <b>Extraordinary income</b>                                | <b>5,462</b>           | <b>1,168</b>                           |
| Gain on sales of non-current assets                        | 630                    | —                                      |
| Gain on sales of investment securities                     | 2,838                  | 633                                    |
| Gain on sales of shares of subsidiaries and associates     | 1,245                  | 535                                    |
| Gain on transfer of business                               | 749                    | —                                      |
| <b>Extraordinary loss</b>                                  | <b>4,528</b>           | <b>10,709</b>                          |
| Provision of allowance for doubtful accounts               | 1,404                  | 750                                    |
| Loss on valuation of shares of subsidiaries and associates | 598                    | —                                      |
| Impairment loss                                            | 2,111                  | 971                                    |
| Bad debts written off                                      | —                      | 8,556                                  |
| Other                                                      | 415                    | 430                                    |
| <b>Profit before income taxes</b>                          | <b>28,663</b>          | <b>23,624</b>                          |
| <b>Income taxes</b>                                        | <b>5,430</b>           | <b>423</b>                             |
| Income taxes-current                                       | 7,037                  | (540)                                  |
| Income taxes-deferred                                      | (1,607)                | 964                                    |
| <b>Profit</b>                                              | <b>23,233</b>          | <b>23,200</b>                          |

(Note) Amounts are rounded off to the nearest millions of yen.

**Statements of Changes in Net Assets**  
(from April 1, 2016 to March 31, 2017)

(in millions of yen)

(in millions of yen)

|                                                                                          | Shareholders' equity |                             |                             |                             |                               |                                        |                                                                        |                                                                                                  |                    |                                            |          |
|------------------------------------------------------------------------------------------|----------------------|-----------------------------|-----------------------------|-----------------------------|-------------------------------|----------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|--------------------|--------------------------------------------|----------|
|                                                                                          | Commo<br>n stock     | Capital surplus             |                             |                             | Retained earnings             |                                        |                                                                        |                                                                                                  |                    |                                            | Total    |
|                                                                                          |                      | Legal<br>capital<br>surplus | Other<br>capital<br>surplus | Total<br>capital<br>surplus | Legal<br>retained<br>earnings | Other retained earnings                |                                                                        |                                                                                                  |                    |                                            |          |
|                                                                                          |                      |                             |                             |                             |                               | Reserve for<br>special<br>depreciation | Reserve for<br>advanced<br>depreciation<br>of<br>non-current<br>assets | Reserve for<br>special<br>account for<br>advanced<br>depreciation<br>of<br>non-current<br>assets | General<br>reserve | Retained<br>earnings<br>brought<br>forward |          |
| Balance at the beginning of the current fiscal year                                      | 23,320               | 25,179                      | –                           | 25,179                      | 3,710                         | 16                                     | 5,770                                                                  | –                                                                                                | 42,431             | 160,815                                    | 212,744  |
| Changes of items during the current fiscal year                                          |                      |                             |                             |                             |                               |                                        |                                                                        |                                                                                                  |                    |                                            |          |
| Dividends from surplus                                                                   |                      |                             |                             |                             |                               |                                        |                                                                        |                                                                                                  |                    | (11,202)                                   | (11,202) |
| Profit                                                                                   |                      |                             |                             |                             |                               |                                        |                                                                        |                                                                                                  |                    | 23,233                                     | 23,233   |
| Reversal of reserve for special depreciation                                             |                      |                             |                             |                             |                               | (5)                                    |                                                                        |                                                                                                  |                    | 5                                          | –        |
| Reversal of reserve for advanced depreciation of non-current assets                      |                      |                             |                             |                             |                               |                                        | (430)                                                                  |                                                                                                  |                    | 430                                        | –        |
| Provision of reserve for advanced depreciation of non-current assets                     |                      |                             |                             |                             |                               |                                        | 20                                                                     |                                                                                                  |                    | (20)                                       | –        |
| Provision of reserve for special account for advanced depreciation of non-current assets |                      |                             |                             |                             |                               |                                        |                                                                        | 505                                                                                              |                    | (505)                                      | –        |
| Purchase of treasury stock                                                               |                      |                             |                             |                             |                               |                                        |                                                                        |                                                                                                  |                    |                                            | –        |
| Disposal of treasury stock                                                               |                      |                             | 8                           | 8                           |                               |                                        |                                                                        |                                                                                                  |                    |                                            | –        |
| Retirement of treasury stock                                                             |                      |                             |                             |                             |                               |                                        |                                                                        |                                                                                                  |                    |                                            | –        |
| Net changes of items other than shareholders' equity                                     |                      |                             |                             |                             |                               |                                        |                                                                        |                                                                                                  |                    |                                            | –        |
| Total changes of items during the current fiscal year                                    | –                    | –                           | 8                           | 8                           | –                             | (5)                                    | (410)                                                                  | 505                                                                                              | –                  | 11,942                                     | 12,031   |
| Balance at the end of the current fiscal year                                            | 23,320               | 25,179                      | 8                           | 25,187                      | 3,710                         | 11                                     | 5,360                                                                  | 505                                                                                              | 42,431             | 172,758                                    | 224,776  |

|                                                                                          | Shareholders' equity |                            | Valuation and translation adjustments      | Subscription rights to shares | Total net assets |
|------------------------------------------------------------------------------------------|----------------------|----------------------------|--------------------------------------------|-------------------------------|------------------|
|                                                                                          | Treasury stock       | Total shareholders' equity | Unrealized gains on securities, net of tax |                               |                  |
| Balance at the beginning of the current fiscal year                                      | (956)                | 260,287                    | 15,002                                     | 915                           | 276,205          |
| Changes of items during the current fiscal year                                          |                      |                            |                                            |                               |                  |
| Dividends from surplus                                                                   |                      | (11,202)                   |                                            |                               | (11,202)         |
| Profit                                                                                   |                      | 23,233                     |                                            |                               | 23,233           |
| Reversal of reserve for special depreciation                                             |                      | -                          |                                            |                               | -                |
| Reversal of reserve for advanced depreciation of non-current assets                      |                      | -                          |                                            |                               | -                |
| Provision of reserve for advanced depreciation of non-current assets                     |                      | -                          |                                            |                               | -                |
| Provision of reserve for special account for advanced depreciation of non-current assets |                      | -                          |                                            |                               | -                |
| Purchase of treasury stock                                                               | (4,526)              | (4,526)                    |                                            |                               | (4,526)          |
| Disposal of treasury stock                                                               | 87                   | 94                         |                                            |                               | 94               |
| Retirement of treasury stock                                                             |                      | -                          |                                            |                               | -                |
| Net changes of items other than shareholders' equity                                     |                      | -                          | 2,061                                      | (4)                           | 2,057            |
| Total changes of items during the current fiscal year                                    | (4,439)              | 7,600                      | 2,061                                      | (4)                           | 9,657            |
| <b>Balance at the end of the current fiscal year</b>                                     | <b>(5,396)</b>       | <b>267,887</b>             | <b>17,064</b>                              | <b>912</b>                    | <b>285,863</b>   |

(Note) Amounts are rounded off to the nearest millions of yen.

## Notes on Financial Statements

### 1. Notes on matters related to the significant accounting policy

#### (1) Standards and methods of valuation applicable to assets

##### 1) Securities

Shares of subsidiaries and associates: Stated by cost method based on moving average method

Available-for-sale securities:

|                                        |     |                                                                                                                                                                                                                                                            |
|----------------------------------------|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Securities<br>carrying market<br>value | ... | Valued by market method based on fair market value prevailing on the accounting closing date. Any valuation difference is recorded directly in net assets, and the cost of sale of relevant securities was computed on the basis of moving average method. |
|----------------------------------------|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|                                            |     |                                                                                      |
|--------------------------------------------|-----|--------------------------------------------------------------------------------------|
| Securities not<br>carrying market<br>value | ... | Valued by cost method based on moving average method or by depreciation cost method. |
|--------------------------------------------|-----|--------------------------------------------------------------------------------------|

##### 2) Derivatives

Valued by market method

##### 3) Inventories

Stated at cost based on gross average method (devaluated book value on the balance sheet in the event of lower profitability)

#### (2) Methods of depreciation applicable to non-current assets

##### 1) Property, plant and equipment (excluding lease assets)

The straight-line method is applied.

##### 2) Intangible assets (excluding lease assets)

The straight-line method is applied.

The costs of software for the Company's own use are amortized over the estimated useful life (5 years) using the straight-line method.

##### 3) Lease assets

The straight-line method is applied regarding lease period as useful life and up to no residual value.

#### (3) Standards applicable to reporting of reserves

##### 1) Allowance for doubtful accounts

In order to prepare for loss on claims, allowance is reported and the amount is determined on the basis of actual past losses for general claims, and on the basis of anticipated unrecoverable amounts for specific claims such as those involving the risk of loss.

##### 2) Provision for Directors' bonuses

In order to prepare for payment of Directors' and Audit & Supervisory Board Members' bonuses, the amount that is deemed to have accrued at the close of the current fiscal year is reported on the basis of anticipated amounts.

##### 3) Provision for retirement benefits

In order to prepare for payment of employees' retirement benefits, the amount that is deemed to have accrued at the end of the current fiscal year is reported on the basis of anticipated amounts of retirement benefits obligations and annuity assets as of the end of the current fiscal year. The benefit formula standard is applied for the method of attributing expected retirement benefits to the period.

Actuarial gain or loss is recognized as expense in lump sum during the following fiscal year.

##### 4) Provision for environmental measures

The Company has recorded its estimate of the cost of disposing of polychlorinated biphenyl (PCB) and other materials.



5) Allowance for investment loss

The Company has recorded appropriate estimate of possible loss against the investment in subsidiaries and associates considering the financial standings of such subsidiaries and/or associates in question.

(4) Other significant matters serving as the basis for the production of financial statements

1) Hedge accounting

Special-measures treatment is applied to interest rate swap transactions if the requirements for special-measures treatment are fulfilled.

2) Accounting treatment method applicable to consumption tax, etc.

The accounting treatment of the consumption tax and the local consumption tax is based on the tax exclusion method.

3) Application of consolidated corporate-tax return system

The consolidated corporate-tax return system is applied.

**2. Changes in accounting policies that are difficult to separate from changes in accounting estimates**

Effective from the current consolidated business year, the Company and some of its consolidated subsidiaries has altered the method of depreciation for property, plant and equipment (“tangible assets”) from declining balancing method to straight-line method although they had traditionally adopted the declining balance method for tangible assets excluding lease assets with the exception of adopting straight-line method for buildings (other than the equipment attached thereto) acquired on or after April 1, 1998 .

The Company has been actively pursuing global expansion of its business in accordance with its Mid-Term Business Plan. From the current consolidated business year onward, it has and will accelerate overseas investments for such as establishment of overseas sales offices and production sites and expansion of the overseas production capacities.

The Company came to the conclusion, upon changes in the resource allocation and after reviewing the method for depreciation of the JSR Group, that it was appropriate to uniformly adopt straight-line method of depreciation for tangible assets of the JSR Group due to the following reasons; straight-line method would more accurately reflect economic reality of depreciating the tangible assets of the JSR Group which were constructed after establishment of sound technologies and development of the products and which therefore had generally long stable usable life; adoption of straight-line method would further contribute globalization of the JSR Group as this would enable the Company to compare cost structures among the JSR Group companies and subsequently to determine an appropriate allocation of resources as well as to make it easier to analyze business performances of multi-national companies operating globally. As a result, depreciation expense on the straight-line basis incurred in the current fiscal year decreased by 2,412 million yen which brought the increase by the same amount on the Company’s operating profit, ordinary profit and profit before income taxes, compared to what they otherwise would have been had the traditional depreciation method been used.

**3. Changes in presentation**

Changes in presentation of statement of income

“Gain on investments in partnership,” “Loss on abandonment of non-current assets,” “Provision of allowance for doubtful accounts” and “Impairment loss” included in “Other” in Non-operating income/expenses and Extraordinary income/loss respectively in the previous fiscal year are disclosed as independent items in the respective classifications for the current fiscal year due to increase of materiality.

#### 4. Notes on balance sheet

|                                                                                                        |                                                                        |                   |  |
|--------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|-------------------|--|
| (1) Assets pledged and claims related thereto                                                          |                                                                        |                   |  |
| Assets pledged                                                                                         | Property, plant and equipment                                          | ¥ 6,230 million   |  |
| Liabilities related to the above                                                                       | Long-term loan payable<br>(liabilities arising from bank transactions) | ¥ 1 million       |  |
| (2) Allowances directly deducted from assets                                                           |                                                                        |                   |  |
| 1) Allowance for doubtful accounts                                                                     |                                                                        |                   |  |
| Current Assets; Accounts receivable-trade, net                                                         | ¥ 95 million                                                           |                   |  |
| Investments and other assets;                                                                          |                                                                        |                   |  |
| Long-term loans receivable from subsidiaries and associates, net                                       | ¥ 3,119 million                                                        |                   |  |
| Other                                                                                                  | ¥ 57 million                                                           |                   |  |
| 2) Allowance for investment loss                                                                       |                                                                        |                   |  |
| Investments and other assets; Shares of subsidiaries and associates                                    | ¥ 310 million                                                          |                   |  |
| (3) Accumulated depreciation on property, plant and equipment (including accumulated impairment loss): |                                                                        |                   |  |
|                                                                                                        |                                                                        | ¥ 295,692 million |  |
| (4) Claims to/from subsidiaries and associates                                                         |                                                                        |                   |  |
| Short-term monetary claims to associates                                                               | ¥ 36,619 million                                                       |                   |  |
| Long-term monetary claims to associates                                                                | ¥ 14,398 million                                                       |                   |  |
| Short-term monetary obligations from associates                                                        | ¥ 30,528 million                                                       |                   |  |
| (5) Export exchange notes discounted: ¥ 149 million                                                    |                                                                        |                   |  |
| (6) Guarantee obligations                                                                              |                                                                        |                   |  |
| JSR BST Elastomer Co., Ltd.                                                                            | ¥ 14,196 million                                                       |                   |  |
| JSR MOL Synthetic Rubber Ltd.                                                                          | ¥9,164 million                                                         |                   |  |
| CMIC JSR Biologics Co., Ltd.                                                                           | ¥1,674 million                                                         |                   |  |
| JSR Micro (Changshu) Co.,Ltd.                                                                          | ¥ 588 million                                                          |                   |  |
| JEY-TRANS CO., LTD.                                                                                    | ¥ 104 million                                                          |                   |  |
| Employees                                                                                              | ¥ 1 million                                                            |                   |  |
| Total                                                                                                  | ¥25,727 million                                                        |                   |  |

The guarantee obligation for JSR BST Elastomer Co., Ltd. is joint and several sureties. Total amount of the guarantee obligation (including other entity's obligation) is ¥ 27,835 million.

The guarantee obligation for JSR MOL Synthetic Rubber Ltd. is joint and several sureties. Total amount of the guarantee obligation (including other entity's obligation) is ¥ 17,969 million.

The guarantee obligation for JSR Micro (Changshu) Co., Ltd. is joint and several sureties. Total amount of the guarantee obligation (including other entity's obligation) is ¥ 1,154 million.

The guarantee obligation for CMIC JSR Biologics Co., Ltd. is joint and several sureties. The Company and its partner jointly provide 100% guarantee for the debt of CMIC JSR Biologics Co., Ltd.

## 5. Notes on statement of income

Transactions with subsidiaries and associates:

Operating transaction

Sales ¥ 102,497 million

Amount for goods purchased ¥ 40,595 million

Other trade transactions ¥ 17,552 million

Non-operating transactions ¥ 5,820 million

Impairment loss on non-current assets

The book value of the business asset which is unlikely to be used in the future has been devalued to its recoverable amount in the current fiscal year. The amount decreased of ¥ 2,111 million is recognized as impairment loss.

## 6. Note on statements of changes in net assets

Class and number of treasury stocks at the end of the current fiscal year:

3,560,532 ordinary shares

## 7. Note on tax effect accounting

Allowance for employees' retirement benefits were a major cause of deferred tax assets. Unrealized gains on securities, net of taxes and reserve for advanced depreciation of non-current assets were major causes of deferred tax liabilities.

## 8. Notes on transactions with related parties

### (1) Subsidiaries, associates, etc.

| Attribute  | Name of company               | Voting rights ownership rate (%) | Contents of relationship       |                                                    | Contents of transactions                          | Transaction amount (million yen) | Item                                                        | Balance at the end of the current fiscal year (million yen) |
|------------|-------------------------------|----------------------------------|--------------------------------|----------------------------------------------------|---------------------------------------------------|----------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|
|            |                               |                                  | Directors serving concurrently | Business relationship                              |                                                   |                                  |                                                             |                                                             |
| Subsidiary | JSR Trading Co., Ltd.         | 100                              | None                           | Sales of products                                  | Sale of products (Note 1)                         | 38,920                           | Accounts receivable -trade                                  | 8,330                                                       |
| Subsidiary | Techno Polymer Co., Ltd.      | 100                              | None                           | Supply of raw materials                            | Supply of raw material gas (Note 2)               | 23,011                           | Accounts receivable -other                                  | 3,299                                                       |
| Subsidiary | JSR Engineering Co., Ltd.     | 100                              | None                           | Engineering services of production facilities etc. | Purchase of equipment & facilities (Note 3)       | 8,824                            | Accounts payable -other                                     | 3,121                                                       |
| Subsidiary | JM Energy Corporation         | 100                              | None                           | Provision of loans                                 | Provision of loans (Note 4)                       | 4,497                            | Long-term loans receivable from subsidiaries and associates | 4,497                                                       |
| Subsidiary | ELASTOMIX Co., Ltd.           | 98.5                             | None                           | Deposit from subsidiary                            | Deposit from subsidiaries and associates (Note 5) | 534                              | Deposits received from subsidiaries and associates          | 5,542                                                       |
| Subsidiary | JSR BST Elastomer Co., Ltd.   | 51                               | 1                              | Guarantee obligations                              | Guarantee obligations of loans payable (Note 6)   | 14,196                           | —                                                           | —                                                           |
| Subsidiary | JSR MOL Synthetic Rubber Ltd. | 51                               | None                           | Guarantee obligations                              | Guarantee obligations of loans payable (Note 7)   | 9,164                            | —                                                           | —                                                           |
| Associate  | KRATON JSR ELASTOMERS K. K.   | 50                               | None                           | Purchase of products                               | Purchase of elastomer products (Note 8)           | 9,187                            | Accounts payable -trade                                     | 4,350                                                       |
|            |                               |                                  |                                | Supply of raw materials                            | Supply of raw material gas (Note 2)               | 3,488                            | Accounts receivable -other                                  | 1,886                                                       |

Terms and conditions of transactions and the policy for determining the terms and conditions, etc.

(Notes)

1. Terms and conditions for the sale of the products are determined through negotiation considering full cost of the products and market prices.
2. Terms and conditions for the supply of raw material gas are determined through negotiation based upon the desirable prices offered by the Company considering market prices.
3. Terms and conditions for the purchase of equipment and facilities are determined through negotiation considering the full cost and market prices
4. Interest rates on loans are determined through negotiation considering prevailing interest rates in

- financial market.
5. Interest rates on deposit are determined through negotiation considering prevailing interest rates in financial market.
  6. Guarantee obligation is on joint and several bases. Total amount including that of other entity is ¥ 27,835 million. No guarantee fee is charged and received.
  7. Guarantee obligation is on joint and several bases. Total amount including that of other entity is ¥ 17,969 million. No guarantee fee is charged and received.
  8. Terms and conditions for the purchase of the elastomer products are determined through negotiation considering full cost of the products and market prices.
  9. Transaction amounts do not include consumption tax, etc. The amounts stated as the balance at the end of the current fiscal year include consumption tax, etc.

(2) Major shareholders

| Attribute         | Name of the company | Voting rights ownership rate (%) | Contents of relationship                                                |                       | Contents of transactions    | Transaction amount (million yen) | Item                      | Balance at the end of the current fiscal year (million yen) |
|-------------------|---------------------|----------------------------------|-------------------------------------------------------------------------|-----------------------|-----------------------------|----------------------------------|---------------------------|-------------------------------------------------------------|
|                   |                     |                                  | Directors and/or Audit & Supervisory Board Members serving concurrently | Business relationship |                             |                                  |                           |                                                             |
| Major shareholder | Bridgestone Corp.   | Direct ownership 10.1            | None                                                                    | Sales of our products | Sales of elastomer products | 24,514                           | Accounts receivable-trade | 8,943                                                       |

Terms and conditions of transactions and the policy for determining the terms and conditions, etc.

(Notes)

1. Prices and other terms and conditions are determined upon price negotiations considering market prices.
2. The transaction amount does not include consumption tax, etc. The term-end balance includes consumption tax, etc.

## 9. Notes on per-share information

|                      |           |
|----------------------|-----------|
| Net assets per share | ¥1,280.60 |
| Profit per share     | ¥103.84   |

## 10. Other

(1) Application of “Revised Implementation Guidance on Recoverability of Deferred Tax Assets”

The Company applies “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (Implementation Guidance on Accounting Standards, No.26 issued on March 28, 2016) as from the current fiscal year.

(2) Change on treatment of research and development (“R&D”) expenses

Effective from the current consolidated fiscal year, the Company and some of its consolidated subsidiaries JSR Group has posted all R&D expenses as general and administrative expenses upon reorganization of research laboratories, which enhances more fundamental and extensive R&D activities of the JSR Group with innovative communication and collaboration. In the past, however, they had traditionally classified R&D expenses related to fundamental research as administrative expenses while those related to products development as cost of manufacturing as R&D for products development often involved improvement in existing products and were viewed as a part of manufacturing activities.

R&D expenses for ¥8,659 million yen were included in cost of manufacturing in the previous fiscal year.

**Audit Report from Accounting Auditors**  
**(on Consolidated Financial Statements)**

May 8, 2017

To: Board of Directors  
JSR Corporation

**KPMG AZSA LLC**

|                                                            |                             |                 |        |
|------------------------------------------------------------|-----------------------------|-----------------|--------|
| Designated Limited Liability Partner<br>Engagement Partner | Certified Public Accountant | Takao Tominaga  | (seal) |
| Designated Limited Liability Partner<br>Engagement Partner | Certified Public Accountant | Tomoyoshi Inoue | (seal) |
| Designated Limited Liability Partner<br>Engagement Partner | Certified Public Accountant | Tetsuaki Noda   | (seal) |

We have audited the consolidated financial statements, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the related notes of JSR Corporation. as at March 31, 2017 and for the year from April 1, 2016 to March 31, 2017 in accordance with Article 444-4 of the Companies Act.

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

Management is responsible for the preparation and fair presentation of the 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 misstatements, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the consolidated financial statements based on our audit as accounting. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we 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 statement referred to above presents fairly, in all material respects, the financial position and the results of operations of JSR Corporation and its consolidated subsidiaries for the period, for which the consolidated financial statements was prepared, in accordance with accounting principles generally accepted in Japan.

**Items to be addressed**

As described in “Changes in accounting policies that are difficult to separate from those in accounting estimates” in “Notes on Consolidated Financial Statements”, JSR Corporation altered effective from the current business year the method of depreciation for tangible assets (property, plant and equipment) to strait-line method from declining balance method JSR Corporation applied in the past.

The above does not have any influence over our Opinion stated in the above.

**Other Matter**

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

**Notes to the Reader of Independent Auditor’s Report:**

The Independent Auditor’s Report herein is the English translation of the Independent Auditor’s Report as required by the Companies Act.

**Audit Report from Accounting Auditors**  
**(on Non-Consolidated Financial Statements)**

May 8, 2017

To: Board of Directors  
JSR Corporation

**KPMG AZSA LLC**

|                                                            |                             |                 |        |
|------------------------------------------------------------|-----------------------------|-----------------|--------|
| Designated Limited Liability Partner<br>Engagement Partner | Certified Public Accountant | Takao Tominaga  | (seal) |
| Designated Limited Liability Partner<br>Engagement Partner | Certified Public Accountant | Tomoyoshi Inoue | (seal) |
| Designated Limited Liability Partner<br>Engagement Partner | Certified Public Accountant | Tetsuaki Noda   | (seal) |

We have audited the financial statements, comprising the balance sheet, the statement of income, the statement of changes in net assets, the related notes, and the supplementary schedules of JSR Corporation as at March 31, 2017 and for the year from April 1, 2016 to March 31, 2017 in accordance with Article 436-2-1 of the Companies Act.

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

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatements, whether due to fraud or error.

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the 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 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 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 financial statement referred to above presents fairly, in all material respects, the financial position and the results of operations of JSR Corporation for the period, for which the financial statements was prepared, in accordance with accounting principles generally accepted in Japan.

**Items to be addressed**

As described in “Changes in accounting policies that are difficult to separate from those in accounting estimates” in “Notes on Consolidated Financial Statements”, JSR Corporation altered effective from the current business year the method of depreciation for tangible assets (property, plant and equipment) to strait-line method from declining balance method JSR Corporation applied in the past.

The above does not have any influence over our Opinion stated in the above.

**Other Matter**

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

**Notes to the Reader of Independent Auditor’s Report:**

The Independent Auditor’s Report herein is the English translation of the Independent Auditor’s Report as required by the Companies Act.

## **Audit Report of the Audit & Supervisory Board**

### **Audit Report**

The Audit & Supervisory Board, with regard to the execution of duties of the Directors during the 72nd fiscal term commencing on April 1, 2016 and ending on March 31, 2017, has discussed and prepared its audit report as described below based upon audit reports prepared by each of the Audit & Supervisory Board Members:

#### **1. Methods and contents of the audits by Audit & Supervisory Board Members and the Audit & Supervisory Board**

- (1) The Audit & Supervisory Board has established audit policies, assigned responsibilities to each Audit & Supervisory Board Member for audits, and received reports from each Audit & Supervisory Board Member on the implementation and results of their audits. In addition, the Audit & Supervisory Board has received reports, requesting explanations when necessary, from Directors, other executives and Accounting Auditors (Independent Auditors) concerning the execution of their duties.
- (2) Each Audit & Supervisory Board Member has, in accordance with the audit standards for Audit & Supervisory Board Members set forth by the Audit & Supervisory Board and with the relevant audit policies and the assignment of responsibilities, facilitated communication with Directors, the Internal Audit Office, employees and other parties, and has endeavored to collect information and develop an optimum audit environment while conducting audits using the following methods:
  - 1) Each Audit & Supervisory Board Member has attended the Board of Directors meetings and other important meetings, received reports, requesting explanations when necessary from Directors, employees and other parties on the execution of their duties, reviewed important documents evidencing the authenticity of corporate decisions made, and examined the status of business operations as well as the assets at the head office and other major business offices. In addition, with regard to subsidiaries, each Audit & Supervisory Board Member has endeavored to communicate and exchange information with Directors, Audit & Supervisory Board Members and other parties of subsidiaries, and received reports, when necessary, from subsidiaries.
  - 2) Each Audit & Supervisory Board Member has regularly received reports, requested explanations when necessary from Directors, employees and other parties, and express its opinion on (i) the contents of the resolution of the Board of Directors on the establishment of structures and the systems to ensure the compliance of Directors' execution of duties with laws and ordinances and Articles of Incorporation as well as to secure the propriety of the conducting businesses of the group comprising the Company and its subsidiaries as set forth under the Article 100, Paragraph 1 and 3 of the Enforcement Regulations of the Companies Act, and (ii) the status of operational execution and maintenance of such structures and systems (internal control system) established based on such resolutions, which are stated in the Business Report of the Company. In addition, with regard to subsidiaries of the Company, each Audit & Supervisory Board Member has received reports and requested explanations when necessary from Directors, employees and other parties of the subsidiaries with regard to the establishment of structures and systems as well as their operational status and requested explanations from such parties when necessary. Concerning internal control over financial reporting, each Audit & Supervisory Board Member has received reports from Directors, etc., and KPMG AZSA LLC. on the evaluation results and the audit status of these internal controls, and requested explanations from such parties when necessary.
  - 3) Each Audit & Supervisory Board Member has monitored and verified the Accounting Auditors' independence and propriety in implementing their audits and has also received reports, requesting explanations when necessary, on their execution of duties. In addition, each Audit & Supervisory Board Member has received a notice from the Accounting Auditors that ensures that "the system for ensuring Accounting Auditors' appropriate execution of duties" (the terms respectively set forth under each of the paragraphs of Article 131 of the Corporation Accounting Regulations) has been maintained in accordance with the "the Standards on Quality Control Concerning Audit" (established by the Business

Accounting Council on October 28, 2005), and requested explanations when necessary.

Through these methods, each Audit & Supervisory Board Member reviewed the Business Report of the Company and the supplementary statements thereto, non-consolidated financial statements (the balance sheet, the statement of income, the statement of changes in net assets, and notes on non-consolidated financial statements) and the supplementary statements thereto as well as the consolidated financial statements (consolidated balance sheets, consolidated statements of income, consolidated statements of changes in net assets, and notes on consolidated financial statements), for the fiscal term under review.

## 2. Audit results

### (1) Results of audit on Business Report and other documents

- 1) We acknowledge that the Business Report and its supplementary statements fairly represent the status of the Company in accordance with the laws and ordinances, and the Articles of Incorporation.
- 2) With regard to the execution of duties of the Directors, we have found neither misconduct nor material matters in violation of laws and ordinances or the Articles of Incorporation.
- 3) We acknowledge that the contents of the resolutions of the Board of Directors regarding the structures and systems for internal control are fair and proper. We also have found nothing to be specifically addressed concerning descriptions of the Business Report and the execution of duties of Directors in relation to the structures and systems for internal control. In addition, we have received reports from Directors, etc., and KPMG AZSA LLC stating that there were no material defects to be specifically disclosed concerning internal control over financial reporting at the time of preparing this Audit Report.

### (2) Results of audit on non-consolidated financial statements and its supplementary statements

We acknowledge that the methods and the conclusions of the audit by KPMG AZSA LLC are fair and proper.

### (3) Results of audit on consolidated financial statements

We acknowledge that the methods and the conclusions of the audit by KPMG AZSA LLC are fair and proper.

May 9, 2017

Audit & Supervisory Board, JSR Corporation

|                                            |                |        |
|--------------------------------------------|----------------|--------|
| Full-time Audit & Supervisory Board Member | Atsushi Kumano | (seal) |
|--------------------------------------------|----------------|--------|

|                                                                                |                 |        |
|--------------------------------------------------------------------------------|-----------------|--------|
| Audit & Supervisory Board Member<br>(Outside Audit & Supervisory Board Member) | Hiroichi Uekusa | (seal) |
|--------------------------------------------------------------------------------|-----------------|--------|

|                                                                                |             |        |
|--------------------------------------------------------------------------------|-------------|--------|
| Audit & Supervisory Board Member<br>(Outside Audit & Supervisory Board Member) | Hisako Kato | (seal) |
|--------------------------------------------------------------------------------|-------------|--------|

## Financial Highlights (Reference)

### 1. Key Consolidated Financial Figures

| Fiscal Term                             |             | The 69th             | The 70th             | The 71st             | The 72nd             |
|-----------------------------------------|-------------|----------------------|----------------------|----------------------|----------------------|
| from/to                                 |             | Apr 2013<br>Mar 2014 | Apr 2014<br>Mar 2015 | Apr 2015<br>Mar 2016 | Apr 2016<br>Mar 2017 |
| Net Sales                               | JPY million | 394,309              | 404,073              | 386,709              | 390,599              |
| Operating Profit                        | JPY million | 36,061               | 38,068               | 34,408               | 32,370               |
| Profit attributable to owners of parent | JPY million | 25,172               | 29,918               | 24,068               | 30,078               |
| Return on Equity Ratio                  |             | 7.9%                 | 8.7%                 | 6.8%                 | 8.4                  |
| Total Asset                             | JPY million | 501,319              | 534,592              | 516,359              | 576,016              |
| Net Asset                               | JPY million | 337,259              | 364,673              | 362,353              | 376,715              |
| Equity Ratio                            |             | 66.1%                | 67.0                 | 68.0                 | 62.7                 |
|                                         |             |                      |                      |                      |                      |
| Cash Dividends (per share)              | JPY/share   | 38                   | 40                   | 50                   | 50                   |
| Cash Dividends (amount)                 | JPY million | 8,978                | 9,301                | 11,279               | 11,125               |
| Dividend Payout Ratio                   |             | 35.8%                | 31.1%                | 46.9%                | 37.0%                |
| Purchase of Treasury Share              | JPY million | 4,182                | 9,999                | 8,997                | 4,524                |

### 2. Segment Information

| Fiscal Term<br>from / to          |             | Net Sales            |                      | Operating Profit     |                      |
|-----------------------------------|-------------|----------------------|----------------------|----------------------|----------------------|
|                                   |             | The 71st             | The 72nd             | The 71st             | The 72nd             |
|                                   |             | Apr 2015<br>Mar 2016 | Apr 2016<br>Mar 2017 | Apr 2015<br>Mar 2016 | Apr 2016<br>Mar 2017 |
| Elastomers                        | JPY million | 179,252              | 185,345              | 7,491                | 8,340                |
| Plastics                          | JPY million | 52,206               | 46,035               | 5,113                | 3,773                |
| Fine Chemicals and Other Products | JPY million | 155,249              | 159,218              | 21,802               | 20,257               |
| Total                             | JPY million | 386,709              | 390,599              | 34,408               | 32,370               |

### 3. Consolidated Cash Flow

|                                                          |             | The 71st | The 72nd |
|----------------------------------------------------------|-------------|----------|----------|
| Cash and its equivalent at the beginning the fiscal term | JPY million | 77,906   | 89,394   |
| Cash Flow from operation                                 | JPY million | 48,128   | 47,506   |
| Cash Flow from investment                                | JPY million | (19,038) | (41,807) |
| Cash Flow from financing activities                      | JPY million | (16,260) | (3,510)  |
| Exchange differentials on cash or cash equivalent, etc.  | JPY million | (1,341)  | 5,832    |
| Cash and its equivalent at the end of the fiscal term    | JPY million | 89,394   | 97,416   |