CFO MESSAGE

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Director
Managing Officer

Review of Business Results in Fiscal 2018

In fiscal 2018, we reported consolidated sales revenue of 496,746 million yen (up 17.7% from the previous year), operating profit of 43,030 million yen (down 1.2%), profit attributable to owners of parent of 31,116 million yen (down 6.4%), and an ROE of 7.8%.

Among the major demand industries, markets were mixed with automobile and tire production sluggish due to the slowing Chinese economy while the semiconductor and display markets showed rising demand. In addition to these market trends however, sales revenues in each business increased as a result of increased sales of high-functional materials. Meanwhile, operating profit increased in the Plastics Business and Digital Solutions Business, and the Life Sciences Business returned to profitability. However, the impact of lower profits from the Elastomers Business was significant and overall decreased slightly.

Looking at each business, although sales revenue in the Elastomers Business surpassed that of the previous year mainly due to an increase in sales volume of solution polymerization SBR (SSBR) for high-performance tires such as fuel-efficient tires, operating profit fell below that of the previous year due to sluggish market conditions and an increase in fixed costs, in addition to the large profits from the previous strong fiscal year.

In the Plastics Business, sales revenue and operating profits significantly exceeded those of the previous year due to the merger of Techno Polymer Co., Ltd., a JSR Group company, and UMG ABS, LTD. (equally owned by Mitsubishi Chemical Corporation and Ube Industries, Ltd.).

In the Digital Solutions Business, revenue surpassed that of the previous year due to an increase in sales volume centered on leading edge photoresists in the Semiconductor Materials Business. Operating profit also increased overall in the Digital Solutions Business due to the increase in profits in the Semiconductor Materials Business.

With regard to the Life Sciences Business, positioned as JSR Group's third core business, revenue increased substantially compared with the previous fiscal year leading to operating profits in the black due to more contracts with KBI Biopharma, Inc. (KBI) and the consolidated subsidiary of Crown Bioscience International (Crown Bio).

Forecast for the Final Year of Mid-Term Plan

Global economic trends are uncertain, however, while the major demand industries of automobile production and tire production are expected to be down globally from the previous year, and the semiconductor market currently faces weak demand, a recovery is expected in the future due to faster communication speeds and

FY2018 Results (Billions of yen)

Consolidated	Revenue	496.7
	Operating Profit	43.0
	Profit Attributable to Owners of Parent	31.1
Elastomers Business	Revenue	200.7
	Operating Profit	7.4
Plastics Business	Revenue	105.4
	Operating Profit	9.2
Digital Solutions Business	Revenue	142.2
	Operating Profit	32.7
Life Sciences Business	Revenue	43.9
	Operating Profit	0.8
Other Businesses & Adjustment	Revenue	4.5
	Operating Profit	–7.0

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increased data capacity, among other factors. In the display market, LCD panel production remains steady with production in China expecting to increase in the future.

Amid such an environment, the consolidated business forecast for the year ending March 2020 is as follows: revenue of 508 billion yen (increase of 2.3% from previous year), operating profit of 44.5 billion yen (3.4% increase), and profit attributable to owners of parent 31 billion yen (down 0.4%).

Looking at each business, sales in the Elastomers Business are expected to increase due to steady growth of SSBR sales for high-performance tires but the market continues to stagnate, and taking into account the fixed costs for the startup of the Hungarian plant, operating profits are expected to drop. In the Plastics Business, although revenue is on par with the previous year, operating profits are expected to increase due to improved profitability. Sales and operating profits are expected to increase in both the Digital Solutions Business and the Life Sciences Business on the back of steady markets.

Capital Costs and Business Portfolio

With regard to the cost of capital, we aim to steadily achieve an ROE of at least 8% and aim to reach the 10% level as soon as possible. However, in fiscal 2018 it was 7.8%, slightly lower than 8%. In fiscal 2019, we will strive to achieve at least 8% by acquiring our own shares or other such measures.

Reform is progressing within our business portfolio with the mergers in the Plastics Business and the expansion of the Life Sciences Business.

Returning Profits to Shareholders

Shareholder returns will be determined by taking into account the balance between the redistribution of profits to all shareholders and retained earnings for future growth of the Company while taking into consideration the business results and medium- to long-term capital requirements.

During the JSR20i9 mid-term business plan, we are aiming for an overall return to shareholders of 50 percent or higher through a combination of dividends and share buybacks. In fiscal 2018 shares were repurchased along with dividend payouts for an overall return of 58.6%.

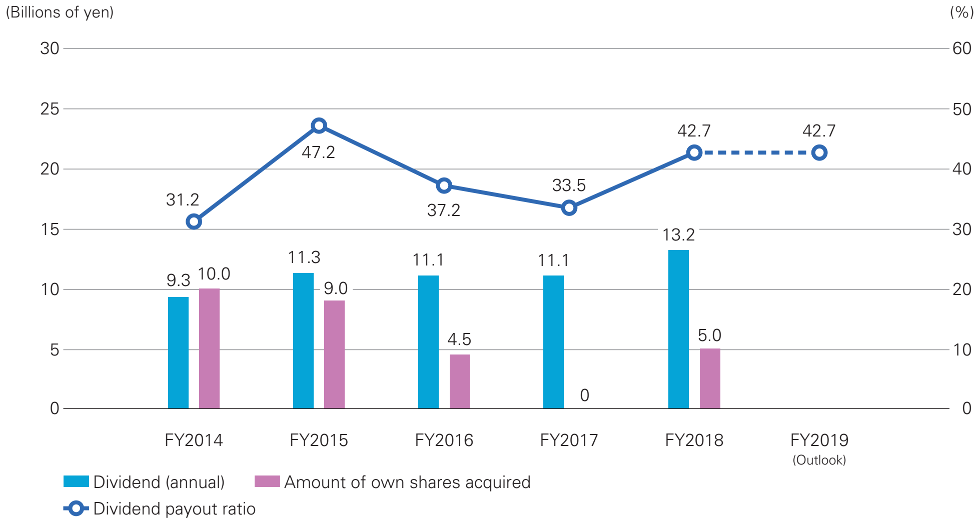
The dividend per share for fiscal 2018 was 30 yen for the end of Q2 and 30 yen for end of Q4 for an annual dividend of 60 yen. Compared with the annual dividend of 50 yen in fiscal 2017, we have increased the dividend by 10 yen per share. Taking into account the business results forecast for fiscal 2019, we are again planning to pay a dividend of 30 yen per share at the end of the second quarter and 30 yen per share at the end of the fiscal year for an annual dividend of 60 yen.

Fiscal 2019 Forecast

(Billions of yen)

		FY18 Act	191H pro	192H pro	FY19 Pro	YoY
Consolidated	Revenue	496.7	252.0	256.0	508.0	+2%
	Operating Profit	43.0	21.5	23.0	44.5	+3%
	Profit Attributable to Owners of Parent	31.1	15.0	16.0	31.0	–0%
Elastomers Business	Revenue	200.7	100.0	101.0	201.0	+0%
	Operating Profit	7.4	2.7	2.8	5.5	–26%
Plastics Business	Revenue	105.4	51.0	51.0	102.0	–3%
	Operating Profit	9.2	5.0	5.0	10.0	+9%
Digital Solutions Business	Revenue	142.2	72.5	72.5	145.0	+2%
	Operating Profit	32.7	16.5	17.5	34.0	+4%
Life Sciences Business	Revenue	43.9	25.5	28.5	54.0	+23%
	Operating Profit	0.8	0.5	1.0	1.5	+92%
Other Businesses & Adjustment	Revenue	4.5	3.0	3.0	6.0	+34%
	Operating Profit	–7.0	–3.2	–3.3	–6.5	–

Changes in Shareholder Returns



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Thoughts on M&A and our Approach to Growth Investment

The Company regards business growth over the long term as its top priority. To generate sustainable long-term growth, JSR Group strives to increase its competitiveness by developing new businesses through the strengthening of research and development activities from a long-term perspective.

In particular, we have promoted M&A in the Life Sciences Business to accelerate growth. In fiscal 2018, we made Crown Bioscience International Inc., a contract research organization (CRO) that provides drug discovery support services for pharmaceutical companies in the pre-clinical trials stage of the drug development a wholly-owned subsidiary. Through previous acquisitions, including this one, we have established a framework, with a focus on antibody drugs in the Life Sciences Business, that enables consistent process support from the discovery of drugs through to their manufacture.

We shall carefully consider any M&A in the future as and when necessary in light of business growth.

Basic Policy, Results and Forecast for R&D Expenses

The target for R&D expenses is at around 5% of revenue, of which 1% shall be allocated our next generation businesses. Research and development expenses in fiscal 2018 were 24.9 billion yen, 5% of sales revenue.

We recognize that R&D is very important for future growth. We will therefore strive to make the best use of resources while allocating them according to the needs of the business.

Basic Policy, Results and Forecast for Capital Investment

Capital investments mainly include expansion of production capacity for business growth, replacement of outdated equipment and safety measures such as ensuring earthquake resistance.

In fiscal 2018, capital investment decreased by 6.2 billion yen to 36 billion yen. The main factors contributing to the decrease were lower construction costs (compared with the previous year) of the JSR MOL Synthetic Rubber Ltd. plant established in Hungary as a joint venture, and in the Life Sciences Business, to the absence of construction costs for the expanded production capacity of KBI and the bioprocess material of Amsphere A3, implemented in the previous year.

We expect an increase of 9 billion yen to 45 billion yen in fiscal 2019 compared with fiscal 2018. The main reasons for the increase include the expansion of production capacity in the Semiconductor Materials Business and the Life Sciences Business, and updating of the Company’s enterprise resource planning (ERP) system which will digitally transform the whole Company. We will assess the implementation carefully while looking at the management environment.

Changes in Capital Investment (Billions of yen)

	FY2014	2015	2016	2017	2018	2019
Capital Investment	35.2	24.3	31.8	42.2	36.0	45.0

The SSBR Hungary Plant (completed in April 2019)