Our Strategy

# To Our Shareholders

## To what do you attribute the decline in revenues and income in fiscal year 2016?

## The main factor was greater than expected weakness in the demand environment for customers of our core businesses.


Analysis of trends in JSR Group's key industries in the FY ended March 2016 indicates that while worldwide production of automobiles and tires increased slightly year on year, tire production in Japan slumped. Semiconductor production slowed abruptly as demand growth faltered and major production adjustments were implemented during the second half in the flat panel display (FPD) market. In addition, the yen strengthened at the fiscal year-end.

In this business environment, overall net sales in the Petrochemical Products Business segment declined year on year. In the Elastomers Business segment, although sales of Solution Styrene-Butadiene Rubber (SSBR) grew substantially, slumping domestic tire production had a significant negative effect on sales of other elastomers. In addition, the supply-demand balance in East Asia failed to improve due to a state of oversupply coupled with slowing demand growth, resulting in continued weakness in the elastomer products market. Operating income in the Petrochemical Products Business fell year on year as an increase in operating income in the Plastics Business segment resulting from profitability improvement failed to compensate for a decline in operating income in the Elastomers Business segment. Net sales in the Fine Chemicals and Other Products Business segment increased year on year on a substantial increase in net sales in the life sciences area of the strategic business field, despite lower net sales in the Fine Chemicals business due to the impact of fluctuations in the FPD market. Operating income in the Fine Chemicals and Other Products Business segment declined year on year due to the significant impact of the net sales decrease in the Fine Chemicals business.

As a result, consolidated net sales in FY ended March 2016 were ¥386,709 million (down 4.3% year on year), operating income was ¥34,408 million (down 9.6%), and profit attributable to owners of parent was ¥24,069 million (down 19.6%).

# To Our Shareholders

## Will there be any changes in management policy in light of the current situation?

**Although our business vision remains unchanged, we will make course corrections in each business.**

In the 2000s, when the JSR20i3 mid-term management plan was launched, there was stable growth in the Petrochemical Products Business segment. We concentrated enterprise resources on the Fine Chemicals business, which benefited from an excellent market environment, as a growth driver. Even in those favorable circumstances, we foresaw market changes in the Fine Chemicals business and have invested cash flows generated during good times in areas offering prospects for market growth to prepare a third pillar of JSR Group's business portfolio. Nevertheless, from FY ended March 2015 to 2016 we anticipated continued low growth in our core businesses, the Petrochemical Products Business and Fine Chemicals business, and made course corrections in resource allocation. Although we were exploring next-generation growth scenarios in four areas, ultimately it was decided to concentrate enterprise resources on the life sciences business and develop it as a third pillar. From the time of the launch of JSR20i3 to the present, net sales have grown as a result of business scale expansion from these initiatives, selling, general and administrative expenses have increased simultaneously, and operating income has remained nearly flat.

In FY ending March 2017, the final year of JSR20i6, we anticipate continued low market growth and intensification of competition in the core businesses. Although our corporate vision will remain unchanged, we will examine business growth opportunities and carefully select areas for allocation of enterprise resources while preparing to reduce investment risk.

# To Our Shareholders

## What course corrections will be made to secure growth opportunities?

## We will review the balance between earnings opportunities and business costs and steadily develop growth sectors.

The clearest answer will be to summarize our current operating policy. For the time being, we will not actively be making business investments, but rather pursuing steady growth.

In the Petrochemical Products Business, we will focus on SSBR, a product for which market growth is expected to continue. To accelerate global business expansion, we decided to augment supply capacity in a second phase of construction at JSR BST Elastomer Co., Ltd. (JBE) in Thailand and start up production in Hungary. These movements mark a shift to a policy of pursuing global expansion by leveraging JSR's technologies.

In the Fine Chemicals business, we have shifted from a global network of development sites and consolidated development at Yokkaichi, and our semiconductor materials have captured high market share in 20nm, 16nm, and 14nm node processes. The semiconductor industry is entering the multiple patterning era, and I think JSR occupies an advantageous position in the market. In our LCD materials business, while the business is developing favorably in China, it is not progressing in line with expectations in South Korea and Taiwan. We will pursue business cost reductions. With regard to strategic businesses, to turn around the lithium ion capacitor (LICs) business, we have withdrawn from the automotive market, where a certain level of demand existed, and will concentrate solely on high-output applications. In the life sciences area, positioned as JSR's third business pillar, MEDICAL & BIOLOGICAL LABORATORIES CO., LTD. (MBL) and KBI Biopharma, Inc. will act as drivers of value chain expansion.

By clearly defining a policy for each business in this way, we will pursue a balance between earnings opportunities and cost and make course corrections in preparation for growth over the medium to long term.

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## What is your thinking on capital strategy, including shareholder returns?

## We will take a flexible approach to shareholder returns, aiming for a gross payout ratio of 50% or higher.

The Company considers its most important priority to be improvement of business results over the long term through reinforcement of research and development from a long-term perspective and measures to boost corporate competitiveness, such as new business development.

We will maintain continuous, stable dividend payments while taking into account business results and medium- and long-term capital requirements and considering the balance between shareholder returns and enhancement of internal reserves for future growth. We will flexibly make treasury stock purchases to supplement dividends as a form of shareholder return, taking into consideration the market environment. We will allocate internal reserves to a variety of investments that will lead to new growth and contribute to enhancement of corporate value. During the period of the JSR20i6 mid-term management plan, we will aim for a gross payout ratio of 50% or higher through dividends and treasury stock purchases. The dividend per share for FY ended March 2016 was ¥50, up ¥10 from FY ended March 2015, and the dividend payout ratio was 47.2%. The gross payout ratio was 84.2%, substantially higher than the ratio of 64.5% in FY ended March 2015.

I request the continued support of our shareholders and investors in the years to come.