Our Strategy

TO OUR SHAREHOLDERS

Why did sales grow and operating profit decline at the consolidated level in FY 2016?

Sales growth at the elastomers business and life science business contributed to the increase in consolidated net sales. Margin erosion at the plastics business led to a decline in consolidated operating profit due to the impact of a stronger yen at the fine chemicals business and price declines on fiercer competition in display materials.

Key trends in FY ended March 31, 2017 in the JSR Group's main customer industries were as follows. While global production of automobiles and automobile tires were up slightly year on year, domestic tire production declined year on year. Semiconductor market demand grew, and panel production for the display market was robust. In foreign exchange, the yen strengthened against the year-earlier level.

In this business environment, net sales in the Petrochemical Products Business segment remained unchanged from previous year. At the elastomers business, an increase in exports and sharp volume growth in sales of Solution Polymerization Styrene-Butadiene Rubber (SSBR) for fuel-efficient tires supported year-on-year sales growth despite a sluggish elastomer products market, where there was no improvement in the supply-demand balance owing to elastomers oversupply in East Asia in the first half. In contrast, at the plastics business, sales fell year on year owing to the large impact of declines in product prices attendant with lower raw materials prices. Operating profit at the Petrochemical Products Business segment, by contrast, fell year on year. At the elastomers business, despite margin erosion in the first half on softer markets and a stronger yen, operating profit rose year on year on higher sales volumes and improved margins on rebounding markets in the second half. Yet operating profit fell year on year at the plastics business in response to the impact of margin erosion on product price declines stemming from lower raw materials prices.

At the Fine Chemicals and Other Products Business segment, sales volumes of semiconductor materials and display materials rose against the previous year on brisk demand trends in the semiconductor and display markets. In contrast, sales fell year on year at the

Our Strategy

TO OUR SHAREHOLDERS

fine chemicals business owing to price declines on stiffer competition in some parts of the display materials market and a stronger yen. Yet, with sales increasing substantially at the life sciences business which is a new business mainstay of the JSR Group, net sales at the segment increased year on year. Operating profit at the segment fell from the previous year owing to the large impact of the sales decline at the fine chemicals business. Ordinary profit increased compared to the previous year owing mainly to a decrease in foreign exchange losses recorded at Group companies in the previous fiscal year. Profit attributable to owners of parent rose year on year due to the non-reoccurrence of impairment losses at Group companies recorded in the previous fiscal year as well as gains on the sale of investment securities and other factors.

For FY ended March 31, 2017, we reported net sales of ¥390,599 million (up 1.0% year on year), operating profit of ¥32,370 million (down 5.9% year on year), ordinary profit of ¥36,264 million (up 7.8% year on year) and profit attributable to owners of parent of ¥30,078 million (up 25.0% year on year).

What benefits were derived from JSR20i6?

The measures adopted at each business produced some results, although JSR20i6 targets were not attained.

We unfortunately failed to achieve the earnings targets in the JSR20i6 medium-term business plan.

At the elastomers business, the main reasons were delays in constructing a new SSBR plant in Thailand for fuel-efficient tires and margin erosion on weak market prices. Weak sales of general-use elastomers due to the shrinking domestic tire market also had a negative impact. At the display materials business, the main reasons were a decline in market share owing to fiercer competition in some parts of the market and a marked erosion in business profitability owing to product price declines.

The measures in each business, however, produced some results. At the elastomers business, the first-phase facility at the Thai SSBR plant continues to operate at a high utilization rate, and the second-phase facility began operations from October 2016 to respond

Our Strategy

TO OUR SHAREHOLDERS

to further demand growth in the future. With the launch of operations at a plant under construction in Hungary scheduled for 2018, initiatives to construct a global production system have moved forward. In the plastics business, the JSR Group decided to partner with other companies and merge its resin businesses with theirs. The semiconductor materials business gained high shares in leading-edge materials for 14nm and 16nm processes, and JSR has set up a joint venture in Belgium to manufacture EUV resists which is expected to be used for commercial production of next-generation 7nm and sub-7nm processes. The display materials business is focusing on China, where production of LCD panels is growing, and JSR Micro (Changshu) Co., Ltd., set up as a local joint venture to manufacture LCD materials, is expected to commence operations in FY ending March 31, 2018.

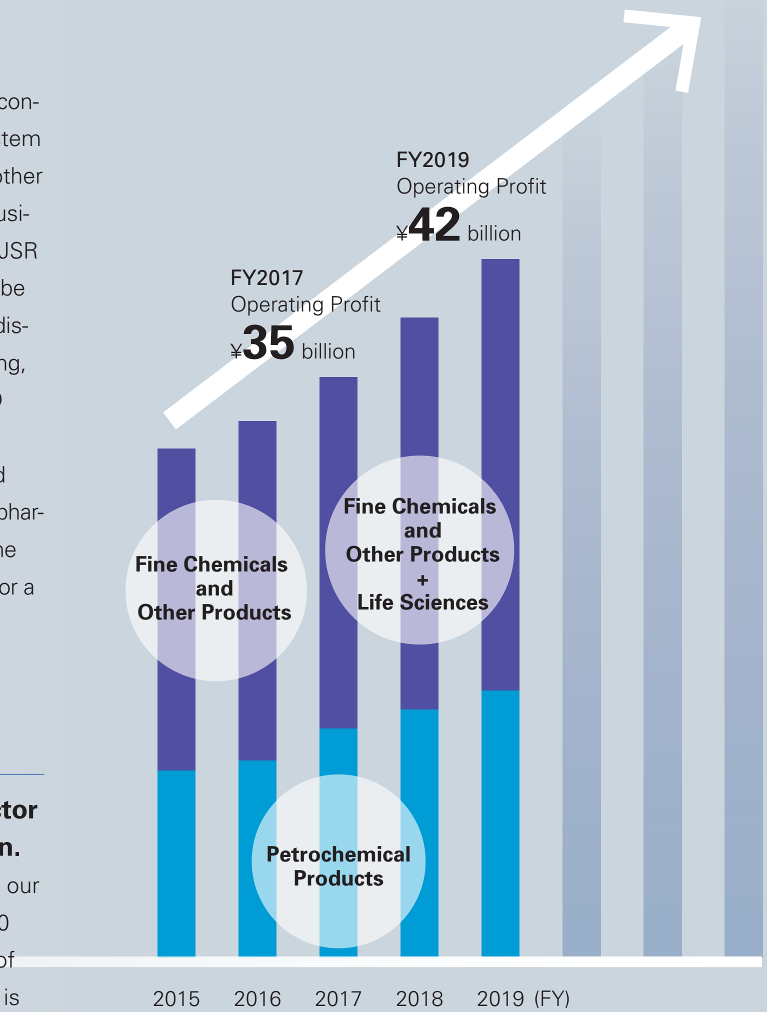
The life sciences business has expanded its business scale by consolidating US-based KBI Biopharma, Inc., a contract manufacturer that develops production processes for biopharmaceuticals, and Medical & Biological Laboratories Co., Ltd. as subsidiaries. Moreover, the JSR-Keio University Medical and Chemical Innovation Center (JKiC), under construction for a planned October 2017 opening, is to lead efforts at discovering future business themes.

How will JSR expand profits under JSR20i9, the new medium-term business plan?

Under JSR20i9, we expect three profit drivers, SSBR, the semiconductor materials business, and the life sciences business, to propel expansion.

We are strengthening our competitiveness for the future with the launch of JSR20i9, our new medium-term business plan in April 2017. The plan sets targets for sales of ¥460 billion, operating profit of ¥42 billion, and ROE of 8% or higher (the effect of merger of our plastics business with those of other resin makers is still a work in progress, and is not included in our earnings targets).

For the elastomers business, we will expand SSBR sales in the global market. The plastics business will seek to expand sales overseas based on a merger of our resin business with those of partners. The semiconductor materials business will look to maintain its high share in cutting-edge lithographic materials and expand sales by broadening its



Our Strategy

TO OUR SHAREHOLDERS

product portfolio to include peripherals such as CMP materials, packaging materials, and cleaning solutions. The display materials business will seek to increase sales in China, where demand has risen considerably. The life sciences business will expand its operations, especially in fields relating to antibody drugs, which is expected to be a source of future growth.

As ways to harness digitalization, we strive to make large labor productivity gains by improving manufacturing efficiency via the adoption of ICT technologies such as IoT devices at plants and by substantially improving R&D efficiency via the deployment of artificial intelligence (AI) and robots. Looking ahead to the post-2020 era, we aim to further improve operational efficiency. At the same time, we will consider ways to build new business models and advance efforts to develop capable human resources that can move business models forward.

What is management's view on returning profits to shareholders?

We will continue to properly return profits to shareholders while balancing this against allocations to growth investments.

The JSR Group is working to strengthen R&D from a long-term perspective and strengthen its competitiveness by developing new businesses, reflecting our conviction that improving our earnings over the long haul is the most important issue for the Group. Regarding dividends, we take into account our earnings and medium- and long-term demand for funds, while paying continuous, stable cash dividends based on a consideration of how to balance returning profits to shareholders with retaining sufficient earnings for investments into the Group's future growth. Keeping in mind factors such as stock market conditions, the Group will consider share repurchases from an overall perspective as a way to return profits to shareholders. The Group allocates earnings it retains to a variety of investments linked to future growth businesses, contributing to increasing corporate value.

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