

CONSOLIDATED BALANCE SHEETS

JSR Corporation and Consolidated Subsidiaries
Years ended March 31, 2013 and 2014

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|----------|--|
| | 2013 | 2014 | 2014 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and deposits (Notes 3 and 5) | ¥ 32,190 | ¥ 33,391 | \$ 324,436 |
| Notes and accounts receivable—trade, net (Notes 4, 5 and 17) | 91,512 | 87,614 | 851,281 |
| Short-term investment securities (Notes 3, 5 and 6) | 79,412 | 81,005 | 787,066 |
| Inventories | 74,687 | 78,690 | 764,570 |
| Accounts receivable—other (Note 17) | 28,883 | 30,663 | 297,934 |
| Other (Notes 3, 5, 9 and 14) | 13,735 | 15,142 | 147,119 |
| Total current assets | 320,419 | 326,504 | 3,172,406 |
| Noncurrent assets: | | | |
| Property, plant and equipment (Notes 7, 10 and 16): | | | |
| Buildings and structures, net | 27,824 | 30,623 | 297,544 |
| Machinery, equipment and vehicles, net | 25,801 | 37,267 | 362,099 |
| Land | 18,685 | 18,626 | 180,979 |
| Other, net | 20,895 | 9,114 | 88,550 |
| Total property, plant and equipment | 93,205 | 95,630 | 929,172 |
| Intangible assets | 6,309 | 7,250 | 70,444 |
| Investments and other assets | | | |
| Investment securities (Notes 5 and 6) | 50,532 | 60,952 | 592,231 |
| Other, net (Notes 4, 9 and 16) | 12,470 | 10,984 | 106,711 |
| Total investments and other assets | 63,002 | 71,936 | 698,942 |
| Total noncurrent assets | 162,516 | 174,816 | 1,698,558 |
| Total assets (Note 16) | ¥482,935 | ¥501,320 | \$4,870,964 |

See accompanying notes.

| LIABILITIES AND NET ASSETS | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|----------|--|
| | 2013 | 2014 | 2014 |
| Current liabilities: | | | |
| Notes and accounts payable—trade (Notes 5 and 17) | ¥ 97,226 | ¥ 85,334 | \$ 829,126 |
| Short-term loans payable (Notes 5 and 7) | 14,211 | 15,579 | 151,368 |
| Income taxes payable | 6,888 | 6,396 | 62,150 |
| Other (Notes 9 and 14) | 23,522 | 25,133 | 244,201 |
| Total current liabilities | 141,847 | 132,442 | 1,286,845 |
| Noncurrent liabilities: | | | |
| Long-term loans payable (Notes 5 and 7) | 6,626 | 11,069 | 107,552 |
| Provision for retirement benefits | 15,211 | — | — |
| Net defined benefit liability (Note 8) | — | 15,243 | 148,104 |
| Provision for environmental measures | 2,101 | 1,734 | 16,848 |
| Other (Notes 9 and 14) | 1,417 | 3,572 | 34,702 |
| Total noncurrent liabilities | 25,355 | 31,618 | 307,206 |
| Total liabilities | 167,202 | 164,060 | 1,594,051 |
| Net assets (Note 12) | | | |
| Shareholders' equity | | | |
| Common stock: | | | |
| Authorized—696,061,000 shares | | | |
| Issued—237,973,205 shares in 2013 and 2014 | 23,320 | 23,320 | 226,585 |
| Capital surplus | 25,179 | 25,180 | 244,656 |
| Retained earnings | 253,009 | 269,621 | 2,619,713 |
| Treasury stock | | | |
| 515,440 shares in 2013 and 2,862,706 shares in 2014 | (930) | (5,087) | (49,430) |
| Accumulated other comprehensive income | | | |
| Unrealized gains on securities, net of taxes | 8,470 | 11,467 | 111,419 |
| Foreign currency translation adjustment | (407) | 6,972 | 67,741 |
| Remeasurements of defined benefit plans (Note 8) | — | (189) | (1,835) |
| Subscription rights to shares (Note 13) | 728 | 793 | 7,702 |
| Minority interests | 6,364 | 5,183 | 50,362 |
| Total net assets | 315,733 | 337,260 | 3,276,913 |
| | ¥482,935 | ¥501,320 | \$4,870,964 |

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

JSR Corporation and Consolidated Subsidiaries
Years ended March 31, 2013 and 2014

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|----------|--|
| | 2013 | 2014 | 2014 |
| Net sales (Notes 16 and 17) | ¥371,487 | ¥394,309 | \$3,831,221 |
| Costs and expenses (Note 15): | | | |
| Cost of sales | 279,162 | 294,924 | 2,865,570 |
| Selling, general and administrative expenses | 57,119 | 63,323 | 615,264 |
| | 336,281 | 358,247 | 3,480,834 |
| Operating income (Note 16) | 35,206 | 36,062 | 350,387 |
| Other income (expenses): | | | |
| Interest income | 370 | 257 | 2,497 |
| Dividends income | 439 | 659 | 6,404 |
| Interest expenses | (126) | (142) | (1,375) |
| Foreign exchange gains | 2,976 | 1,672 | 16,247 |
| Share of profit of entities accounted for using equity method | 4,732 | 1,546 | 15,023 |
| Depreciation | (141) | (320) | (3,105) |
| Loss on abandonment of noncurrent assets | (146) | (296) | (2,877) |
| Gain on sales of investment securities (Note 6) | 214 | — | — |
| Restructuring loss (Note 10) | — | (2,410) | (23,411) |
| Loss on abandonment of inventories | (742) | — | — |
| Other, net (Note 6) | 65 | (72) | (713) |
| | 7,641 | 894 | 8,690 |
| Income before income taxes and minority interests | 42,847 | 36,956 | 359,077 |
| Income taxes (Note 9): | | | |
| Current | 12,948 | 11,637 | 113,067 |
| Deferred | (392) | 1,124 | 10,920 |
| | 12,556 | 12,761 | 123,987 |
| Income before minority interests | 30,291 | 24,195 | 235,090 |
| Minority interests in net income of consolidated subsidiaries | 13 | (978) | (9,494) |
| Net income | ¥ 30,278 | ¥ 25,173 | \$ 244,584 |
| | | | |
| | Yen | | U.S. dollars (Note 1) |
| | 2013 | 2014 | 2014 |
| Per share of common stock: | | | |
| Net income | ¥ 126.13 | ¥ 106.10 | \$ 1.03 |
| Diluted net income | 125.86 | 105.85 | 1.03 |
| Cash dividends applicable to the year | 34.00 | 38.00 | 0.37 |

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

JSR Corporation and Consolidated Subsidiaries
Years ended March 31, 2013 and 2014

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|---------|--|
| | 2013 | 2014 | 2014 |
| Income before minority interests | ¥30,291 | ¥24,195 | \$235,090 |
| Other comprehensive income | | | |
| Unrealized gains on securities, net of taxes | 4,274 | 2,968 | 28,839 |
| Foreign currency translation adjustment | 5,755 | 4,335 | 42,116 |
| Share of other comprehensive income of associates accounted for using equity method | 2,046 | 3,134 | 30,452 |
| Other comprehensive income (Note 11) | 12,075 | 10,437 | 101,407 |
| Comprehensive income | ¥42,366 | ¥34,632 | \$336,497 |
| Comprehensive income attributable to | | | |
| Comprehensive income attributable to owners of the parent | ¥41,484 | ¥35,548 | \$345,401 |
| Comprehensive income attributable to minority interests | 882 | (916) | (8,904) |

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

JSR Corporation and Consolidated Subsidiaries
Years ended March 31, 2013 and 2014

| | Millions of yen | | | | | | | | | |
|--|--|--------------|-----------------|-------------------|----------------|--|--|---|-------------------------------|--------------------|
| | Number of shares of common stock (thousands) | Common stock | Capital surplus | Retained earnings | Treasury stock | Unrealized gains on securities, net of taxes | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Subscription rights to shares | Minority interests |
| Balance at April 1, 2012 | 255,885 | ¥23,320 | ¥25,179 | ¥263,100 | ¥(27,321) | ¥ 4,218 | ¥(7,541) | — | ¥656 | ¥746 |
| Changes of items during the period | | | | | | | | | | |
| Dividends of surplus | — | — | — | (7,961) | — | — | — | — | — | — |
| Net income | — | — | — | 30,278 | — | — | — | — | — | — |
| Purchase of treasury stock | — | — | — | — | (6,001) | — | — | — | — | — |
| Disposal of treasury stock | — | — | — | (4) | 39 | — | — | — | — | — |
| Retirement of treasury stock | (17,912) | — | — | (32,353) | 32,353 | — | — | — | — | — |
| Change of scope of consolidation | — | — | — | (51) | — | — | — | — | — | — |
| Net changes of items other than shareholders' equity | — | — | — | — | — | 4,252 | 7,134 | — | 72 | 5,618 |
| Total changes of items during the period | (17,912) | — | — | (10,091) | 26,391 | 4,252 | 7,134 | — | 72 | 5,618 |
| Balance at March 31, 2013 | 237,973 | ¥23,320 | ¥25,179 | ¥253,009 | ¥ (930) | ¥ 8,470 | ¥ (407) | — | ¥728 | ¥6,364 |
| Changes of items during the period | | | | | | | | | | |
| Dividends of surplus | — | — | — | (8,549) | — | — | — | — | — | — |
| Net income | — | — | — | 25,173 | — | — | — | — | — | — |
| Purchase of treasury stock | — | — | — | — | (4,182) | — | — | — | — | — |
| Disposal of treasury stock | — | — | 1 | — | 25 | — | — | — | — | — |
| Retirement of treasury stock | — | — | — | — | — | — | — | — | — | — |
| Change of scope of consolidation | — | — | — | (12) | — | — | — | — | — | — |
| Net changes of items other than shareholders' equity | — | — | — | — | — | 2,997 | 7,379 | (189) | 65 | (1,181) |
| Total changes of items during the period | — | — | 1 | 16,612 | (4,157) | 2,997 | 7,379 | (189) | 65 | (1,181) |
| Balance at March 31, 2014 | 237,973 | ¥23,320 | ¥25,180 | ¥269,621 | ¥ (5,087) | ¥11,467 | ¥ 6,972 | ¥(189) | ¥793 | ¥5,183 |

| | Thousands of U.S. dollars (Note 1) | | | | | | | | | |
|--|--|--------------|-----------------|-------------------|----------------|--|--|---|-------------------------------|--------------------|
| | Number of shares of common stock (thousands) | Common stock | Capital surplus | Retained earnings | Treasury stock | Unrealized gains on securities, net of taxes | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Subscription rights to shares | Minority interests |
| Balance at April 1, 2013 | 237,973 | \$226,585 | \$244,650 | \$2,458,311 | \$ (9,046) | \$ 82,299 | \$ (3,955) | — | \$7,077 | \$ 61,837 |
| Changes of items during the period | | | | | | | | | | |
| Dividends of surplus | — | — | — | (83,061) | — | — | — | — | — | — |
| Net income | — | — | — | 244,584 | — | — | — | — | — | — |
| Purchase of treasury stock | — | — | — | — | (40,635) | — | — | — | — | — |
| Disposal of treasury stock | — | — | 6 | — | 251 | — | — | — | — | — |
| Retirement of treasury stock | — | — | — | — | — | — | — | — | — | — |
| Change of scope of consolidation | — | — | — | (121) | — | — | — | — | — | — |
| Net changes of items other than shareholders' equity | — | — | — | — | — | 29,120 | 71,696 | (1,835) | 625 | (11,475) |
| Total changes of items during the period | — | — | 6 | 161,402 | (40,384) | 29,120 | 71,696 | (1,835) | 625 | (11,475) |
| Balance at March 31, 2014 | 237,973 | \$226,585 | \$244,656 | \$2,619,713 | \$(49,430) | \$111,419 | \$67,741 | \$(1,835) | \$7,702 | \$ 50,362 |

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

JSR Corporation and Consolidated Subsidiaries
Years ended March 31, 2013 and 2014

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|----------|--|
| | 2013 | 2014 | 2014 |
| Cash flows from operating activities: | | | |
| Income before income taxes and minority interests | ¥ 42,847 | ¥ 36,956 | \$ 359,077 |
| Adjustments to reconcile income before income taxes and minority interests to cash provided by operating activities: | | | |
| Depreciation and amortization | 19,232 | 18,096 | 175,823 |
| Interest and dividends income | (809) | (916) | (8,901) |
| Interest expenses | 126 | 142 | 1,375 |
| Share of profit of entities accounted for using equity method | (4,732) | (1,546) | (15,023) |
| Restructuring Loss | — | 2,410 | 23,411 |
| Changes in operating assets and liabilities—net: | | | |
| Decrease (increase) in notes and accounts receivable—trade | 203 | 6,050 | 58,786 |
| Decrease (increase) in inventories | (7,952) | (2,262) | (21,976) |
| Increase (decrease) in notes and accounts payable—trade | 11,688 | (14,467) | (140,566) |
| Other, net | (2,885) | 1,234 | 11,995 |
| Subtotal | 57,718 | 45,697 | 444,001 |
| Interest and dividends income received | 2,566 | 1,751 | 17,017 |
| Interest expenses paid | (124) | (125) | (1,210) |
| Income taxes paid | (12,440) | (11,848) | (115,123) |
| Net cash provided by operating activities | 47,720 | 35,475 | 344,685 |
| Cash flows from investing activities: | | | |
| Decrease (increase) in time deposits | 1,000 | 6,736 | 65,449 |
| Net decrease (increase) in short-term investment securities | (26,000) | 28,500 | 276,914 |
| Purchase of noncurrent assets | (27,869) | (21,108) | (205,089) |
| Purchase of investment securities | (2,092) | (1,003) | (9,746) |
| Purchase of stocks of subsidiaries and affiliates | (4,500) | (1,036) | (10,063) |
| Payments for investments in capital of subsidiaries and associates | — | (2,800) | (27,206) |
| Payments of loans receivable | (2,007) | (3,226) | (31,344) |
| Collection of loans receivable | 2,914 | 2,699 | 26,224 |
| Other, net | (143) | (541) | (5,260) |
| Net cash provided by (used in) investing activities | (58,697) | 8,221 | 79,879 |
| Cash flows from financing activities: | | | |
| Net increase (decrease) in short-term loans payable | (1,113) | 144 | 1,398 |
| Repayment of long-term loans payable | (1,000) | — | — |
| Proceeds from long-term loans payable | 5,417 | 4,538 | 44,094 |
| Proceeds from stock issuance to minority shareholders | 540 | — | — |
| Purchase of treasury stock | (6,001) | (4,182) | (40,635) |
| Cash dividends paid | (7,961) | (8,464) | (82,238) |
| Cash dividends paid to minority shareholders | (19) | (146) | (1,420) |
| Other, net | (23) | (12) | (114) |
| Net cash used in financing activities | (10,160) | (8,122) | (78,915) |
| Effect of exchange rate change on cash and cash equivalents | 1,773 | 1,723 | 16,734 |
| Net increase (decrease) in cash and cash equivalents | (19,364) | 37,297 | 362,383 |
| Cash and cash equivalents at beginning of year | 67,198 | 53,818 | 522,913 |
| Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation | 5,984 | — | — |
| Cash and cash equivalents at end of year (Note 3) | ¥ 53,818 | ¥ 91,115 | \$ 885,296 |

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JSR Corporation and Consolidated Subsidiaries
Years ended March 31, 2013 and 2014

1. Basis of Consolidated Financial Statements

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

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

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

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 to U.S.\$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Consolidation—The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (30 and 28 subsidiaries in 2013 and 2014, respectively).

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

JSR MICROTECH INC. and Nichigo Kogyo Co., Ltd. were excluded from the scope of consolidation in the fiscal year ended March 31, 2014 due to transfer of all shares thereof.

JSR BST Elastomer Co., Ltd. and JSR Life Sciences Corporation have been consolidated since 2013 due to increase of materiality.

In order to improve the disclosure of consolidated financial information, from the fiscal year ended March 31, 2014 the accounting periods of TECHNO POLYMER HONG KONG CO., LTD., Techno Polymer (Thailand) Co., Ltd., and TECHNO POLYMER AMERICA, INC., were changed from a year ending on December 31 year-end to a March 31 year-end.

As a result, these above companies' results for a 15-month fiscal period from January 1, 2013 to March 31, 2014 have been included in consolidation. The impact on the profit and loss of changing account closing date is immaterial.

(b) Equity method—Investments in affiliated companies (all of those 20% to 50% owned and certain others 15% to 20% owned) were accounted for by the equity method (6 and 8 affiliated companies in 2013 and 2014, respectively). Unconsolidated subsidiaries and the other affiliated companies are stated at cost since their net income and retained earnings in the aggregate are not material compared to consolidated net income and retained earnings, respectively.

Medical & Biological Laboratories Co. and JN System Partners Co., Ltd. have been included in the scope of the equity method since 2014 due to the increase of materiality and establishment, respectively.

(c) Cash and cash equivalents—In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

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

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

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

(i) The accounting change
Effective April 1, 2012, due to a revision of the corporate tax law in Japan, the Company and its domestic consolidated subsidiaries have applied a depreciation method based on the revised

law for tangible assets purchased on or after April 1, 2012.

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

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

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

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

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

The Companies provided provision and expenses for employees' severance and retirement benefits at year-end based on the estimated amounts of projected benefits obligation and the fair value of the pension assets.

In calculating the retirement benefit obligation, the method of attributing expected benefit to the accounting period is based on mainly a straight-line basis.

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

(i) The Accounting Change

Effective from the end of the fiscal year ended March 31, 2014, "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 issued on May 17, 2012, hereinafter "Retirement Benefits Accounting Standard") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued on May 17, 2012, hereinafter "Retirement Benefits Guidance") are adopted (with the exception of the main clause of Article 35 of the Retirement Benefits Accounting Standard and the main clause of Article 67 of the Retirement Benefits Guidance), where the method was changed with benefit obligation net of the amount of plan assets recorded as net defined benefit liability and unrealized actuarial difference recorded as net defined benefit liability.

The Retirement Benefits Accounting Standard is applied in accordance with the transitional handling set forth in Article 37 of the Retirement Benefits Accounting Standard, and the effected amounts due to such change are adjusted in remeasurements of defined benefit plans under accumulated other comprehensive income at the end of the fiscal year ended March 31, 2014.

As a result of the above, ¥15,243 million (\$148,104 thou-

sand) was recorded as net defined benefit liability at the end of the fiscal year ended March 31, 2014. In addition, accumulated other comprehensive income decreased by ¥189 million (\$1,835 thousand).

The effects of this change in equity per share decreased by ¥0.80 (\$0.01).

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

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

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

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

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

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

(p) Amounts per share of common stock—The computation of net income per share of common stock is based on the average number of shares outstanding during each fiscal year. Treasury stock has been excluded in the calculation of amounts per share of common stock.

Cash dividends per share represent actual amounts applicable to

the respective years.

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

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

(r) New accounting pronouncements—

Accounting standard for retirement benefits

“Accounting Standard for Retirement Benefits” (Statement No. 26 by ASBJ on May 17, 2012) and “Guidance on Accounting Standard for Retirement Benefits” (Guidance No. 25 by ASBJ on May 17, 2012) have been issued.

Major changes are as follows:

- (i) Treatment in the consolidated balance sheets, statements of income and the statements of comprehensive income

As described in Note 2 (j), the amended rule has been effective from the end of the fiscal year ended March 31, 2014.

(ii) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to discount rate.

This accounting standard and the guidance for (ii) above are effective from the beginning of fiscal years ending on March 31, 2015. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Companies expected to apply the revised accounting standard from the fiscal year ending March 31, 2015, and is in the process of measuring the effects of applying the revised accounting standard.

3. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2013 and 2014 consisted of the following:

| | Millions of yen | | Thousands of |
|----------------------------------|-----------------|----------|--------------|
| | 2013 | 2014 | U.S. dollars |
| Cash and deposits | ¥ 32,190 | ¥ 33,391 | \$ 324,436 |
| Short-term investment securities | 79,412 | 81,005 | 787,066 |
| Time deposits over three months | (61,282) | (26,081) | (253,410) |
| Current assets: Other | 3,498 | 2,800 | 27,204 |
| Cash and cash equivalents | ¥ 53,818 | ¥ 91,115 | \$ 885,296 |

4. Allowance for doubtful accounts

Allowance for doubtful accounts as of March 31, 2013 and 2014 were as follows:

| | Millions of yen | | Thousands of |
|--|-----------------|--------|--------------|
| | 2013 | 2014 | U.S. dollars |
| Allowance for doubtful accounts | | | |
| Current asset: Notes and accounts receivable—trade | ¥(460) | ¥(332) | \$(3,222) |
| Investments and other assets: Other | (356) | (152) | (1,474) |

5. Fair Value of Financial Instruments

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

financial instruments as of March 31, 2013 and 2014. Financial instruments which fair value is extremely difficult to estimate is excluded from the following table.

| | Millions of yen | | |
|--|-----------------|------------|------------|
| | Book value | Fair value | Difference |
| March 31, 2013: | | | |
| (1) Cash and deposits | ¥ 32,190 | ¥ 32,190 | ¥ — |
| (2) Notes and accounts receivable—trade | 91,972 | 91,972 | — |
| (3) Short-term investment securities and investment securities | 109,250 | 110,865 | 1,615 |
| (4) Current assets—other (short-term loans receivable) | 3,498 | 3,498 | — |
| Total assets | ¥236,910 | ¥238,525 | ¥1,615 |
| (5) Notes and accounts payable—trade | 97,226 | 97,226 | — |
| (6) Short-term loans payable | 14,211 | 14,211 | — |
| (7) Long-term loans payable | 6,626 | 6,623 | (3) |
| Total liabilities | ¥118,063 | ¥118,060 | ¥ (3) |

| | | | |
|--|----------|----------|---------|
| March 31, 2014: | | | |
| (1) Cash and deposits | ¥ 33,391 | ¥ 33,391 | ¥ — |
| (2) Notes and accounts receivable—trade | 87,945 | 87,945 | — |
| (3) Short-term investment securities and investment securities | 114,615 | 113,819 | (796) |
| (4) Current assets—other (short-term loans receivable) | 2,800 | 2,800 | — |
| Total assets | ¥238,751 | ¥237,955 | ¥ (796) |
| (5) Notes and accounts payable—trade | 85,334 | 85,334 | — |
| (6) Short-term loans payable | 14,794 | 14,794 | — |
| (7) Long-term loans payable (included repayment due within one year) | 11,854 | 11,773 | (81) |
| Total liabilities | ¥111,982 | ¥111,901 | ¥ (81) |

| | Thousands of U.S. dollars | | |
|--|---------------------------|-------------|------------|
| | Book value | Fair value | Difference |
| March 31, 2014: | | | |
| (1) Cash and deposits | \$ 324,436 | \$ 324,436 | \$ — |
| (2) Notes and accounts receivable—trade | 854,503 | 854,503 | — |
| (3) Short-term investment securities and investment securities | 1,113,631 | 1,105,894 | (7,737) |
| (4) Current assets—other (short-term loans receivable) | 27,204 | 27,204 | — |
| Total assets | \$2,319,774 | \$2,312,037 | \$(7,737) |
| (5) Notes and accounts payable—trade | 829,126 | 829,126 | — |
| (6) Short-term loans payable | 143,746 | 143,746 | — |
| (7) Long-term loans payable (included repayment due within one year) | 115,174 | 114,386 | (788) |
| Total liabilities | \$1,088,046 | \$1,087,258 | \$ (788) |

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

- (1) Cash and cash equivalents, and time deposits
The carrying values of cash and cash equivalents, and time deposits approximate fair value because of their short maturities.
- (2) Notes and accounts receivable—trade
The carrying values of notes and accounts receivable—trade approximate fair value because of their short maturities.

- (3) Short-term investment securities and investment securities
The fair value of securities and investment securities are measured at the quoted market price of the stock exchange for the equity instruments. Negotiable deposit, commercial paper and cash in trust approximate fair value.
- (4) Current assets—other (short-term loans receivable)
The carrying values of short-term loans receivable approximate fair value because of their short maturities.

- (5) Notes and accounts payable—trade
The carrying values of notes and accounts payable—trade approximate fair values because of their short maturities.
- (6) Short-term loans payable
Short-term loans payable approximate fair value.
- (7) Long-term loans payable
The fair value of long-term loans payable is measured at the present value by discounting expected repayments of principal and interest in the remaining period using an assumed interest

rate on an equivalent new loan.

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

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

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------------|-----------------|---------|---------------------------|
| | 2013 | 2014 | 2014 |
| Non-listed equity securities | ¥20,694 | ¥27,342 | \$265,667 |
| Investments in capital | 1,587 | 4,578 | 44,477 |

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

| | Millions of yen | | | | Total |
|--|---------------------|--|---|--------------------|----------|
| | Due within one year | Due after one year and within five years | Due after five years and within ten years | Due over ten years | |
| March 31, 2013: | | | | | |
| (1) Cash and deposits | ¥ 8,583 | ¥200 | ¥— | ¥— | ¥ 8,783 |
| (2) Notes and accounts receivable—trade | 91,972 | — | — | — | 91,972 |
| (3) Short-term investment securities and investment securities | | | | | |
| Available-for-sale securities with fixed maturities | | | | | |
| Other | 79,412 | — | — | — | 79,412 |
| (4) Current assets—other (short-term loans receivable) | 3,498 | — | — | — | 3,498 |
| Total | ¥183,465 | ¥200 | ¥— | ¥— | ¥183,665 |

March 31, 2014:

| | | | | | |
|--|----------|----|----|----|----------|
| (1) Cash and deposits | ¥ 2,081 | ¥— | ¥— | ¥— | ¥ 2,081 |
| (2) Notes and accounts receivable—trade | 87,945 | — | — | — | 87,945 |
| (3) Short-term investment securities and investment securities | | | | | |
| Available-for-sale securities with fixed maturities | | | | | |
| Other | 81,057 | — | — | — | 81,057 |
| (4) Current assets—other (short-term loans receivable) | 2,800 | — | — | — | 2,800 |
| Total | ¥173,883 | ¥— | ¥— | ¥— | ¥173,883 |

March 31, 2014:

| | Thousands of U.S. dollars | | | | Total |
|--|---------------------------|--|---|--------------------|-------------|
| | Due within one year | Due after one year and within five years | Due after five years and within ten years | Due over ten years | |
| (1) Cash and deposits | \$ 20,219 | \$— | \$— | \$— | \$ 20,219 |
| (2) Notes and accounts receivable—trade | 854,503 | — | — | — | 854,503 |
| (3) Short-term investment securities and investment securities | | | | | |
| Available-for-sale securities with fixed maturities | | | | | |
| Other | 787,575 | — | — | — | 787,575 |
| (4) Current assets—other (short-term loans receivable) | 27,204 | — | — | — | 27,204 |
| Total | \$1,689,501 | \$— | \$— | \$— | \$1,689,501 |

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

6. Short-term investment securities and Investment Securities

(1) The following tables summarize the acquisition cost and book value of available-for-sale securities with available fair value as of March 31, 2013 and 2014:

(a) Securities with book value exceeding acquisition cost

| | Millions of yen | | |
|-------------------|------------------|------------|------------|
| | 2013 | | |
| | Acquisition cost | Book value | Difference |
| Equity securities | ¥9,026 | ¥22,517 | ¥13,491 |

| | Millions of yen | | |
|-------------------|------------------|------------|------------|
| | 2014 | | |
| | Acquisition cost | Book value | Difference |
| Equity securities | ¥10,349 | ¥27,785 | ¥17,436 |

| | Thousands of U.S. dollars | | |
|-------------------|---------------------------|------------|------------|
| | 2014 | | |
| | Acquisition cost | Book value | Difference |
| Equity securities | \$100,549 | \$269,968 | \$169,419 |

(b) Securities with book value not exceeding acquisition cost

| | Millions of yen | | |
|-------------------|------------------|------------|------------|
| | 2013 | | |
| | Acquisition cost | Book value | Difference |
| Equity securities | ¥2,782 | ¥2,338 | ¥(444) |

| | Millions of yen | | |
|-------------------|------------------|------------|------------|
| | 2014 | | |
| | Acquisition cost | Book value | Difference |
| Equity securities | ¥1,440 | ¥1,273 | ¥(167) |

| | Thousands of U.S. dollars | | |
|-------------------|---------------------------|------------|------------|
| | 2014 | | |
| | Acquisition cost | Book value | Difference |
| Equity securities | \$13,995 | \$12,374 | \$(1,621) |

(2) Total sales of available-for-sale securities sold and the related gains and losses for the years ended March 31, 2013 and 2014 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-------------|-----------------|------|---------------------------|
| | 2013 | 2014 | 2014 |
| Total sales | ¥341 | ¥62 | \$601 |
| Gain | 223 | 22 | 215 |
| Loss | (9) | (0) | (2) |

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

Short-term loans payable represent primarily overdrafts from banks bearing interest at 0.7% per annum (weighted average interest rate) at March 31, 2013 and 2014.

Long-term loans payable at March 31, 2013 and 2014 consisted of the following:

| | Millions of yen | | Thousands of |
|--|-----------------|---------|--------------|
| | 2013 | 2014 | U.S. dollars |
| Loans principally from banks and insurance companies due through 2020 with interest rates 1.7% and 2.0% per annum (weighted average interest rate) in 2013 and 2014, respectively: | | | |
| Secured | ¥ 1 | ¥ 1 | \$ 10 |
| Unsecured | 6,625 | 11,853 | 115,164 |
| | 6,626 | 11,854 | 115,174 |
| Less amount due within one year | — | 785 | 7,622 |
| | ¥6,626 | ¥11,069 | \$107,552 |

At March 31, 2014, property, plant and equipment, at book value of ¥6,740 million (\$65,488 thousand) were pledged as collateral for secured loans.

The annual maturities of long-term debt at March 31, 2014 were as follows:

| Year ending March 31, | Millions of yen | Thousands of |
|-----------------------|-----------------|--------------|
| | | U.S. dollars |
| 2015 | ¥ 785 | \$ 7,622 |
| 2016 | 1,445 | 14,040 |
| 2017 | 2,771 | 26,921 |
| 2018 | 2,271 | 22,063 |
| 2019 | 2,271 | 22,063 |
| 2020 and thereafter | 2,311 | 22,465 |
| | ¥11,854 | \$115,174 |

8. Employees' Severance and Retirement Benefits

The Company and domestic consolidated subsidiaries have corporate pension fund plan and lump-sum payment plan as defined benefit plan.

Defined benefit plans

1. Movement in retirement benefit obligation

| | Millions of yen | Thousands of |
|---------------------------|-----------------|--------------|
| | 2014 | 2014 |
| Balance at April 1, 2013 | ¥50,080 | \$486,589 |
| Service cost | 2,061 | 20,026 |
| Interest cost | 727 | 7,067 |
| Actuarial loss (gain) | 1,080 | 10,495 |
| Benefits paid | (3,104) | (30,160) |
| Other | (582) | (5,658) |
| Balance at March 31, 2014 | ¥50,262 | \$488,359 |

2. Movements in plan assets

| | Millions of yen | Thousands of U.S. dollars |
|------------------------------------|-----------------|---------------------------|
| | 2014 | 2014 |
| Balance at April 1, 2013 | ¥35,310 | \$343,082 |
| Expected return on plan assets | 288 | 2,800 |
| Actuarial loss (gain) | 787 | 7,644 |
| Contributions paid by the employer | 1,076 | 10,459 |
| Benefits paid | (2,300) | (22,346) |
| Other | (142) | (1,384) |
| Balance at March 31, 2014 | ¥35,019 | \$340,255 |

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

| | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| | 2014 | 2014 |
| Funded retirement benefit obligation | ¥ 39,705 | \$ 385,783 |
| Plan assets | (35,019) | (340,255) |
| | 4,686 | 45,528 |
| Unfunded retirement benefit obligation | 10,557 | 102,576 |
| Total Net liability (assets) for retirement benefit at March 31, 2014 | 15,243 | 148,104 |
| Liability for retirement benefit | 15,243 | 148,104 |
| Total Net liability (assets) for retirement benefit at March 31, 2014 | ¥ 15,243 | \$ 148,104 |

4. Retirement benefit costs

| | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| | 2014 | 2014 |
| Service cost | ¥2,061 | \$20,026 |
| Interest cost | 727 | 7,067 |
| Expected return on plan assets | (288) | (2,800) |
| Net actuarial loss amortization | (441) | (4,292) |
| Total retirement benefit costs for the fiscal year ended March 31, 2014 | ¥2,059 | \$20,001 |

5. Accumulated adjustments for retirement benefit

| | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| | 2014 | 2014 |
| Actuarial gains and losses that are yet to be recognized | (293) | (2,851) |
| Total balance at March 31, 2014 | ¥(293) | \$(2,851) |

6. Plan assets

(1) Plan assets comprise:

| | 2014 |
|---------------------------|--------|
| Bonds | 80.3% |
| Equity securities | 9.8 |
| Cash and cash equivalents | 0.9 |
| Other | 9.0 |
| Total | 100.0% |

(2) Long-term expected rate of return

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

7. Actuarial assumptions

The followings were principal actuarial assumptions at March 31, 2014

| | | |
|-----------------------------------|--------|-------|
| Discount rate | mainly | 1.53% |
| Long-term expected rate of return | mainly | 0.55% |

9. Income Taxes

Income taxes in the accompanying consolidated statements of income comprise corporation, enterprise and inhabitants' taxes. The statutory income tax rate was approximately 38.0%.

Amendments to the Japanese tax regulations were enacted into law on March 31, 2014. As a result of these amendments, the statutory income tax rate will be reduced from 38.0% to 35.6% effective from the year beginning April 1, 2014, thereafter.

Consequently, the statutory income tax rate utilized for deferred tax assets and liabilities expected to be settled or realized in the period on or after April 1, 2014 is 35.6%. The impact of this change did not have a material effect.

The following table summarizes the significant differences between the statutory income tax rate and the Companies' effective tax rates for financial statement purposes for the years ended March 31, 2013 and 2014:

| | 2013 | 2014 |
|---|-------|-------|
| Statutory income tax rate | 38.0% | 38.0% |
| Tax credit on research and development costs | (3.5) | (4.8) |
| Share of profit of entities accounted for using equity method | (4.2) | (1.6) |
| Lower tax rates for foreign consolidated subsidiaries | (4.3) | (0.3) |
| Valuation allowance | 2.4 | 2.9 |
| Other | 0.9 | 0.3 |
| Effective tax rate | 29.3% | 34.5% |

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2013 and 2014 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|-----------------|------------------------------|
| | 2013 | 2014 | 2014 |
| Deferred tax assets: | | | |
| Provision for retirement benefits | ¥ 5,402 | ¥ — | \$ — |
| Net defined benefit liability | — | 5,300 | 51,495 |
| Loss carried forward | 2,956 | 3,905 | 37,947 |
| Impairment loss | 1,267 | 1,642 | 15,952 |
| Accrued bonuses | 1,518 | 1,415 | 13,752 |
| Unrealized gain on sale of inventories | 1,179 | 1,330 | 12,920 |
| Unrealized gain on sale of noncurrent assets | 916 | 971 | 9,431 |
| Provision for environmental measures | 748 | 617 | 5,999 |
| Other | 3,644 | 2,806 | 27,262 |
| Sub-total | 17,630 | 17,986 | 174,758 |
| Valuation allowance | (3,911) | (4,910) | (47,711) |
| Total deferred tax assets | 13,719 | 13,076 | 127,047 |
| Deferred tax liabilities: | | | |
| Unrealized gains on securities | (4,712) | (6,352) | (61,718) |
| Deferred gain on sales of noncurrent assets | (3,060) | (2,988) | (29,029) |
| Other | (1,290) | (1,620) | (15,738) |
| Total deferred tax liabilities | (9,062) | (10,960) | (106,485) |
| Net deferred tax assets | ¥ 4,657 | ¥ 2,116 | \$ 20,562 |

10. Restructuring Loss

The Companies recognized a loss on restructuring of production base of Elastomers business and Fine chemicals and other products business. This loss is composed of Impairment loss of noncurrent assets ¥645 million (\$6,268 thousand), Loss on valuation of invento-

ries ¥713 million (\$6,924 thousand), Repair expenses associated with restructuring ¥565 million (\$5,485 thousand) and Depreciation expenses incurred during the period in which production was stopped ¥229 million (\$2,221 thousand).

Impairment loss of Noncurrent Assets

The Companies recognized impairment losses on the following group of noncurrent assets for the year ended March 31, 2014.

| Use | Location | | Millions of yen | Thousands of U.S. dollars |
|--|--|--------------------------------------|-----------------|------------------------------|
| | | | 2014 | 2014 |
| Assets for fine chemicals and other products business | Hidaka City, Saitama Prefecture, Japan | Land | ¥ 67 | \$ 651 |
| | | Machinery, equipment and vehicles | 573 | 5,571 |
| | Chungcheongbuk-do, South Korea | Other | 5 | 46 |

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

11. Comprehensive income

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-----------|------------------------------|
| | 2013 | 2014 | 2014 |
| Unrealized gains on securities: | | | |
| Occurrence amount | ¥ 6,832 | ¥ 4,578 | \$ 44,483 |
| Recycling | (205) | 30 | 295 |
| Total | ¥ 6,627 | ¥ 4,608 | \$ 44,778 |
| Foreign currency translation adjustments | | | |
| Occurrence amount | ¥ 5,755 | ¥ 4,335 | \$ 42,116 |
| Total | ¥ 5,755 | ¥ 4,335 | \$ 42,116 |
| Share of other comprehensive income of associates accounted for using equity method | | | |
| Occurrence amount | ¥ 2,046 | ¥ 3,134 | \$ 30,452 |
| Total | ¥ 2,046 | ¥ 3,134 | \$ 30,452 |
| Total other comprehensive income before tax | ¥14,428 | ¥12,077 | \$117,346 |
| Tax effect | ¥ (2,353) | ¥ (1,640) | \$ (15,939) |
| Other comprehensive income, net of tax | ¥12,075 | ¥10,437 | \$101,407 |

All tax effect of other comprehensive income arise from unrealized gains on securities.

12. Net Assets

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

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

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

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

At the annual shareholders meeting held on June 17, 2014, the shareholders resolved cash dividends amounting to ¥4,467 million (\$43,404 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2014. Such appropriations are recognized in the period in which they are resolved.

13. Stock Option Plans

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

| | | | |
|--|--|---|--|
| Date of resolution of the general shareholders' meeting | June 17, 2005 | June 16, 2006 | June 15, 2007 |
| The maximum number of shares to be issued | 62,500 shares | 39,100 shares | 48,500 shares |
| Exercisable period of stock options | From June 18, 2005 to June 17, 2025 | From August 2, 2006 to June 16, 2026 | From July 11, 2007 to July 10, 2027 |
| Stock subscription rights which have been vested outstanding as of March 31, 2014 | 35,100 shares | 28,000 shares | 38,700 shares |
| Exercise price per share | ¥ 1 \$0.01 | ¥ 1 \$0.01 | ¥ 1 \$0.01 |
| Date of resolution of the general shareholders' meeting | June 13, 2008 | June 16, 2009 | June 18, 2010 |
| The maximum number of shares to be issued | 73,900 shares | 80,200 shares | 84,200 shares |
| Exercisable period of stock options | From July 16, 2008 to July 15, 2028 | From July 15, 2009 to July 14, 2029 | From July 14, 2010 to July 13, 2030 |
| Stock subscription rights which have been vested outstanding as of March 31, 2014 | 66,900 shares | 78,200 shares | 84,200 shares |
| Exercise price per share | ¥ 1 \$0.01 | ¥ 1 \$0.01 | ¥ 1 \$0.01 |
| Date of resolution of the general shareholders' meeting | June 17, 2011 | June 15, 2012 | June 21, 2013 |
| The maximum number of shares to be issued | 81,000 shares | 95,200 shares | 50,100 shares |
| Exercisable period of stock options | From July 13, 2011 to July 12, 2031 | From July 11, 2012 to July 10, 2032 | From July 17, 2013 to July 16, 2033 |
| Stock subscription rights which have been vested outstanding as of March 31, 2014 | 81,000 shares | 95,200 shares | 50,100 shares |
| Exercise price per share | ¥ 1 \$0.01 | ¥ 1 \$0.01 | ¥ 1 \$0.01 |

The compensation cost recognized for these stock options for the years ended March 31, 2013 and 2014 was ¥107 million and ¥91 million (\$880 thousand) respectively, and was included in selling, general and administrative expenses in the consolidated statements of income.

14. Derivative Transactions

(1) Qualitative disclosure about derivatives

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

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

Significant conditions surrounding hedging instruments are the same as those for the items hedged, the risks of which will likely continue to be hedged through hedge transactions.

Foreign exchange forward contracts that the Companies entered have risks due to fluctuations in foreign exchange rates. Interest rate

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

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

(2) Quantitative disclosure about derivatives

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

Contract amounts, market values and recognized gains or losses on the derivative transactions, except those accounted for using hedge accounting, at March 31, 2013 and 2014 were as follows:

(a) Related to currencies

| | | Millions of yen | | | |
|------------------------------------|-------------------|-----------------|---------------|--------------|----------------------------|
| | | Contract amount | Over one year | Market value | Recognized gains or losses |
| March 31, 2013: | | | | | |
| Items not traded on exchanges | | | | | |
| Foreign exchange forward contracts | | | | | |
| Selling: | U.S. Dollars | ¥1,829 | ¥— | ¥ (91) | ¥ (91) |
| | Euro | 605 | — | (36) | (36) |
| Buying: | U.S. Dollars | 619 | — | 1 | 1 |
| | Euro | 79 | — | (1) | (1) |
| | Swiss Franc | 19 | — | 0 | 0 |
| | Australian dollar | 2 | — | 0 | 0 |
| Total | | ¥ — | ¥— | ¥(127) | ¥(127) |

| | | Millions of yen | | | |
|------------------------------------|-------------------|-----------------|---------------|--------------|----------------------------|
| | | Contract amount | Over one year | Market value | Recognized gains or losses |
| March 31, 2014: | | | | | |
| Items not traded on exchanges | | | | | |
| Foreign exchange forward contracts | | | | | |
| Selling: | U.S. Dollars | ¥1,664 | ¥— | ¥(10) | ¥(10) |
| | Euro | 907 | — | (31) | (31) |
| Buying: | U.S. Dollars | 170 | — | 3 | 3 |
| | Euro | 98 | — | 0 | 0 |
| | Swiss Franc | 8 | — | 0 | 0 |
| | Australian dollar | 1 | — | 0 | 0 |
| | Japanese Yen | 532 | — | (1) | (1) |
| Total | | ¥ — | ¥— | ¥(39) | ¥(39) |

| | | Thousands of U.S. dollars | | | |
|------------------------------------|-------------------|---------------------------|---------------|--------------|----------------------------|
| | | Contract amount | Over one year | Market value | Recognized gains or losses |
| March 31, 2014: | | | | | |
| Items not traded on exchanges | | | | | |
| Foreign exchange forward contracts | | | | | |
| Selling: | U.S. Dollars | \$16,164 | \$— | \$ (94) | \$ (94) |
| | Euro | 8,815 | — | (302) | (302) |
| Buying: | U.S. Dollars | 1,651 | — | 34 | 34 |
| | Euro | 950 | — | 3 | 3 |
| | Swiss Franc | 78 | — | 1 | 1 |
| | Australian dollar | 9 | — | 0 | 0 |
| | Japanese Yen | 5,166 | — | (14) | (14) |
| Total | | \$ — | \$— | \$(372) | \$(372) |

Market values are calculated using foreign exchange forward rates.

(b) Related to interests

| | Millions of yen | | |
|--|-----------------|---------------|--------------|
| | Contract amount | Over one year | Market value |
| March 31, 2013: | | | |
| Special treatment for interest rate swaps Interest rate swaps (paid fix / received floating) (Hedged item: Long-term loans payable) | ¥6,126 | ¥6,126 | ¥(120) |
| Total | ¥6,126 | ¥6,126 | ¥(120) |

| | Millions of yen | | |
|--|-----------------|---------------|--------------|
| | Contract amount | Over one year | Market value |
| March 31, 2014: | | | |
| Special treatment for interest rate swaps Interest rate swaps (paid fix / received floating) (Hedged item: Long-term loans payable) | ¥11,354 | ¥10,569 | ¥(31) |
| Total | ¥11,354 | ¥10,569 | ¥(31) |

| | Thousands of U.S. dollars | | |
|--|---------------------------|---------------|--------------|
| | Contract amount | Over one year | Market value |
| March 31, 2014: | | | |
| Special treatment for interest rate swaps Interest rate swaps (paid fix / received floating) (Hedged item: Long-term loans payable) | \$110,316 | \$102,694 | \$(304) |
| Total | \$110,316 | \$102,694 | \$(304) |

15. Research and Development Expenses

Research and development expenses of the Companies for the years ended March 31, 2013 and 2014 were, ¥19,458 million and ¥20,801 million (\$202,108 thousand), respectively, which are included in selling, general and administrative expenses or manufacturing costs.

16. Segment Information

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

A summary of net sales, costs and expenses, operating income, identifiable assets, depreciation, impairment loss and capital expenditures by segment of business activities for the years ended March 31, 2013 and 2014 were as follows:

| | Millions of yen | | | | | |
|---------------------------------|-----------------|----------|--------------------------------------|----------|----------------|--------------|
| | Elastomers | Plastics | Fine chemicals and other products | Total | Reconciliation | Consolidated |
| For 2013: | | | | | | |
| Sales to external customers | ¥195,797 | ¥51,759 | ¥123,931 | ¥371,487 | ¥ — | ¥371,487 |
| Inter-segment sales / transfers | 5,039 | — | — | 5,039 | (5,039) | — |
| Sales total | 200,836 | 51,759 | 123,931 | 376,526 | (5,039) | 371,487 |
| Operating income | ¥ 17,923 | ¥ 2,962 | ¥ 14,321 | ¥ 35,206 | ¥ — | ¥ 35,206 |
| Identifiable assets | ¥214,427 | ¥35,961 | ¥124,607 | ¥374,995 | ¥107,940 | ¥482,935 |
| Depreciation and amortization | 7,714 | 1,144 | 10,287 | 19,145 | — | 19,145 |
| Impairment loss | — | — | — | — | — | — |
| Capital expenditures | 14,154 | 855 | 12,599 | 27,608 | — | 27,608 |
| Amortization of goodwill | — | 44 | — | 44 | — | 44 |
| Goodwill | — | 708 | — | 708 | — | 708 |

| | Millions of yen | | | | | |
|---------------------------------|-----------------|----------|--------------------------------------|----------|----------------|--------------|
| | Elastomers | Plastics | Fine chemicals and other products | Total | Reconciliation | Consolidated |
| For 2014: | | | | | | |
| Sales to external customers | ¥203,478 | ¥57,764 | ¥133,067 | ¥394,309 | ¥ — | ¥394,309 |
| Inter-segment sales / transfers | 4,469 | — | — | 4,469 | (4,469) | — |
| Sales total | 207,947 | 57,764 | 133,067 | 398,778 | (4,469) | 394,309 |
| Operating income | ¥ 17,330 | ¥ 3,919 | ¥ 14,813 | ¥ 36,062 | ¥ — | ¥ 36,062 |
| Identifiable assets | ¥223,584 | ¥38,943 | ¥131,521 | ¥394,048 | ¥107,272 | ¥501,320 |
| Depreciation and amortization | 7,384 | 1,105 | 9,607 | 18,096 | — | 18,096 |
| Impairment loss | — | — | 645 | 645 | — | 645 |
| Capital expenditures | 10,800 | 1,086 | 9,613 | 21,499 | — | 21,499 |
| Amortization of goodwill | — | 44 | — | 44 | — | 44 |
| Goodwill | — | 664 | — | 664 | — | 664 |

| | Thousands of U.S. dollars | | | | | |
|---------------------------------|---------------------------|-----------|--------------------------------------|-------------|----------------|--------------|
| | Elastomers | Plastics | Fine chemicals and other products | Total | Reconciliation | Consolidated |
| For 2014: | | | | | | |
| Sales to external customers | \$1,977,052 | \$561,247 | \$1,292,922 | \$3,831,221 | \$ — | \$3,831,221 |
| Inter-segment sales / transfers | 43,420 | — | — | 43,420 | (43,420) | — |
| Sales total | 2,020,472 | 561,247 | 1,292,922 | 3,874,641 | (43,420) | 3,831,221 |
| Operating income | \$ 168,381 | \$ 38,077 | \$ 143,929 | \$ 350,387 | \$ — | \$ 350,387 |
| Identifiable assets | \$2,172,403 | \$378,384 | \$1,277,897 | \$3,828,684 | \$1,042,280 | \$4,870,964 |
| Depreciation and amortization | 71,747 | 10,737 | 93,339 | 175,823 | — | 175,823 |
| Impairment loss | — | — | 6,268 | 6,268 | — | 6,268 |
| Capital expenditures | 104,933 | 10,553 | 93,402 | 208,888 | — | 208,888 |
| Amortization of goodwill | — | 430 | — | 430 | — | 430 |
| Goodwill | — | 6,453 | — | 6,453 | — | 6,453 |

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

Geographic segment information with respect to net sales for the years ended March 31, 2013 and 2014 were as follows:

| | Millions of yen | | | | Total |
|-----------|-----------------|----------------|----------------|-----------------|-----------------|
| | Japan | Korea | China | Others | |
| For 2013: | ¥196,966 | ¥36,401 | ¥35,261 | ¥ 102,859 | ¥371,487 |
| For 2014: | ¥196,824 | ¥43,932 | ¥41,173 | ¥112,380 | ¥394,309 |

| | Thousands of U.S. dollars | | | | Total |
|-----------|---------------------------|------------------|------------------|--------------------|--------------------|
| | Japan | Korea | China | Others | |
| For 2014: | \$1,912,402 | \$426,853 | \$400,047 | \$1,091,919 | \$3,831,221 |

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

Taiwan, Thailand, United States, Belgium

Geographic segment information with respect to property, plant and equipment for the years ended March 31, 2013 and 2014 were as follows:

| | Millions of yen | | | Total |
|-----------|-----------------|----------------|----------------|----------------|
| | Japan | Thailand | Others | |
| For 2013: | ¥68,247 | ¥13,725 | ¥11,233 | ¥93,205 |
| For 2014: | ¥69,007 | ¥16,258 | ¥10,365 | ¥95,630 |

| | Thousands of U.S. dollars | | | Total |
|-----------|---------------------------|------------------|------------------|------------------|
| | Japan | Thailand | Others | |
| For 2014: | \$670,491 | \$157,972 | \$100,709 | \$929,172 |

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

Korea, China, Taiwan, United States, Belgium

17. Related Parties

Related party transactions

Significant transactions and balances with related parties as of and for the years ended March 31, 2013 and 2014 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|------------------------------|
| | 2013 | 2014 | 2014 |
| BRIDGESTONE Corporation (a major shareholder): | | | |
| Net Sales | ¥39,522 | ¥37,383 | \$363,221 |
| Notes and accounts receivable—trade, net | 16,998 | 15,151 | 147,216 |
| Tobu Butadiene Co., Ltd. (an affiliated company): | | | |
| Purchases | 14,393 | 14,769 | 143,497 |
| Notes and accounts payable—trade | 7,131 | 7,242 | 70,368 |
| Supply of raw material gas | 11,723 | 12,044 | 117,022 |
| Accounts receivable—other | 6,884 | 6,033 | 58,622 |
| KRATON JSR Elastomers K.K. (an affiliated company): | | | |
| Purchases | 10,385 | 12,008 | 116,674 |
| Notes and accounts payable—trade | 5,573 | 4,851 | 47,132 |
| Supply of raw material gas | 4,945 | 5,688 | 55,267 |
| Accounts receivable—other | 3,154 | 2,565 | 24,924 |

18. Subsequent Events

At the June 17, 2014 annual meeting, the Companies' shareholders approved the following appropriations of retained earnings: Payment of a year-end cash dividend of ¥19.00 (\$0.18) per share aggregating ¥4,467 million (\$43,404 thousand).



Independent Auditor's Report

To the Board of Directors of JSR Corporation:

We have audited the accompanying consolidated financial statements of JSR Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSR Corporation and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

KPMG AZSA LLC
June 17, 2014
Tokyo, Japan