

CREATING SUSTAINABLE VALUE

Corporate Governance System

Aiming to Maintain a Trusted, Appealing Corporate Constitution

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

Overview of the Corporate Governance System

Organizational structure:

Company that employs the Audit & Supervisory Board member system under which the Board of Directors and Audit & Supervisory Board members are monitoring the execution of the businesses of the Company.

Board of Directors:

Consisting of 7 directors, including 3 independent outside members

Audit & Supervisory Board:

Consisting of 3 Audit & Supervisory Board members including 2 independent outside members who have highly professional careers either as lawyers or certified public accountants

Strengthening Corporate Governance

2004

- Term of office of directors reduced from 2 years to 1 year

2005

- Introduction of the officer system
- Discontinuation of the retirement bonus system for directors and audit & supervisory board members

2011

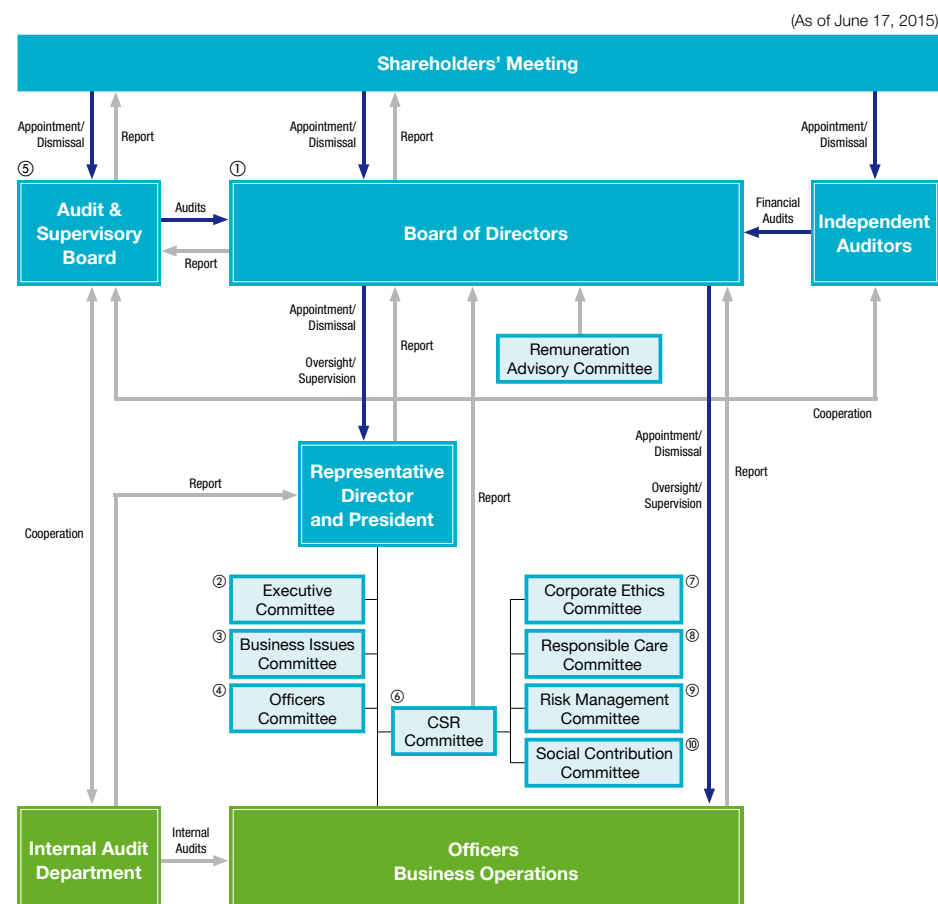
- Invitation of 2 independent outside directors to its Board of Directors consisting of 6 directors

2012

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

2014

- Appointment of 3 independent outside directors to its Board of Directors consisting of 7 directors and appointment of 2 independent outside Audit & Supervisory Board members to its Audit & Supervisory Board consisting of 3 members



Corporate Governance System

Directors and Corporate Auditors

Representative Director and President

Mitsunobu Koshiba

Representative Director

Hozumi Sato

Director

Hayato Hirano

Standing Audit & Supervisory
Board Member

Shoichi Kataoka

Outside Director

Takuya Goto

Outside Director

Michio Kariya

Outside Director

Kazunori Yagi

Outside Audit & Supervisory Board
Member

Hiroichi Uekusa

Outside Audit & Supervisory Board
Member

Hisako Kato

(As of March 31, 2015)

Officer System

Clear segregation of the management and business execution functions

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

Audit System

Enhancement of the management monitoring function and assurance of transparency

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

Internal Control System

Efforts to ensure the effectiveness of and improve internal controls

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

① Board of Directors

Management decisions that reflect outside opinions

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

Corporate Governance System

Outside Directors

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

Takuya Goto

Takuya Goto served as Representative Director and President, and Chairman, Board of Directors of Kao Corporation. Mr. Goto has extensive experience in the management of Kao, a prominent international consumer products and chemical company. He has helped strengthen corporate governance by deploying this experience to ensure reasonable judgments by management from external, independent and neutral perspectives, as well as management transparency and soundness. For this reason, Mr. Goto has been named an outside director, as he was in the previous year.



Major activities in the year under review

Mr. Goto participated in all 17 meetings of the Board of Directors held during the year under review, at which he contributed amply to fair and reasonable management decisions and transparent and sound management by addressing the Board as appropriate concerning matters under discussion. Mr. Goto brought to the Board an independent outside perspective based on his extensive experience in the management of a company that operates an international business in consumer products and industrial-use chemicals.

Michio Kariya

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



Major activities in the year under review

Mr. Kariya participated in all 17 meetings of the Board of Directors held during the year under review, at which he contributed amply to fair and reasonable management decisions and transparent and sound management by addressing the Board as appropriate concerning matters under discussion. Mr. Kariya brought to the Board an independent outside perspective based on his extensive experience in the management of a company that operates an international business in optical machinery and equipment.

Kazunori Yagi

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



Corporate Governance System

Major activities in the year under review

Mr. Yagi participated in all 17 meetings of the Board of Directors held during the year under review, at which he contributed amply to fair and reasonable management decisions and transparent and sound management by addressing the Board as appropriate concerning matters under discussion. Mr. Yagi brought to the Board an independent outside perspective based on his extensive experience in the management of a company that operates an international business in control systems and measurement instruments.

② Executive Committee

Rapid response to changes in the business environment

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

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

③ Business Issues Committee

Review of policies and strategies for individual projects

The Business Issues Committee engages in broad-ranging debate about items related to fundamental management strategies and policies, basic policies behind specific projects, and changes to business strategies. It

also shares information to ensure a common understanding of such matters and discusses company directions. Its findings are reflected in deliberations of the Board of Directors and the Executive Committee. The Business Issues Committee, which meets once a week, consists of the president, officers with directorship status, and officers appointed by the president.

④ Officers Committee

Sharing of information on business conditions and issues

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

⑤ Audit & Supervisory Board

Auditing by specialists in an independent position

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

In accordance with standards for audits by audit & supervisory board members of the Company, the audit & supervisory board members attend meetings of the Board of Directors, and the standing corporate auditor attends Executive Committee and other important committee meetings to monitor how important decisions are reached and business activities are executed. The audit & supervisory board members also receive reports from the independent auditors, directors, and others. Through these activities, the Audit & Supervisory Board holds deliberations in order to form auditing opinions.

Corporate Governance System

Outside Audit & Supervisory Board Members

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

Hiroichi Uekusa

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



Major activities in the year under review

Mr. Uekusa attended 16 of the 17 meetings of the Board of Directors and 16 of the 17 meetings of the Audit & Supervisory Board held during the year under review. He contributed amply to the auditing of the Company and to fair and reasonable management decisions and transparent and sound management by addressing the Board of Directors and Audit & Supervisory Board as appropriate concerning matters under discussion. Mr. Uekusa brought to both boards an independent outside perspective based on his extensive experience as an attorney at law and his expert knowledge in a broad range of legal matters.

Hisako Kato (New appointee)

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

Major activities in the year under review

Ms. Kato attended all 13 meetings of the Board of Directors and all 12 meetings of the Audit & Supervisory Board held since assume Audit & Supervisory Board Members. He contributed amply to the auditing of the Company and to fair and reasonable management decisions and transparent and sound management by addressing the Board of Directors and Audit & Supervisory Board as appropriate concerning matters under discussion. Ms. Kato brought to both boards an independent outside perspective based on his extensive experience as a certified public accountant, certified public tax accountant and his expert knowledge in a broad range of finance and accounting.



⑥ CSR Committee

Implementation of CSR activities and rigorous compliance

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

Corporate Governance System

The CSR Committee is chaired by the officer responsible for CSR and consists of officers, senior officers, and officers. Bureaus of the four committees listed above also attend meetings of the CSR Committee. The Committee clarifies the Company's stance toward CSR and works to strengthen CSR efforts at JSR.

⑦ Corporate Ethics Committee

Promotion of ethical business activities group-wide

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

⑧ Responsible Care Committee

Working to enhance safety, the environment, and quality

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

and upgrade JSR's programs to eliminate accidents, reduce environmental impact, manage chemical substances, and ensure safety of products. Details and results of Responsible Care activities are disclosed through the CSR Report and Responsible Care Reports prepared by individual plants.

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

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

⑨ Risk Management Committee

Further strengthening risk management systems

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

⑩ Social Contribution Committee

Examining and promoting socially beneficial activities

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

Corporate Governance System

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

Management oversight from various perspectives

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

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

Remuneration

Advice on remuneration for corporate officers from the Remuneration Advisory Committee

The remuneration of the Company's directors consists of a basic salary, a bonus based on consolidated performance for the year, and stock options that serve as a long-term incentive. The level of remuneration is commensurate with the Company's business results and is compared with those of other companies in the same industry and of similar size. The total limit for monthly salaries is decided by resolution at the Ordinary General Meeting of Shareholders. Performance-based bonuses and stock options are also approved by resolution at the Ordinary General Meeting of Shareholders. Total remuneration paid in fiscal 2015, ended March 31, 2015, was ¥188 million, paid to eight directors, including three outside directors and a director who retired during fiscal 2015. Audit & Supervi-

sory Board members are paid a basic fixed salary that is not performance-based. In fiscal 2015, total salaries paid to Audit & Supervisory Board members amounted to ¥37 million, including ¥27 million paid to internal Audit & Supervisory Board members and ¥10 million to outside corporate auditors.

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