

# FINANCIAL SECTION 2017

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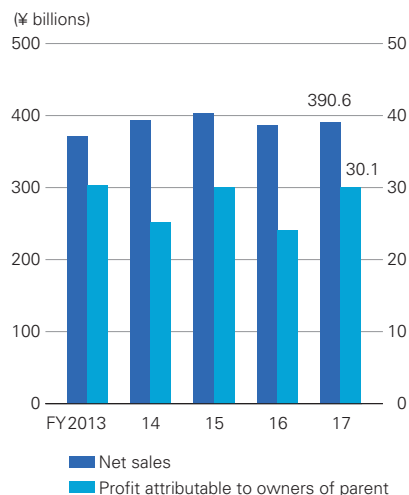


## TEN-YEAR SUMMARY

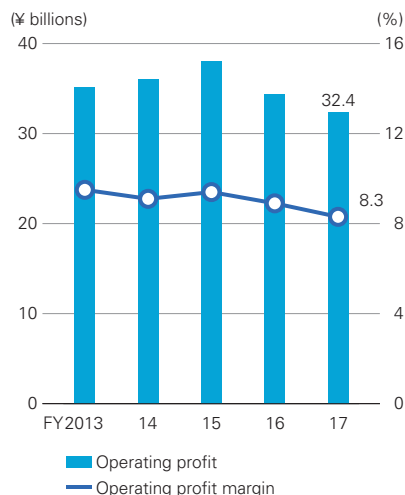
Fiscal Years ended March 31	2008	2009	2010	2011
<b>Results for the year</b>				
Net sales	¥ 406,968	¥ 352,503	¥ 310,184	¥ 340,666
Costs and expenses	346,958	322,155	289,954	301,571
Operating profit	60,010	30,348	20,230	39,095
Interest and dividends income	1,309	1,230	568	626
Interest expenses	(256)	(271)	(172)	(146)
Profit before income taxes	54,867	20,803	19,458	40,674
Profit attributable to owners of parent	36,994	13,981	13,645	27,571
Capital expenditures	29,076	19,081	17,707	11,801
Depreciation	21,180	24,833	22,380	19,245
<b>Year-end financial position</b>				
Total assets	416,951	339,498	373,566	390,591
Long-term loans payable	1,525	1,500	1,500	1,028
Total liabilities	159,288	97,512	122,865	126,475
Equity	252,539	240,896	249,440	262,679
Current ratio (times)	1.9	2.5	2.3	2.4
Return on assets (%)	8.9	4.1	3.7	7.1
Return on equity (%)	15.2	5.7	5.6	10.8
Equity ratio (%)	60.6	71.0	66.8	67.3
<b>Per share of common stock (Yen and U.S. Dollars)</b>				
Profit attributable to owners of parent	¥ 147.26	¥ 56.36	¥ 55.87	¥ 113.07
Cash dividends	32.00	32.00	26.00	32.00
Equity	1,009.27	986.33	1,021.31	1,088.87

Note: U.S. dollar amounts are translated from yen, for convenience only, at a rate of \$1=¥112.19; the exchange rate prevailing at March 31, 2017.

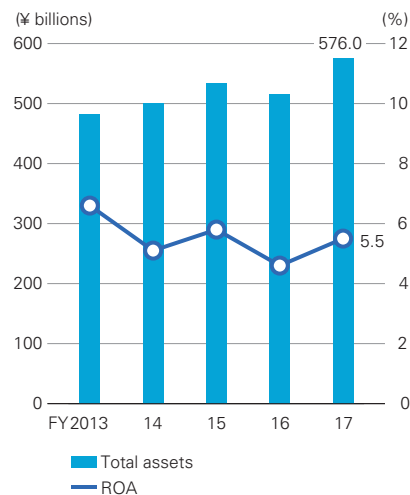
### Net Sales/ Profit attributable to owners of parent



### Operating Profit/ Operating Profit Margin

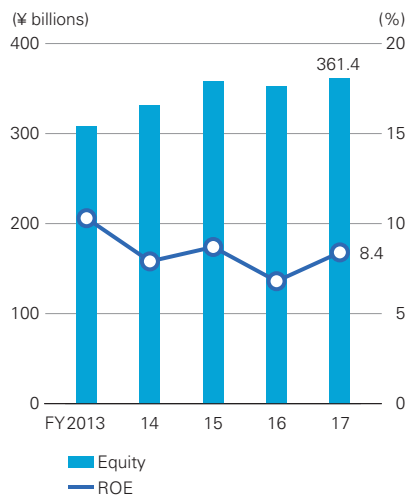
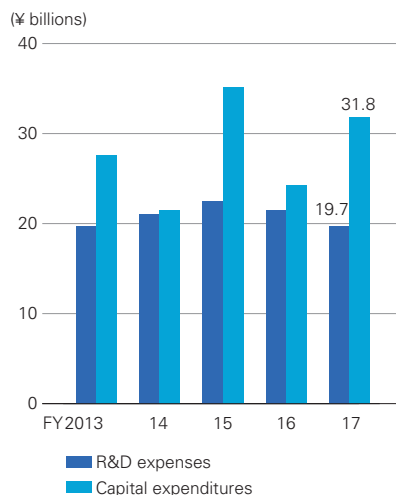
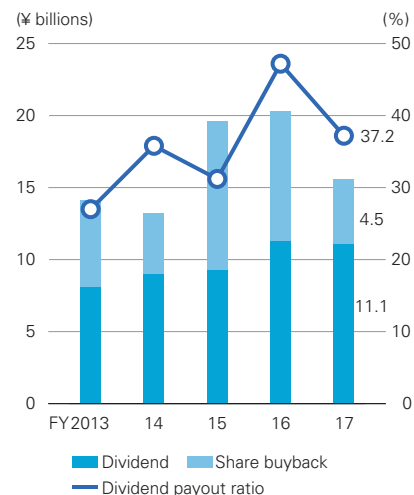


### Total Assets/ROA



					Millions of yen	Thousands of U.S. dollars
2012	2013	2014	2015	2016	2017	2017
¥ 349,947	¥ 371,487	¥ 394,309	¥ 404,073	¥ 386,709	<b>¥ 390,599</b>	<b>\$ 3,481,580</b>
313,982	336,281	358,247	366,005	352,301	<b>358,228</b>	<b>3,193,051</b>
35,964	35,206	36,062	38,068	34,408	<b>32,370</b>	<b>288,530</b>
634	809	916	1,390	1,380	<b>1,369</b>	<b>12,204</b>
(147)	(126)	(142)	(345)	(527)	<b>(699)</b>	<b>(6,227)</b>
41,245	42,847	36,956	41,069	27,367	<b>38,327</b>	<b>341,630</b>
26,407	30,278	25,173	29,919	24,069	<b>30,078</b>	<b>268,100</b>
19,728	27,608	21,499	35,157	24,276	<b>31,785</b>	<b>283,315</b>
17,784	19,145	18,096	17,407	18,508	<b>14,676</b>	<b>130,811</b>
430,693	482,935	501,320	534,592	516,360	<b>576,016</b>	<b>5,134,294</b>
500	6,626	11,069	20,387	22,249	<b>38,381</b>	<b>342,107</b>
148,335	167,202	164,060	169,918	154,006	<b>199,302</b>	<b>1,776,468</b>
280,955	308,641	331,284	358,303	353,145	<b>361,394</b>	<b>3,221,267</b>
2.3	2.3	2.5	2.5	2.7	<b>2.5</b>	<b>2.5</b>
6.4	6.6	5.1	5.8	4.6	<b>5.5</b>	<b>5.5</b>
9.7	10.3	7.9	8.7	6.8	<b>8.4</b>	<b>8.4</b>
65.2	63.9	66.1	67.0	68.4	<b>62.7</b>	<b>62.7</b>
¥ 109.46	¥ 126.13	¥ 106.10	¥ 128.19	¥ 105.87	<b>¥ 134.43</b>	<b>\$ 1.20</b>
32.00	34.00	38.00	40.00	50.00	<b>50.00</b>	<b>0.45</b>
1,164.63	1,299.77	1,409.06	1,557.08	1,565.45	<b>1,624.14</b>	<b>14.48</b>

## Equity/ROE

R&D Expenses/  
Capital ExpendituresShareholder Return/  
Dividend Payout Ratio

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Analysis of Operating Results

#### Overview of FY ended March 2017 (April 1, 2016 to March 31, 2017)

In FY ended March 2017, among the JSR Group's main customer industries, automobile tire production and automobile production rose slightly above the previous year's level globally. However, despite returning to the previous year's level in the latter half of the year, domestic tire production declined from the previous year level due to sluggish production in the first half of the year. Demand in the semiconductor grew, and production in the flat panel display (FPD) market was robust. The exchange rate had a stronger yen compared to the previous year.

Amid these circumstances, the Petrochemicals Business of the JSR Group saw net sales rise in the Elastomers Business over the previous year due to an increase in exports and significant growth in sales of Solution Styrene-Butadiene Rubber (SSBR) for fuel-efficient tires. This was despite a sluggish elastomer products market, where there was no improvement in the supply-and-demand balance due to excessive supply of elastomers in East Asia in the first half of the year. On the other hand, the Plastics Business saw sales fall below the previous year's level, being significantly affected by a drop in product prices on the back of a fall in raw material prices. Thus, sales of the Petrochemicals Business as a whole remained unchanged from the previous year. Meanwhile, operating profit of the Petrochemicals Business decreased from the previous year. Operating profit of the Elastomers Business saw worsened profitability due to a strong yen and deteriorating market conditions in the first half of the year; however, improved profitability and an increase in sales volume attributable to a market recovery in the latter half drove operating profit above the previous year's level. At the same time, operating profit of the Plastics Business fell below the previous year as a result of worsening profitability arising from a drop in product prices associated with a fall in raw material prices.

The Fine Chemicals and Other Products Business saw the sales volume of semiconductor materials and display materials increase

above the previous year's levels due to improving demand in both the semiconductor market and FPD market. On the other hand, net sales of the Fine Chemicals Business fell below the previous year's level as a result of a strong yen and a drop in prices resulting from intensifying competition in display materials. Net sales of the Life Sciences Business, which is a new business mainstay of the JSR Group, had a notable increase, and net sales of the Fine Chemicals and Other Products Business increased compared to the previous year. Operating profit of the Fine Chemicals and Other Products Business fell below the previous year's level, as it was significantly affected by the drop in sales of the Fine Chemicals Business.

Ordinary profit increased compared to the previous year due to a reduction in the exchange losses in Group companies that occurred in the previous year among other factors.

Profit attributable to owners of parent rose above the previous year's level due to the fact that impairment losses in Group companies of the previous year did not apply to this fiscal year, profit from sales of deposits and securities, and other factors.

In the fiscal year 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).

### Review of Operations

#### Elastomers Business Segment

The production of automobile tires, one of the segment's main customer industries, increased from the previous year in North America, China, and Europe, while it fell below the previous year's level in Japan.

Under such circumstances, the Elastomers Business's net sales increased above the previous year's level. This was achieved despite sluggish sales for domestic tires due to a significant increase in the sales volume of SSBR, which came in part from

### Segment Sales/Operating Profit (¥ millions)

Years ended March 31	2013	2014	2015	2016	2017
Elastomers Business	¥195,797	¥203,478	¥198,958	¥179,253	¥185,345
Operating profit	17,923	17,330	10,736	7,492	8,340
Plastics Business	51,759	57,764	55,161	52,207	46,035
Operating profit	2,962	3,919	2,842	5,114	3,773
Fine Chemicals and Other Products Business	123,931	133,067	149,954	155,250	159,218
Operating profit	14,321	14,813	24,490	21,803	20,257
Net Sales	371,487	394,309	404,073	386,709	390,599
Operating profit	¥ 35,206	¥ 36,062	¥ 38,068	¥ 34,409	¥ 32,370

growing exports and the attainment of high-level operations by the first phase facilities for SSBR for fuel-efficient tires at JSR BST Elastomer Co., Ltd. (JBE), a joint venture in Thailand. Operating profit also increased above the previous year's level, despite a sluggish elastomer products market resulting from excessive supply in the first half of the year and a worsening of margins (the difference between the selling price and major raw material prices), as profitability improved in the second half of the year due to rising product prices on the back of rising prices for butadiene, which is a raw material, and sales volume expanded.

As a result, the Elastomers Business segment posted operating profit of ¥8,340 million (up 11.3% year-on-year) on net sales of ¥185,345 million (up 3.4% year-on-year).

#### ***Plastics Business Segment***

The sales volume of plastics increased from the previous year owing to growing sales volume for automobiles, which came on the back of globally robust production of automobile tires, one of the segment's main customer industries. Net sales declined from the previous year, as they were significantly affected by a strong yen and a fall in product prices owing to the drop in raw material costs. Operating profit also declined from the previous year due to worsened profitability that was largely a result of a drop in product prices.

As a result, the Plastics Business segment posted operating profit of ¥3,773 million (down 26.2% year-on-year) on net sales of ¥46,035 million (down 11.8% year-on-year).

#### ***Fine Chemicals and Other Products Business Segment***

Net sales rose from the previous year, but operating profit fell below that of the previous year in the Fine Chemicals and Other Products Business segment as a whole.

In the semiconductor materials business, although sales volume grew particularly for cutting-edge photoresists due to healthy growth in demand for semiconductors, net sales decreased from the previous sales, largely as a result of a strong yen. In the display materials business, sales volume increased from the previous year, supported by robust panel production; however, net sales decreased from the previous year due to intensified competition in the materials market and a strong yen. Net sales of the Life Sciences Business grew significantly owing to the JSR Group's making MEDICAL & BIOLOGICAL LABORATORIES CO., LTD. (MBL) a consolidated subsidiary in the latter half of the previous year and increased sales by KBI Biopharma, Inc. (KBI). Operating profit fell below the previous year's level, as it was significantly affected by a drop in sales by the Fine Chemicals Business.

As a result, the Fine Chemicals and Other Products Business segment posted operating profit of ¥20,257 million (down 7.1% year-on-year) on net sales of ¥159,218 million (up 2.6% year-on-year).

### **Business Outlook**

The following is the outlook of our main customer industries at a

time of uncertainty in global economic trends. JSR forecasts that the production of automobile tires and automobiles in Japan will remain unchanged from the 2016 level, but will grow globally, particularly in China and other Asian countries. The semiconductor market will see growing new demand for cutting-edge semiconductor chips for smartphones, data centers, and the like. The FPD market will also likely see increased production in China as panel production becomes more robust.

In the Elastomers Business, although there is some uncertainty about whether the market recovery that began in the second half of the previous year will stabilize and continue, JSR forecasts growing global demand for the medium and long term. As part of this, we anticipate that demand for SSBR will grow steadily in line with growth in the fuel-efficient tire market. Under such circumstances, we will strive to expand sales globally by adding the newly launched second phase facilities at JBE in Thailand to the first phase facilities, which have attained high-level operations.

In the Fine Chemicals and Other Products Business, our semiconductor materials business will endeavor to increase sales of various semiconductor materials, such as cutting-edge lithography materials, packaging materials, detergents, and CMP materials, amid the expected full-scale mass production of the 10 nm (nanometer) generation, a cutting-edge process. Moreover, we will move toward mass production of EUV (extreme ultraviolet) lithography materials for the 7 nm generation, which will become the next generation, at EUV Resist Manufacturing & Qualification Center N.V. (EUV RMQC), a company that provides manufacturing and quality control services that we established as a joint-venture with imec, an advanced research institute for nanoelectronics in Belgium. We will also strive to increase sales of display materials by starting operations at JSR Micro (Changshu) Co., Ltd., a joint venture manufacturing company in the Chinese market, where growth is particularly expected, while simultaneously proceeding with business reforms to secure business revenues as materials become more generalized and competition intensifies. In the Life Sciences Business, we will expand KBI's contract development and manufacturing business for biopharmaceuticals, and focus on expanding sales of Amsphere<sup>TM</sup>A3, a carrier for antibody purification expected to see growing demand in the future. We will also strive to expand global sales of in vitro diagnostics and research drugs at MBL.

For FY ending March 2018, JSR forecasts consolidated sales revenue of ¥405,000 million, operating profit of ¥35,000 million, and profit for the year attributable to owners of parent of ¥26,500 million. These forecasts assume an exchange rate of ¥110 per U.S. dollar and a naphtha price of ¥40,000 per kiloliter.

The consolidated performance forecasts for FY ending March 2018 are calculated based on the International Financial Reporting Standards (IFRS), which the JSR Group decided to voluntarily adopt beginning with first three months of FY ending March 2018. Accordingly, rates of change from the performance values of FY ended March 2017, for which Japanese standards were used, are not provided here.

## Analysis of Financial Position

### Analysis of Assets, Liabilities, and Net Assets

Total assets as of March 31, 2017 amounted to ¥576,016 million, up ¥59,657 million from a year earlier.

Current assets totaled ¥348,212 million, up ¥47,680 million, due to an increase in cash and deposits and notes and accounts receivable-trade, despite a decrease in securities.

Non-current assets totaled ¥227,805 million, up ¥11,977 million, due to an increase in property, plant and equipment.

Total liabilities amounted to ¥199,302 million, up ¥45,296 million from a year earlier, due to an increase in notes and accounts payable-trade and long-term loans payable.

In net assets, shareholders' equity amounted to ¥335,940 million, up ¥6,519 million. Accumulated other comprehensive income increased by ¥1,730 million to ¥25,454 million. Consequently, total net assets (the total of shareholders' equity, accumulated other comprehensive income, subscription rights to shares, and non-controlling interests) amounted to ¥376,715 million, up ¥14,361 million from a year earlier.

### Analysis of Cash Flows

Cash and cash equivalents ("funds") as of March 31, 2017 stood at

¥97,416 million, up ¥8,021 million from a year earlier.

Net cash provided by operating activities amounted to ¥47,506 million, down ¥622 million from the previous year. The main factors included profit before income taxes of ¥38,327 million, an increase in notes and accounts payable—trade of ¥21,407 million, depreciation and amortization of ¥14,676 million, and increase in notes and accounts receivable—trade of ¥13,068 million.

Net cash used in investing activities totaled ¥41,807 million, up ¥22,769 million from the previous year. The main factors were ¥33,727 million in the purchase of non-current assets, ¥19,714 million in expenditures purchases from an increase in time deposits, and ¥5,417 million in proceeds from sales of investment securities.

Net cash used in financing activities totaled ¥3,510 million, down ¥12,750 million from the previous year. The main factors were ¥24,034 million in proceeds from long-term loans payable, ¥11,200 million in cash dividends paid, ¥8,098 million in expenditure from payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation, and ¥5,285 million in expenditure from repayment of long-term loans payable.

## Basic Policy on Profit Allocation and Dividends for the Fiscal Year ended March 31, 2017 and the Fiscal Year ending March 31, 2018

With respect to profit appropriation, the Company regards business growth over the long term as its top priority. To generate sustainable long-term growth, JSR strives to increase its competitiveness by developing new businesses through the reinforcement of research and development activities.

The Company will appropriate profits by taking into account business performance and medium- and long-term demand for funds, while paying continuous, stable cash dividends based on consideration of a balance between appropriating profits and retaining earnings necessary for future business advancement. Carefully considering the stock market environment and other factors, JSR will comprehensively study purchases

of treasury shares as a measure to return profits to shareholders. JSR allocates retained earnings to a variety of investments linked to future growth businesses, contributing to the enhancement of corporate value.

As already announced, we have decided to pay a year-end dividend of ¥25.00 per share, the same amount as the interim dividend. Including the interim dividend already paid, the total annual dividend for FY ended March 2017 will be ¥50.00 per share.

With regard to the dividend for the next fiscal year (FY ending March 2018), JSR plans to pay ¥50.00 annually (an interim dividend of ¥25.00 and a year-end dividend of ¥25.00), taking into account the business outlook.

## Risk Information

JSR Group is exposed to the following risks that may impact on operating results, financial position, cash flows and other aspects of performance. Forward-looking statements in this discussion are based on JSR's judgments as of March 31, 2016. Risks at JSR include, but are not limited to, the following items:

### (1) Changes in Demand due to Economic Trends

In the major industries where JSR Group's products are sold, such as automobiles and electronics, demand is influenced by the economic climate in a country or region. An economic slowdown could reduce demand in an industry and adversely affect JSR Group's operating results.

### (2) Fluctuation in Prices for Crude Oil, Naphtha and Other Major Raw Materials

Higher prices for crude oil and naphtha, or changes in the markets for JSR's major raw materials, could raise prices of raw materials and adversely affect JSR Group's operating results, especially in the petrochemical products sector of elastomers, emulsions and plastics.

### (3) Fluctuation in Exchange Rates

As JSR Group undertakes product exports in foreign currencies and imports goods such as raw materials, the Company takes measures to reduce risks such as entering into forward exchange contracts; however, fluctuation in exchange rates could give rise to adverse

outcomes. In addition, operating results of consolidated subsidiaries and equity-method affiliates located overseas are converted into Japanese yen amounts for the purposes of preparing the consolidated financial statements. However, due to the yen's appreciation, JSR Group's business results could be adversely affected.

#### **(4) Procurement of Raw Materials**

JSR Group works to ensure a stable supply of raw materials by procuring materials from a number of sources. However, an interruption to the supply of raw materials due to an accident, bankruptcy or quality problem at a supplier could adversely affect production activities and JSR Group's operating results.

#### **(5) Development of New Products**

Rapid technological progress is constantly taking place in the electronics industry, which is the primary source of demand for semiconductor manufacturing materials, FPD materials and optical materials, the major products of JSR Group's fine chemicals and other products business. JSR is constantly working on developing state-of-the-art materials in line with this progress. However, unforeseen changes in the industry or market could prevent the timely development of new products and adversely affect JSR Group's operating results.

#### **(6) R&D Involving Next-Stage Growth Businesses**

JSR Group makes substantial investments in R&D to create next-stage growth businesses. However, there is no guarantee that these R&D activities will always yield worthwhile results. Depending on R&D results, there could be an adverse effect on JSR Group's operating results.

#### **(7) Protection of Intellectual Property**

Protection of intellectual property is extremely important for JSR Group's business activities. JSR has established a system for protecting its intellectual property and takes various actions as required. However, a dispute about intellectual property with another company or an infringement on JSR's intellectual property by another company could adversely affect JSR Group's operating results.

#### **(8) Product Quality Assurance and Product Liability**

JSR Group has a product quality assurance system and product liability insurance. However, damage or injury caused by a product manufactured by JSR Group could adversely affect JSR Group's operating results.

#### **(9) Natural Disasters and Accidents**

To minimize the negative effect on its business activities of any disruption to manufacturing activities, all JSR Group manufacturing facilities have established countermeasures based on the identification of all potential sources of a crisis and conducts periodic inspections of facilities. The Group also works constantly on safety measures with regard to earthquakes and other natural disasters. However, a major natural disaster or accident that damages a production facility or disrupts manufacturing could adversely affect

JSR Group's operating results.

JSR's main production facility, the Yokkaichi Plant, houses private power generation equipment, and the Kashima Plant is able to access electric power from shared power generation facilities when necessary. In the event that electric power shortages become severe due to natural disasters and the like, however, JSR Group's operating results could be affected.

#### **(10) Environmental Issues**

Positioning environmental protection as an important element of its operations, JSR Group complies with all laws and regulations concerning the environment. The Group also takes actions aimed at reducing its environmental impact, lowering and eliminating waste materials, and cutting energy and resource consumption. The Group has taken many actions to prevent the external release of all types of chemicals.

However, in the event that a spill occurs or that environmental regulations become stricter, the Group's business activities could be restricted, the Group may have to pay compensation and other expenses, or the Group may have to make substantial capital expenditures. Any of these events could adversely affect JSR Group's operating results.

#### **(11) Overseas Operations**

JSR Group is aggressively expanding operations on a global scale, conducting manufacturing, sales and other activities in countries and regions in the North America, Europe, Asia and other parts of the world. Overseas operations are exposed to a number of risks that include, but are not limited to, an unfavorable political environment or economic trends; labor disputes and other problems due to differences in labor laws and other working conditions; difficulty in recruiting and retaining employees; an adverse impact on business activities due to an inadequate social infrastructure; and the impact of wars, terrorism and other social instability. Any of these events could adversely affect JSR Group's operating results.

#### **(12) Laws and Regulations**

In the countries where it operates, JSR Group is subject to various laws and regulations involving business and investment permits, export and import activities, trade, labor relations, intellectual property, taxes, foreign exchange and other items. The Group has established a clear compliance policy in order to ensure strict observance of laws and regulations as well as ethical standards. In the event that a law or regulation is violated, or a law or regulation becomes stricter or is significantly altered, there could be limitations to the Group's business activities or additional compliance costs. Any of these events could adversely affect JSR Group's operating results.

#### **(13) Litigation**

In conjunction with its business activities in Japan and overseas, JSR Group may be sued or be involved in other litigation concerning a dispute with a supplier, customer or other external party. The outcome of significant litigation could adversely affect JSR Group's operating results.

## CONSOLIDATED BALANCE SHEETS

JSR Corporation and Consolidated Subsidiaries  
As at March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and deposits (Notes 3, 5 and 7)	¥ 52,081	¥ 98,933	\$ 881,835
Notes and accounts receivable—trade, net (Notes 4, 5 and 7)	77,878	90,695	808,401
Short-term investment securities (Notes 3, 5 and 6)	60,010	42,000	374,365
Inventories (Note 7)	77,458	81,918	730,169
Other (Notes 3, 7 and 9)	33,104	34,667	308,998
Total current assets	300,532	348,212	3,103,768
<b>Non-current assets:</b>			
<b>Property, plant and equipment:</b>			
Buildings and structures, net (Note 7)	34,810	33,903	302,193
Machinery, equipment and vehicles, net (Note 7)	37,058	53,507	476,931
Land (Note 7)	17,136	15,734	140,245
Construction in progress	17,944	18,804	167,610
Other, net (Note 7)	5,746	8,212	73,198
Total property, plant and equipment	112,694	130,160	1,160,176
<b>Intangible assets</b>			
Goodwill	9,788	8,817	78,591
Other (Note 7)	6,875	8,369	74,594
Total intangible assets	16,663	17,186	153,186
<b>Investments and other assets</b>			
Investment securities (Notes 5 and 6)	67,878	61,684	549,820
Net defined benefit asset (Note 8)	—	373	3,324
Other, net (Notes 4, 5, 7 and 9)	18,592	18,401	164,020
Total investments and other assets	86,470	80,459	717,164
Total non-current assets	215,827	227,805	2,030,526
Total assets	¥ 516,360	¥ 576,016	\$ 5,134,294

See accompanying notes.



	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Notes and accounts payable—trade (Note 5)	¥ 53,836	¥ 75,026	\$ 668,743
Short-term loans payable (Notes 5 and 7)	20,840	23,740	211,609
Income taxes payable	1,916	8,360	74,513
Other (Note 9)	32,730	32,536	290,011
Total current liabilities	109,322	139,663	1,244,877
<b>Non-current liabilities:</b>			
Long-term loans payable (Notes 5 and 7)	22,249	38,381	342,107
Net defined benefit liability (Note 8)	15,180	13,904	123,932
Other (Note 9)	7,254	7,354	65,553
Total non-current liabilities	44,684	59,639	531,592
Total liabilities	154,006	199,302	1,776,468
<b>Contingent liabilities</b> (Note 19)			
<b>Net assets</b> (Note 12)			
<b>Shareholders' equity</b>			
Common stock:			
Authorized —696,061,000 shares			
Issued —226,074,545 shares in 2016 and 2017	23,320	23,320	207,863
Capital surplus (Note 18)	25,179	17,469	155,708
Retained earnings	281,878	300,547	2,678,907
Treasury stock			
488,223 shares in 2016 and 3,560,532 shares in 2017	(957)	(5,396)	(48,096)
<b>Accumulated other comprehensive income</b>			
Unrealized gains on securities, net of taxes	15,231	17,311	154,299
Foreign currency translation adjustment	9,307	7,231	64,451
Remeasurements of defined benefit plans (Note 8)	(815)	913	8,136
<b>Subscription rights to shares</b> (Note 13)	930	912	8,126
<b>Non-controlling interests</b>	8,279	14,409	128,433
Total net assets	362,354	376,715	3,357,826
Total liabilities and net assets	¥ 516,360	¥ 576,016	\$ 5,134,294

See accompanying notes.

# CONSOLIDATED STATEMENTS OF INCOME

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
<b>Net sales</b> (Note 16)	¥ 386,709	<b>¥ 390,599</b>	<b>\$ 3,481,580</b>
<b>Costs and expenses:</b>			
Cost of sales	280,176	<b>274,614</b>	<b>2,447,757</b>
Selling, general and administrative expenses (Note 15)	72,125	<b>83,615</b>	<b>745,294</b>
	352,301	<b>358,228</b>	<b>3,193,051</b>
<b>Operating profit</b> (Note 16)	34,408	<b>32,370</b>	<b>288,530</b>
<b>Other income (expenses):</b>			
Dividends income	1,143	<b>1,143</b>	<b>10,189</b>
Interest expenses	(527)	<b>(699)</b>	<b>(6,227)</b>
Foreign exchange gains (losses)	(3,036)	<b>1,676</b>	<b>14,938</b>
Share of profit of entities accounted for using equity method	1,849	<b>714</b>	<b>6,365</b>
Gain on investments in partnership	322	<b>1,188</b>	<b>10,586</b>
Loss on abandonment of non-current assets	(254)	<b>(283)</b>	<b>(2,520)</b>
Gain on sales of non-current assets	—	<b>630</b>	<b>5,612</b>
Gain on sales of investment securities	634	<b>2,868</b>	<b>25,568</b>
Gain on sales of shares of subsidiaries and associates	—	<b>939</b>	<b>8,372</b>
Gain on transfer of business	—	<b>749</b>	<b>6,680</b>
Gain on step acquisitions	1,758	—	—
Loss on valuation of shares of subsidiaries and associates	—	<b>(598)</b>	<b>(5,327)</b>
Loss on valuation of investment securities	(53)	<b>(415)</b>	<b>(3,700)</b>
Impairment loss (Note 10)	(7,539)	<b>(2,111)</b>	<b>(18,817)</b>
Other, net	(1,337)	<b>155</b>	<b>1,381</b>
	(7,042)	<b>5,957</b>	<b>53,101</b>
<b>Profit before income taxes</b>	27,367	<b>38,327</b>	<b>341,630</b>
<b>Income taxes</b> (Note 9):			
Current	5,073	<b>9,938</b>	<b>88,583</b>
Deferred	(37)	<b>(1,901)</b>	<b>(16,947)</b>
	5,036	<b>8,037</b>	<b>71,636</b>
<b>Profit</b>	22,330	<b>30,291</b>	<b>269,994</b>
<b>Profit (Loss) attributable to non-controlling interests</b>	(1,738)	<b>213</b>	<b>1,894</b>
<b>Profit attributable to owners of parent</b>	¥ 24,069	<b>¥ 30,078</b>	<b>\$ 268,100</b>
	Yen		U.S. dollars (Note 1)
	2016	2017	2017
<b>Per share of common stock:</b>			
Profit attributable to owners of parent	¥ 105.87	<b>¥ 134.43</b>	<b>\$ 1.20</b>
Diluted profit attributable to owners of parent	105.60	<b>134.04</b>	<b>1.19</b>
Cash dividends applicable to the year	50.00	<b>50.00</b>	<b>0.45</b>

See accompanying notes.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
<b>Profit</b>	¥ 22,330	<b>¥ 30,291</b>	<b>\$ 269,994</b>
<b>Other comprehensive income</b>			
Unrealized gains on securities, net of taxes	(3,990)	<b>2,058</b>	<b>18,344</b>
Foreign currency translation adjustment	(4,320)	<b>(730)</b>	<b>(6,509)</b>
Remeasurements of defined benefit plans, net of tax (Note 8)	(907)	<b>1,676</b>	<b>14,938</b>
Share of other comprehensive income of entities accounted for using equity method	(1,187)	<b>(1,130)</b>	<b>(10,069)</b>
Other comprehensive income (Note 11)	(10,405)	<b>1,874</b>	<b>16,704</b>
<b>Comprehensive income</b>	¥ 11,926	<b>¥ 32,165</b>	<b>\$ 286,698</b>
Comprehensive income attributable to:			
Owners of parent	¥ 14,043	<b>¥ 32,330</b>	<b>\$ 288,168</b>
Non-controlling interests	(2,117)	<b>(165)</b>	<b>(1,470)</b>

See accompanying notes.

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2017

	Number of shares of common stock (thousands)	Millions of yen								
		Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains on securities, net of taxes	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests
<b>Balance at April 1, 2015</b>	237,973	¥ 23,320	¥ 25,179	¥ 291,151	¥ (15,329)	¥ 19,257	¥ 14,576	¥ 149	¥ 852	¥ 5,519
Changes of items during the period										
Dividends of surplus	—	—	—	(10,242)	—	—	—	—	—	—
Profit attributable to owners of parent	—	—	—	24,069	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	(8,998)	—	—	—	—	—
Disposal of treasury stock	—	—	—	(25)	52	—	—	—	—	—
Retirement of treasury stock	(11,899)	—	—	(23,319)	23,319	—	—	—	—	—
Change of scope of consolidation	—	—	—	243	—	—	—	—	—	—
Change in ownership interest of parent due to transactions with non-controlling interests	—	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(4,026)	(5,268)	(963)	78	2,760
Total changes of items during the period	(11,899)	—	—	(9,274)	14,373	(4,026)	(5,268)	(963)	78	2,760
<b>Balance at March 31, 2016</b>	226,074	¥ 23,320	¥ 25,179	¥ 281,878	¥ (957)	¥ 15,231	¥ 9,307	¥ (815)	¥ 930	¥ 8,279
Changes of items during the period										
Dividends of surplus	—	—	—	(11,202)	—	—	—	—	—	—
Profit attributable to owners of parent	—	—	—	30,078	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	(4,526)	—	—	—	—	—
Disposal of treasury stock	—	—	8	—	87	—	—	—	—	—
Change of scope of consolidation	—	—	—	(207)	—	—	—	—	—	—
Change in ownership interest of parent due to transactions with non-controlling interests	—	—	(7,718)	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	2,079	(2,077)	1,727	(18)	6,130
Total changes of items during the period	—	—	(7,711)	18,669	(4,439)	2,079	(2,077)	1,727	(18)	6,130
<b>Balance at March 31, 2017</b>	226,074	¥ 23,320	¥ 17,469	¥ 300,547	¥ (5,396)	¥ 17,311	¥ 7,231	¥ 913	¥ 912	¥ 14,409

	Number of shares of common stock (thousands)	Thousands of U.S. dollars (Note 1)								
		Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains on securities, net of taxes	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests
<b>Balance at April 1, 2016</b>	226,074	\$ 207,863	\$ 224,435	\$ 2,512,502	\$ (8,528)	\$ 135,764	\$ 82,961	\$ (7,260)	\$ 8,290	\$ 73,793
Changes of items during the period										
Dividends of surplus	—	—	—	(99,845)	—	—	—	—	—	—
Profit attributable to owners of parent	—	—	—	268,100	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	(40,340)	—	—	—	—	—
Disposal of treasury stock	—	—	68	—	772	—	—	—	—	—
Change of scope of consolidation	—	—	—	(1,849)	—	—	—	—	—	—
Change in ownership interest of parent due to transactions with non-controlling interests	—	—	(68,796)	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	18,535	(18,510)	15,396	(164)	54,639
Total changes of items during the period	—	—	(68,727)	166,405	(39,568)	18,535	(18,510)	15,396	(164)	54,639
<b>Balance at March 31, 2017</b>	226,074	\$ 207,863	\$ 155,708	\$ 2,678,907	\$ (48,096)	\$ 154,299	\$ 64,451	\$ 8,136	\$ 8,126	\$ 128,433

See accompanying notes.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
<b>Cash flows from operating activities:</b>			
Profit before income taxes	¥ 27,367	¥ 38,327	\$ 341,630
Adjustments to reconcile profit before income taxes to cash provided by operating activities:			
Depreciation and amortization			
Interest and dividends income	18,508	14,676	130,811
Interest expenses	(1,380)	(1,369)	(12,204)
Share of (profit) loss of entities accounted for using equity method	527	699	6,227
Loss (gain) on step acquisitions	(1,849)	(714)	(6,365)
Loss (gain) on investments in partnership	(1,758)	—	—
Impairment loss	(323)	(1,188)	(10,586)
Loss (gain) on sales of investment securities	7,539	2,111	18,817
Changes in operating assets and liabilities—net:	(634)	(2,868)	(25,568)
Decrease (increase) in notes and accounts receivable—trade	4,831	(13,068)	(116,484)
Decrease (increase) in inventories	1,677	(4,558)	(40,626)
Increase (decrease) in notes and accounts payable—trade	(17,160)	21,407	190,815
Other, net	19,370	(5,302)	(47,258)
Subtotal	56,717	48,153	429,209
Interest and dividends income received	1,962	2,127	18,963
Interest expenses paid	(342)	(531)	(4,734)
Income taxes paid	(10,210)	(4,100)	(36,548)
Income taxes refund	—	1,858	16,557
Net cash provided by (used in) operating activities	48,128	47,506	423,447
<b>Cash flows from investing activities:</b>			
Decrease(increase) in time deposits	7,998	(19,714)	(175,718)
Net decrease (increase) in short-term investment securities	3,500	4,500	40,111
Purchase of non-current assets	(27,052)	(33,727)	(300,622)
Proceeds from sales of non-current assets	51	1,368	12,193
Proceeds from transfer of business	—	772	6,880
Purchase of investment securities	(930)	(1,766)	(15,745)
Proceeds from sales of investment securities	1,285	5,417	48,282
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	3,954	—	—
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(98)	(875)
Purchase of shares of subsidiaries and associates	(6,025)	(1,140)	(10,160)
Proceeds from sales of shares of subsidiaries and associates	779	1,249	11,131
Payments for investments in capital of subsidiaries and associates	(1,273)	—	—
Payments of loans receivable	(5,266)	(294)	(2,619)
Collection of loans receivable	3,113	1,549	13,809
Other, net	828	77	687
Net cash provided by (used in) investing activities	(19,038)	(41,807)	(372,645)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans payable	(2,768)	952	8,485
Repayment of long-term loans payable	(2,788)	(5,285)	(47,103)
Proceeds from long-term loans payable	7,373	24,034	214,222
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(8,098)	(72,182)
Proceeds from share issuance to non-controlling shareholders	1,434	1,141	10,170
Purchase of treasury stock	(8,998)	(4,526)	(40,340)
Cash dividends paid	(10,242)	(11,200)	(99,829)
Dividends paid to non-controlling interests	(35)	(81)	(721)
Other, net	(236)	(448)	(3,990)
Net cash provided by (used in) financing activities	(16,260)	(3,510)	(31,289)
Effect of exchange rate change on cash and cash equivalents	(1,342)	(1,755)	(15,640)
Net increase (decrease) in cash and cash equivalents	11,489	434	3,873
Cash and cash equivalents at the beginning of year	77,906	89,395	796,816
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	—	7,587	67,626
Cash and cash equivalents at the end of year (Note 3)	¥ 89,395	¥ 97,416	\$ 868,315

See accompanying notes.

# NOTES TO REGARDING CONSOLIDATED FINANCIAL STATEMENTS

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2017

## 1. Basis of Consolidated Financial Statements

The consolidated financial statements of JSR Corporation (hereinafter called "the Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (Japanese GAAP), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries and associates are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile and make necessary amendments for consolidated financial statements required by Practical Issues Task Force No.18 issued by ASBJ. The consolidated financial statements have been restructured and translated into English

(with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the consolidated financial statements.

The translation of the amounts in Japanese yen into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate on March 31, 2017, which was ¥112.19 to U.S. \$1.00. The amounts translated should not be construed as representations that the amounts in Japanese yen have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. Summary of Significant Accounting Policies

**(a) Consolidation**—The consolidated financial statements include the accounts of the Company and its significant subsidiaries (43 subsidiaries in 2016 and 2017).

All significant inter-company accounts and transactions have been eliminated in consolidation.

Effective from the current fiscal year, JSR MOL Synthetic Rubber Ltd., PT.ELASTOMIX INDONESIA, and Techno Europe N.V., were included in the scope of consolidation due to increase of their materiality. JSR Optech Tsukuba Co., Ltd. was excluded from the scope of consolidation due to transfer of all shares to an external entity.

**(b) Equity method**—Investments in associates (all of those 20% to 50% owned and some of those 15% to 20% owned) were accounted for by the equity method (13 associates in 2016 and 12 in 2017). Unconsolidated subsidiaries and the other associates to which the equity method is not applied are stated at cost since their profit attributable to owners of parent and retained earnings in the aggregate are not material compared to consolidated profit attributable to owners of parent and retained earnings, respectively.

**(c) Cash and cash equivalents**—In preparing the consolidated statement of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

**(d) Short-term securities and investment securities**—The Company and its consolidated subsidiaries (referred to as "the Group") had no trading securities or held-to-maturity debt securities. Equity securities issued by subsidiaries and associates, which are not consolidated or accounted for using the equity method, are stated at moving-average cost.

Available-for-sale securities with available fair market values are stated at fair market value and unrealized gains and losses on these securities are presented, net of applicable income taxes, as a

separate component of net assets via the consolidated statements of comprehensive income.

Realized gains and losses on sale of such securities are computed using moving-average cost.

Available-for-sale securities with no available fair market values are stated at moving-average cost or amortized cost.

**(e) Inventories**—Inventories are stated at cost, which is determined mainly based on the gross average method (for the value stated on the balance sheet, book value is written down to reflect the lower profitability).

**(f) Property, plant and equipment**—Property, plant and equipment are stated at cost. The straight-line method is used for depreciation.

**(g) Intangible assets**—Goodwill is amortized by the straight-line method over the estimated useful lives up to twenty years. Software for its own use is amortized over the estimated useful life (five years) using the straight-line method.

**(h) Leased assets**—Assets of finance leases are depreciated over the lease term using the straight-line method that residual value is zero.

**(i) Allowance for doubtful accounts**—Allowance for doubtful accounts is provided in amounts sufficient to cover possible losses on collection. Allowance for doubtful accounts consists of the estimated unrecoverable amount with respect to specific items, and the amount calculated using the actual percentage of losses in the past with respect to other items.

**(j) Net defined benefit asset/liability**—Employees of the Group are entitled, under most circumstances, to lump-sum severance payments or pension payments upon reaching the mandatory retirement age, or earlier in the case of voluntary or involuntary termination, based on the compensation at the time of severance and years of service.

Net defined benefit asset/liability is presented by deducting

the amount of plan assets from that of retirement benefits obligations based on the projected benefits obligations and plan assets deemed to have accrued at the end of the current fiscal year.

The benefit formula basis is applied as the method for attributing expected retirement benefit to the relevant periods ending at the end of the current fiscal year.

Actuarial gains or losses are recognized as expense in lump sum during the following period.

Unrecognized actuarial gains or losses are, after tax effect adjustment, recorded as remeasurements of defined benefit plans under accumulated other comprehensive income in the net assets section.

**(k) Provision for environmental measures**—A provision for environmental measures is provided based on estimated costs for the disposal of polychlorinated biphenyl (PCB) as mandated by the Law Concerning Special Measures Against PCB Waste.

**(l) Income taxes**—The Group provides for income taxes applicable to all items included in the consolidated statement of income regardless of when such taxes are payable. Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

(i) Application of consolidated corporate-tax return system

The consolidated corporate-tax return system is applied.

**(m) Derivative and hedging activities**—The Group uses derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading purposes or speculative purposes. Derivative financial instruments and foreign currency transactions are classified and accounted for as follows:

(i) All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on these derivative transactions are recognized in the consolidated statement of income.

(ii) The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income as incurred.

**(n) Foreign currency transactions**—The Group translates assets and liabilities denominated in foreign currencies into Japanese yen at exchange rates prevailing at the balance sheet dates. Resulting exchange gains or losses are credited or charged to income as incurred.

**(o) Translation of foreign currency financial statements**—Financial statements of overseas subsidiaries are translated into Japanese yen using the respective year-end rate for assets and liabilities, the average rate for revenues and expenses, and the historical rates for shareholders' equity accounts. Foreign currency translation adjustments are contained in accumulated other comprehensive income and non-controlling interests.

**(p) Change in accounting policy which is difficult to distinguish from change in accounting estimate**

(i) Change in the depreciation method of property, plant and equipment

Effective from the current fiscal year, the Company and some of its consolidated subsidiaries has altered the method of depreciation for property, plant and equipment from the declining balancing method to the straight-line method although they had traditionally adopted the declining balance method for property, plant and equipment excluding lease assets with the exception of adopting the straight-line method for buildings (other than the equipment attached thereto) acquired on or after April 1, 1998.

The Company has been actively pursuing global expansion of its business in accordance with its Mid-Term Business Plan. From the current fiscal year onward, it has and will accelerate overseas investments for establishment of overseas sales and production sites in order to expand overseas production capacity. The Company came to the conclusion, upon changes in the resource allocation and after reviewing the method for depreciation of the JSR Group, that it was appropriate to uniformly adopt the straight-line method for depreciation of the Group's property, plant and equipment due to the following reasons; the straight-line method would more appropriately reflect economic reality of depreciating the property, plant and equipment of the JSR Group which were constructed after establishment of sound technologies and development of the products and which therefore had generally long stable usable life; adoption of the straight-line method would further contribute globalization of the JSR Group as this would enable the Company to compare cost structures among the Group and subsequently to determine an appropriate allocation of resources as well as to make it easier to analyze business performances of multi-national companies operating globally.

As a result of this change, depreciation expense on the straight-line basis incurred in the current fiscal year decreased by ¥3,273 million (\$29,172 thousand) which brought the increase of the same amount on the Group's consolidated operating profit, ordinary profit and profit before income taxes, compared to what they otherwise would have been had the traditional depreciation method been used.

**(q) Amounts per share of common stock**—The computation of profit attributable to owners of parent per share of common stock is based on the average number of shares outstanding during each fiscal year. Treasury stock has been excluded in the calculation of amounts per share of common stock.

Cash dividends per share represent actual amounts applicable to the respective years.

**(r) Reclassifications**—Certain prior year amounts have been reclassified and restated to conform to the current year presentation. These reclassifications and restatements had no effect on



previously reported results of operations or retained earnings.

**(s) Additional notes**

- (i) Application of “Revised Implementation Guidance on Recoverability of Deferred Tax Assets”

The Group applies “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (Implementation Guidance on Accounting Standards, No.26 issued on March 28, 2016) as from the current fiscal year.

- (ii) Change on treatment of research and development expenses

Effective from the current fiscal year, the Company and some of its consolidated subsidiaries post all research and development expenses as general and administrative expenses upon reorganization of research laboratories, which enhances more fundamental and extensive R&D activities of the Group with innovative communication and collaboration. In the past, however, R&D expenses related to product development had been classified as costs of manufacturing since R&D for product development often involved improvement of existing products and were viewed as a part of manufacturing activities, while those related to fundamental research had been classified as administrative expenses.

Research and development expenses which were

included in costs of manufacturing in the previous fiscal year were ¥9,074 million (\$80,876 thousand).

- (iii) Shareholders agreement for integration of ABS resin business  
On March 30, 2017, Ube Industries, Ltd. (“Ube”), JSR Corporation (“JSR”), and Mitsubishi Rayon Co., Ltd. (“MRC”) signed a shareholders agreement to integrate the ABS resin business of Techno Polymer Co., Ltd., a wholly-owned subsidiary of JSR, and UMG ABS, Ltd. (“UMG ABS”), a 50/50 joint venture between Ube and MRC, and to jointly operate the integrated new company scheduled to be effective on October 1, 2017.

The integration will take the form of an absorption-type split, with UMG ABS as the absorbed company and Techno Polymer as the successor company. Upon completing the absorption-type split, Techno Polymer will allocate common shares to UMG ABS so that, on the day that the absorption-type split takes effect, JSR will own 51% and UMG ABS will own 49% of the issued shares of the new company.

This absorption-type split becomes effective only after all procedures regulated by competition laws and other related laws of countries concerned have completed.

### 3. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2016 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Cash and deposits	¥ 52,081	¥ 98,933	\$ 881,835
Short-term investment securities	60,010	42,000	374,365
Time deposits over three months	(5,825)	(25,542)	(227,664)
Negotiable certificates of deposit over three months	(22,500)	(18,000)	(160,442)
Current assets: Other (repurchase agreement)	5,628	25	221
Cash and cash equivalents	¥ 89,395	¥ 97,416	\$ 868,315

### 4. Allowance for Doubtful Accounts

Allowance for doubtful accounts as of March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Allowance for doubtful accounts			
Current assets: Notes and accounts receivable—trade	¥ (418)	¥ (647)	\$ (5,765)
Investments and other assets: Other	(359)	(471)	(4,198)



## 5. Fair Value of Financial Instruments

The following is a summary of the amount on consolidated balance sheet, fair value and the difference between these two items by major financial instruments as of March 31, 2016 and 2017.

Financial instruments which fair value is extremely difficult to estimate is excluded from the following table.

	Millions of yen		
	Book value	Fair value	Difference
March 31, 2016:			
(1) Cash and deposits	¥ 52,081	¥ 52,081	¥ —
(2) Notes and accounts receivable—trade	78,296	78,296	—
(3) Short-term investment securities and investment securities	94,895	94,895	—
Total assets	¥ 225,273	¥ 225,273	¥ —
(4) Notes and accounts payable—trade	53,836	53,836	—
(5) Short-term loans payable	14,346	14,346	—
(6) Long-term loans payable (included repayment due within one year)	28,744	28,335	(409)
Total liabilities	¥ 96,925	¥ 96,516	¥ (409)
March 31, 2017:			
(1) Cash and deposits	¥ 98,933	¥ 98,933	¥ —
(2) Notes and accounts receivable—trade	91,341	91,341	—
(3) Short-term investment securities and investment securities	77,847	77,847	—
Total assets	¥ 268,121	¥ 268,121	¥ —
(4) Notes and accounts payable—trade	75,026	75,026	—
(5) Short-term loans payable	15,496	15,496	—
(6) Long-term loans payable (included repayment due within one year)	46,626	46,617	(8)
Total liabilities	¥ 137,148	¥ 137,139	¥ (8)
Thousands of U.S. dollars			
March 31, 2017:			
(1) Cash and deposits	\$ 881,835	\$ 881,835	\$ —
(2) Notes and accounts receivable—trade	814,167	814,167	—
(3) Short-term investment securities and investment securities	693,884	693,884	—
Total assets	\$ 2,389,885	\$ 2,389,885	\$ —
(4) Notes and accounts payable—trade	668,743	668,743	—
(5) Short-term loans payable	138,119	138,119	—
(6) Long-term loans payable (included repayment due within one year)	415,597	415,521	(75)
Total liabilities	\$ 1,222,459	\$ 1,222,384	\$ (75)

1. Method to determine the estimated fair values of financial instruments and other matters related to securities and derivative transactions

(1) Cash and cash equivalents, and time deposits

The book values of cash and cash equivalents, and time deposits approximate fair value because of their short maturities.

(2) Notes and accounts receivable—trade

The book values of notes and accounts receivable—trade approximate fair value because of their short maturities.

(3) Short-term investment securities and investment securities

The fair value of securities and investment securities are measured at the quoted market price of the stock exchange for the equity instruments. Negotiable deposit, commercial paper and cash in trust approximate fair value.

(4) Notes and accounts payable—trade

The book values of notes and accounts payable—trade approximate fair values because of their short maturities.

(5) Short-term loans payable

Short-term loans payable approximate fair value.

(6) Long-term loans payable

The fair value of long-term loans payable is measured at the present value by discounting expected repayments of principal and interest in the remaining period using an assumed interest rate on an equivalent new loan.

The fair value of long-term loans payable subject to a special accounting method for interest rate swaps which qualify for hedge accounting meet specific matching criteria is measured at the present value by discounting expected repayments of principal and interest together with the interest rate swaps in the remaining period using an assumed interest rate on an equivalent new loan.

2. Financial instruments for which it is extremely difficult to estimate the fair values were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Non-listed equity securities	¥ 32,993	¥ 25,837	\$ 230,301
Investments in capital	5,784	7,022	62,587

3. Redemptions schedule of monetary claims and securities with fixed maturities were as follows:

	Millions of yen				
	Due Within one year	Due after one year and within five years	Due after five years and within ten years	Due over ten years	Total
March 31, 2016:					
(1) Cash and deposits	¥ 5,825	¥ —	¥ —	¥ —	¥ 5,825
(2) Notes and accounts receivable—trade	78,296	—	—	—	78,296
(3) Short-term investment securities and investment securities					
Available-for-sale securities with fixed maturities					
Other	60,010	—	—	—	60,010
Total	¥ 144,132	¥ —	¥ —	¥ —	¥ 144,132
March 31, 2017:					
(1) Cash and deposits	¥ 25,542	¥ —	¥ —	¥ —	¥ 25,542
(2) Notes and accounts receivable—trade	91,341	—	—	—	91,341
(3) Short-term investment securities and investment securities					
Available-for-sale securities with fixed maturities					
Other	42,000	—	—	—	42,000
Total	¥ 158,883	¥ —	¥ —	¥ —	¥ 158,883

	Thousands of U.S. dollars				
	Due Within one year	Due after one year and within five years	Due after five years and within ten years	Due over ten years	Total
March 31, 2017:					
(1) Cash and deposits	\$ 227,664	\$ —	\$ —	\$ —	\$ 227,664
(2) Notes and accounts receivable—trade	814,167	—	—	—	814,167
(3) Short-term investment securities and investment securities					
Available-for-sale securities with fixed maturities					
Other	374,365	—	—	—	374,365
Total	\$ 1,416,195	\$ —	\$ —	\$ —	\$ 1,416,195

4. See Note 7 for scheduled repayments of long term debt.

## 6. Short-Term Investment Securities and Investment Securities

(1) The following tables summarize the acquisition cost and book value of available-for-sale securities with available fair value as of March 31, 2016 and 2017:

(a) Securities with book value exceeding acquisition cost

	Millions of yen		
	2016		
	Acquisition cost	Book value	Difference
Equity securities	¥ 12,483	¥ 34,591	¥ 22,108

	Millions of yen		
	2017		
	Acquisition cost	Book value	Difference
Equity securities	¥ 10,041	¥ 35,056	¥ 25,015

	Thousands of U.S. dollars		
	2017		
	Acquisition cost	Book value	Difference
Equity securities	\$ 89,500	\$ 312,473	\$ 222,973

(b) Securities with book value not exceeding acquisition cost

	Millions of yen		
	2016		
	Acquisition cost	Book value	Difference
Equity securities	¥ 2,724	¥ 294	¥ (2,430)

	Millions of yen		
	2017		
	Acquisition cost	Book value	Difference
Equity securities	¥ 2,637	¥ 790	¥ (1,847)

	Thousands of U.S. dollars		
	2017		
	Acquisition cost	Book value	Difference
Equity securities	\$ 23,509	\$ 7,046	\$ (16,463)

(2) Total sales of available-for-sale securities sold and the related gains and losses for the years ended March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Total sales	¥ 1,285	¥ 5,718	\$ 50,965
Gain	634	2,935	26,158
Loss	—	30	269

## 7. Short-Term Loans Payable and Long-Term Loans Payable

Short-term loans payable at March 31, 2016 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Short-term loans principally from banks with interest rates 0.9% per annum (weighted average interest rate) at March 31, 2016 and 2017:			
Secured	¥ 1,110	¥ —	\$ —
Unsecured	13,236	15,496	138,119
	¥ 14,346	¥ 15,496	\$ 138,119

Long-term loans payable (including repayment due within one year) at March 31, 2016 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Loans principally from banks and insurance companies due through 2023 with interest rates 2.0% and 1.4% per annum (weighted average interest rate) in 2016 and 2017, respectively:			
Secured	¥ 752	¥ 2,245	\$ 20,009
Unsecured	27,991	44,381	395,588
	28,744	46,626	415,597
Less amount due within one year	6,494	8,245	73,490
	¥ 22,249	¥ 38,381	\$ 342,107

The following assets were pledged as collateral for secured loans at March 31.

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Cash and deposits	¥ 445	¥ 798	\$ 7,115
Notes and accounts receivable—trade, net	3,767	3,467	30,901
Inventories	816	1,940	17,289
Current assets: Other	910	864	7,700
Buildings and structures, net	2,868	2,425	21,619
Machinery, equipment and vehicles, net	1,182	1,939	17,280
Land	4,593	4,466	39,808
Construction in progress	—	223	1,986
Property, plant and equipment: Other, net	114	93	832
Intangible assets: Other	110	172	1,534
Investments and other assets: Other, net	160	956	8,523
Total	¥ 14,964	¥ 17,343	\$ 154,587

The annual maturities of long-term debt at March 31, 2017 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2018	¥ 8,245	\$ 73,490
2019	6,897	61,473
2020	7,164	63,860
2021	8,937	79,661
2022	6,414	57,174
2023 and thereafter	8,968	79,939
	¥ 46,626	\$ 415,597

## 8. Employees' Severance and Retirement Benefits

The Company and domestic consolidated subsidiaries have the corporate pension fund plan and the lump-sum payment plan as defined benefit plans.

### Defined benefit plans

#### 1. Movements in retirement benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Balance at April 1	¥ 50,197	¥ 51,659	\$ 460,463
Current service cost	2,590	2,196	19,571
Interest cost	286	183	1,627
Actuarial loss (gain)	1,292	(980)	(8,737)
Benefits paid	(2,685)	(2,814)	(25,087)
Other	(21)	(119)	(1,060)
Balance at March 31	¥ 51,659	¥ 50,124	\$ 446,777

#### 2. Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Balance at April 1	¥ 36,451	¥ 36,479	\$ 325,155
Expected return on plan assets	149	130	1,156
Actuarial loss (gain)	199	342	3,052
Contributions paid by the employer	1,618	1,598	14,241
Benefits paid	(1,909)	(1,882)	(16,773)
Other	(29)	(74)	(663)
Balance at March 31	¥ 36,479	¥ 36,593	\$ 326,169

#### 3. Reconciliation from retirement benefit obligation and plan assets to liability (asset) for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Funded retirement benefit obligation	¥ 40,002	¥ 38,506	\$ 343,223
Plan assets	(36,479)	(36,593)	(326,169)
	3,523	1,913	17,054
Unfunded retirement benefit obligation	11,657	11,618	103,555
Total net liability (asset) for retirement benefit at March 31	15,180	13,531	120,609
Net defined benefit liability	15,180	13,904	123,932
Net defined benefit asset	—	(373)	(3,324)
Total net liability (asset) for retirement benefit at March 31	¥ 15,180	¥ 13,531	\$ 120,609

## 4. Retirement benefit cost

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Current service cost	¥ 2,590	¥ 2,196	\$ 19,571
Interest cost	285	181	1,612
Expected return on plan assets	(149)	(130)	(1,156)
Net actuarial loss amortization	(220)	1,093	9,742
Total retirement benefit costs for the fiscal year ended March 31	¥ 2,506	¥ 3,340	\$ 29,769

## 5. Other comprehensive income on remeasurements of defined benefit plans, before tax

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Actuarial gains and losses	¥ (1,313)	¥ 2,415	\$ 21,530
Total balance at March 31	¥ (1,313)	¥ 2,415	\$ 21,530

## 6. Accumulated other comprehensive income on remeasurements of defined benefit plans, before tax

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unrecognized actuarial gains and losses	¥ (1,093)	¥ 1,323	\$ 11,788
Total balance at March 31	¥ (1,093)	¥ 1,323	\$ 11,788

## 7. Plan assets

(1) Plan assets comprise:

	2016	2017
Bonds	70.1 %	64.3 %
Equity securities	8.3	7.9
Cash and cash equivalents	2.9	9.3
Alternative investments	18.7	18.5
Total	100.0 %	100.0 %

(2) Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered to determine long-term expected rate of return.

## 8. Actuarial assumptions

Principal actuarial assumptions at March 31

	2016	2017
Discount rate (mainly)	0.40 %	0.50 %
Long-term expected rate of return (mainly)	0.35	0.40

## 9. Income Taxes

Income taxes in the consolidated statement of income comprise corporation, enterprise and inhabitants' taxes. The statutory income tax rate was approximately 30.9%.

The following table summarizes the significant differences

between the statutory income tax rate and the Group's effective tax rates for financial statement purposes for the years ended March 31, 2016 and 2017:

	2016	2017
Statutory income tax rate	33.1 %	<b>30.9 %</b>
Tax credit on research and development expenses	(3.5)	<b>(4.8)</b>
Difference in tax rates applied by overseas consolidated subsidiaries	0.1	<b>(1.7)</b>
Valuation allowance	(10.6)	<b>(1.1)</b>
Dividends and other income not taxable	(0.3)	<b>(0.8)</b>
Deductions for special reconstruction district	(0.4)	<b>(0.8)</b>
Other	0.0	<b>(0.7)</b>
Effective tax rate	18.4 %	<b>21.0 %</b>

Significant components of the Group's deferred tax assets and liabilities as of March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Deferred tax assets:			
Net defined benefit asset and liability	¥ 4,181	<b>¥ 4,083</b>	<b>\$ 36,396</b>
Impairment loss	1,872	<b>2,241</b>	<b>19,974</b>
Unrealized gain on sales of inventories	1,295	<b>1,538</b>	<b>13,705</b>
Loss carried forward	1,132	<b>1,514</b>	<b>13,497</b>
Accrued bonuses	1,294	<b>1,432</b>	<b>12,768</b>
Unrealized gain on sales of non-current assets	850	<b>800</b>	<b>7,129</b>
Loss on valuation of investment securities	430	<b>481</b>	<b>4,291</b>
Research and development expenses	92	<b>475</b>	<b>4,236</b>
Other	3,452	<b>3,476</b>	<b>30,981</b>
Sub-total	14,598	<b>16,041</b>	<b>142,977</b>
Valuation allowance	(2,515)	<b>(2,540)</b>	<b>(22,636)</b>
Total deferred tax assets	12,083	<b>13,501</b>	<b>120,341</b>
Deferred tax liabilities:			
Unrealized gains on securities	(6,716)	<b>(7,637)</b>	<b>(68,069)</b>
Deferred gain on sales of non-current assets	(2,705)	<b>(2,561)</b>	<b>(22,830)</b>
Other	(1,652)	<b>(1,912)</b>	<b>(17,040)</b>
Total deferred tax liabilities	(11,073)	<b>(12,110)</b>	<b>(107,938)</b>
Net deferred tax assets (liabilities)	¥ 1,011	<b>¥ 1,392</b>	<b>\$ 12,403</b>

## 10. Impairment Loss of Non-Current Assets

The Group recognized impairment losses on the following group of non-current assets for the year ended March 31, 2016 and 2017.

Use	Location	Asset category	Millions of yen
			2016
Assets for fine chemicals and other products business	Hokuto City, Yamanashi Prefecture	Buildings and structures	¥ 2,287
		Machinery, equipment and vehicles	3,471
		Land	118
		Other	264
	Other	Land and buildings and Other	1,398
Total			¥ 7,539

Use	Location	Asset category	Millions of yen
			2017
Assets for fine chemicals and other products business	Tsu City, Mie Prefecture	Land	¥ 2,111
Total			¥ 2,111

Use	Location	Asset category	Thousands of U.S. dollars
			2017
Assets for fine chemicals and other products business	Tsu City, Mie Prefecture	Land	\$ 18,817
Total			\$ 18,817

The Group has grouped their non-current assets into business units. Non-current assets that are idle or not being used for business activities are assessed individually. The book value of non-current asset was written down to its recoverable value.



## 11. Comprehensive Income

Amounts reclassified to profit in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows;

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unrealized gains on securities:			
Occurrence amount	¥ (6,451)	¥ 5,473	\$ 48,787
Recycling	(581)	(2,490)	(22,195)
Before tax effect	(7,032)	2,983	26,592
Tax effect	3,042	(925)	(8,248)
Unrealized gains on securities, net of tax	¥ (3,990)	¥ 2,058	\$ 18,344
Foreign currency translation adjustments			
Occurrence amount	¥ (4,320)	¥ (730)	\$ (6,509)
Foreign currency translation adjustments	¥ (4,320)	¥ (730)	\$ (6,509)
Remeasurements of defined benefit plans:			
Occurrence amount	¥ (1,093)	¥ 1,323	\$ 11,788
Recycling	(220)	1,093	9,742
Before tax effect	(1,313)	2,415	21,530
Tax effect	406	(740)	(6,592)
Remeasurements of defined benefit plans, net of tax	¥ (907)	¥ 1,676	\$ 14,938
Share of other comprehensive income of associates accounted for using equity method			
Occurrence amount	¥ (1,187)	¥ (1,130)	\$ (10,069)
Share of other comprehensive income of associates accounted for using equity method	¥ (1,187)	¥ (1,130)	\$ (10,069)
Total other comprehensive income before tax	¥ (13,852)	¥ 3,539	\$ 31,544
Tax effect	¥ 3,448	¥ (1,665)	\$ (14,840)
Other comprehensive income, net of tax	¥ (10,404)	¥ 1,874	\$ 16,704

## 12. Net Assets

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law (hereinafter called "the Law"), in the case where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividends or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the consolidated

balance sheet.

Additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Japanese laws and regulations.

At the annual shareholders meeting held on June 16, 2017, the shareholders resolved cash dividends amounting to ¥5,562 million (\$49,584 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2017. Such appropriations are recognized in the period in which they are resolved.

### 13. Stock Option Plans

The shareholders of the Company approved the issuance of stock options to the directors and the executive officers of the Company as follows:

Date of resolution of the general shareholders' meeting	June 17, 2005	June 16, 2006	June 15, 2007
The maximum number of shares to be issued	62,500 shares	39,100 shares	48,500 shares
Exercisable period of stock options	From June 18, 2005 to June 17, 2025	From August 2, 2006 to June 16, 2026	From July 11, 2007 to July 10, 2027
Stock subscription rights which have been vested outstanding as of March 31, 2017	15,900 shares	14,600 shares	25,700 shares
Exercise price per share	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01
Date of resolution of the general shareholders' meeting	June 13, 2008	June 16, 2009	June 18, 2010
The maximum number of shares to be issued	73,900 shares	80,200 shares	84,200 shares
Exercisable period of stock options	From July 16, 2008 to July 15, 2028	From July 15, 2009 to July 14, 2029	From July 14, 2010 to July 13, 2030
Stock subscription rights which have been vested outstanding as of March 31, 2017	40,400 shares	65,100 shares	75,900 shares
Exercise price per share	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01
Date of resolution of the general shareholders' meeting	June 17, 2011	June 15, 2012	June 21, 2013
The maximum number of shares to be issued	81,000 shares	95,200 shares	50,100 shares
Exercisable period of stock options	From July 13, 2011 to July 12, 2031	From July 11, 2012 to July 10, 2032	From July 17, 2013 to July 16, 2033
Stock subscription rights which have been vested outstanding as of March 31, 2017	81,000 shares	95,200 shares	48,500 shares
Exercise price per share	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01
Date of resolution of the general shareholders' meeting	June 17, 2014	June 17, 2015	June 17, 2016
The maximum number of shares to be issued	55,800 shares	51,600 shares	74,200 shares
Exercisable period of stock options	From July 31, 2014 to July 30, 2034	From July 29, 2015 to July 28, 2020	From July 28, 2016 to July 27, 2021
Stock subscription rights which have been vested outstanding as of March 31, 2017	54,000 shares	51,600 shares	74,200 shares
Exercise price per share	¥1 \$0.01	¥1 \$0.01	¥1 \$0.01

The compensation cost recognized for these stock options for the year ended March 31, 2017 was ¥90 million (\$803 thousand), which was ¥90 million in 2016, and was included in selling, general and administrative expenses in the consolidated statement of income.

## 14. Derivative Transactions

### (1) Qualitative disclosure about derivatives

The Group enters into foreign exchange forward contracts and interest rate swap contracts as derivative financial instruments. The Group deals with foreign exchange forward transactions to hedge exchange rate risks of trade receivables and payables denominated in foreign currency. Interest rate swap transactions are made in order to reduce interest rate risks on loans payable.

The Group does not enter into derivatives for speculative transaction purposes. Hedge accounting is used for interest rate swaps in the case where there is a high degree of correlation between the hedging instruments and the hedged items.

Significant conditions surrounding hedging instruments are the same as those for the items hedged, the risks of which will likely

continue to be hedged through hedge transactions.

Foreign exchange forward contracts that the Group entered have risks due to fluctuations in foreign exchange rates. Interest rate swap contracts that the Group entered have risks due to fluctuations in interest rates. Due to the fact that counterparties to the Group represents major financial institutions that have high credit-worthiness, the Group believes that the overall credit risk related to its financial instruments is insignificant.

Derivative transactions are executed and controlled based on the Group's internal rules and are approved by the responsible officials. The balances of such transactions with counterparties are periodically confirmed.

### (2) Quantitative disclosure about derivatives

The following contract amounts are only nominal or notional amounts of derivatives, and do not necessarily indicate the magnitude of market risk associated with the derivative transactions.

Contract amounts, market values and recognized gains or losses on the derivative transactions, except those accounted for using hedge accounting, at March 31, 2016 and 2017 were as follows:

#### (a) Related to currencies

		Millions of yen			
		Contract amount	Over one year	Market value	Recognized gains or losses
March 31, 2016:					
Items not traded on exchanges					
Foreign exchange forward contracts					
Selling:	U.S. Dollars	¥ 1,242	¥ —	¥ 30	¥ 30
	Euro	1,711	—	30	30
	Chinese Yuan	22	—	0	0
Buying:	U.S. Dollars	1,318	—	(3)	(3)
	Euro	384	—	(2)	(2)
	Swiss Franc	0	—	(0)	(0)
	Japanese Yen	672	—	1	1
Total		¥ —	¥ —	¥ 56	¥ 56

		Millions of yen			
		Contract amount	Over one year	Market value	Recognized gains or losses
March 31, 2017:					
Items not traded on exchanges					
Foreign exchange forward contracts					
Selling:	U.S. Dollars	¥ 6,653	¥ —	¥ (3)	¥ (3)
	Euro	1,922	—	79	79
	Chinese Yuan	98	—	0	0
	Japanese Yen	72	—	(6)	(6)
	Thai Baht	57	—	(1)	(1)
Buying:	U.S. Dollars	3,170	—	5	5
	Euro	35	—	0	0
	Swiss Franc	7	—	0	0
Total		¥ —	¥ —	¥ 75	¥ 75

		Thousands of U.S. dollars			
		Contract amount	Over one year	Market value	Recognized gains or losses
March 31, 2017:					
Items not traded on exchanges					
Foreign exchange forward contracts					
Selling:	U.S. Dollars	\$ 59,304	\$ —	\$ (24)	\$ (24)
	Euro	17,129	—	705	705
	Chinese Yuan	871	—	1	1
	Japanese Yen	644	—	(54)	(54)
	Thai Baht	504	—	(8)	(8)
Buying:	U.S. Dollars	28,252	—	45	45
	Euro	310	—	1	1
	Swiss Franc	64	—	1	1
Total		\$ —	\$ —	\$ 666	\$ 666

Market values are calculated using foreign exchange forward rates.

(b) Related to interests

		Millions of yen		
		Contract amount	Over one year	Market value
March 31, 2016:				
Special treatment for interest rate swaps				
Interest rate swaps (paid fix / received floating)				
(Hedged item: Long-term loans payable)		¥ 16,158	¥ 16,158	¥ (312)
Total		¥ 16,158	¥ 16,158	¥ (312)

		Millions of yen		
		Contract amount	Over one year	Market value
March 31, 2017:				
Special treatment for interest rate swaps				
Interest rate swaps (paid fix / received floating)				
(Hedged item: Long-term loans payable)		¥ 15,527	¥ 15,527	¥ (17)
Total		¥ 15,527	¥ 15,527	¥ (17)

		Thousands of U.S. dollars		
		Contract amount	Over one year	Market value
March 31, 2017:				
Special treatment for interest rate swaps				
Interest rate swaps (paid fix / received floating)				
(Hedged item: Long-term loans payable)		\$ 138,400	\$ 138,400	\$ (151)
Total		\$ 138,400	\$ 138,400	\$ (151)

## 15. Research and Development Expenses

Research and development expenses of the Group for the year ended March 31, 2017 were ¥19,463 million (\$173,487 thousand), which was ¥21,260 million in 2016, and included in selling, general and administrative expenses.

## 16. Segment Information

The Group's business segments are classified into the following three business segments: (1) Elastomers business, (2) Plastics business, and (3) Fine chemicals and other products business.

The summary of net sales, costs and expenses, operating profit, identifiable assets, depreciation, impairment loss and capital expenditures by segment of business activities for the years ended March 31, 2016 and 2017 were as follows:

	Millions of yen					
	Elastomers	Plastics	Fine chemicals and other products	Total	Reconciliation	Consolidated
For 2016:						
Sales to external customers	¥ 179,253	¥ 52,207	¥ 155,250	¥ 386,709	¥ —	¥ 386,709
Inter-segment sales/transfers	3,734	—	—	3,734	(3,734)	—
Sales total	182,987	52,207	155,250	390,443	(3,734)	386,709
Operating profit	¥ 7,492	¥ 5,114	¥ 21,803	¥ 34,408	¥ —	¥ 34,408
Identifiable assets	¥ 221,029	¥ 32,842	¥ 156,413	¥ 410,284	¥ 106,076	¥ 516,360
Depreciation and amortization	7,662	1,051	9,795	18,508	—	18,508
Impairment loss	—	—	7,539	7,539	—	7,539
Capital expenditures	15,278	837	8,161	24,276	—	24,276
Amortization of goodwill	—	45	401	446	—	446
Goodwill	—	585	9,204	9,788	—	9,788

	Millions of yen					
	Elastomers	Plastics	Fine chemicals and other products	Total	Reconciliation	Consolidated
For 2017:						
Sales to external customers	<b>¥ 185,345</b>	<b>¥ 46,035</b>	<b>¥ 159,218</b>	<b>¥ 390,599</b>	<b>¥ —</b>	<b>¥ 390,599</b>
Inter-segment sales/transfers	<b>3,786</b>	<b>—</b>	<b>—</b>	<b>3,786</b>	<b>(3,786)</b>	<b>—</b>
Sales total	<b>189,131</b>	<b>46,035</b>	<b>159,218</b>	<b>394,384</b>	<b>(3,786)</b>	<b>390,599</b>
Operating profit	<b>¥ 8,340</b>	<b>¥ 3,773</b>	<b>¥ 20,257</b>	<b>¥ 32,370</b>	<b>¥ —</b>	<b>¥ 32,370</b>
Identifiable assets	<b>¥ 265,434</b>	<b>¥ 33,644</b>	<b>¥ 166,741</b>	<b>¥ 465,819</b>	<b>¥ 110,198</b>	<b>¥ 576,016</b>
Depreciation and amortization	<b>6,401</b>	<b>669</b>	<b>7,606</b>	<b>14,676</b>	<b>—</b>	<b>14,676</b>
Impairment loss	<b>—</b>	<b>—</b>	<b>2,111</b>	<b>2,111</b>	<b>—</b>	<b>2,111</b>
Capital expenditures	<b>20,709</b>	<b>1,189</b>	<b>9,887</b>	<b>31,785</b>	<b>—</b>	<b>31,785</b>
Amortization of goodwill	<b>—</b>	<b>45</b>	<b>520</b>	<b>565</b>	<b>—</b>	<b>565</b>
Goodwill	<b>—</b>	<b>540</b>	<b>8,278</b>	<b>8,817</b>	<b>—</b>	<b>8,817</b>

	Thousands of U.S. dollars					
	Elastomers	Plastics	Fine chemicals and other products	Total	Reconciliation	Consolidated
For 2017:						
Sales to external customers	<b>\$ 1,652,066</b>	<b>\$ 410,330</b>	<b>\$ 1,419,185</b>	<b>\$ 3,481,580</b>	<b>\$ —</b>	<b>\$ 3,481,580</b>
Inter-segment sales/transfers	<b>33,742</b>	<b>—</b>	<b>—</b>	<b>33,742</b>	<b>(33,742)</b>	<b>—</b>
Sales total	<b>1,685,808</b>	<b>410,330</b>	<b>1,419,185</b>	<b>3,515,322</b>	<b>(33,742)</b>	<b>3,481,580</b>
Operating profit	<b>\$ 74,338</b>	<b>\$ 33,628</b>	<b>\$ 180,564</b>	<b>\$ 288,530</b>	<b>\$ —</b>	<b>\$ 288,530</b>
Identifiable assets	<b>\$ 2,365,930</b>	<b>\$ 299,881</b>	<b>\$ 1,486,240</b>	<b>\$ 4,152,050</b>	<b>\$ 982,244</b>	<b>\$ 5,134,294</b>
Depreciation and amortization	<b>57,054</b>	<b>5,961</b>	<b>67,795</b>	<b>130,811</b>	<b>—</b>	<b>130,811</b>
Impairment loss	<b>—</b>	<b>—</b>	<b>18,817</b>	<b>18,817</b>	<b>—</b>	<b>18,817</b>
Capital expenditures	<b>184,590</b>	<b>10,600</b>	<b>88,125</b>	<b>283,315</b>	<b>—</b>	<b>283,315</b>
Amortization of goodwill	<b>—</b>	<b>401</b>	<b>4,633</b>	<b>5,034</b>	<b>—</b>	<b>5,034</b>
Goodwill	<b>—</b>	<b>4,810</b>	<b>73,782</b>	<b>78,591</b>	<b>—</b>	<b>78,591</b>

Assets in reconciliation are related mainly to Cash, Short-term investment securities and Investment securities of the Company.

Geographical information with respect to net sales for the years ended March 31, 2016 and 2017 were as follows:

	Millions of yen			
	Japan	China	Others	Total
For 2016:	¥ 171,643	¥ 48,156	¥ 166,909	¥ 386,709
For 2017:	<b>¥ 173,735</b>	<b>¥ 47,985</b>	<b>¥ 168,878</b>	<b>¥ 390,599</b>

	Thousands of U.S. dollars			
	Japan	China	Others	Total
For 2017:	<b>\$ 1,548,581</b>	<b>\$ 427,712</b>	<b>\$ 1,505,287</b>	<b>\$ 3,481,580</b>

The geographical information consists of Japan, China and Others. Japan and China are individually presented considering the materiality of the sales. Main countries included in Others were as follows;

South Korea, Taiwan, Thailand, United States, Belgium

Geographical information with respect to property, plant and equipment for the years ended March 31, 2016 and 2017 were as follows:

	Millions of yen				
	Japan	Thailand	Hungary	Others	Total
For 2016:	¥ 72,550	¥ 27,193	¥ —	¥ 12,950	¥ 112,694
For 2017:	<b>¥ 73,466</b>	<b>¥ 27,402</b>	<b>¥ 14,585</b>	<b>¥ 14,707</b>	<b>¥ 130,160</b>

	Thousands of U.S. dollars				
	Japan	Thailand	Hungary	Others	Total
For 2017:	<b>\$ 654,839</b>	<b>\$ 244,249</b>	<b>\$ 130,001</b>	<b>\$ 131,087</b>	<b>\$ 1,160,176</b>

The geographical information consists of Japan, Thailand, Hungary and Others. Japan, Thailand, and Hungary are individually presented considering the materiality of the property, plant and equipment. Main countries included in Others were as follows;

South Korea, China, Taiwan, United States, Belgium

## 17. Related Parties

### Related party transactions

Significant transactions and balances with related parties as of and for the years ended March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
BRIDGESTONE Corporation (a major shareholder):			
Net Sales	¥ 31,174	¥ 28,135	\$ 250,776
Notes and accounts receivable—trade, net	10,611	10,114	90,147
KRATON JSR Elastomers K.K. (an associate):			
Purchases	9,085	9,187	81,890
Notes and accounts payable—trade	3,233	4,350	38,772
Supply of raw material gas	4,083	3,488	31,094
Accounts receivable—other	1,730	1,886	16,814

## 18. Business Combinations

Transaction under common control

Additional acquisition of subsidiary's shares

### 1. Overview of the transaction

With an aim to expand the Group's life sciences business, the Company acquired an additional 39% of the outstanding shares of its consolidated subsidiary KBI Biopharma, Inc., which is involved in biopharmaceutical contract development and manufacturing, from a non-controlling shareholder on November 30, 2016. As a result of this additional share acquisition, the Company's voting rights in KBI Biopharma, Inc. increased from 51.0% to 90.0%.

### 2. Overview of the implemented accounting process

Based on "Accounting Standard for Business Combinations" and "Guidance on Accounting Standards for Business Combinations and Business Divestitures," this additional share acquisition was treated as a transaction with the non-controlling shareholder under common control.

### 3. Details on the additional acquisition cost of subsidiary's shares

Acquisition cost of KBI Biopharma, Inc.'s common shares acquired as a transaction in cash: ¥8,098 million (\$72,182 thousand)

### 4. Details on decrease in capital surplus due to transaction with the non-controlling shareholder

#### (1) Reason for decrease of capital surplus

Additional acquisition of subsidiary's shares

#### (2) Amount of decrease in capital surplus due to transaction with the non-controlling shareholder

¥7,660 million (\$68,276 thousand)

## 19. Contingent Liabilities

At March 31, 2017, the Group was contingently liable as a guarantor for loans of CMIC JSR Biologics Co., Ltd. in the amount of ¥1,674 million (\$14,925 thousand), JSR Micro (Changshu) Co., Ltd. in the amount of ¥588 million (\$5,244 thousand), JEY-TRANS CO., LTD. in the amount of ¥104 million (\$927 thousand), and employees in the amount of ¥1 million (\$6 thousand), respectively.



### Independent Auditor's Report

To the Board of Directors of JSR Corporation:

We have audited the accompanying consolidated financial statements of JSR Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ABC Co., Ltd. and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

#### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements, from the fiscal year ended March 31, 2017, the Company and some of its consolidated subsidiaries has altered the method of depreciation for property, plant and equipment from the declining balancing method to the straight-line method.

#### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

**KPMG AZSA LLC**

KPMG AZSA LLC

June 16, 2017

Tokyo, Japan