

# JSR Corporation

## FINANCIAL SECTION 2 0 1 4

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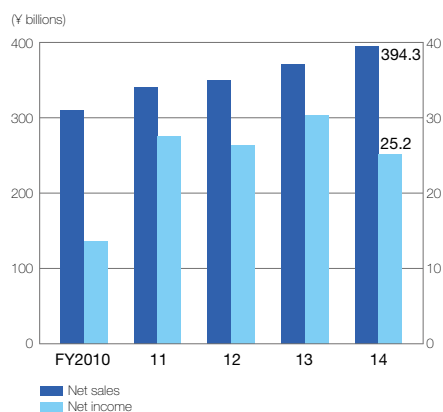
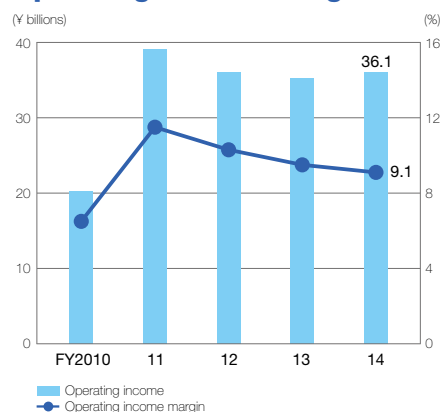
## TEN-YEAR SUMMARY

Fiscal year means year ended March 31

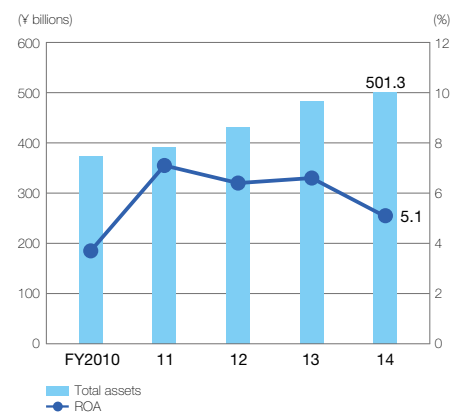
	FY2005	FY2006	FY2007	FY2008
<b>For the fiscal year</b>				
Net sales	¥305,368	¥338,160	¥365,831	¥406,968
Costs and expenses	260,035	284,803	310,588	346,958
Operating income	45,333	53,357	55,243	60,010
Interest and dividend income	519	635	1,030	1,309
Interest expenses	(475)	(420)	(399)	(256)
Income before income taxes and minority interests	43,471	49,038	53,440	54,867
Net income	27,564	30,555	33,655	36,994
Capital expenditures	18,134	23,361	22,094	29,076
Depreciation	15,245	16,206	18,133	21,180
<b>At fiscal year-end</b>				
Total assets	325,031	381,097	408,949	416,951
Long-term debt due after one year	13,857	1,607	2,745	1,525
Total liabilities	139,249	164,389	168,963	159,288
Equity ratio (%)	182,476	212,751	235,186	252,539
Current ratio (times)	1.8	1.7	1.8	1.9
Return on assets (%)	8.7	8.7	8.2	8.9
Return on equity (%)	16.1	15.5	15.0	15.2
Equity ratio (%)	56.1	55.8	57.5	60.6
<b>Per share data (Yen and U.S. dollars)</b>				
Net income	107.54	119.63	133.10	147.26
Cash dividends	14.00	20.00	24.00	32.00
Equity	717.13	836.31	935.47	1,009.27

Note: U.S. dollar amounts are translated, for convenience only, at ¥102.92 = US\$1.00, the rate prevailing on March 31, 2014.

## Net Sales/Net Income

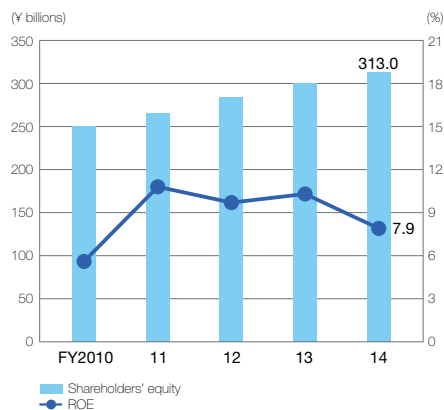
Operating Income/  
Operating Income Margin

## Total Assets/ROA

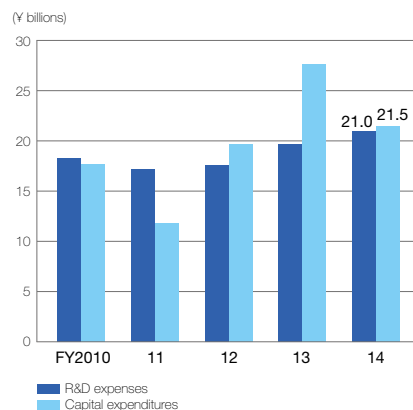


					Millions of yen	Thousands of U.S. dollars	
	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2014
	¥352,503	¥310,184	¥340,666	¥349,947	¥371,487	¥394,309	\$3,831,221
	322,155	289,954	301,571	313,982	336,281	358,247	3,480,834
	30,348	20,230	39,095	35,964	35,206	36,062	350,387
	1,230	568	626	634	809	916	8,901
	(271)	(172)	(146)	(147)	(126)	(142)	(1,375)
	20,803	19,458	40,674	41,245	42,847	36,956	359,077
	13,981	13,645	27,571	26,407	30,278	25,173	244,584
	19,081	17,707	11,801	19,728	27,608	21,499	208,888
	24,833	22,380	19,245	17,784	19,145	18,096	175,823
	339,498	373,566	390,591	430,693	482,935	501,320	4,870,964
	1,500	1,500	1,028	500	6,626	11,069	107,552
	97,512	122,865	126,475	148,335	167,202	164,060	1,594,051
	240,896	249,440	262,679	280,955	308,641	331,284	3,218,849
	2.5	2.3	2.4	2.3	2.3	2.5	2.5
	4.1	3.7	7.1	6.4	6.6	5.1	5.1
	5.7	5.6	10.8	9.7	10.3	7.9	7.9
	71.0	66.8	67.3	65.2	63.9	66.1	66.1
	56.36	55.87	113.07	109.46	126.13	106.10	1.03
	32.00	26.00	32.00	32.00	34.00	38.00	0.37
	986.33	1,021.31	1,088.87	1,164.63	1,299.77	1,409.06	13.69

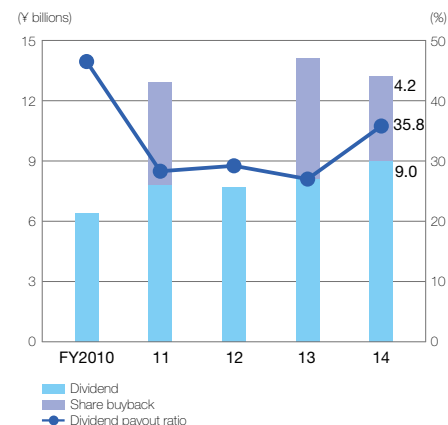
### Shareholders' Equity/ROE



### R&D Expenses/Capital Expenditures



### Shareholder Return/Dividend Payout Ratio



## MANAGEMENT'S DISCUSSION AND ANALYSIS

## Analysis of Operating Results

## Overview of FY2014, ended March 31, 2014

Summarizing trends in the main industries where JSR Group customers do business, in automobile tires, production increased for the year in China and the rest of Asia and achieved slight growth in North America and Europe while remaining at the same level in Japan. Automobile production in North America and China was up year on year, and Europe started to show signs of a recovery, but Japan was flat despite a second-half recovery. In the semiconductor industry, production rebounded in the second half, but full-year results remained at the same level owing to the effects of a first-half slowdown. In flat panel displays (FPDs), production expanded year on year as a result of strong sales of small- and medium-size panels for mobile devices such as smartphones.

Under these circumstances, the JSR Group drove expanded sales of its technically superior products, while it also sought to maintain profits by revamping product pricing in the face of volatile raw material prices and by pushing forward with cost reductions through the E-100plus cost restructuring initiative. The weakening yen was the primary factor lifting net sales, but further growth in operating income was held in check by other factors, namely the deteriorating position of our products in the Petrochemical Products Business and forward-looking investments in the Fine Chemical and Other Products Business.

Financial results for FY2014 consist of net sales of ¥394.3 billion (up 6.1% year on year), operating income of ¥36.1 billion (up 2.4%), and net income of ¥25.2 billion (down 16.9%).

## Review of Operations

*Elastomers Business Segment*

The Company's sales volume in synthetic rubber products was flat, as domestic production remained constant in the automobile tire

industry, one of our chief sources of demand; yet net sales value recorded a year-on-year gain. In other regions, particularly Asia, increased supply capacity at synthetic rubber firms upset the demand-supply balance and worsened market conditions. To retain its profit levels, JSR implemented a new pricing structure and cost reduction measures in the face of price volatility for raw materials. Despite these efforts, operating income was down year on year.

As a result, the Elastomers Business segment had net sales of ¥203.5 billion (up 3.9% year on year) and operating income of ¥17.4 billion (down 3.3%).

*Plastics Business Segment*

Sales volumes in synthetics rubber were down from the previous fiscal year. Although products for automobiles rebounded in the second half, those for use in industrial materials including amusement and general applications fell. Net sales and operating income, on the other hand, both managed to increase for the year as a result of cost reduction measures and a restructuring of product pricing in response to changes in raw material costs. Yen depreciation also helped boost these results.

Owing to these factors, the Plastics Business segment had net sales of ¥57.8 billion (up 11.6% year on year) and operating income of ¥3.9 billion (up 32.3%).

*Fine Chemicals and Other Products Business Segment*

In semiconductor materials, net sales rose year on year, driven in the second half by the start of high-volume production among major customers in leading-edge 20nm generation processing, where JSR boasts a high market share. The lower yen exchange rates also contributed to this result. In FPD materials, yen effects were also prevalent, and the operating ratios of principal customers trended firmly upward, resulting in a year-on-year increase in net sales. Among

## Segment Sales/Operating Income (¥ millions)

Years ended March 31	2010	2011	2012	2013	2014
Elastomers Business	¥136,086	¥160,854	¥180,835	¥195,797	<b>¥203,478</b>
Operating income	372	14,739	19,358	17,923	<b>17,330</b>
Plastics Business	47,812	52,297	51,236	51,759	<b>57,764</b>
Operating income	(1)	2,563	2,138	2,962	<b>3,919</b>
Fine Chemicals and Other Products Business	126,286	127,515	117,876	123,931	<b>133,067</b>
Operating income	19,859	21,793	14,468	14,321	<b>14,813</b>
Net Sales	310,184	340,666	349,947	371,487	<b>394,309</b>
Operating income	¥ 20,230	¥ 39,095	¥ 35,964	¥ 35,206	<b>¥ 36,062</b>

the strategic business and other products, net sales rose steadily in biomedical materials, but sales volumes of optical film in the precision materials and process field lost momentum.

In electricity storage devices, the segment started full-scale sales of lithium ion capacitors (LIC) and committed to construction of a high-volume production facility.

For the Fine Chemical and Other Products Business segment overall, FY2014 net sales and operating income both surpassed the corresponding results from FY2013, despite the downward pressure on operating income exerted by the JSR Group's commitment to forward-looking investment for the development of next-generation, leading-edge technology.

Key results in the segment for the year were net sales of ¥133.1 billion (up 7.4% year on year) and operating income of ¥14.8 billion (up 3.4%).

#### **Business Outlook for FY2015**

For FY2015, among the main customer industries, the JSR Group expects the automobile tire and semiconductor markets to benefit from demand growth in line with the improving global economy, which will return them to a recovery track in the first half. Our outlook for the FPD market is for continued firm growth in small- and medium-size

panels for smartphones and tablets. However, mounting geopolitical risks and global economic uncertainty make our forecasts for these markets subject to unclear and unpredictable conditions.

In the Elastomers Business, the rate of demand growth for synthetic rubber is expected to fluctuate depending upon the rebound in the tire industry. Meanwhile, because S-SBR is showing good prospects for steady growth as the eco-tire market heats up, we are engaged in an effort to expand global sales by making use of a tire joint venture and plant in Thailand that has entered full-scale operation.

In the Fine Chemical and Other Products Business, we are embarking on sales expansion plans in both semiconductor materials and FPD materials. In semiconductors, our efforts will focus on lithography materials, mainly photoresist, which are tied to the momentum for advanced 20nm generation high-volume production by the industry's major players. In FPD materials, we will concentrate on small- to medium-size panel products, whose production outlook is quite favorable.

In consideration of the above, our consolidated earnings forecast for FY2015 consists of net sales of ¥410.0 billion (a 4.0% year-on-year increase), operating income of ¥38.0 billion (a 5.4% increase), and net income of ¥28.0 billion (an 11.2% increase). The assumptions behind this forecast are an exchange rate of ¥100.0 per U.S. dollar and a naphtha price of ¥70,000 per kiloliter.

## Analysis of Financial Position

Total assets at the fiscal year-end on March 31, 2014, amounted to ¥501.3 billion, up ¥18.4 billion from a year earlier.

Current assets totaled ¥326.5 billion, up ¥6.1 billion, due to increases in inventories, cash and deposits, and securities.

Noncurrent assets totaled ¥174.8 billion, up ¥12.3 billion. Major factors were an increase in investment securities as a result of capital contributions in Japan and overseas and changes in the market value of certain securities in addition to an increase in plant, property and equipment as a result of plant construction in Thailand.

Total liabilities amounted to ¥164.1 billion, down ¥3.1 billion from a year earlier. Major factors include an increase in long-term loans payable and a decrease in notes and accounts payable—trade.

Net assets amounted to ¥313.0 billion, including a ¥12.5 billion increase in shareholders' equity. Accumulated other comprehensive income was ¥18.3 billion, up ¥10.2 billion year on year. After subscription rights to shares and minority interests are also accounted for, total net assets come to ¥337.3, up ¥21.5.

## Analysis of Cash Flows

Cash and cash equivalents ("funds") on March 31, 2014, stood at ¥91.1 billion, up ¥37.3 billion from a year earlier.

Net cash provided by operating activities was a net inflow of ¥35.5 billion, down ¥12.2 billion from a year earlier.

Major factors include income before income taxes and minority interests of ¥37.0 billion, depreciation and amortization of ¥18.1 billion, a decrease in notes and accounts payable of ¥14.5 billion, and income taxes paid of ¥11.9 billion.

Net cash from investing activities was a net inflow of ¥8.2 billion,

up ¥66.9 billion from the previous year. Major factors include an inflow of ¥28.5 billion from a decrease in short-term investment securities and an outflow of ¥21.1 billion from purchase of noncurrent assets.

Net cash used in financing activities was a net outflow of ¥8.1 billion, down ¥2.0 billion from the previous year. Major factors include ¥8.5 billion for payment of cash dividends, ¥4.2 billion for purchase of treasury stock, and ¥4.5 billion for proceeds from long-term loans payable.

## Profit Appropriation

The Company regards its most critical challenge to be the long-term enhancement of business earnings. To this end, we strive to strengthen our research and development from a long-term standpoint and intend to enhance our business competitiveness through new business expansion.

In conformance with this approach, the JSR Group has set a basic policy to appropriate profits, including repurchase of Company shares, in line with consolidated performance while continuing to pay a stable cash dividend. The determination of cash dividends is based on comprehensive consideration of the balance between appropriating profits and retaining the necessary funds for future business advancement.

We allocate retained earnings to R&D connected to future growth and to strategic investments, and we work hard to enhance corporate value so that we can return profits to our shareholders.

In accordance with this policy, we have decided to pay a year-end dividend of ¥19 per share as previously announced. This amount is the same as the interim dividend, and the total annual dividend for fiscal year 2014, including the interim dividend already paid, will be ¥38.00 per share.

For the next fiscal year (FY2015 ending on March 31, 2015), we plan in consideration of the business outlook to increase the cash dividend to ¥40 per year, consisting of an interim dividend of ¥20.00 and a year-end dividend of ¥20.00.

## Risk Information

The JSR Group is exposed to the following risks that may impact on operating results, financial position, cash flows and other aspects of performance. Forward-looking statements in this discussion are based on JSR's judgments as of March 31, 2014. Risks at JSR include, but are not limited to, the following items:

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

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

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

Higher prices for crude oil and naphtha, or changes in the markets for JSR's major raw materials, could raise prices of raw materials and adversely affect the JSR Group's operating results, especially in the petrochemical products sector of elastomers, emulsions and plastics.

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

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

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

The JSR Group works to ensure a stable supply of raw materials by procuring materials from a number of sources. However, an interruption to the supply of raw materials due to an accident, bankruptcy or quality problem at a supplier could adversely affect production activities and the JSR Group's operating results.

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

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

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

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

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

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

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

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

**(9) Natural Disasters and Accidents**

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

JSR's main production facility, the Yokkaichi Plant, houses private power generation equipment, and the Kashima Plant is able to access electric power from shared power generation facilities when necessary. In the event that electric power shortages become severe due to natural disasters and the like, however, the JSR Group's operating results could be affected.

**(10) Environmental Issues**

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

However, in the event that a spill occurs or that environmental regulations become stricter, the Group's business activities could be restricted, the Group may have to pay compensation and other expenses, or the Group may have to make substantial capital expen-

ditures. Any of these events could adversely affect the JSR Group's operating results.

**(11) Overseas Operations**

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

**(12) Laws and Regulations**

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

**(13) Litigation**

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

## 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
<b>ASSETS</b>			
<b>Current assets:</b>			
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
<b>Noncurrent assets:</b>			
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
<b>Intangible assets</b>	6,309	7,250	70,444
<b>Investments and other assets</b>			
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
<b>Current liabilities:</b>			
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
<b>Noncurrent liabilities:</b>			
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
<b>Net assets (Note 12)</b>			
<b>Shareholders' equity</b>			
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)
<b>Accumulated other comprehensive income</b>			
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)
<b>Subscription rights to shares (Note 13)</b>	728	793	7,702
<b>Minority interests</b>	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
<b>Net sales</b> (Notes 16 and 17)	¥371,487	¥394,309	\$3,831,221
<b>Costs and expenses</b> (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
<b>Operating income</b> (Note 16)	35,206	36,062	350,387
<b>Other income (expenses):</b>			
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
<b>Income before income taxes and minority interests</b>	42,847	36,956	359,077
<b>Income taxes</b> (Note 9):			
Current	12,948	11,637	113,067
Deferred	(392)	1,124	10,920
	12,556	12,761	123,987
<b>Income before minority interests</b>	30,291	24,195	235,090
<b>Minority interests in net income of consolidated subsidiaries</b>	13	(978)	(9,494)
<b>Net income</b>	¥ 30,278	¥ 25,173	\$ 244,584

	Yen		U.S. dollars (Note 1)
	2013	2014	2014
<b>Per share of common stock:</b>			
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
<b>Income before minority interests</b>	¥30,291	¥24,195	\$235,090
<b>Other comprehensive income</b>			
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
<b>Comprehensive income</b>	¥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
<b>Balance at April 1, 2012</b>	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
<b>Balance at March 31, 2013</b>	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)
<b>Balance at March 31, 2014</b>	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
<b>Balance at April 1, 2013</b>	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)
<b>Balance at March 31, 2014</b>	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
<b>Cash flows from operating activities:</b>			
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
<b>Cash flows from investing activities:</b>			
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
<b>Cash flows from financing activities:</b>			
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:	<b>¥196,824</b>	<b>¥43,932</b>	<b>¥41,173</b>	<b>¥112,380</b>	<b>¥394,309</b>

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

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

Taiwan, Thailand, United States, Belgium

Geographic segment information with respect to property, plant and equipment for the years ended March 31, 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:	<b>¥69,007</b>	<b>¥16,258</b>	<b>¥10,365</b>	<b>¥95,630</b>

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

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

Korea, China, Taiwan, United States, Belgium

## 17. Related Parties

### Related party transactions

Significant transactions and balances with related parties as of and for the years ended March 31, 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