

MESSAGE FROM PRESIDENT AND COO



As the highest ranking person in charge of business execution I will implement fast management towards sustainable growth from 2020 onwards.

My name is Nobuo Kawahashi and I became Representative Director and President, and Chief Operating Officer (COO) from June 2019. Similarly, Eric Johnson, who became the new CEO from June 2019, and I form a two-man team that will contribute to improving the Group's sustainable corporate value.

When looking ahead to 2020, the Group promoted its mid-term business plan, dividing fiscal 2011 through fiscal 2019 into three separate plans. In the first JSR20i3 (FY2011-2013) plan we selected new businesses with the aim of achieving sustainable growth while continuing to strengthen the Company with the Petrochemical Business (Elastomers Business and Plastics Business) and the Fine Chemicals and Other Products Business (mainly Semiconductor Materials Business and Display Materials Business) as its base. Following on in the JSR20i6 (FY2014-2016) plan, we decided to make the Life Sciences Business the third business pillar of the Company. Now in the current JSR20i9 (FY2017-2019) plan, we have established Solution polymerization Styrene-butadiene Rubber (SSBR) for high-performance tiers of the Elastomers Business, Semiconductor Materials Business and the Life Sciences Business as the three earnings drivers. It can be said that the Group is facing a major turning point in terms of sustainable growth from 2020 onward.

Under these conditions, we will continue to create innovative materials that become the de-facto standard. At the same time, by merging with different industries to further expand our areas of business, we will listen to diverse opinions, anticipate future market needs with an open mind, and carry out a fast and flexible management style to be able to respond quickly to environmental changes.

Representative Director and President,
and Chief Operating Officer (COO)

Nobuo Kawahashi

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What is your outlook for the future business environment?

Pushing ahead business portfolio reforms focused on the keywords of personalization and localization.

In recent years the wave of digitization has gained ever more momentum with advanced technologies such as artificial intelligence (AI), high-speed communication, and genome editing all having made remarkable progress. And from the mid 2020's I'm sure we'll see a more pronounced wave of personalization and localization coming to the forefront.

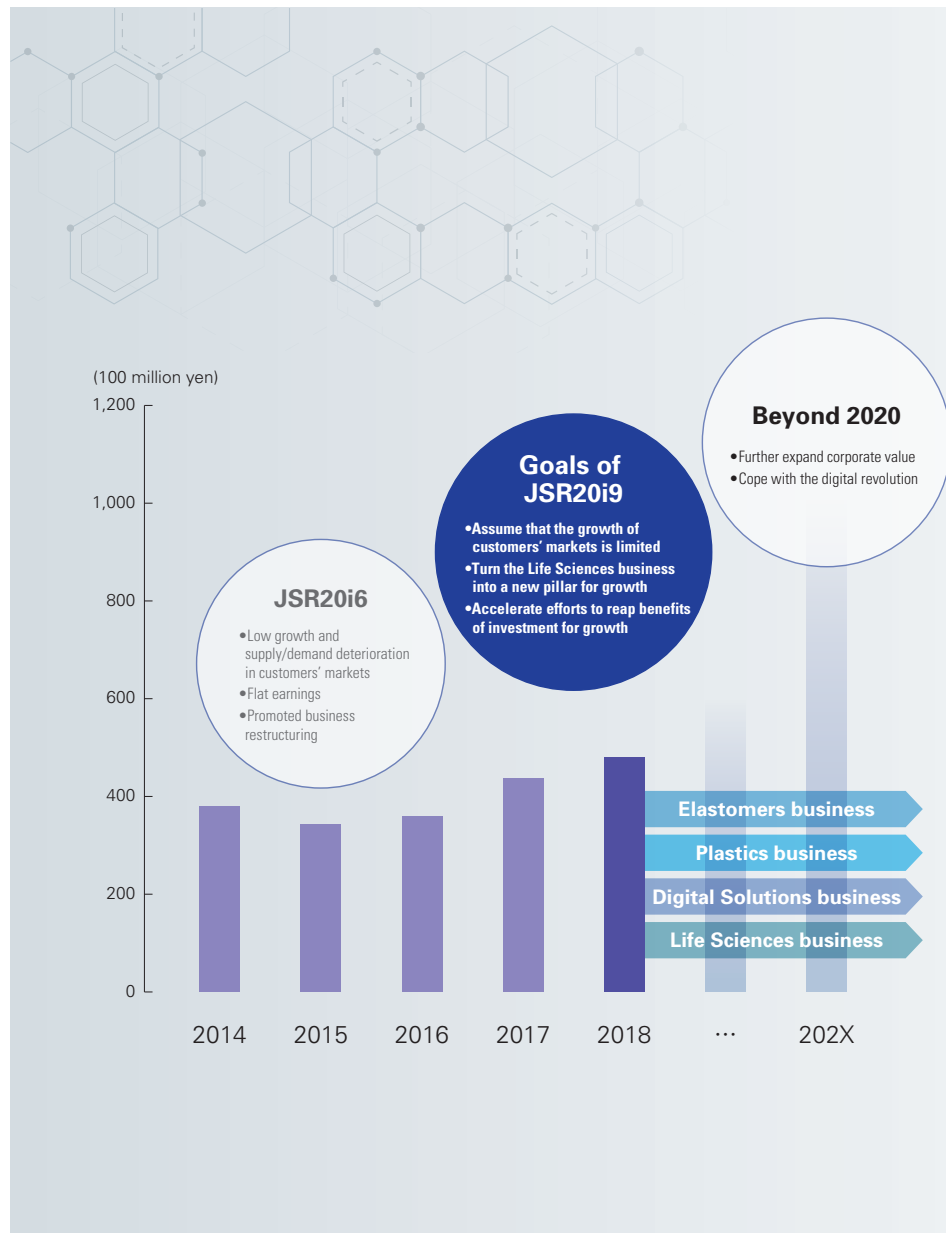
The personalization movement has already become commonplace in the healthcare industry with the onset of personalized medicine. This has also been achieved as a result of rapid evolutions in genetic analysis and diagnostic imaging technologies, all possible because of digitalization. As for localization, by digitizing manufacturing processes and know-how, the movement of digital manufacturing will enable production anytime and anywhere. On the other hand, ways to expand global standards in all regions will reach their limits meaning there will be an even greater demand for sophisticated responses to the unique needs of the region.

As part of our response to these changing times we have invested in Carbon, Inc. of the United States, which has advanced technology in the field of 3D printing. Innovations in software, hardware, and material science have enabled product designs never before possible, regardless of region or volume. Orthopedic implants that use 3D printing are rapidly becoming widespread in the medical field, and as such we have entered into a collaboration partnership with GE Healthcare Japan Corporation for the construction of a digital platform and launch of a new service in the field of orthopedic surgery.

In recent years the Group has actively been seeking out mergers and acquisitions, growing significantly as a result. I would like to go forward with our business portfolio reforms with focus on the keywords of personalization and localization in mind, aiming for more sustainable growth.



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How is the JSR20i9 mid-term business plan progressing?

Positioning SSBR, the Semiconductor Materials Business and the Life Sciences Business as the three earnings drivers and promoting business portfolio reforms

Revenues in fiscal 2018 increased significantly from the previous year due to a merger in the Plastics Business and Crown Bioscience International (CrownBio) becoming a consolidated subsidiary. However, despite realizing operating profits in the Life Sciences Business, increasingly poor buy/sell spreads in the Elastomers Business, due to the decline in automobile production in China and Europe, has led to tighter profit margins, resulting in a slight overall decline from last year. Although target figures for the JSR20i9 mid-term business plan have been reached as in the previous fiscal year, there are still challenges remaining for each business. We shall therefore leave the target figures unchanged and work to successfully accomplish our plan.

Looking at each segment, firstly one of our earnings drivers, the Thai joint venture which supplies solution styrene-butadiene rubber (SSBR) for high-performance tires, such as fuel-efficient tires, is approaching full strength. In fiscal 2018 we achieved over 10% growth in sales volume in the face of 5-6% market growth. We are planning to launch operations of our plant at joint venture in Hungary in fiscal 2019 with an eye to further accelerate growth.

In the Plastics Business, we established Techno-UMG Co., Ltd. in April 2018 through a merger between one of our Group companies, Techno Polymer Co., Ltd., and UMG ABS, Ltd. Through moving product lines between plants we have been able to increase production efficiencies while reducing our investment to increase capabilities. In fiscal 2019, in addition to improving manufacturing efficiency and cost competitiveness, we are looking to increase our lineup of differentiated chemical products and aiming to expand sales of specialty products overseas utilizing the manufacturing, development and sales capabilities of both companies.

Next is the Digital Solutions Business where, in earnings driver Semiconductor Materials Business, we will maintain our competitiveness while strengthening relationships with major global customers in cutting-edge lithography materials, including those state-of-the-art 7-10 nm (nanometer) generation lithography processes. Furthermore, we will expand sales of extreme ultraviolet (EUV) lithography materials for the 7 nm generation and beyond and sales of semiconductor peripheral materials such as packaging materials, and CMP materials (slurries and functional cleaning solutions). In the Display

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As the Group provides innovative materials to various industries and fields around the world, I believe that even small results, one by one, can, over time through our business activities, make big differences in protecting the environment. More specifically, although it is natural to try to reduce greenhouse gas emissions in the supply chain and achieve zero waste from factories, we intend to steadily plug away at building on the development of eco-friendly products with, for example, solution styrene-butadiene rubber (SSBR) for high-performance tires, and materials for liquid crystal displays that contribute to reduced power consumption, to make a bigger contribution with greater overall impact.

What direction will your efforts on R&D and innovation take?

Actively promote open innovation through expansion beyond in-house development

In terms of the Group's research and development, in addition to the five research laboratories (Performance Polymer Research Laboratories, Display Solution Laboratories, Fine Electronic Materials Research Laboratories, Advanced Materials Research Laboratories, and Edge Computing Research Laboratories), which are all located at Yokkaichi Research Center, the Group is conducting research at Tsukuba Research Laboratory and JSR-Keio University Medical and Chemical Innovation Center (JKiC: in Shinanomachi Campus of Keio University). However, in-house development takes time and cannot keep up with the speed of change. Even though R&D has already begun at JKiC and the Center of Materials Innovation, which has been newly established at Yokkaichi Plant, we will actively utilize open innovation that incorporates technology from outside the Company.

Furthermore, in 2021, research laboratories for life sciences and business incubation will be established in Tonomachi, Kawasaki City, and here too, open innovation will be incorporated to seek out new areas of business.

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Business we will expand sales of organic EL materials with a focus on our competitive alignment films and insulating films in the Chinese market where we expect particularly strong growth, especially for large-sized liquid crystal panels.

Finally, in the Life Sciences Business, in addition to KBI Biopharma, Inc., Medical & Biological Laboratories Co., Ltd., and Selexis SA, which has the technology to quickly generate cell lines used to culture antibodies efficiently, we acquired CrownBio, a provider of pre-clinical drug discovery and development support services, as a consolidated subsidiary in fiscal 2018. In this way, we have established a system that enables support throughout the entire process, from discovery to the manufacture of antibody drugs. The Life Sciences Business achieved profitability in fiscal 2018 and is aiming for sales of 54 billion yen in fiscal 2019.

What are your views on corporate governance?

In order to make quick and accurate business decisions for each region and market, a director will be increased

The Company's corporate governance system has a Nomination Advisory Committee and a Remuneration Advisory Committee, both of which are chaired by an independent outside director with a majority of members as outside directors, and together have introduced a short- and medium-term performance-linked remuneration scheme. With regard to the outside directors, in addition to being completely independent, they are made up of a well-balanced number of directors with vast experience in management and business operations who can be expected to pro-actively raise issues with regards to improving growth strategies and governance, thereby sufficiently ensuring management transparency and integrity.

In order to continue sustainable growth by capitalizing on business opportunities in the future amid a global economy that continues to expand, while diversifying by region and market, it is necessary to have a management system that can facilitate quick business decisions and business execution in response to changes in regions and markets at a global level, as well as management from a broader perspective based on environmental changes. Because of this, a director has been increased, in addition to the newly appointed CEO and COO in fiscal 2019.

What is your approach to human resources?

Focus on diversity and developing human resources that focus on creating

I believe that the human mindset is incredibly important in times of constant change. Developing human resources that can withstand change is the most important issue in the new management system. It is necessary to have intelligent people, who can use their knowledge to create new things. We will develop practical training programs, as opposed to classroom-based learning, to foster human resources with an attitude toward creating something from nothing. We shall also develop human resources with the mindset to not be satisfied with the way things are, to not be afraid of change, but rather to see change as an opportunity.

The Group is actively working to promote diversity. Emphasis is placed on improving the workplace environment to take advantage of diversity, aiming for our diverse human resources to play an active role and improve productivity. To this end, "Work-style Innovation Activities" have been incorporated into our JSR20i9 mid-term business plan, promoting a review of work styles in conjunction with improving corporate competitiveness. As a result, the Company, has shown outstanding health and productivity management and has been recognized as a "Health and productivity -White 500-" company from the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi (the Japan Health Council) for three consecutive years. In the future, we will promote flexible work styles using the powers of ICT to suit the preferences of employees in different stages of their lives, with options such as remote offices or working from home. Finally, as global human resource acquisition becomes more important, we will also focus on improving the workplace environment with due consideration to cultural differences.

In what ways are you working on protecting the environment?

Recognizing and working on protecting the environment no matter how small the business activity

The Group is promoting initiatives to protect the environment by focusing on both Energy Management to reduce our impact on the environment, and Eco-Innovation to create new business opportunities for products with the environment in mind. We recognize that as a chemical company, environmental protection is one of the most important issues facing the Group.