

Creating Sustainable Value

CORPORATE GOVERNANCE SYSTEM

Aiming to Maintain a Trusted, Appealing Corporate Structure

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 structure. 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 the corporate governance code.

Target Period: April 1, 2016—March 31, 2017
(Some parts include activities and initiatives conducted since April 2017)

Strengthening Corporate Governance

2011

- Appointment of two independent outside directors to its Board of Directors consisting of six directors in total

2012

- Appointment of three independent outside directors to its Board of Directors consisting of eight directors in total
- Establishment of the Remuneration Advisory Committee, with participation by independent outside directors

2014

- Appointment of three independent outside directors to its Board of Directors, consisting of seven directors in total and appointment of two independent outside Audit & Supervisory Board (ASB) members to its Audit & Supervisory Board, consisting of three members in total

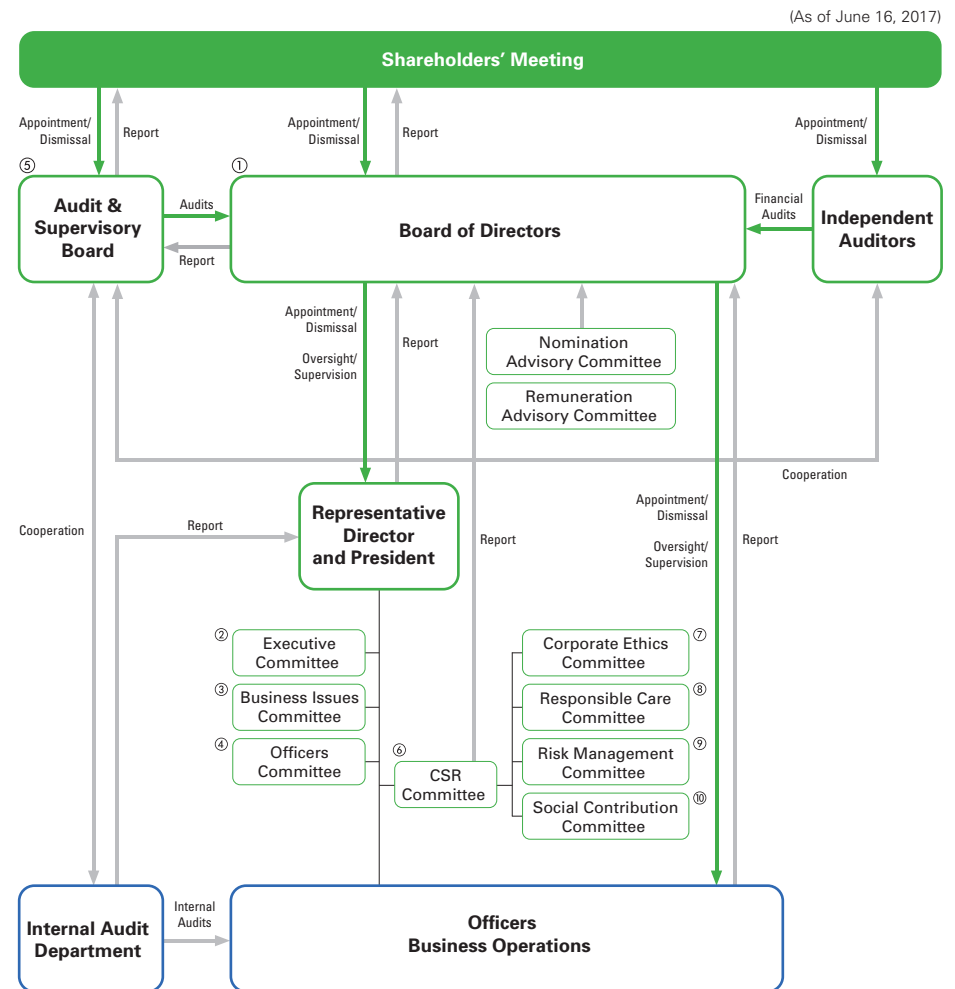
2015

- Establishment of Nomination Advisory Committee, of which a majority of members are independent outside directors and of which the chair is an independent outside director to ensure the transparency of the policies and procedures for nominating candidates for directors and Audit & Supervisory Board members.

- Enhancement of functions of Remuneration Advisory Committee of which a majority of members are independent outside directors and of which the chair is an independent outside director to further ensure the objectivity and transparency of the remuneration scheme for directors, ASB members and officers.
- Introduction of medium-term performance-based bonuses by using three years average of the consolidated ROE as performance evaluation reference.
- Disclosure of policies for cross shareholding, policies and procedures for nominating candidates for directors and Audit & Supervisory Board members, policies and procedures to determine remuneration for directors, and JSR's own criteria for judging independence for outside directors and Audit & Supervisory Board members

2016

- Implementation of an evaluation of effectiveness of the Board of Directors, with assistance from an external consultant. The Company acknowledged that the Board of Directors is managed in an effective and appropriate manner after reviewing the size, composition, and specific operating policies etc. thereof.



Directors and Audit & Supervisory Board Member

(As of March 31, 2017)

Chairman of the Board

Hozumi Sato

Representative Director and President

Mitsunobu Koshiba

Representative Director

Kouichi Kawasaki

Director

Nobuo Kawahashi

Takao Shimizu

Standing Audit & Supervisory

Board Member

Atsushi Kumano

Independent Outside Director

Kazunori Yagi

Yuzuru Matsuda

Shiro Sugata

Independent Outside Audit & Supervisory

Board Member

Hiroichi Uekusa

Hisako Kato

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 independent 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, 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 independent outside directors who, together with three Audit & Supervisory Board members (including two independent 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.

Independent Outside Directors (As of March 31, 2017)

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

Kazunori Yagi

Mr. Kazunori Yagi served as Director and Executive Managing Officer at Yokogawa Electric Corporation, and subsequently also served as advisor at the same company. He has vast experience in the corporate management of global companies especially in the field of control systems and measurement devices, and possesses the independent perspectives as outside personnel. He has contributed his experiences and independent viewpoints to help the Company in making crucial decisions, to supervise the Company at the Board level, and to strengthen the Company's fair corporate governance through enhancing fair and reasonable business judgment and transparent and sound management. He is therefore nominated again for the year starting from June 17, 2016.

**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.

Yuzuru Matsuda

Mr. Yuzuru Matsuda served as the President and Chief Officer of KYOWA HAKKO KOGYO CO., LTD. and Kyowa Hakko Kirin, Co., Ltd. He has vast experience in corporate management for global companies especially in the field of medical products and biochemical. He also possesses an independent perspective as a non-employee. He has utilized his experiences and independent viewpoints to help the Company in making crucial decisions, to supervise the Company at the Board level, and to strengthen the Company's fair corporate governance through enhancing fair and reasonable business judgment and transparent and sound management. He is therefore nominated again as a candidate for Independent Outside Director.

**Major activities in the year under review**

Mr. Matsuda participated in all 17 meetings of the Board of Directors held during the year under review. Mr. Matsuda draws on his vast experience as a corporate executive responsible for international operations in prescription drugs and biochemicals as well as his independent outside perspective to address the Board as appropriate concerning matters under discussion, and by ensuring fair and reasonable judgment is brought to bear in the service of transparent and sound management, he contributes to continuous improvement of corporate value.

Shiro Sugata

Mr. Shiro Sugata served as the Representative Director and President of USHIO INC., where he currently serves as the Director and Advisor. He also serves as Vice Chairman, Executive Director at the Japan Association of Corporate Executives. He has vast experience in the corporate management of global companies especially in the field of optical



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application products and industrial machineries and also has experience obtained through activities in the business community, and possesses the perspectives as an independent outside personnel. He has utilized his experiences and independent viewpoints to help the Company in making crucial decisions, to supervise the Company at the Board level, and to strengthen the Company's fair corporate governance through enhancing the fair and reasonable business judgment and transparent and sound management. He is therefore nominated as a candidate for Independent Outside Director.

Major activities in the year under review

Mr. Sugata participated in all 13 meetings of the Board of Directors held after his appointment as director. Mr. Sugata draws on his vast experience as a corporate executive responsible for international operations in optical application devices, industrial-use machinery and other areas and as a corporate representative at industry organizations as well as his independent outside perspective to address the Board as appropriate concerning matters under discussion, and by ensuring fair and reasonable judgment is brought to bear in the service of transparent and sound management, he contributes to continuous improvement of corporate value.

(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 policies and strategies, 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

The Officers 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

The Audit & Supervisory 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 the 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 the Executive Committee and other important committee meetings to monitor how important decisions are reached and business activities

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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.

Independent Outside Audit & Supervisory Board Members

To ensure the fairness and transparency of management, the Company appoints one standing Audit & Supervisory Board member, as well as two independent outside Audit & Supervisory Board members. The independent 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 has vast experience as a lawyer and 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 all 17 meetings of the Board of Directors and all 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 the 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

Hisako Kato as a Certified Public Accountant both in Japan and U.S. and a Certified Tax Accountant greatly contributes 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 accounting and tax matters, as well as independent and neutral view point as an independent outside member.



Major activities in the year under review

Ms. Kato attended all 17 meetings of the Board of Directors and all 17 meetings of the Audit & Supervisory Board held during the year under review. She 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 the Audit & Supervisory Board as appropriate concerning matters under discussion. Ms. Kato brought to both boards an independent outside perspective based on her extensive experience as a certified public accountant, certified public tax accountant and her 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.

The CSR Committee is chaired by the officer responsible for CSR and consists of officers responsible for manufacturing, manufacturing technology, environment & safety, R&D, human resources development, accounting & financing, corporate planning, corporate communication, legal, general affairs, petrochemicals businesses, fine businesses and life sciences businesses and secretaries 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 JSR Group. 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 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 Yokkaichi plant.

The CSR report is audited by a third party to improve the reliability and transparency of the content. 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/).

(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.

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 the outside JSR Group. The two outside members are independent. 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 is 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.

Nomination

Deliberation on nominations for corporate officers by the Nomination Advisory Committee

JSR established the Nomination Advisory Committee of which a majority of members are independent outside directors to ensure the transparency of the policies and procedures for nominating candidates for directors and Audit & Supervisory Board members. The committee deliberates criteria for ensuring the diversity in breadth of knowledge, experience, and capability as well as the size necessary for the Board of Directors, criteria and procedures for nomination, and candidates for future president, directors, officers with directorship status (including senior officers), and Audit & Supervisory Board members, and submits its findings to the Board of Directors.

Remuneration

Deliberation on remuneration for corporate officers by the Remuneration Advisory Committee

Reflecting the remuneration policies of the Company to ensure continuous and sustainable growth towards further improvement in corporate value by motivating its directors while maintaining transparency and accountability vis-a-vis its shareholders, remuneration for Company directors consist of, each being within the maximum amount approved at the General Meeting of Shareholders, basic fixed remuneration, annual bonuses linked to the consolidated annual performance, medium-term performance bonuses linked to the level of achievement of medium-term business targets, and restricted stock shares designed to facilitate sharing of value between directors and the shareholders of the Company.

The remuneration for independent outside directors and Audit & Supervisory Board members are only the basic fixed remunerations in light of their respective rolls.

In FY ended March 31, 2017, the amount of remuneration paid to its directors including those for independent outside directors was ¥316 million in aggregate while those for the Audit & Supervisory Board members amounted for ¥45 million in total.

The Remuneration Advisory Committee, of which a majority of members are independent outside directors and of which the chair is an independent outside director, report to the Board of Directors on policies, structure, appropriateness of the amount for the remuneration in order to secure objectivity, transparency and accountability.