

Petrochemical Products Business



Using Our Technological Advantage in Solution Polymerization SBR (S-SBR)

JSR has targeted demand for high-performance S-SBR, especially the high-end and middle-high markets. In the year ended March 2015, we responded to deteriorating market conditions by restructuring our product portfolio and bringing forward the introduction of products for the high-end market. These products have been well-received in South Korea, Europe and Japan and have allowed us to gain a lead over our competitors through differentiation based on superior technology.

We also worked to expand our presence in the middle-end market by increasing supplies of products based on our exclusive technology in the year ended March 2015. We have not previously targeted this market because of the large number of competitors. However, we expect to achieve growth in this area by using our original technology to develop products that allow us to achieve high productivity and cost-competitiveness. The predicted shift toward electric vehicles is expected to result in an increase in use of high-torque vehicles. We will respond to this trend by supplying products with enhanced wear characteristics.

Note: Fiscal year means year ended March 31

Elastomers

Performance Overview

¥199.0 billion

-2.2%

Net Sales

¥10.7 billion

-38.1%

Operating Income

- Moderate year-on-year decline in total elastomer sales volumes
- Decrease in operating income from recurring expenses including the cost of regular maintenance
- Major decline in profit, mainly because of shrinking margins caused by a worsening supply-demand balance

Plastics

Performance Overview

¥55.2 billion

-4.5%

Net Sales

¥2.8 billion

-27.5%

Operating Income

- Sales decline due to decreasing domestic production of motor vehicles and industrial materials, including building materials and miscellaneous goods
- A weaker yen and price adjustments in the first half of the period to reflect rising raw material costs not sufficient to offset reduced sales volumes, net sales down
- Operating income significantly affected by reduced sales volumes, despite current improvement in profit margins

CREATING CORPORATE VALUE

S-SBR Business Strategy

JSR aims to be number one in terms of its share of the global market for Solution Polymerization SBR (S-SBR). We have three strategies for achieving this goal.

First, we will prepare predicted growth in demand over the medium- to long-term future by expanding the total supply capacity of the JSR Group. This strategy calls for the creation of a global network of production sites located close to user markets through the completion of a second phase of construction at the facilities of JBE in Thailand, and the planned construction of a plant in Hungary.

Second, we will strengthen our cost-competitiveness. Both JBE and the production operation in Hungary are joint ventures with local manufacturers. We will be able to ensure the constant supply of raw materials.

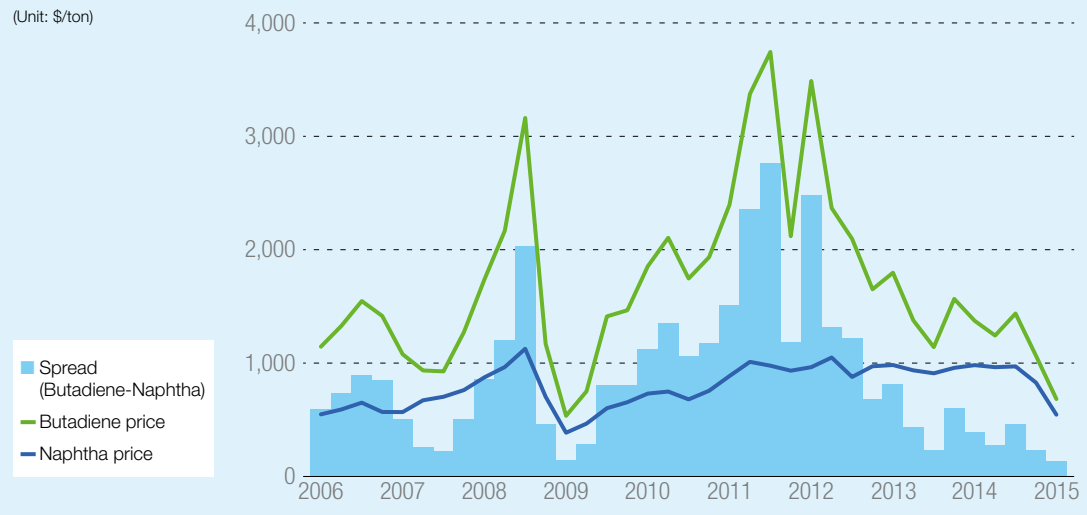
Butadiene supplies are expected to fall short of demand in the future, and we aim to establish a structure that will allow us to source this material at competitive prices.

Third, we will differentiate our products and establish a technological advantage by introducing products into the high-end market ahead of our competitors. We will maintain a dominant share of expanding demand in the high-end market through continual performance and quality-based differentiation. We will also introduce products based on our original technology into the large middle-end market.

We aim to achieve sustained growth by steadily implementing these three strategies.

Change in butadiene and naphtha prices

(Unit: \$/ton)



Source: JSR prepared the chart based on statistics of Platts and JSR, etc.

The change in raw material prices

Since butadiene is produced from naphtha, the cost of naphtha production closely approximates our raw material cost. Because butadiene is the main raw material, its price is linked to the price of butadiene-based synthetic rubber, so the price spread between naphtha and butadiene is the key to higher profits.

From 2013, the supply-demand balance for butadiene has gone from bad to worse, and the price spread between naphtha and butadiene has shrunk. In particular, the year ended March 2015, the benchmark butadiene price in the fourth quarter was \$700/t, dramatically reducing the price spread with naphtha. As a result, for year ended March 2015, profit was a key concern in the Petrochemical Products Business. Earnings will improve with a rise in the butadiene price or a drop in the price of naphtha, but since we forecast a continuation of the butadiene oversupply situation in the next fiscal year, the market doldrums are expected to continue. We anticipate that it will take about two years to fully eliminate the glut.