

# JSR Corporation

## ANNUAL REPORT 2013

For the year ended March 31, 2013



*Materials Innovation*



With chemistry, we can.

**JSR** Corporation (formerly Japan Synthetic Rubber Co., Ltd.) was established in December 1957 with the aim of producing synthetic rubbers domestically in accordance with the Special Measures Law for the Synthetic Rubber Manufacturing Industry.

Since the early days, the Company has remained in leading positions in the area of petrochemical materials, such as synthetic rubbers, emulsions, and plastics, and maintained the top market position domestically.

Throughout its growth process, JSR has always focused on expanding its operations and stabilizing its business foundation. We have concentrated our efforts on applying polymer technologies, learned through our petrochemical business, to materials for the fast-growing information and communications sectors. Today, we provide numerous materials for use in displays and semiconductor devices, as well as optical materials, and we hold high market shares.

In order to leverage our core businesses in petrochemical products and fine chemical materials and further broaden our operations, we have identified three fields as Strategic Businesses slated for sustainable growth: precision materials and processing, environment and energy, and biomedical materials (life sciences). Our corporate mission is “Materials Innovation—We create value through materials to enrich society, people, and the environment.”

#### Forward-Looking Statements

Statements regarding the company's future plans, strategies, projected performance and outlook are based on information available at the time of writing. Readers are cautioned that economic trends in JSR's target markets and other risks and factors beyond the company's control could cause actual results to differ materially from those projected by management.

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## Consolidated Financial Highlights

### Net Sales

¥**371.5** billion  
(+6.2%)

### Operating Income

¥**35.2** billion  
(-2.1%)

### Net Income per Share

¥**126.13**  
(+15.2%)

### Net Assets

¥**315.7** billion  
(+11.8%)

### ROE

**10.3%**  
(+0.6 point)

### Equity Ratio

**63.9%**  
(-1.3 point)

## Highlights of Fiscal 2013

- ➡ In fiscal 2013, ended March 31, 2013, consolidated net sales amounted to ¥371.5 billion, up 6.2% from the previous year. Operating income declined 2.1%, to ¥35.2 billion, and net income rose 14.7%, to ¥30.3 billion.
- ➡ In Core Businesses, including petrochemicals, semiconductor materials, and flat panel display materials, we posted year-on-year increases in sales, however, the operating income was sluggish due to weak conditions in our target markets.
- ➡ Sales from Strategic Businesses grew to around 2.5 times the figure of fiscal 2011.
- ➡ The Company declared a year-end dividend of ¥17.00 per share, bringing total annual dividends to ¥34.00 per share.



## To Our Shareholders



mitsunobu KOSHIBA, Representative Director and President

## The JSR Group will create value through innovative materials to contribute to society and advance its business operations.

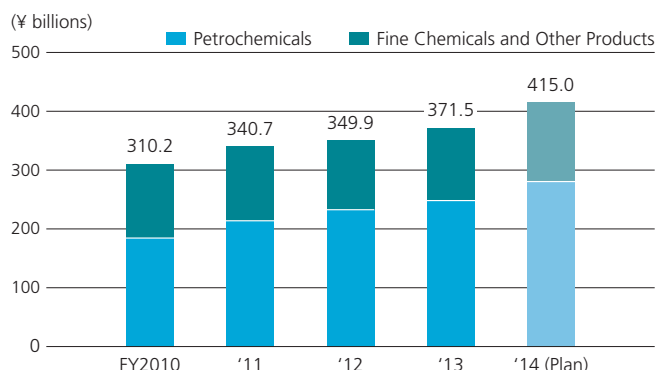
### Progress of Mid-Term Business Plan (“JSR20i3”)

The JSR Group’s medium-to-long-term goal is to evolve into its envisioned position in year 2020 based on various analyses of the predicted business environment through to 2030. As part of realizing this vision, we have formulated our mid-term business plan, titled “JSR20i3.” We refer to the three-year period of the plan—from April 2011 to March 2014—as the “activation toward growth” period, during which we have been implementing multiple business strategies. In fiscal 2013, ended March 31, 2013, the second year of the plan, we feel that we made steady progress toward realizing our medium-to-long-term vision.

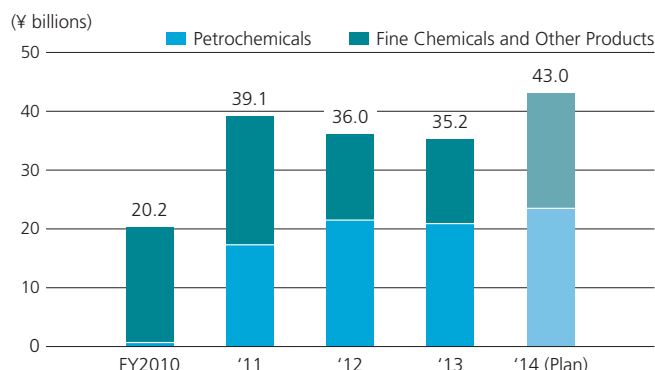
To achieve dramatic future progress under the mid-term business plan, we have identified two major objectives: “become the top global player with highly competitive products in core businesses” and “transform our business structure from two earning bases (Petrochemical Products Business and Fine Chemicals and Other Products Business) to three (Strategic Businesses).” Our core businesses are elastomers—in which we have been involved since our foundation—as well as semiconductor materials and flat panel display (FPD) materials. We have fostered these businesses to capture large market shares, reflecting the high acclaim we have earned for our technological prowess.

We have also continued to make concentrated investments in next-growing businesses identified under the mid-term business plan, and such efforts are gradually producing results. These are what we call our Strategic Businesses. In particular, they

## Net Sales



## Operating Income



are the biomedical materials business and the lithium-ion capacitor (LIC) business, which is related to the environment and energy. As part of our “activation toward growth” initiatives, we are making a full-fledged effort to foster our Strategic Businesses so that they become our third core business.

### Fiscal 2013 Performance

Fiscal 2013 was the second year of “JSR20i3.” For the year, the JSR Group posted a 6.2% increase in consolidated net sales, to ¥371.5 billion—the highest level since the global financial crisis. The main factor boosting revenue was growth in our Elastomers Business and in our Strategic Businesses. Despite a languishing industry, our Elastomers Business generated increased sales, with a significant contribution from our solution polymerization styrene-butadiene rubber (S-SBR) business. Among Strategic Businesses, we posted increased sales of ARTON™ retardation film for mobile applications.

Operating income slipped 2.1%, to ¥35.2 billion. This was mainly the result of deteriorating conditions in the Elastomers Business during the year, which caused spread margins to shrink. In addition, we incurred expenses for scheduled major preventative maintenance at our main plant. We also made proactive capital expenditures in both core and strategic businesses, which pushed up fixed costs. Moreover, we posted loss due to actuarial differences for employees’ severance and retirement benefits and fixed costs of the Kashima Plant, which was posted as extraordinary loss in previous fiscal year due to the Great East Japan Earthquake.

### Future Growth Scenario

In its growth scenario aimed at the year 2020, the JSR Group is concentrating on specific items for each of the businesses described below.

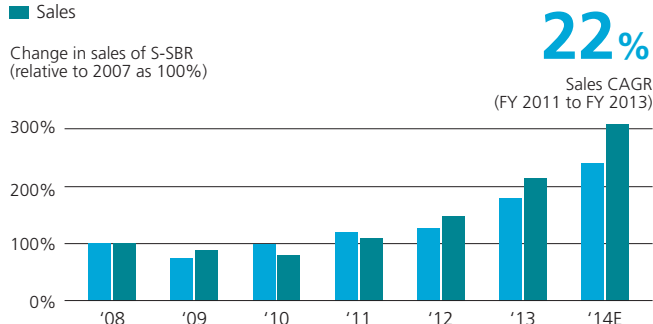
**In the Petrochemical Products Business,** which includes elastomers, our two key strategies are to (1) achieve the top global position with highly competitive products, and (2) step up reforms of our earnings and cost structures. With respect to the tire-labeling systems in various countries, JSR is seeking to become the No. 1 global player

## Progress of the S-SBR Business

The S-SBR business has been sharply expanding due to capacity expansion to keep pace with the increase in demand.

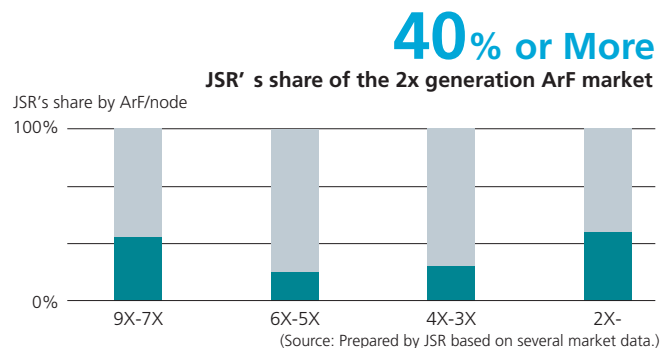
■ Volume  
■ Sales

Change in sales of S-SBR  
(relative to 2007 as 100%)



## Recovery of JSR's Share of ArF Market

- JSR expects its share to recover to record levels in the 2x generation ArF market.
- Full-scale production of 2x generation ArF will start in FY 2014.



in S-SBR products for fuel-efficient tires, for which demand is growing. In November 2011, the capacity expansion of the S-SBR Plant in Yokkaichi was successfully completed, resulting in the increase in a year-to-year sales of S-SBR this fiscal year. The current capacity of S-SBR is 60,000 tons per year at Yokkaichi and 30,000 tons per year at Styron Europe GmbH (formerly Dow Europe). Going forward, a new Phase I S-SBR plant in Thailand, which is a joint venture with Bangkok Synthetics Co., Ltd. and commence production in this coming fall, will produce 50,000 tons per year of S-SBR and the Phase 2 expansion is being planned. Another S-SBR plant is being explored outside of Asia and may be built depending upon the market demand. We are particularly strong in third- and fourth generation high performance S-SBR, for which barriers to entry are high. Taking advantage of our industry-leading performance and quality, JSR will move more forward aggressively to capture the growth of demand than other competitors.

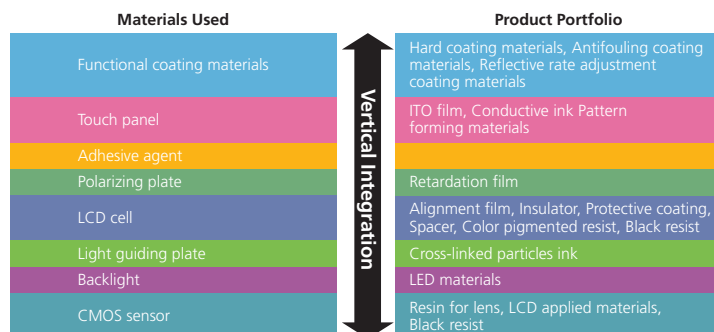
Meanwhile, in the commodity areas, our strategy is to reduce volatilities of the business in terms of revenue and profit by introducing price formula incorporating the costs of naphtha and monomers in most of our sale transactions, which, in turn, customers entertain.

**In the Semiconductor Materials Business,** we are on the way to capturing a market share of 40% or more for 20nm-generation ArF (argon fluoride) photoresists, which are becoming mainstream. Anticipating an increase in fabrication processes using 20nm ArF photoresists, we will target business expansion in excess of the market growth rate by expanding and upgrading our lithography materials portfolio, including not only ArF photoresists but also peripheral materials. We also expect new advances in shrinking technologies, and in response we will deploy the latest technologies in order to achieve further market share expansion.

**In the FPD Materials Business,** the market is polarizing in two directions—commodity and high-performance devices—and we will respond comprehensively. In materials for large-scale television panels, we will address globalization, centering on Asia, by

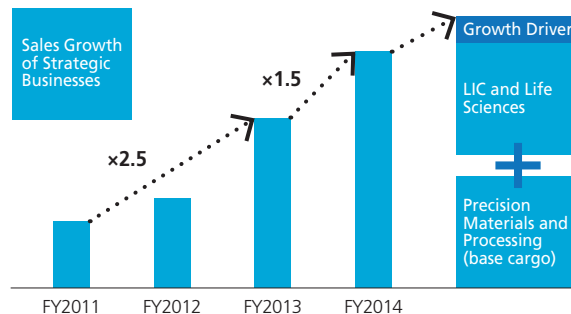
## Display Materials

Accelerating the expansion of FPD business by broadening the product portfolio for small- and medium-sized panels with high growth potential



## Progress of Strategic Businesses as a Whole

Sales significantly grew in FY 2013, increasing 2.5 times over FY 2011. Sales growth will accelerate from FY 2014 centering on the LIC and Life Science businesses.



localizing operations as much as possible in South Korea and Taiwan and maximizing cost efficiency. For high-performance materials for mobile devices, we will also target substantial growth. Here, we will implement a “vertical integration strategy” encompassing not only in-cell products but also state-of-the-art technologies for out-of-cell materials, while expanding and upgrading our product lineup.

**In Strategic Businesses,** we are fostering and investing in fields with the aim of achieving major growth and creating additional mainstay businesses for the future. Among these, we are concentrating on life sciences and environment and energy, focusing particular attention on biomedical materials and lithium-ion capacitors (LICs), which we have identified as growth drivers.

## Outlook – Expanding Global Strategies

In fiscal 2014, ending March 31, 2014, the JSR Group anticipates moderate growth in each of its major target markets, including automobiles, tires, semiconductor devices, and FPDs, and will target expansion in excess of market growth in each of our businesses. For the year, which is the final year of our mid-term business plan, “JSR20i3,” we aim to expand our topline performance and forecast an 11.7% increase in consolidated net sales, to ¥415.0 billion, a record-high figure. We also project a 22.1% jump in operating income, to ¥43.0 billion. These forecasts assume an exchange rate of ¥95.0 per U.S. dollar and a naphtha price of ¥63,000 per kiloliter.

Domestic sales currently account for 53% of the JSR Group’s net sales, with overseas sales representing the remaining 47%. Leveraging JSR’s world-leading technologies and competitive products, we will accelerate development of our businesses globally and build an overwhelming global business portfolio.

## Profit Appropriation

The Company regards business growth over the long term as its top priority. To generate sustainable long-term growth, we strive to increase competitiveness by developing new businesses through the reinforcement of research and development activities.

With respect to profit appropriation, our basic policy is to return profits to shareholders in a prudent manner, including through purchases of treasury stock, in line with our consolidated performance, while paying continuous, stable cash dividends. Our decisions on dividend amounts are based on consideration of a balance between appropriating profits and retaining earnings necessary for future business advancement. We allocate retained earnings to R&D activities linked to future growth businesses, as well as to strategic investments. The Company works hard to return profits to shareholders by enhancing corporate value and through the dividends and purchase of treasury stock.

### Enhancing Corporate Value

JSR constantly focuses on the soundness and transparency of its corporate constitution so that it adheres to its corporate mission and continues to achieve sustainable growth and enrich people's lives through the provision of superior materials and products in various fields.

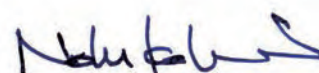
We are constantly improving our system of corporate governance. The Board of Directors, the Company's highest body with decision-making authority, is operated by internal directors and outside ones. We also have a corporate auditor system, including outside auditors.

Seeking to enhance both corporate and shareholder value, JSR will work to strengthen the value of its Elastomers Business and Fine Chemicals and Other Products Businesses, while reinforcing its R&D and marketing capabilities in its Strategic Businesses, including by forming effective business alliances.

The JSR Group's Essential Elements consists of its Corporate Mission ("significance of existence"), Management Policies (evaluation standards), and Course of Action (individual work styles). We will work to ensure that all members of the JSR Group recognize the Essential Elements and embrace their objectives and values, and behave accordingly.

We are committed to passing our benevolent corporate culture, built up since our foundation, to the next generation. At the same time, we will strive to ensure that management can respond swiftly to changes in the times, environment, and value perceptions with a sense of urgency. As an innovation-driven company that creates value through materials, we will endeavor to earn the confidence of society and stakeholders.

Going forward, the JSR Group will target enhanced corporate value and seek to gain the understanding of its management policies. In these ways, we will work to meet the expectations of shareholders and all other stakeholders.



MITSUNOBU KOSHIBA  
Representative Director and President





## Materials Drives Life Sciences Business Expansion

*Amid advances in novel biologics, the JSR Group contributes to progress and growth in life science through its materials-related technologies.*

*In recent years, the medical field has seen a shift from “treatment” to “prevention” and “prognosis” as well as a trend away from standard treatment methods to personalized therapies. In pharmaceuticals development, as well, there has been a shift from conventional low-molecular compounds to biologics (biopharmaceuticals), such as antibody drugs.*

*The JSR Group has responded to these trends by developing optimum materials, such as research reagents used in drug development and process chemicals for enhancing the efficiency of manufacturing processes. Today, JSR Life Sciences Corporation, established in April 2012, heads a global network with facilities in Japan, Europe, the United States, China, and South Korea. Under this structure, the JSR Group’s operations aim to contribute to advances in pharmaceuticals. In addition to our existing synthetic rubber and medical polymer businesses, which supply the medical devices field, we now develop and manufacture materials used in diagnostic and biologics production.*



JSR Life Sciences’ products



Research laboratory at Medical & Biological Laboratories

### IVD and Life Science Research

Since 1980, JSR has used bead manufacturing technologies to develop its own diagnostic reagent materials business. We now supply the diagnostic drug industry with various kinds of polymer beads as raw materials, such as latex beads, magnetic beads, and antifouling materials, and we have the top market share in Japan. In 2011, we established a joint-venture company in China

to spearhead business advancement initiatives targeting China and emerging nations.

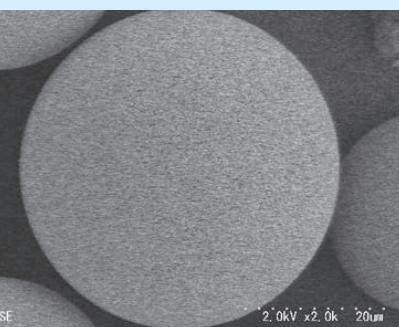
In March 2013, JSR acquired a stake in Medical & Biological Laboratories Co., Ltd. (MBL), in line with its business expansion strategy. MBL's activities focus on the development of reagents used in research in the fields of immunology, molecular biology, and cellular biology, as well as drugs used in clinical testing. In addition to these activities, MBL has boosted its involvement in oncology and infectious disease treatment through its work on genetic testing, antibody drugs, and cell therapy. Going forward, we plan to combine our bead-related expertise with MBL's technological prowess to develop new materials and reagents for the translational research market. Through this collaboration, we intend to accelerate business expansion in the United States, Europe, and China.

## Bioprocess Materials

Until recently, the development of drugs in the pharmaceuticals industry centered on low-molecular-weight compounds using organic synthesis. Recently, however, medicines, namely biologics made of antibodies or therapeutic proteins, have come to assume relatively large importance. Biologics are made by genetically engineered bacteria, animals, and plant cells. JSR supplies the pharmaceuticals industry products that contribute to the production of high-purity drugs, as well as improvement of production process efficiency.

In addition to developing proprietary materials, we will establish a firm presence in this field and capture a solid market share by introducing new technologies via M&A activities. In 2012, JSR entered into a strategic partnership with Austria-based company BIA Separations. Specializing in separation biochromatography and biomolecule purification processes, BIA Separations develops and manufactures monolithic chromatographic columns used to refine viruses and vaccines. In 2013, we signed a strategic partnership agreement with Swiss company ChromaCon® AG, which has developed continuous chromatographic process technology that enhances purification efficiency. The integration of these process technologies and JSR's expertise in biomedical materials is expected to deliver benefits to several sectors within the medical industry.

For the JSR Group, the biomedical materials business presents exciting challenges. We believe that our accumulated applied technologies in polymer chemistry and clean manufacturing technologies can deliver huge benefits as a new approach to product development within the pharmaceuticals industry.



Beads used in bioprocess material products



JSR Life Sciences Corporation

## At a Glance

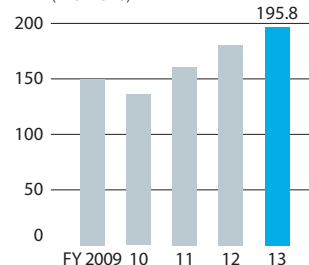
### Petrochemical Products Business

#### ■ Elastomers



The Elastomers Business consists of synthetic rubbers used in tires and various other automobile components, as well as thermoplastic elastomers used in shoe soles, and latex used for the surface-processing of paper.

**Sales of Elastomers**  
(¥ billions)

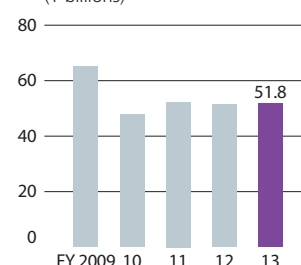


#### ■ Plastics



The Plastics Business centers on ABS resins, which have a wide range of applications, including in automobile components, home electronic appliances, and computers.

**Sales of Plastics**  
(¥ billions)



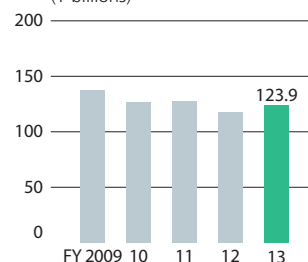
### Fine Chemicals and Other Products Business

#### ■ Semiconductor Materials

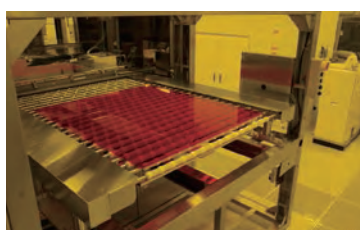


The Semiconductor Materials Business encompasses a broad array of products used by semiconductor manufacturers around the world. These include photoresists used in semiconductor device fabrication, device integration materials, multilayered materials, and CMP materials.

**Sales of Fine Chemicals and Other Products**  
(¥ billions)



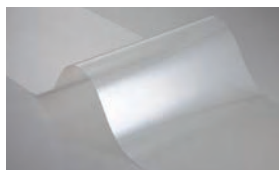
#### ■ Flat Panel Display (FPD) Materials



The FPD Materials Business consists of many materials that make up color LCD displays, which are used in such items as LCD televisions, smartphones, and tablet devices.

#### ■ Strategic Businesses

##### Precision Materials and Processing



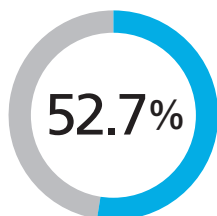
##### Biomedical Materials (Life Sciences)



##### Environment and Energy

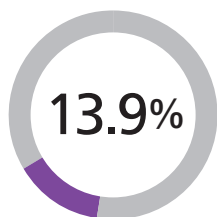


**Elastomers Business**



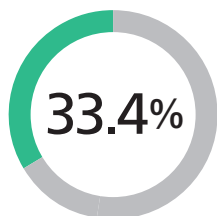
¥195.8 billion  
(+8.2%)

**Plastics Business**



¥51.8 billion  
(+1.0%)

**Fine Chemicals and Other Products Business**



¥12.39 billion  
(+5.1%)

**Elastomers**

**General-Purpose Synthetic Rubbers**

Solution Styrene-Butadiene Rubber (S-SBR), SBR, Polybutadiene Rubber (BR)

**Special-Purpose Synthetic Rubbers**

Nitrile Rubber (NBR)  
Butyl Rubber (IIR)  
Ethylene-Propylene Rubber (EPM/EPDM)

**Thermoplastic Elastomers (TPEs)**

Syndiotactic 1, 2-Polybutadiene "JSR RB™"  
Hydrogenated Polymer "JSR DYNARON™"  
Styrene-Butadiene Thermoplastic Elastomers "JSR TR™"  
Styrene-Isoprene Thermoplastic Elastomers "JSR SIS™," etc.

**Emulsion Products**

Paper Coating Latex  
SB Latex  
Acrylic Emulsions, etc.

**Plastics**

**Acrylonitrile-Butadiene-Styrene (ABS) Plastics**

Acrylonitrile-Ethylene-Propylene-Styrene (AES) Plastics  
Bioplastics

**Semiconductor Materials**

Lithography Materials (Photoresists, multilayer materials, etc.)  
CMP (Chemical Mechanical Planarization) Materials (CMP slurries and pads)  
Interconnect Materials (spin-on low-k materials)  
Packaging Materials (Thick-film photoresists, photosensitive insulation materials, etc.)

**FPD Materials**

LCD Materials (Alignment films, protective coatings, color pigment dispersed resists, photosensitive spacers, etc.)  
Anti-Reflective Coatings, New FPD Materials (OLED, etc.)

**Strategic Businesses and Others**

**Precision Materials and Processing Business**

Heat-Resistant Transparent Resin "ARTON™",  
ARTON™ Optical Films  
Transparent Conductive Films "ELART™", etc.

**Environment and Energy Business**

Lithium-ion Capacitors Cells and Modules

**Biomedical Materials (Life Sciences)**

Size Standard Particles  
Particles for Clinical Diagnostics  
Research Agents  
Magnetic Particles, etc.

**Performance Chemicals**

High-Functional Dispersant "DYNAFLOW™"  
Organic/Inorganic Hybrid Coating Materials "GLASCA™"  
Battery Materials  
Thermal Management Materials

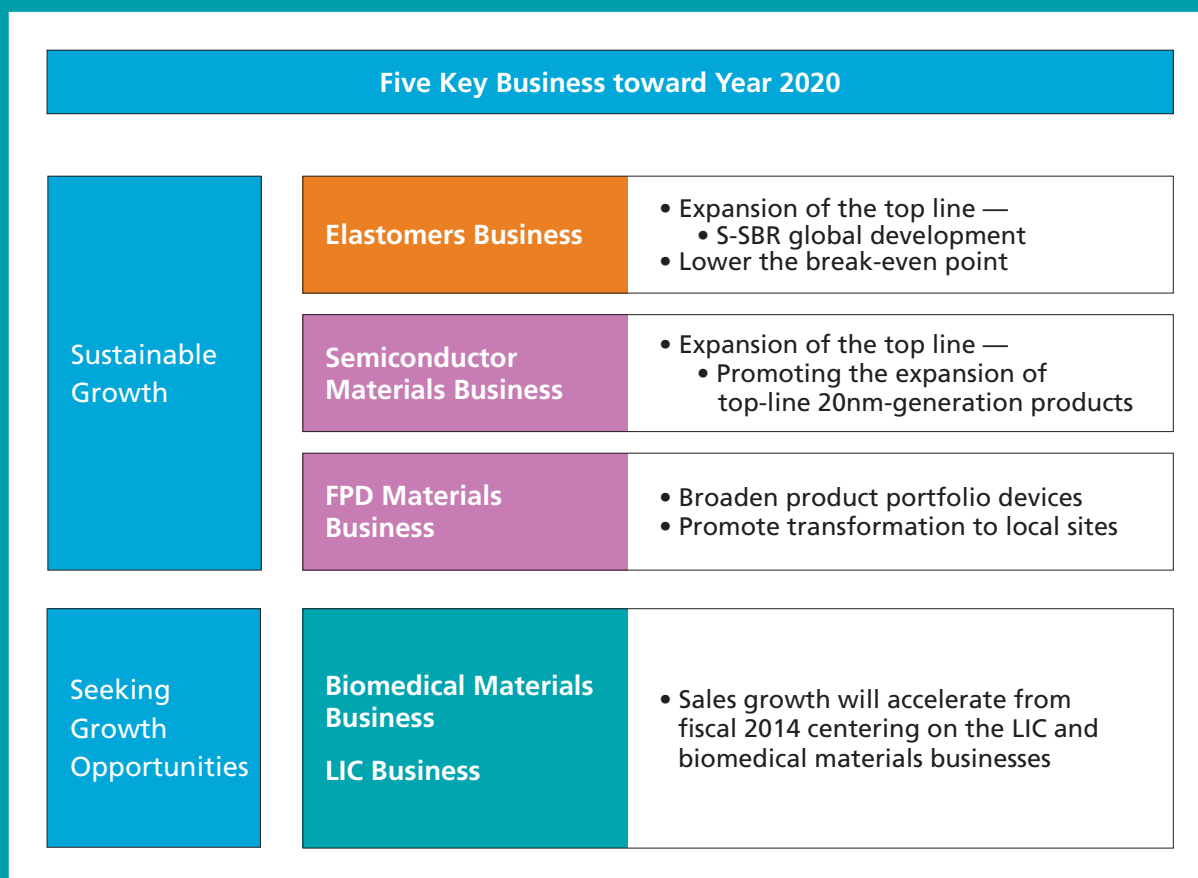
**Optical Materials**

UV Curing Optical Fiber Coatings, etc.

### Growth Scenario toward 2020

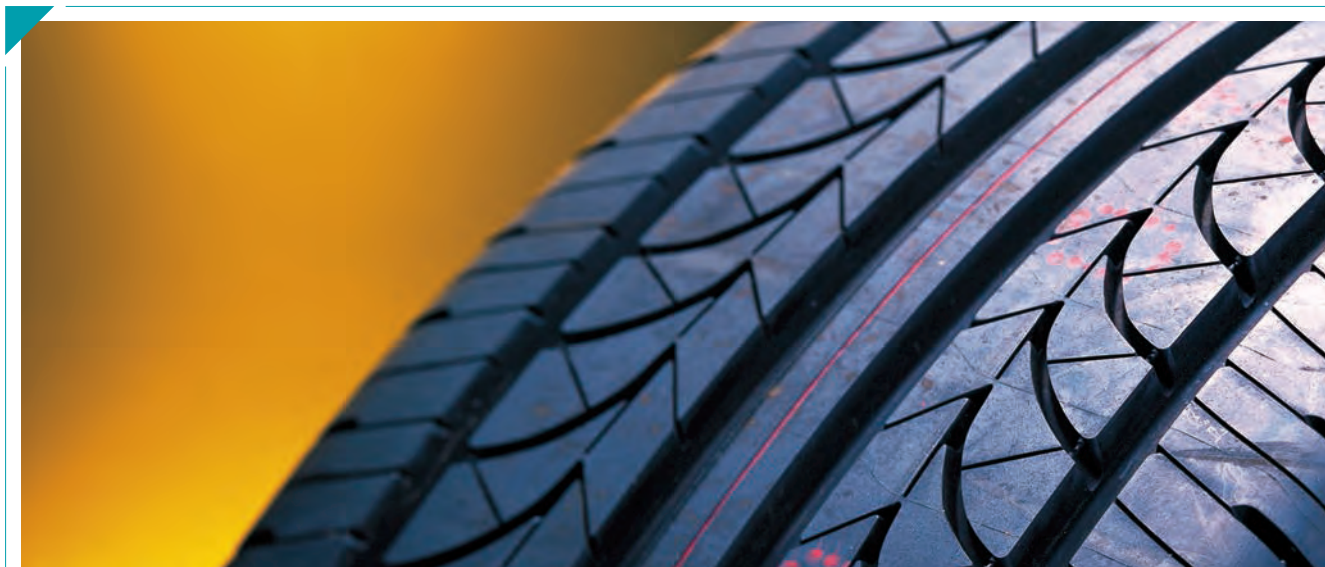
In order to achieve its goals for 2020, the JSR Group has formed a growth scenario for its business advancement. Under this scenario, we are focusing on five businesses in which we have distinguished, differentiated technologies.

These encompass three businesses earmarked for sustained future growth—elastomers (Petrochemical Products segment) and semiconductor materials and FPD materials (Fine Chemicals segment)—as well as two strategic businesses in which we will pursue renewed growth opportunities: biomedical materials and lithium-ion capacitors. By focusing on these five businesses, we will strive to achieve more consistent business advancement than in the past.





## Petrochemical Products Business



### Petrochemical Products: Elastomers

**The Elastomers segment has been a mainstay business since the foundation of JSR. Internally, the segment is segregated into three categories: A, B, and C.**

#### **Category A**

Category A, which includes solution polymerization styrene-butadiene rubber (S-SBR) and butyl rubber, consists of products that are technologically competitive in the global as well as domestic markets. As a segment that contributes greatly to the Group's revenue and earnings, it is a core business in which we continue to actively invest with the aim of achieving further growth.

At present, global demand for S-SBR is rising at the annual rate of around 12%. Nevertheless, the JSR Group achieved a 35% year-on-year increase in S-SBR sales in the year under review. Demand for fuel-efficient tires is expected to grow in line with the strengthening of fuel economy regulations and the widespread adoption of tire fuel-efficiency labeling systems in Europe

and elsewhere. JSR aims to become the leading world supplier of S-SBR—a material that continues to enjoy escalating demand.

Looking ahead, our production operation in Thailand, JSR BST Elastomer Co., Ltd., is scheduled to commence production in the autumn of 2013. Owing to advanced marketing activities to attract customers, we expect a high utilization rate when the plant begins operation. Going forward, we are considering a second stage of investment in S-SBR production in Thailand. Depending on the supply situation, we will also examine the possibility of a production base thereafter.

Other manufacturers will be in a position to produce S-SBR from 2014 onwards. Under these circumstances, JSR plans to further lock in demand by producing and supplying mid-range to high-end S-SBR ahead of its rivals. We are able to do this thanks to our technological and production capabilities in high-quality third-generation and fourth-generation S-SBR, a niche that new participants would find difficult to penetrate.

The future performance of the raw material butadiene must also be viewed within the

context of trends in the global petrochemical industry. The recent shale gas revolution is altering the structure of the petrochemical industry, and is expected to tighten supplies of butadiene. Against this backdrop, the JSR Group will continue strengthening its position by striving to secure stable supplies of this competitive product.

### **Category B**

This category consists of products that are unique to JSR. Developed through the application of proprietary technologies, our offerings include materials used in the environment and energy-saving fields, such as heat storage, latent heat, and heat shield materials. Products in this category are earmarked to become diversified and strategic businesses. Going forward, JSR will focus on expanding this category through the development of unique products.

### **Category C**

This category consists of general-purpose synthetic rubber, which encompasses commoditized products that face intense competition in the global environment.

JSR has made significant gains in its general-purpose synthetic rubber business, which is a source of stable earnings, by undertaking rigorous cost structural reforms and improving its pricing formulas. As a result, we have been able to enhance profitability and reduce the break-even point from 80% to 70%. Increased utilization rates have also been a significant factor in the improved performance in this category. Going forward, we will aim to improve efficiency to lower the break-even point.

## **How do tires enhance fuel efficiency?**

### **1. Tire distortion is the enemy of fuel efficiency**

Energy loss arising from distortion of running tires results from rolling resistance.

### **2. Reducing energy loss from tire distortion**

The key point is to lower the amount of heat generated from friction among rubber molecules and among reinforcing agents, as well as between rubber molecules and reinforcing agents.

### **3. Secret to synthetic rubber molecules**

Simplifying the process of bonding reinforcing agents to synthetic rubber molecule extremities prevents agglutination among reinforcing agents, and the resulting dispersion reduces friction-induced heat generation.

### **4. JSR's technological strength**

JSR's S-SBR excels due to a technology that strengthens the bonding between rubber molecules and reinforcing agents. The result is highly energy-efficient tires that are being widely adopted in the market.



## Fine Chemicals and Other Products Business



### Semiconductor Materials

**Ongoing shrinking technologies in the semiconductor market points to firm market growth for JSR's photoresists. Based the market data, we forecast an annual growth rate in this market of around 5.8% through to the year ending March 2017.**

In the past, information technology has connected us to the Internet and networks using mainly computers, smartphones, and tablet PCs. But future technical advances are expected to create an Internet of Things (IOT), in which televisions, cameras, audio devices, and other objects become interconnected. Here at JSR, we believe that the IOT will serve as a driver for future growth in the semiconductor market.

Although JSR held a 40% market share for 90–70nm ArF photoresists, it then failed to keep pace when the next generation appeared. However, as a result of development targeting an even newer generation, we are in a favorable business position, with a market share of more than 40% for

the 20nm generation of photoresists. Going forward, we will continue developing platforms with the aim of boosting market share in the 15nm and sub-15nm photoresist markets.

JSR is steadily increasing sales of lithography materials, including ArF photoresists, KrF (krypton fluoride) photoresists, and TCX topcoat materials for immersion exposure, as well as spin-on glass (SOG), an intermediate material. To this end, we are pursuing increased quality control and enhanced manufacturing technologies. In order to manufacture and supply photoresists for the 20nm and sub-20nm generations, we put our effort into total defect control from the raw material stage through to the finished product stage. Therefore, we are selectively investing in R&D and manufacturing facilities at our Yokkaichi Plant.

Through these and other measures, for the period through March 2017 JSR is targeting annual sales growth of around 10%, which is double the market growth rate.

## Flat Panel Display (FPD) Materials

**Amid increasing market polarization in the FPD materials sector, stemming from the proliferation of large televisions and high-performance mobile devices, JSR is well placed to meet market demand thanks to its strong technologies, product line-up, and its organization in both product segments.**

Today, there is increasing proliferation and commoditization of large panel displays, mainly for televisions, with demand centered on manufacturers in South Korea and Taiwan. Consequently, we are shifting our operations, from product development to manufacturing, to those regions and aggressively pursuing cost efficiencies. Under these conditions, we are targeting annual sales growth of 6%, or double the market growth rate.

Smartphones, tablet PCs, and similar devices that use small and medium-sized panels are becoming increasingly sophisticated. At the same time, the materials used for these panels, such as LCD materials, thin retardation ARTON film, and

indium tin oxide (ITO) film for touch panels, need to be high-performance, resulting in high value. Our forecast is also for 25% annual growth in sales of materials used in these panels. In order for us to achieve that, we are promoting a “vertical integration strategy” in order to expand our product portfolio in line with the need for enhanced performance and higher added value. JSR’s diverse product portfolio covers the different kinds of materials required by high-performance panels.

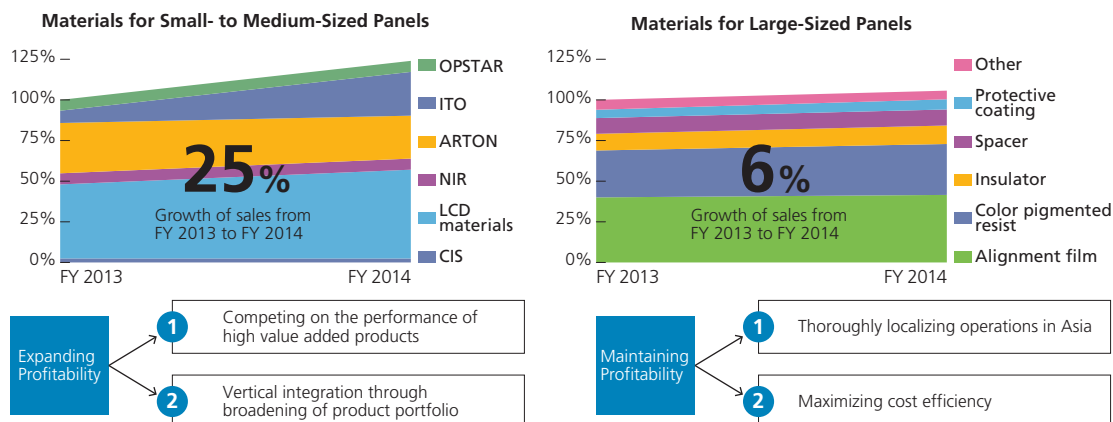
## Strategic Businesses and Other Business

**In fiscal 2013, ended March 31, 2013, sales from Strategic Businesses reached around 2.5 times the amount recorded in fiscal 2011. This growth is expected to continue, with a fiscal 2014 forecast of 1.5 times that for fiscal 2013.**

We intend to accelerate the growth of our strategic businesses, centering on precision materials and processing, biomedical materials (life sciences), and lithium-ion capacitors. In order to achieve growth, we also recognize the importance of

## Display Materials

Striving to secure the leading position in the FPD materials industry by closely following market demands, which are divided into those for commodity and those for high quality.







adopting an expansion strategy that considers M&A activities and capital alliances as ways to introduce outside technologies. In line with this strategy, in March 2013 JSR established a capital alliance with Medical & Biological Laboratories.

### **Biomedical Materials (Life Sciences)**

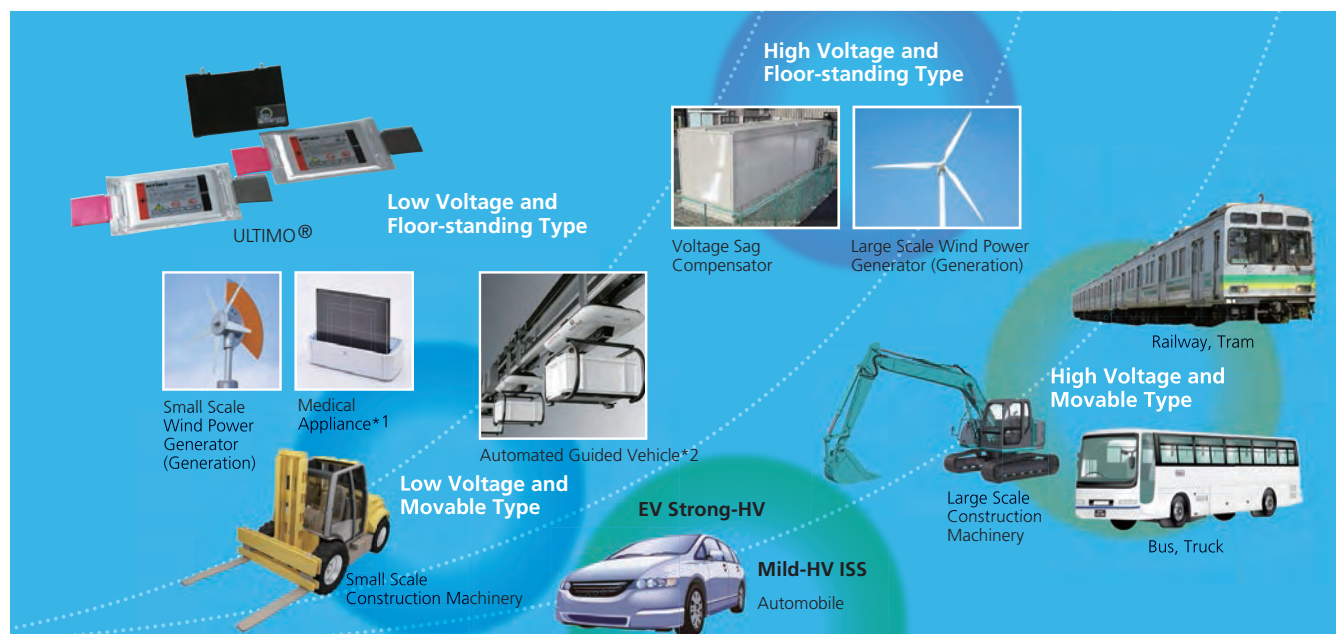
Under our growth strategy for the period through year 2020, we will expand the life sciences segment through the development and supply of materials that contribute to the translational research market. Development methods in the drug discovery field have recently seen a shift from low-molecular-weight pharmaceuticals to mainly polymer drugs. JSR has seized the opportunity provided by this shift to establish a business that supplies high-performance biomedical materials.

### **Lithium-Ion Capacitors**

Group subsidiary JM Energy Corporation develops and supplies laminated cells, flat prismatic

can-type cells, and modules for use in different kinds of cells. In the year ended March 2013, that company took steps to reaffirm the safety of its products. This was because, although LICs are structurally safer than lithium-ion batteries, fundamentally they are unsafe products. For this reason, we concentrated on establishing foolproof manufacturing technology. Our success in lowering the internal resistance in the course of this process resulted in high-performance products comparable to electric double-layer capacitors.

As a result, in the year under review we developed a capacitor that boasts not only considerably lower internal resistance compared with capacitors made by other manufacturers, but also a significant increase in durability, enabling a cycle performance in excess of one million times. Going forward, we will take full advantage of the interest in our products shown by a wide variety of sectors, including the automobile industry, to expand the range of LIC applications.



\*1 Courtesy of Konica Minolta Inc.  
\*2 Courtesy of Okamura Corp.



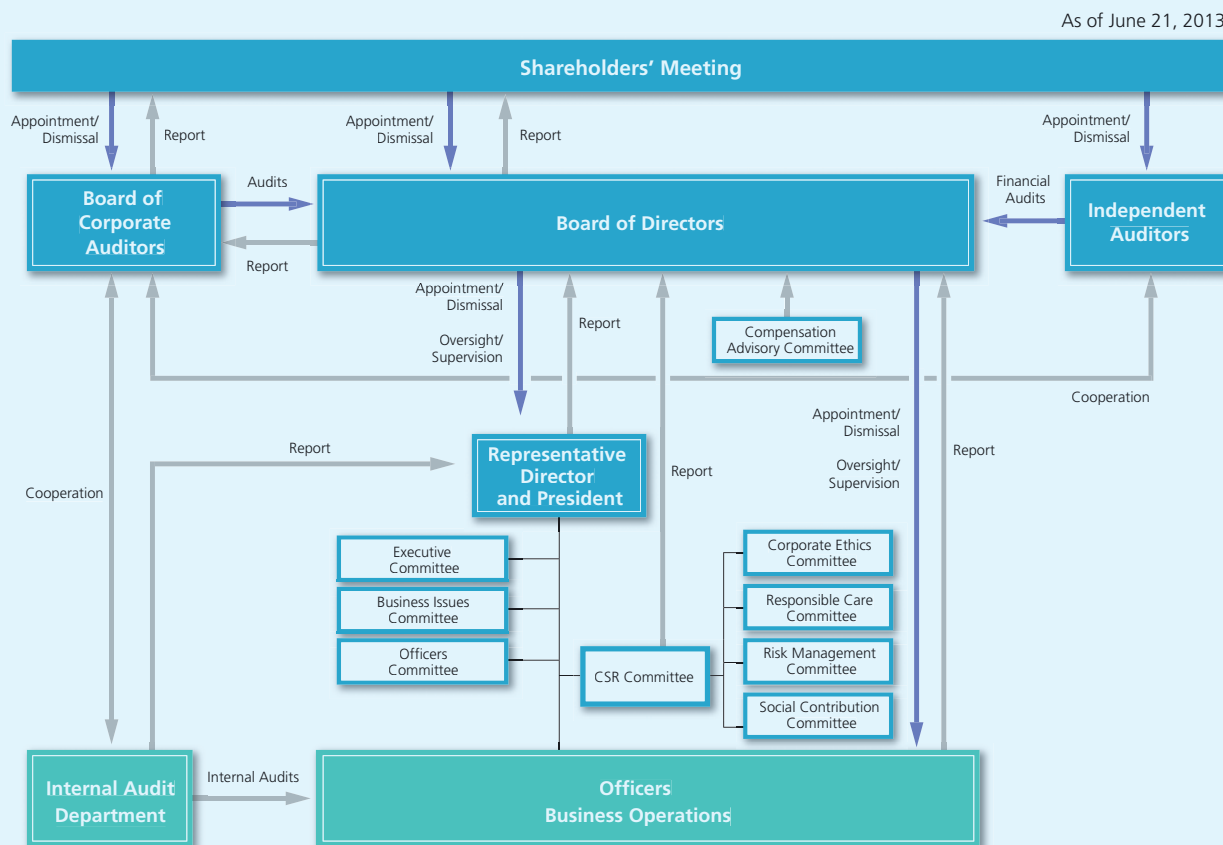
## Enhancing Trust and Achieving Sustained Growth

### Materials Innovation—We create value through materials to enrich people's lives and contribute to society and the environment

By putting this corporate mission into action, we at JSR endeavor to further enhance corporate value while maintaining management efficiency, transparency, and soundness to ensure a sustainable future. JSR is constantly improving its system of corporate governance with the aim of obtaining the trust of shareholders and all other stakeholders and building an appealing corporate constitution.

As of June 21, 2013, the Board of Directors has seven members—three outside directors and four internal directors. (In the year under review, there were three outside directors and five internal directors.) In addition, the Board of Corporate Auditors has three members, including two outside corporate auditors (decreased one member from the year under review). In this way, we are able to raise the transparency and soundness of operations. At the same time, we undertake ongoing reassessments aimed at further strengthening management monitoring and supervision.

In October 2012, JSR constituted the Compensation Advisory Committee, which includes outside directors, with the aims of establishing the monitoring system for more objective and transparent compensation for Directors and Officers, and of discussing issues related to the compensation. The new committee deliberates on such items as basic compensation policy and structure and the annual bonus payment system, and submits a report to the Board of Directors. Compensation for corporate auditors is decided under deliberation at the Board of Corporate Auditors.



## ■ Officer System

JSR has introduced an officer system to separate Company-wide management monitoring by directors and business execution by officers. The system accelerates decision-making and business execution by directors and officers, respectively, and also strengthens the supervisory function of directors and clarifies roles and responsibilities.

## ■ Audit System

Under the Company's audit system, business execution audits and account audits make significant contributions to fair, transparent, and timely management. Business audits cover the execution of duties by directors, and account audits cover financial statements submitted at Ordinary

General Meetings of Shareholders.

To ensure fairness and transparency, the Company appoints independent attorney and certified public accountant as outside corporate auditors.

## ■ Internal Control System

In accordance with The Companies Act of Japan, the JSR Group has established a basic policy governing its internal control system. Guided by this policy, the Company works to strengthen and augment its internal controls. The Internal Audit Department systematically audits business execution and compliance systems in each division and Group company, and confirms that rigorous legal compliance is observed throughout the Group.

## Board of Directors

The Board of directors discusses and makes decisions on important business matters, and also supervises directors and officers' execution of business duties. The Board holds meetings once monthly, in principle. It also includes three outside directors who, together with three corporate auditors (including two outside ones) engage in robust

exchanges of opinions at Board meetings. By introducing independent and neutral outside directors with extensive business experience, we seek to reinforce the appropriateness of judgments made by management and monitor the legality of their execution of duties.

## Executive Committee

The Executive Committee holds extensive discussions on items concerning fundamental management initiatives, management policies, and management plans, along with important matters concerning the execution of business activities at each department. The committee thus gives direction concerning these issues. As required, certain items submitted to this committee are passed on to the Board of Directors for further discussion.

This committee is made up of the president, officers with directorship status, and officers appointed by the president, and responds to important business execution with the aim to expedite decision making and improve the efficiency of such operations. As a rule, this committee meets once a week, and is chaired by the president. The standing corporate auditor also attends these committee meetings.

## Business Issues Committee

The Business Issues Committee engages in broad-ranging debate about items related to fundamental management strategies and policies, basic policies behind specific projects, and changes to business strategies. It also shares information to ensure a common understanding of such matters and discusses company directions. Its findings

are reflected in deliberations of the Board of Directors and the Executive Committee. The Business Issues Committee, which meets once a week, consists of the president, officers with directorship status, and officers appointed by the president.

## Officers Committee

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This committee is held in order to share information from all departments concerning the execution of business activities, to ensure members' thorough understanding of important business matters and to enhance their commu-

nications. This committee consists of the president, senior officers, officers and a standing corporate auditor, except overseas representatives. As a rule, this committee meets twice a month and is chaired by the president.

## Board of Corporate Auditors

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This board meets every month as stipulated in the regulations governing this body. The corporate auditors receive reports on important matters, hold discussions, and make decisions.

In accordance with standards for audits by corporate auditors, the auditors attend meetings of the Board of Directors, and the standing corporate auditor attends

Executive Committee and other important committees to monitor how important decisions are reached and business activities are executed. The auditors also receive reports from the independent auditors, directors, and others. Through these activities, the Board of Corporate Auditors holds deliberations in order to form auditing opinions.

## CSR Committee

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The CSR Committee was established to ensure that JSR fulfills its responsibilities to society and complies with laws and regulations. Under the CSR Committee, four committees were established: the Corporate Ethics Committee, the Responsible Care Committee, the Risk Management Committee, and the Social Contribution Committee. The CSR Committee integrates and guides the activities of the above four committees and meets four times each year along with special meetings as necessary to further strengthen the Company's CSR efforts.

The CSR Committee is chaired by the officer responsible for CSR and consists of officers, senior officers, and officers. Bureaus of the four committees listed above also attend meetings of the CSR Committee. The Committee clarifies the Company's stance toward CSR and works to strengthen CSR efforts at JSR.

### *Corporate Ethics Committee*

The Corporate Ethics Committee, chaired by the officer, in charge of general affairs, was established under the CSR Committee to implement corporate ethics standards and prevent improper actions throughout the JSR Group.

The JSR Group Principles of Corporate Ethics have been prepared to provide a code of conduct for executives and employees. It is also prepared in Traditional Chinese, Thai, and Korean, in addition to English and Simplified Chinese, so that Group employees all over the world can become better acquainted with the Principles. As for the reporting system, along with the internal hotline linked to the Corporate Ethics Committee and the external hotline linked to an external attorney, JSR introduced a hotline that is linked to a specialized external agency and is also available in English, Chinese, Korean and Thai.

### *Responsible Care Committee*

JSR conducts a Responsible Care program to fulfill its obligations to achieve sustainable development. The Responsible Care Committee was established under the CSR Committee to ensure that Responsible Care activities are conducted effectively across the entire company. The committee is chaired by the managing officer for safety and environmental affairs, demonstrating Responsible Care position as a core component of JSR's management.

This committee approves Responsible Care plans, evalu-

ates and verifies results of activities, and helps to maintain and upgrade JSR's programs to eliminate accidents, reduce environmental impact, manage chemical substances, and ensure safety of products. Details and results of Responsible Care activities are disclosed through the CSR Report and Responsible Care Reports prepared by individual plants. The CSR Report is audited by a third party to improve the reliability and transparency of the data. Through these activities, the committee is dedicated to winning greater trust from customers and addressing any concerns among residents in the neighborhoods of JSR's facilities.

To make the information widely available, the CSR Report is posted on the JSR website ([http://www.jsr.co.jp/jsr\\_e/csr/index.shtml](http://www.jsr.co.jp/jsr_e/csr/index.shtml)).

### ***Risk Management Committee***

JSR places strong management priority on preventing serious crises from occurring and on minimizing the impact of

crises that do occur on its business activities. To this end, the Company established the Risk Management Committee under the CSR Committee, with the officer responsible for Corporate Planning as chair. The Committee decides policies and plans in response to crises, both present and potential, and promotes continuous improvement.

### ***Social Contribution Committee***

The Social Contribution Committee was established under the CSR Committee and is chaired by the officer responsible for Corporate Communications. JSR has been involved in many activities that contribute to society at the local level. JSR will expand its activities to cover the whole society and provide more active approaches. The Social Contribution Committee studies the formulation of new programs and pursues initiatives according to its "Basic Approach to Social Contribution," published in January 2009.

## **Status of Internal Audit, Audits by Corporate Auditors and Financial Audits**

JSR has adopted the corporate auditor system. There are three corporate auditors, including two from outside the JSR Group. These auditors are staffed by one individual. Audits are performed as described in the section concerning the Board of Corporate Auditors.

The corporate auditors work closely with the independent auditors. The corporate auditors receive reports on the financial accountant's audit plan and audit results. Further-

more, the corporate auditors and financial accountants exchange information and opinions as necessary in the course of each fiscal year. The internal audit has been conducted by the Internal Audit Department as a specialized internal auditing unit. The corporate auditors receive reports on the audit plan and audit results from the Internal Audit Department regularly, exchange opinions, and enhance the auditing system.

## **Remuneration**

The remuneration of the Company's directors consists of a basic salary, a bonus based on consolidated performance for the year, and stock options that serve as a long-term incentive. The level of remuneration is commensurate with the Company's business results and is compared with those of other companies in the same industry and of similar size. The total limit for monthly salaries is decided by resolution at the Ordinary General Meeting of Shareholders. Performance-based bonuses and stock options are also approved

by resolution at the Ordinary General Meeting of Shareholders. Total remuneration paid in fiscal 2013 was ¥311 million, paid to seven directors, included three outside directors and director who retired during fiscal 2013.

Corporate auditors are paid a basic fixed salary that is not performance-based. In fiscal 2013, total salaries paid to corporate auditors amounted to ¥45 million, including ¥29 million paid to internal corporate auditors and ¥16 million to outside corporate auditors.

## Outside Directors

The Company has appointed three outside directors in order to further reinforce the monitoring function of the Board of Directors. By welcoming outside directors with extensive experience and highly impartial, neutral perspectives, we

will ensure more appropriate management decision-making and reinforce our ability to monitor the legality of business execution.

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### Takuya Goto

Takuya Goto served as Representative Director and President, and Chairman, Board of Directors of Kao Corporation. Mr. Goto has extensive experience in the management of Kao, a prominent international consumer products and chemical company. He has helped strengthen corporate governance by deploying this experience to ensure reasonable judgments by management from external, independent and neutral perspectives, as well as management transparency and soundness. For this reason, Mr. Goto has been named an outside director, as he was in the previous year.

#### *Major activities in the year under review*

Mr. Goto participated in all 17 meetings of the Board of Directors held during the year under review, at which he contributed amply to fair and reasonable management decisions and transparent and sound management by addressing the Board as appropriate concerning matters under discussion. Mr. Goto brought to the Board an independent outside perspective based on his extensive experience in the management of a company that operates an international business in consumer products and industrial-use chemicals.

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### Michio Kariya

Michio Kariya currently serves as Representative Director and Chairman of the Board of Nikon Corporation. Mr. Kariya has extensive experience in the management of Nikon, a globally renowned optical equipment company. He has helped strengthen corporate governance by deploying this experience to ensure reasonable judgments by management from external, independent and neutral perspectives, as well as management transparency and soundness. For this reason, Mr. Kariya has been named an outside director, as he was in the previous year.

#### *Major activities in the year under review*

Mr. Kariya participated in 16 of the 17 meetings of the Board of Directors held during the year under review, at which he contributed amply to fair and reasonable management decisions and transparent and sound management by addressing the Board as appropriate concerning matters under discussion. Mr. Kariya brought to the Board an independent outside perspective based on his extensive experience in the management of a company that operates an international business in optical machinery and equipment.

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### Kazunori Yagi

Kazunori Yagi is Director and Executive Managing Officer of Yokogawa Electric Corporation, and also serves as advisor to that company. Mr. Yagi has extensive experience in the management of Yokogawa Electric, a globally renowned producer of control systems and measurement instruments. JSR anticipates that Mr. Yagi will help strengthen corporate governance by deploying this experience to ensure reasonable judgments by management from external, independent and neutral perspectives, as well as management transparency and soundness. For this reason, Mr. Yagi has been named an outside director.

#### *Major activities in the year under review*

Mr. Yagi attended 12 of the 13 meetings of the Board of Directors held after his appointment in the year under review, at which he contributed amply to fair and reasonable management decisions and transparent and sound management by addressing the Board as appropriate concerning matters under discussion. Mr. Yagi brought to the Board an independent outside perspective based on his extensive experience in the management of a company that operates an international business in control systems and measurement instruments.



## Outside Corporate Auditors

To ensure the fairness and transparency of management, the Company appoints one standing corporate auditor, as well as two outside corporate auditors. The outside corporate auditors have no personal, financial, or business inter-

ests in the Company. They are called upon to ensure the sound governance of the Company while drawing on their respective careers.

### Kenji Ito

Kenji Ito does not concurrently hold the position of director in another company. Mr. Ito contributes to ensuring reasonable judgments by management, as well as management transparency and soundness by auditing the Company from a position of independence while drawing on the extensive expertise and a wealth of experience in finance and accounting he possesses as a certified public accountant.

#### *Major activities in the year under review*

Mr. Ito attended all 17 meetings of the Board of Directors and all 16 meetings of the Board of Corporate Auditors held during the year under review. He contributed amply to the auditing of the Company and to fair and reasonable management decisions and transparent and sound management by addressing the Board of Directors and Board of Corporate Auditors as appropriate concerning matters under discussion. Mr. Ito brought to both boards an independent outside perspective based on his extensive experience as a certified public accountant and his expert knowledge of financial and accounting matters.

### Hiroichi Uekusa

Hiroichi Uekusa does not concurrently hold the position of director in another company. Mr. Uekusa contributes to ensuring reasonable judgments by management, as well as management transparency and soundness by auditing the Company from a position of independence while drawing on the extensive knowledge and experience in legal matters he possesses as an attorney.

#### *Major activities in the year under review*

Mr. Uekusa attended all 17 meetings of the Board of Directors and all 16 meetings of the Board of Corporate Auditors held during the year under review. He contributed amply to the auditing of the Company and to fair and reasonable management decisions and transparent and sound management by addressing the Board of Directors and Board of Corporate Auditors as appropriate concerning matters under discussion. Mr. Uekusa brought to both boards an independent outside perspective based on his extensive experience as an attorney at law and his expert knowledge in a broad range of legal matters.

## The JSR Group's Essential Elements

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The JSR Group's Essential Elements consists of its Corporate Mission ("significance of existence"), Management Policies (evaluation standards), and Course of Action (individual work styles). In this process, it is important that we act with integrity as a good corporate citizen and live up to the trust that our stakeholders place in us. Our Group CSR represents the initiatives we employ to successfully achieve our mission, and as such we view CSR as a key management issue.

### Corporate Mission

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#### Materials Innovation

#### **We create value through materials to enrich society, people and the environment**

The corporate mission of the JSR Group clearly identifies the company's raison d'être. By supplying materials that are indispensable to human societies, JSR aims to be trusted.

### Management Policies

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The JSR Group has established management policies as a framework for decision-making and activities, and to set standards to serve as the basis for the decisions of each JSR team member. As group-wide management policies for

sustainable growth, it consists of two basic components—fundamental pillars of management, and responsibility to our stakeholders—both of which represent JSR's commitment as a good corporate citizen.

### Fundamental Pillars of Management

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#### **Continuous creation of businesses**

As society evolves, so does the demand for specialized materials and advanced products. JSR continuously evolves to anticipate and respond to changing marketing needs and, in doing so, achieve dynamic growth.

#### **Enhancement of corporate culture**

As society evolves, so will our organization. JSR will build on its existing positive corporate culture to create an organization and management style with the vitality to keep evolving.

#### **Increase in corporate value**

JSR will position itself to increase our overall corporate value by creating businesses through materials with focuses on customer satisfaction and the fulfillment of employees.

### Responsibility to Our Stakeholders

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#### **Responsibility to our customers / business partners**

When interacting with our business partners and customers, the JSR Group will:

- Constantly evolve to meet the demand for new materials
- Always strive to increase customer satisfaction
- Act in good faith and maintain fair and equitable business relations
- Continue to be socially and environmentally conscious throughout the supply chain

**Responsibility to our employees**

All employees should expect:

- To be evaluated and rewarded based on fair standards
- Continuous opportunities to grow by challenging themselves
- Acceptance of the diversity of fellow colleagues and to be provided a place where all employees can work together as a team

**Responsibility to society**

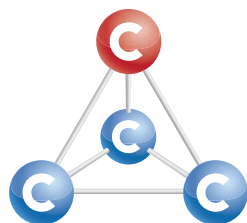
All members of the JSR Group will honor our responsibility to both the local and global communities through:

- Responsible and respectful business practices (Responsible Care) that consider the environment and safety
- Support of environmental conservation by providing eco-friendly products
- Reduction of our environmental impact throughout the entire product lifecycle
- Active contribution to conserving biodiversity throughout its business activities and the entire product lifecycle

**Responsibility to shareholders**

Group will maintain its responsibility to its shareholders by:

- Aiming to increase corporate value by creating business opportunities through materials
- Constantly enhancing its management efficiencies
- Inspiring trust by being highly transparent and conducting sound corporate management practices

**Course of Action (4Cs)**

**CHALLENGE**  
COMMUNICATION  
COLLABORATION  
CULTIVATION

**Challenge**

All employees of JSR Group should share a common, global focus and desire to succeed. Employees should feel confident to autonomously take on new challenges, learning from successes while viewing setbacks as opportunities to learn, grow and improve.

**Communication**

All employees should feel comfortable and confident maintaining open lines of bi-directional communication at all levels within the JSR Group. Employees should strive for organizational transparency through direct conversations as the best means to share value and achieve common goals, especially in the face of growth and diversification.

**Collaboration**

Employees will work together in the spirit of cooperation valuing common, corporate goals over internal or departmental barriers. Employees will also be encouraged to actively collaborate with external resources and not be bound to conventional ideas.

**Cultivation**

All employees will cultivate an environment that supports bi-directional communication between managers and subordinates and provides opportunities to develop together as individuals and as members of productive, supportive teams.

**Corporate Slogan**

With chemistry, we can.

**With chemistry, we can.**

JSR is determined to keep providing solutions that benefit not only customers but also the broader society. The company's slogan highlights the word "chemistry" to succinctly convey its corporate identity and business positioning, and also expresses the confidence JSR professionals feel in the face of every challenge.

## Corporate Social Responsibility

**The JSR Group's mission is to create new levels of value in various fields through materials that enrich people's lives and contribute to society and the environment. These activities underpin the Group's corporate social responsibility (CSR) and are a key management priority.**

### CSR Advancement Structure

JSR promotes CSR through a system of committees and a CSR Department established to reinforce CSR-related initiatives. There are four committees that function under the supervision of the CSR Committee: the Corporate Ethics Committee, which implements corporate ethics standards and works to prevent improper actions throughout the Group; the Responsible Care Committee, which works to realize a sustainable society through the implementation of initiatives that safeguard the environment, health, and safety; the Risk Management Committee, which seeks to further strengthen the Group's risk management system; and the Social Contribution Committee, which devises and promotes activities to help the Group make a contribution to society.

### Responsibility to Our Stakeholders

The JSR's Group's Essential Elements include values to be shared among all JSR employees to enable them to act responsibly and with confidence towards all stakeholders. For JSR, the term "stakeholder" refers to all customers and business partners, employees, society, and shareholders.

#### Responsibility to Customers and Business Partners

■ World-leading semiconductor manufacturer Intel Corporation awarded JSR its most prestigious Supplier Continuous Quality Improvement (SCQI) Award for three consecutive years. The award recognizes extraordinary commitment to quality and exceptional performance toward Intel's goals. JSR provides Intel with lithography materials, packaging materials, and CMP materials.

■ JSR works hard to promote CSR activities in its supply chains. For example, our procurement policy includes questionnaires on environmental and social aspects for our business partners to fill out. If a business partner is



Photography by Dan Agulian

Intel Corporation awarded JSR the SCQI Award for three consecutive years

identified as having a particular problem, we dispatch procurement staff to work together with that partner on finding an appropriate solution.

#### Responsibility to Our Employees

■ JSR conducts an Employee Awareness Survey once every three years. In the process, we have identified two interesting characteristics. One is a corporate culture of "discipline" that has been passed down through the years, which we will continue to preserve into the future. The other is a corporate culture with an inherent weak sense of "freedom," which we will need to improve. In response, we have established guiding principles that include the keywords "Challenge, Communication, Collaboration, and Cultivation," also known as the "Four Cs." The aim is to encourage managers and junior staff to work together for their mutual benefit.

■ JSR also focuses on employee diversity so that employees can develop their true potential and to enable the Group to continue growing from strength to strength as a corporate member of the global community. We implement a program of activities that promote diversity in order to foster a dynamic work environment in which employees

from diverse backgrounds are able to fully demonstrate their abilities. Going forward, we will maintain and strengthen our rich work force by making effective use of female employees and fully utilizing our global human resources.

### Responsibility to Society

- Taking advantage of our various business activities, we run programs aimed at stimulating children's interest in chemistry and sharing the importance, possibilities, and enjoyment that comes from manufacturing, as well as raising awareness about the importance of materials.

Working in cooperation with boards of education in locations where we have manufacturing plants, we send employees to elementary and junior high schools to conduct science classes on a regular basis.

- Since fiscal 2009, JSR has held annual activities at all business divisions and Group companies for the purpose of identifying a wide range of risks, such as those related to explosions, fire, large-scale earthquakes, and pandemics. Once a risk has been identified, it is assessed and an action plan is devised. A serious risk is treated as a major company-wide risk, and the task of managing and mitigating that risk is given to the Risk Management Committee and CSR Committee. In addition to holding annual crisis management exercises, we conduct reviews in order to make further improvements to risk management systems.

### Responsibility to Shareholders

- JSR works constantly to maintain and enhance management transparency, efficiency, and soundness and raise

corporate value so that it is attractive to shareholders.

- We strive to conduct investor relations (IR) activities tailored to the needs of shareholders and all other investors, as well as disseminate information regarding management and corporate policies promptly and accurately.
- JSR undertakes a range of measures to maintain close communication with shareholders and to ensure the smooth exercising of shareholders' voting rights. These include holding early Ordinary General Meetings of Shareholders, sending early invitations to such meetings, adopting a system for exercising voting rights via the Internet, and offering institutional investors access to an electronic voting platform.
- We strive to provide opportunities for communicating with shareholders and all other investors. In addition to conducting quarterly result briefings, we hold seminars for institutional investors and business analysts that shareholders may attend, and we also host technology seminars.
- In April 2009, the JSR Group became a participant in the United Nations Global Compact. Amid growing calls for corporate social responsibility, the Global Compact enables companies that operate on a worldwide level to declare their commitment to observing the Compact's ten principles. The principles include human rights, labor, the environment, and anti-corruption. Having declared its participation in the Global Compact and its commitment to act responsibly as a member of the international community, the JSR Group will work even harder to actively fulfill its social responsibilities.



Analysts meeting



JSR's fiscal 2012 Ordinary General Meeting of Shareholders

### Ratings from Outside Organizations

JSR's CSR activities are rated highly by overseas and domestic investment-related organizations.

In fiscal 2013, the JSR Group was selected for inclusion in the following Social Responsibility Indices.

- FTSE4Good Index Series
- Ethibel Pioneer & Excellence Label
- Morningstar's MS-SRI Index

## Global R&D, Production, and Marketing Operations



### Contribution of Patents

	FY2009	FY2010	FY2011	FY2012	<b>FY2013</b>
Japan					
Fine Chemicals and Other Products	1,269	1,465	1,685	1,972	<b>2,331</b>
Petrochemical Products	428	374	377	387	<b>358</b>
Others	73	75	67	79	<b>89</b>
	1,770	1,914	2,129	2,438	<b>2,778</b>
Overseas					
Fine Chemicals and Other Products	512	492	489	507	<b>523</b>
Petrochemical Products	1,955	2,164	2,365	2,516	<b>2,741</b>
Others	34	39	36	33	<b>34</b>
	2,501	2,695	2,890	3,056	<b>3,298</b>
Total	4,271	4,609	5,019	5,494	<b>6,076</b>

### Global R&D Strategy

“Successful research and development activities are the cornerstone of JSR Corporation.” Guided by this belief, JSR has tackled the challenges of expanding technology domains, ranging from core polymer technology to photochemistry, inorganic chemistry, and precision chemistry. Since its founding, the JSR Group has contributed to the advancement of society through the creation of groundbreaking materials. The Group possesses unique, world-renowned strengths in R&D, and currently holds around 6,000 patents.

JSR’s R&D centers and laboratories are responsible for supporting the creation of new businesses, as well as

supporting existing businesses. To achieve this goal, these centers and laboratories work closely with related divisions to set research themes that anticipate the needs of the market and maintain a flexible research organization that responds quickly to the circumstances of users. JSR also conducts consignment research, joint research and consortium projects, working with clients, universities, research institutions, and others, both in Japan and overseas, with the goal of identifying the latest technology and knowledge and incorporating it in the Company’s R&D at the first opportunity.

JSR’s domestic R&D organization consists of several facilities, of which the Yokkaichi Research Center forms the



core. Others include the Precision Processing Technology Center, Tsukuba Research Laboratories, and the JSR Functional Materials Research Center.

Overseas, we have established research facilities in Taiwan and South Korea, where there is a concentration of flat panel display (FPD) production bases.

With numerous products that represent the world standards in their fields, JSR will strive to solidify its position as a global comprehensive materials supplier.

### Global Structure of Petrochemical Products Business

For some years, the Petrochemical Products Business, which engages mainly in synthetic rubbers and plastic products, has been building a global manufacturing and sales network. The Group has sales operations in major centers in China and Southeast Asia to closely monitor the needs of local customers in the automobile and electronics industries.

We are also upgrading operations that manufacture synthetic rubber used in automobile parts and fuel-efficient tires, which have enjoyed growing demand in recent years. In addition to producing synthetic rubber for fuel-efficient tires at the Yokkaichi Plant in Japan, we also make this product in collaboration with Styron Europe GmbH (formerly Dow Europe). In June 2011, we decided to establish JSR BST Elastomer Co., Ltd. in collaboration with Bangkok Synthetics Co., Ltd., a local business partner in Thailand. The new company is currently building Thailand's first S-SBR manufacturing plant, due to commence operations in autumn 2013. It will start with a capacity of 50,000 tons per year, with plans for expansion to 100,000 tons.

For other synthetic rubber products, Elastomix (Thailand) Co., Ltd. engages in the stable production and supply of CMB, a raw material used in synthetic rubber parts, for local automakers and parts manufacturers.

### Global Structure of Fine Chemicals and Other Products Business

In South Korea and Taiwan, which have the largest world markets for FPDs, JSR Micro Korea Co., Ltd. and JSR Micro Taiwan Co., Ltd. hold important positions. Both companies have expanded the scale of production and the items they handle in order to meet demand from the rapidly expanding FPD market. To enhance and accelerate their future responses to customers, they are building new research laboratories.

Meanwhile, many LCD panel manufacturers are planning to build new production facilities in China. They include local companies, as well as major corporations from Japan, South Korea, and Taiwan. To address the needs of those customers, the JSR Group is working to provide technical services and build a product development system in China.

In the semiconductor materials business, Silicon Valley based JSR Micro, Inc. and JSR Micro N.V. in Belgium manufacture, provide technical support and sells cutting-edge ArF photoresists. It has also introduced exposure equipment comparable with that of client companies in order to support R&D on leading-edge products.

In the life sciences field, we established JSR Life Sciences Corporation in Japan and J&W Beijing Biotech Co., Ltd. in China. The latter is a joint venture company with a local company. In the summer of 2012, the joint venture will start manufacturing and selling products to promote the life sciences businesses of JSR Group companies in Europe and North America, with the aim of building a global business structure and expediting the Group's responsiveness to market movements.



## JSR Global Network

### HEAD OFFICE

#### JSR Corporation

1-9-2, Higashi-Shinbashi, Minato-ku,  
Tokyo 105-8640, Japan

### BRANCH OFFICES

#### Nagoya Branch

**A** Wallisellen Branch  
(Switzerland)

**B** Taiwan Office

**C** Singapore Branch

### PLANTS

#### Yokkaichi Plant

100 Kawajiri-cho Yokkaichi, Mie 510-8552, Japan

#### Chiba Plant

5, Chigusakaigan, Ichihara, Chiba 229-0108, Japan

#### Kashima Plant

34-1, Tohwada, Kamisu, Ibaraki 314-0102, Japan

### ★ Styron Europe GmbH

(formerly Dow Europe GmbH)  
Schkopau, Germany

\*A production plant of synthetic rubbers where JSR owns a capacity right of 30,000 tons/year.

## JAPAN

### ●Fine Chemicals and Other Products Business

#### JSR MICROTECH INC.

Production and sales of printed circuit boards and IC testing fixtures.

#### D-MEC LTD.

Commissioned generation of 3D models, sales of solid modeling systems and optically-hardened resins, and commissioned analysis by CAE.

#### JSR Micro Kyushu Co., Ltd.

Production of photoresists for semiconductors and materials for flat panel displays.

#### JSR Optech Tsukuba Co., Ltd.

Production of UV curing type optical fiber coating materials.

#### JAPAN FINE COATINGS Co., Ltd.(\*)

Sales of coating materials for fiber-optic cables reinforced by ultraviolet or electron radiation and for other apparatus.

#### JM Energy Corporation

Design, development, product and sales of lithium-ion capacitors.

#### Tri Chemical Laboratories, Inc.(\*)

Production and sales of precursors for semiconductors.

#### JSR Life Sciences Corporation

Production and sales of life sciences related materials.

#### Medical & Biological Laboratories Co., Ltd.

R&D, manufacturing and sales of diagnostic and research reagents.

### ●Elastomers Business

#### ELASTOMIX CO., LTD.

Compounding of crude rubbers and sales of compounded products.

#### Japan Butyl Co., Ltd.(\*)

Production and sales of butyl rubbers.

#### KRATON JSR ELASTOMERS K.K.(\*)

Production, purchase, and sales of thermoplastic rubbers.

#### Emulsion Technology Co., Ltd.

Compounding and sales of crude latex.

### ●Plastics Business

#### Techno Polymer Co., Ltd.

Production, sales and R&D of ABS resin.

#### JAPAN COLORING CO., LTD.

Coloring of synthetic resin and sales of colored products.

### ●Business in Other Fields

#### JSR Trading CO., LTD.

Exports and imports, purchase and sales of the following: various chemicals, machinery, equipment, physical distribution materials, living necessities, foodstuffs, beverages, real estate.

#### JSR LOGISTICS CO., LTD.

Freight forwarding, warehousing, delivery management.

#### JSR ENGINEERING CO., LTD.

Engineering and consultation for chemical engineering equipment.

#### JSR Business Service Co., Ltd.

Undertaking of general affairs, accounting, payroll calculation, welfare, computer system design, programming and system operation and maintenance.

#### Nichigo Kogyo Co., Ltd.

Product packaging and undertaking of civil engineering and general construction.

#### JN System Partners Co., Ltd.

Computer system design, programming, system operation and maintenance.

## OVERSEAS

### ●Fine Chemicals and Other Products Business

#### 1 JSR Micro N.V.

Development, production and sales of semiconductor materials.

#### 2 JSR Micro, Inc.

Development, production and sales of semiconductor materials.

#### 3 JSR Micro Korea Co., Ltd.

Development, production and sales of materials for flat panel displays and others.

#### 4 JSR Micro Taiwan Co., Ltd.

Development, production and sales of materials for flat panel displays.

#### 5 JSR (Shanghai) Co., Ltd.

Sales and marketing of JSR products.

#### 6 J&W Beijing Biotech Co., Ltd.

Development, manufacturing and sale of latex reagents intermediates and chemiluminescent reagents intermediates.

### ●Elastomers Business

#### 6 Kumho Polychem Co., Ltd.(\*)

Production and sales of EPRs.

#### 7 ELASTOMIX (THAILAND) CO., LTD.

Compounding of crude rubbers and sales of compounded products.

#### 8 ELASTOMIX (FOSHAN) CO., LTD.

Compounding of crude rubbers and sales of compounded products.

#### 9 Tianjin Kuo Cheng Rubber Industry Co., Ltd.(\*)

Compounding of crude rubbers and sales of compounded products.

#### 10 JSR BST Elastomer Co., Ltd.

Sales and Manufacturing of S-SBR (Solution Polymerization Styrene-Butadiene Rubber)

#### 11 JSR Trading, Inc.

Sales of synthetic rubber.

#### 12 JSR Trading (Shanghai) Co., Ltd.

Sales and technical services of synthetic resins and sales of various chemicals, machinery, and equipment.

### ●Plastics Business

#### 13 TECHNO POLYMER HONG KONG CO., LTD.

Sales and technical services of synthetic resins in Hong Kong and neighboring regions.

#### 14 Techno Polymer (Thailand) Co., Ltd.

Sales and technical services of synthetic resins in ASEAN region.

#### 15 Techno Europe N.V.

Sales and technical services of synthetic Resins

#### 16 Techno Polymer (Shanghai) Co., Ltd.

Sales and technical services of synthetic resins in China.

#### 17 Techno Polymer Shanghai Technical Development Co., Ltd.

Production and processing of plastics, technical services related to plastics in China.

#### 18 Techno Polymer Guangzhou Co., Ltd.

Sales and technical services of synthetic resin in Guangzhou and neighboring regions.

#### 19 TECHNO POLYMER AMERICA, INC.

Sales of plastics and technical services related to plastics in North America.

#### 20 Shanghai Rainbow Color Plastics Co., Ltd.

Coloring of synthetic resins and sales of colored products.

(\*) Equity method affiliate

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## Ten-Year Summary

Fiscal year means year ended March 31

	FY2004	FY2005	FY2006	FY2007
For the fiscal year				
Net sales	¥275,071	¥305,368	¥338,160	¥365,831
Costs and expenses	242,452	260,035	284,803	310,588
Operating income	32,619	45,333	53,357	55,243
Interest and dividend income	397	519	635	1,030
Interest expenses	(693)	(475)	(420)	(399)
Income before income taxes and minority interests	30,378	43,471	49,038	53,440
Net income	19,353	27,564	30,555	33,655
Capital expenditures	17,156	18,134	23,361	22,094
Depreciation	14,970	15,245	16,206	18,133
At fiscal year-end				
Total assets	308,581	325,031	381,097	408,949
Long-term debt due after one year	13,920	13,857	1,607	2,745
Total liabilities	146,280	139,249	164,389	168,963
Equity	159,497	182,476	212,751	235,186
Current ratio (times)	1.6	1.8	1.7	1.8
Return on assets (%)	6.3	8.7	8.7	8.2
Return on equity (%)	12.9	16.1	15.5	15.0
Equity ratio (%)	51.7	56.1	55.8	57.5
Per share data (Yen and U.S. dollars)				
Net income	75.12	107.54	119.63	133.10
Cash dividends	9.00	14.00	20.00	24.00
Equity	623.14	717.13	836.31	935.47

Note: U.S. dollar amounts are translated, for convenience only, at ¥94.05 = US\$1.00, the rate prevailing on March 31, 2013.

					Millions of yen	Thousands of U.S. dollars
FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2013
¥406,968	¥352,503	¥310,184	¥340,666	¥349,947	<b>¥371,487</b>	<b>\$3,949,890</b>
346,958	322,155	289,954	301,571	313,982	<b>336,281</b>	<b>3,575,555</b>
60,010	30,348	20,230	39,095	35,964	<b>35,206</b>	<b>374,335</b>
1,309	1,230	568	626	634	<b>809</b>	<b>8,601</b>
(256)	(271)	(172)	(146)	(147)	<b>(126)</b>	<b>(1,335)</b>
54,867	20,803	19,458	40,674	41,245	<b>42,847</b>	<b>455,577</b>
36,994	13,981	13,645	27,571	26,407	<b>30,278</b>	<b>321,937</b>
29,076	19,081	17,707	11,801	19,728	<b>27,608</b>	<b>293,547</b>
21,180	24,833	22,380	19,245	17,784	<b>19,145</b>	<b>203,563</b>
416,951	339,498	373,566	390,591	430,693	<b>482,935</b>	<b>5,134,877</b>
1,525	1,500	1,500	1,028	500	<b>6,626</b>	<b>70,448</b>
159,288	97,512	122,865	126,475	148,335	<b>167,202</b>	<b>1,777,795</b>
252,539	240,896	249,440	262,679	280,955	<b>308,641</b>	<b>3,281,670</b>
1.9	2.5	2.3	2.4	2.3	<b>2.3</b>	—
8.9	4.1	3.7	7.1	6.4	<b>6.6</b>	—
15.2	5.7	5.6	10.8	9.7	<b>10.3</b>	—
60.6	71.0	66.8	67.3	65.2	<b>63.9</b>	—
147.26	56.36	55.87	113.07	109.46	<b>126.13</b>	<b>1.34</b>
32.00	32.00	26.00	32.00	32.00	<b>34.00</b>	<b>0.36</b>
1,009.27	986.33	1,021.31	1,088.87	1,164.63	<b>1,299.77</b>	<b>13.82</b>

# Management's Discussion and Analysis

## Analysis of Operating Results

### Overview of FY2013, ended March 31, 2013

With respect to the JSR Group's major customers' industries, automobile production in North America remained robust due to strong demand and that in Japan grew steadily due to recovery from the Great East Japan Earthquake. However, car output in Europe was sluggish because of economic slowdown. Automobile tire production as a whole increased only slightly as a result of weak demand for replacement tires reflecting downturn in the global economy despite steady tire shipments for new cars. Meanwhile, the semiconductor market remained flat, because strong shipments for smartphone and multifunctional mobile terminal applications failed to make up for sluggish shipments for personal computer applications. Production of flat panel displays (FPDs) increased from a year earlier, thanks to strong demand for small and medium-sized panels for mobile equipment.

Amid these circumstances, the JSR Group, in the Pet-

rochemical Products Business, has expanded production capacity of products with technological advantages and has endeavored to increase their sales globally. The Group, in the Fine Chemicals and Other Products Business, has focused its efforts on cutting-edge semiconductor technology and materials and promoted sales expansion of materials used for displays of mobile equipment centering on electronic materials used for IT applications. In addition to existing bottom-up style cost reduction measures for variable costs and expenses, the Group has vigorously promoted "E-100 plus," a project to improve its cost structure by improving productivities and enhancing efficiencies from the broader and innovative standpoint of business divisions and the entire company.

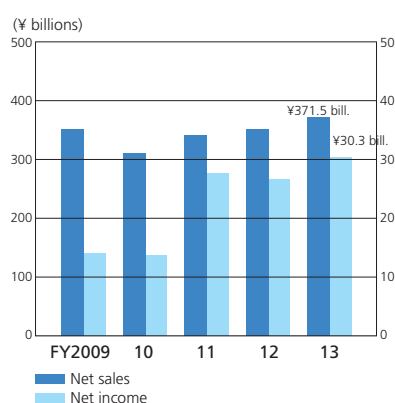
In fiscal 2013, we reported net sales of ¥371.5 billion (up 6.2% year-on-year), operating income of ¥35.2 billion (down 2.1%), and net income of ¥30.3 billion (up 14.7%).

### ■ Segment Sales/Operating Income

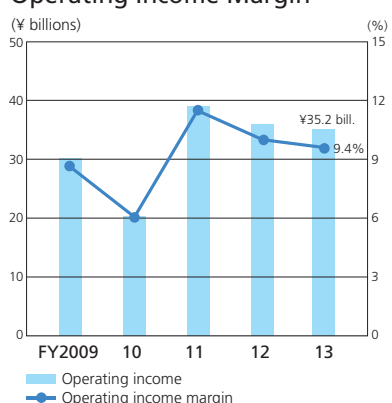
(¥ millions)

	FY2009	10	11	12	13
Fine Chemicals and Other Products Business	¥137,396	¥126,286	¥127,515	¥117,876	¥123,931
Operating income	20,082	19,859	21,793	14,468	14,321
Elastomers Business	150,085	136,086	160,854	180,835	195,797
Operating income	8,951	372	14,739	19,358	17,923
Plastics Business	65,022	47,812	52,297	51,236	51,759
Operating income	1,315	(1)	2,563	2,138	2,962
Net Sales	352,503	310,184	340,666	349,947	371,487
Operating income	¥ 30,348	¥ 20,230	¥ 39,095	¥ 35,964	¥ 35,206

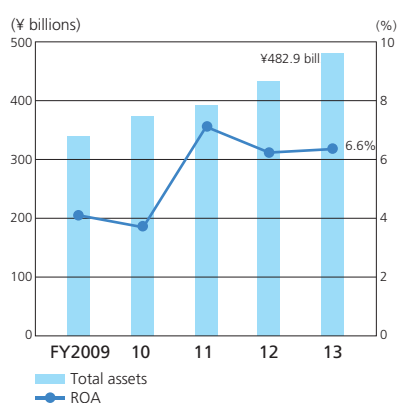
### Net Sales/Net Income



### Operating Income/Operating Income Margin



### Total Assets/ROA





## Review of Operations

### Elastomers Business Segment

In fiscal 2013, we increased production capacity for solution polymerization styrene-butadiene rubber (S-SBR), a differentiated product among synthetic rubbers, at our Yokkaichi Plant, because demand for fuel-efficient tires expanded around the world due to the introduction of the tire labeling system. We took full advantages of the enhanced capacity at our Yokkaichi Plant to increase shipments of S-SBR and saw its growth rate substantially exceed that of global demand for S-SBR. To keep pace with further growing demand, we started construction of an S-SBR plant at JSR BST Elastomer Co., Ltd. (JBE), a joint-venture company in Thailand.

The segment's break-even point improved greatly, because we promoted a project to improve our cost structure that included reducing both fixed and variable costs, streamlining and improving productivity, and also tried to raise profitability by revising selling prices to cope with a change in raw material prices.

Despite such improvements and the increase in shipments associated with recovery from the Great East Japan Earthquake, the segment as a whole was in a difficult earnings environment because of sluggish demand for petrochemical products and a decline in selling prices caused by the global economic slowdown.

As a result, the Elastomers Business segment posted operating income of ¥17.9 billion (down 7.4%) on sales of ¥195.8 billion (up 8.3%).

### Plastics Business Segment

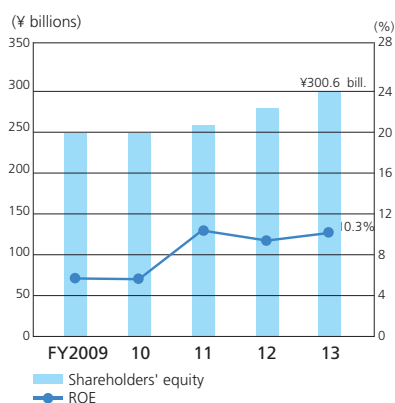
In the first half of fiscal 2013, shipments for automobile applications in Japan and overseas including reconstruction demand after the disaster remained steady, but in the second half, shipments fell from a year earlier due to a stall in demand for Asian countries including China and a decline in shipments for amusement machines applications as well as a negative reaction after the end of the government's subsidy program for eco-friendly cars in Japan. Meanwhile, we saw net sales and operating income increase from fiscal 2012, because of our efforts to revise selling prices in accordance with a change in raw material prices and to reduce costs further. In addition, we decided to establish a subsidiary in Belgium in April 2013 to cope with growing demand in Europe.

As a result, the Plastics Business segment posted operating income of ¥3.0 billion (up 38.6%) on sales of ¥51.8 billion (up 1.0%).

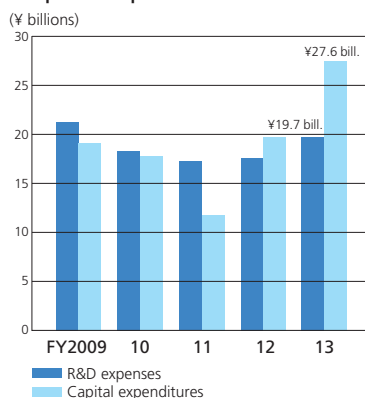
### Fine Chemicals and Other Products Business Segment

In the semiconductor materials business, demand for smartphone and multifunctional mobile terminal applica-

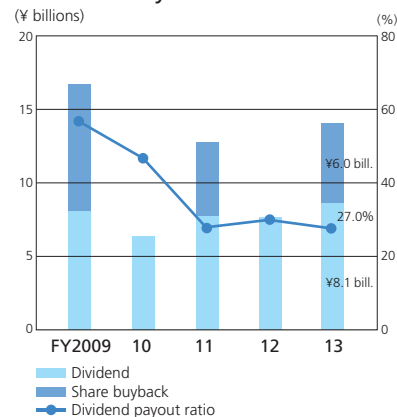
#### Shareholders' Equity/ROE



#### R&D Expenses/Capital Expenditures



#### Shareholder Return / Dividend Payout Ratio



tions remained strong and sales of materials for cutting-edge applications increased. Meanwhile, demand for personal computer and memory applications continued to be weak and the burden of investment in cutting-edge fields increased. Consequently, sales remained flat, but operating income decreased from a year earlier.

In the FPD materials business, sales and operating income were almost the same as those of the previous year, because the capacity utilization of main liquid crystal panel (LCD) manufacturers, which remained low in the first half of fiscal 2013, recovered from the middle of the year and demand for smartphone and multifunctional mobile terminal applications continued to be steady, just like in the semiconductor materials business.

In the strategic businesses and other products, sales increased 2.5 times between fiscal 2011 and fiscal 2013. Especially, in the precision materials and processing field, sales of heat-resistant transparent "ARTON™" for retardation film grew substantially from a year earlier because of strong demand for smartphone and multifunctional mobile terminal applications. In addition, sales of transparent conductive indium tin oxide (ITO) film for touch panel application came into full swing. In the environment and energy field, we marketed lithium-ion capacitors (LIC), an electricity storage device, with upgraded functionality and durability and the number of positive evaluations by customers steadily increased. In the biomedical materials field, we focused on three areas: in vitro diagnostics reagents, bioprocess materials and medical polymers. In the in vitro diagnostics reagents area, in addition to manufacturing and sales in Japan, J & W Beijing Biotech Co., Ltd., a joint-venture company established in China, started marketing in October 2012.

As a result, the Fine Chemicals and Other Products Business segment posted operating income of ¥14.3 billion (down 1.0%) on sales of ¥123.9 billion (up 5.1%).

## **Business Outlook for FY2014**

We forecast that the JSR Group's major customers' industries—automobile, tire, semiconductor and flat panel display—will grow moderately.

In the Elastomers Business, demand for S-SBR for fuel-efficient tires is expected to expand because of the introduction of the labeling system especially in Europe and South Korea. We will strive to expand global sales and ensure earnings, including the contribution from a new S-SBR plant at JBE in Thailand.

In the Fine Chemicals and Other Products Business, we will endeavor to increase market share and sales of lithography materials using our technological advantages, since the production of cutting edge 20nm-generation logics is likely to move into high gear in the semiconductor market from fiscal 2014. In the FPD industry, we will ensure business opportunities without fail by marketing, as well as existing LCD internal cell materials, new products that incorporate precision materials and processing technology, since the market of small-and-medium-sized panels for smartphones and multifunctional mobile terminals is expected to continue expanding along with the sophistication of the products.

In addition to expanding the top line of the Petrochemicals Business and the Fine Chemicals and Other Products Business, we will strive to increase profitability by further promoting "E-100 plus," a project to improve earning power.

For fiscal 2014, we forecast consolidated net sales of ¥415.0 billion (up 11.7% year-on-year), operating income of ¥43.0 billion (up 22.1%), and net income of ¥31.5 billion (up 4.0%). These forecasts assume an exchange rate of ¥95.0 per U.S. dollar and a naphtha price of ¥63,000 per kiloliter.

## Analysis of Financial Position

At March 31, 2013, total assets amounted to ¥482.9 billion, up ¥52.2 billion from a year earlier.

Current assets totaled ¥320.4 billion, up ¥28.0 billion, due to an increase in cash and deposits, short-term investment securities and inventories.

Noncurrent assets totaled ¥162.5 billion, up ¥24.2 billion, due to an increase in property, plant and equipment associated with the construction of a plant in Thailand and a rise in investment securities related to investments in companies in Japan and overseas and changes in valua-

tions of securities.

Total liabilities amounted to ¥167.2 billion, up ¥18.9 billion from a year earlier, due to an increase in notes and accounts payable-trade and long-term loans payable.

Shareholders' equity increased by ¥16.3 billion to ¥300.6 billion. Net assets amounted to ¥315.7 billion, up ¥33.4 billion from a year earlier because of a rise in accumulated other comprehensive income and minority interests.

## Analysis of Cash Flows

At March 31, 2013, cash and cash equivalents ("funds") stood at ¥53.8 billion, down ¥13.4 billion from a year earlier.

Net cash provided by operating activities amounted to ¥47.7 billion, up ¥18.7 billion from the previous year. Main factors included income before income taxes and minority interests of ¥42.8 billion, depreciation and amortization of ¥19.2 billion and an increase in notes and accounts payables of ¥11.7 billion.

Net cash used in investing activities totaled ¥58.7 bil-

lion, up ¥37.6 billion from the previous year. Major factors were ¥27.9 billion in payments for purchase of noncurrent assets, ¥26.0 billion in payments for purchase of securities and ¥4.5 billion in payments for purchase of shares in affiliates.

Net cash used in financing activities was ¥10.2 billion, up ¥2.5 billion from the previous year. This was mainly due to ¥8.0 billion in cash dividends paid and ¥6.0 billion in purchase of treasury stock, despite ¥5.4 billion in proceeds from long-term loans payable.

## Profit Appropriation

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

Following this basic policy, we will appropriate profits in line with our consolidated performance while paying continuous, stable cash dividends based on comprehensive consideration of a balance between appropriating profits and retaining earnings necessary for future business advancement.

We allocate retained earnings to R&D activities linked to future growth businesses, as well as to strategic investments. The Company works hard to return profits to shareholders by enhancing corporate value.

As already announced, based on this policy, we have decided to pay a year-end dividend of ¥17.00 per share, the same amount as the interim dividend. Including the interim dividend already paid, the total annual dividend for fiscal 2013 will be ¥34.00 per share.

With regard to the dividend for the next fiscal year (fiscal 2014), we plan to pay ¥38.00 annually (the interim dividend of ¥19.00 and the year-end dividend of ¥19.00) by taking into account the business outlook.

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## Risk Information

The 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, 2013. 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 the 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 the JSR Group's operating results.

### **(2) Higher 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 the JSR Group's operating results, especially in the Petrochemical Products sector of elastomers, emulsions and plastics.

### **(3) Fluctuation in Exchange Rates**

As the 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, the JSR Group's business results could be adversely affected.

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

The 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 the 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 the 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 the JSR Group's operating results.

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

The 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 the JSR Group's operating results.

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

Protection of intellectual property is extremely important for the 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 the JSR Group's operating results.

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

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

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

Positioning environmental protection as an important element of its operations, the 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 the JSR Group's operating results.

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

The JSR Group is aggressively expanding operations on a global scale, conducting manufacturing, sales and other activities in countries and regions in the United States, 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 the JSR Group's operating results.

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

In the countries where it operates, the 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 the JSR Group's operating results.

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

In conjunction with its business activities in Japan and overseas, the 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 the JSR Group's operating results.



# Consolidated Balance Sheets

JSR Corporation and Consolidated Subsidiaries

March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2012	2013	2013
<b>Current assets:</b>			
Cash and deposits (Notes 3 and 5)	¥ 20,490	¥ 32,190	\$ 342,269
Notes and accounts receivable — trade, net (Notes 4, 5 and 20)	89,194	91,512	973,010
Short-term investment securities (Notes 3, 5 and 6)	69,496	79,412	844,365
Inventories	64,947	74,687	794,122
Accounts receivable — other (Note 20)	24,953	28,883	307,102
Deferred tax assets (Note 9)	3,670	4,191	44,560
Other (Notes 3, 5 and 16)	19,674	9,544	101,473
Total current assets	292,424	320,419	3,406,901
<b>Noncurrent assets:</b>			
Property, plant and equipment (Notes 7, 10, 11 and 19):			
Buildings and structures, net	27,514	27,824	295,845
Machinery, equipment and vehicles, net	27,399	25,801	274,328
Land	18,453	18,685	198,676
Construction in progress	4,075	15,540	165,234
Other, net	3,063	5,355	56,935
Total property, plant and equipment	80,504	93,205	991,018
<b>Intangible assets</b>	5,167	6,309	67,084
<b>Investments and other assets</b>			
Investment securities (Notes 5 and 6)	37,129	50,532	537,286
Deferred tax assets (Note 9)	3,841	1,807	19,212
Other, net (Notes 4, 16 and 19)	11,628	10,663	113,376
Total investments and other assets	52,598	63,002	669,874
Total noncurrent assets	138,269	162,516	1,727,976
Total assets (Note 19)	¥430,693	¥482,935	\$5,134,877

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2013	2013
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Notes and accounts payable — trade (Notes 5 and 20)	¥ 83,077	¥ 97,226	\$1,033,765
Short-term loans payable (Notes 5 and 7)	15,184	14,211	151,098
Income taxes payable (Note 9)	6,331	6,888	73,239
Other (Notes 9, 12 and 16)	25,286	23,522	250,098
Total current liabilities	129,878	141,847	1,508,200
<b>Noncurrent liabilities:</b>			
Long-term loans payable (Notes 5, 7)	500	6,626	70,448
Provision for retirement benefits (Note 8)	13,967	15,211	161,737
Provision for environmental measures	2,701	2,101	22,339
Other (Notes 9 and 16)	1,290	1,417	15,071
Total noncurrent liabilities	18,458	25,355	269,595
Total liabilities	148,336	167,202	1,777,795
Contingent liabilities (Note 17)			
Net assets (Note 14)			
Shareholders' equity			
Common stock:			
Authorized — 696,061,000 shares			
Issued — 255,885,166 shares in 2012	23,320	23,320	247,955
237,973,205 shares in 2013			
Capital surplus	25,179	25,179	267,724
Retained earnings	263,100	253,009	2,690,158
Treasury stock			
14,645,692 shares in 2012 and 515,440 shares in 2013	(27,321)	(930)	(9,899)
<b>Accumulated other comprehensive income</b> (Note 13)			
Unrealized gains on securities, net of taxes	4,218	8,470	90,060
Foreign currency translation adjustment	(7,541)	(407)	(4,328)
<b>Subscription rights to shares</b> (Note 15)	656	728	7,744
<b>Minority interests</b>	746	6,364	67,668
Total net assets	282,357	315,733	3,357,082
	¥430,693	¥482,935	\$5,134,877

See accompanying notes.

# Consolidated Statements of Income

JSR Corporation and Consolidated Subsidiaries

Years ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2013	2013
<b>Net sales</b> (Notes 19 and 20)	¥349,947	¥371,487	\$3,949,890
<b>Costs and expenses</b> (Note 19):			
Cost of sales	260,487	279,162	2,968,229
Selling, general and administrative expenses	53,496	57,119	607,326
	313,983	336,281	3,575,555
<b>Operating income</b> (Note 19)	35,964	35,206	374,335
<b>Other income (expenses):</b>			
Interest income	247	370	3,936
Dividends income	386	439	4,665
Interest expenses	(147)	(126)	(1,335)
Foreign exchange gains	360	2,976	31,640
Equity in earnings of affiliated companies	4,730	4,732	50,311
Depreciation	(262)	(141)	(1,501)
Gain on sales of investment securities (Note 6)	—	214	2,279
Gain on sales of noncurrent assets (Note 10)	4,288	—	—
Loss on abandonment of inventories	(534)	(742)	(7,888)
Impairment loss (Notes 11 and 19)	(1,920)	—	—
Loss on abandonment of noncurrent assets	(1,182)	—	—
Loss on disaster (Note 12)	(816)	—	—
Other, net	131	(81)	(865)
	5,281	7,641	81,242
<b>Income before income taxes and minority interests</b>	41,245	42,847	455,577
<b>Income taxes</b> (Note 9):			
Current	12,299	12,948	137,672
Deferred	2,489	(392)	(4,166)
	14,788	12,556	133,506
<b>Income before minority interests</b>	26,457	30,291	322,071
<b>Minority interests in net income of consolidated subsidiaries</b>	(50)	(13)	(134)
<b>Net income</b>	¥ 26,407	¥ 30,278	\$ 321,937

	Yen		U.S. dollars (Note 1)
	2012	2013	2013
<b>Per share of common stock:</b>			
Net income	¥ 109.46	¥ 126.13	\$ 1.34
Diluted net income	109.27	125.86	1.34
Cash dividends applicable to the year	32.00	34.00	0.36

See accompanying notes.

## Consolidated Statements of Comprehensive Income

JSR Corporation and Consolidated Subsidiaries

Years ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2013	2013
<b>Income Before Minority Interests</b>	¥26,457	¥30,291	\$322,071
<b>Other Comprehensive Income</b>			
Unrealized gains on securities, net of taxes	654	4,274	45,443
Foreign currency translation adjustment	(619)	5,755	61,200
Share of other comprehensive income of associates accounted for using equity method	(454)	2,046	21,753
Other comprehensive income (Note 13)	(419)	12,075	128,396
<b>Comprehensive Income</b>	¥26,038	¥42,366	\$450,467
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	¥25,997	¥41,484	\$441,088
Comprehensive income attributable to minority interests	41	882	9,379

See accompanying notes.

# Consolidated Statements of Changes in Net Assets

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2012 and 2013

	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 adjustments	Subscription rights to shares	Minority interests
<b>Balance at April 1, 2011</b>	255,885	¥23,320	¥25,179	¥244,413	¥(27,320)	¥3,606	¥(6,519)	¥545	¥892
Changes of items during the period									
Net income	—	—	—	26,407	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	(1)	—	—	—	—
Dividends from surplus	—	—	—	(7,720)	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	612	(1,022)	111	(146)
Total changes of items during the period	—	—	—	18,687	(1)	612	(1,022)	111	(146)
<b>Balance at March 31, 2012</b>	255,885	¥23,320	¥25,179	¥263,100	¥(27,321)	¥4,218	¥(7,541)	¥656	¥746
Changes of items during the period									
Dividends from surplus	—	—	—	(7,961)	—	—	—	—	—
Net income	—	—	—	30,278	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	(6,001)	—	—	—	—
Disposal of treasury stock	—	—	—	(4)	39	—	—	—	—
Retirement of treasury stock	(17,912)	—	—	(32,353)	32,353	—	—	—	—
Change of scope of consolidation	—	—	—	(51)	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	4,252	7,134	72	5,618
Total changes of items during the period	(17,912)	—	—	(10,091)	26,391	4,252	7,134	72	5,618
<b>Balance at March 31, 2013</b>	237,973	¥23,320	¥25,179	¥253,009	¥ (930)	¥8,470	¥ (407)	¥728	¥6,364

	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 adjustments	Subscription rights to shares	Minority interests
<b>Balance at April 1, 2012</b>	255,885	\$247,955	\$267,724	\$2,797,458	\$(290,500)	\$44,847	\$(80,186)	\$6,974	\$ 7,933
Changes of items during the period									
Dividends from surplus	—	—	—	(84,647)	—	—	—	—	—
Net income	—	—	—	321,937	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	(63,803)	—	—	—	—
Disposal of treasury stock	—	—	—	(46)	410	—	—	—	—
Retirement of treasury stock	(17,912)	—	—	(343,994)	343,994	—	—	—	—
Change of scope of consolidation	—	—	—	(550)	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	45,213	75,858	770	59,735
Total changes of items during the period	(17,912)	—	—	107,300	280,601	45,213	75,858	770	59,735
<b>Balance at March 31, 2013</b>	237,973	\$247,955	\$267,724	\$2,690,158	\$ (9,899)	\$90,060	\$ (4,328)	\$7,744	\$67,668

See accompanying notes.



## Consolidated Statements of Cash Flows

JSR Corporation and Consolidated Subsidiaries

Years ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2013	2013
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥41,245	¥ 42,847	\$ 455,577
Adjustments to reconcile income before income taxes and minority interests to cash provided by operating activities:			
Depreciation and amortization	17,784	19,232	204,491
Interest and dividends income	(634)	(809)	(8,601)
Interest expenses	147	126	1,335
Equity in earnings of affiliates	(4,730)	(4,732)	(50,311)
Gain on sales of noncurrent assets	(4,288)	—	—
Loss on abandonment of noncurrent asset	1,182	—	—
Impairment loss	1,920	—	—
Loss on disaster	816	—	—
Changes in operating assets and liabilities — net:			
Decrease (increase) in notes and accounts receivable — trade	(16,250)	203	2,157
Decrease (increase) in inventories	(7,629)	(7,952)	(84,551)
Increase (decrease) in notes and accounts payable — trade	18,510	11,688	124,278
Other, net	(6,274)	(2,885)	(30,678)
Subtotal	41,799	57,718	613,697
Interest and dividends income received	2,219	2,566	27,285
Interest expenses paid	(146)	(124)	(1,324)
Income taxes paid	(14,891)	(12,440)	(132,272)
Net cash provided by operating activities	28,981	47,720	507,386
<b>Cash flows from investing activities:</b>			
Decrease (increase) in time deposits	8,491	1,000	10,633
Decrease (increase) in short-term investment securities	(12,000)	(26,000)	(276,449)
Purchase of noncurrent assets	(16,564)	(27,869)	(296,323)
Proceeds from sales of noncurrent assets	4,401	—	—
Purchase of investment securities	(319)	(2,092)	(22,247)
Purchase of stocks of subsidiaries and affiliates	(4,851)	(4,500)	(47,847)
Payments of loans receivable	(2,538)	(2,007)	(21,345)
Collection of loans receivable	2,277	2,914	30,985
Other, net	(27)	(143)	(1,510)
Net cash used in investing activities	(21,130)	(58,697)	(624,103)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans payable	107	(1,113)	(11,833)
Repayment of long-term loans payable	(56)	(1,000)	(10,633)
Proceeds from long-term loans payable	—	5,417	57,595
Proceeds from stock issuance to minority shareholders	—	540	5,745
Purchase of treasury stock	(1)	(6,001)	(63,803)
Cash dividends paid	(7,721)	(7,961)	(84,643)
Cash dividends paid to minority shareholders	(10)	(19)	(199)
Other, net	(13)	(23)	(248)
Net cash used in financing activities	(7,694)	(10,160)	(108,019)
Effect of exchange rate change on cash and cash equivalents	(421)	1,773	18,850
Net increase (decrease) in cash and cash equivalents	(264)	(19,364)	(205,886)
Cash and cash equivalents at beginning of year	67,462	67,198	714,495
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	—	5,984	63,621
Cash and cash equivalents at end of year (Note 3)	¥67,198	¥ 53,818	\$ 572,230

See accompanying notes.

# Notes to Consolidated Financial Statements

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2012 and 2013

## 1. Basis of Consolidated Financial Statements

The accompanying consolidated financial statements of JSR Corporation (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 affiliates 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 accompanying 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 accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2013, which was ¥94.05 to U.S.\$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts 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 accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (28 and 30 subsidiaries in 2012 and 2013, respectively).

All significant intercompany accounts and transactions have been eliminated in consolidation.

JSR BST Elastomer Co., Ltd. and JSR Life Sciences Corporation have been consolidated since 2013 due to increase of materiality.

Effective August 1, 2011, JSR Trading, Inc. has been renamed

from JSR AMERICA, INC.

**(b) Equity method** — Investments in affiliated companies (all of those 20% to 50% owned and certain others 15% to 20% owned) were accounted for by the equity method (6 affiliated companies in 2012 and 2013). Unconsolidated subsidiaries and the other affiliated companies are stated at cost since their net income and retained earnings in the aggregate are not material compared to consolidated net income and retained earnings, respectively.

**(c) Cash and cash equivalents** — In preparing the consolidated statements 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 (the "Companies") had no trading securities or held-to-maturity debt securities. Equity securities issued by subsidiaries and affiliated companies, 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 reported, 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 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, and depreciation** — Property, plant and equipment are stated at cost. Depreciation is computed using the declining-balance method at rates based on their estimated useful lives except for buildings acquired after March 31, 1998, which are depreciated based on the straight-line method.

**(i) The accounting change**

Effective April 1, 2012, due to a revision of the corporate tax law in Japan, the Company and its domestic consolidated subsidiaries have applied a depreciation method based on the revised law for

tangible assets purchased on or after April 1, 2012.

The impact of this change on operating income, ordinary income and income before income taxes for FY 2013 is immaterial.

**(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 uncollectible amount with respect to specific items, and the amount calculated using the actual percentage of collection losses in the past with respect to other items.

**(j) Provision for retirement benefits** — Employees of the Companies 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.

The Companies provided provision and expenses for employees' severance and retirement benefits at year-end based on the estimated amounts of projected benefits obligation and the fair value of the pension assets.

Actuarial differences are recognized as expenses at once in the following period.

**(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 Companies provide for income taxes applicable to all items included in the consolidated statements 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.

**(m) Derivative and hedging activities** — The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, foreign currency swaps and interest rate swaps

are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do 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 statements 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 Companies translate 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 minority interests.

**(p) Amounts per share of common stock** — The computation of net income 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.

**(q) 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.

**(r) Accounting Standards for Accounting Changes and Error Corrections** — The Companies adopted "Accounting Standard for Accounting Changes and Error Corrections" (Statement No.24 by ASBJ on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections (Guidance

No.24 by ASBJ on December 4, 2009) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011.

**(s) New Accounting Pronouncements —**

Accounting Standard for Retirement Benefits

“Accounting Standard for Retirement Benefits”(Statement No.26 by ASBJ on May 17, 2012) and “Guidance on Accounting Standard for Retirement Benefits”(Guidance No.25 by ASBJ on May 17, 2012) have been issued.

Major changes are as follows:

i) Treatment in the consolidated balance sheets

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets(hereinafter, “deficit or surplus”), adjusted by such unrecognized amounts, are recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability or asset.

ii) Treatment in the consolidated statements of income and the statements of comprehensive income

The revised accounting standard would not change how to recognized actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and are yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This accounting standard and the guidance are effective from the end of fiscal years beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Companies expected to apply the revised accounting standard from the fiscal year ending March 31, 2014 and is in the process of measuring the effects of applying the revised accounting standard.

### 3. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2012 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Cash and deposits	¥ 20,490	¥ 32,190	\$ 342,269
Short-term investment securities	69,496	79,412	844,365
Time deposits over three months	(36,281)	(61,282)	(651,600)
Current assets: Other	13,493	3,498	37,196
Cash and cash equivalents	¥ 67,198	¥ 53,818	\$ 572,230

### 4. Allowance for doubtful accounts

Allowance for doubtful accounts as of March 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Allowance for doubtful accounts			
Current asset : Notes and accounts receivable — trade	¥(719)	¥(460)	\$(4,895)
Investments and other assets : Other	(323)	(356)	(3,784)

## 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, 2012 and 2013.

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, 2012:			
(1) Cash and deposits	¥ 20,490	¥ 20,490	¥ —
(2) Notes and accounts receivable — trade	89,913	89,913	—
(3) Short-term investment securities and investment securities	88,548	88,481	(67)
(4) Current assets — other (short-term loans receivable)	13,493	13,493	—
Total assets	¥212,444	¥212,377	¥ (67)
(5) Notes and accounts payable — trade	83,077	83,077	—
(6) Short-term loans payable	15,184	15,184	—
(7) Long-term loans payable	500	500	—
Total liabilities	¥ 98,761	¥ 98,761	¥ —
March 31, 2013:			
(1) Cash and deposits	¥ 32,190	¥ 32,190	¥ —
(2) Notes and accounts receivable — trade	91,972	91,972	—
(3) Short-term investment securities and investment securities	109,250	110,865	1,615
(4) Current assets — other (short-term loans receivable)	3,498	3,498	—
Total assets	¥236,910	¥238,525	¥1,615
(5) Notes and accounts payable — trade	97,226	97,226	—
(6) Short-term loans payable	14,211	14,211	—
(7) Long-term loans payable	6,626	6,623	(3)
Total liabilities	¥118,063	¥118,060	¥ (3)

	Thousands of U.S. dollars		
March 31, 2013:			
(1) Cash and deposits	\$ 342,269	\$ 342,269	\$ —
(2) Notes and accounts receivable — trade	977,905	977,905	—
(3) Short-term investment securities and investment securities	1,161,609	1,178,780	17,171
(4) Current assets — other (short-term loans receivable)	37,196	37,196	—
Total assets	\$2,518,979	\$2,536,150	\$17,171
(5) Notes and accounts payable — trade	1,033,765	1,033,765	—
(6) Short-term loans payable	151,098	151,098	—
(7) Long-term loans payable	70,448	70,418	(30)
Total liabilities	\$1,255,311	\$1,255,281	\$ (30)

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

(2) Notes and accounts receivable—trade

The carrying 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) Current assets—other (short-term loans receivable)  
The carrying values of short-term loans receivable approximate fair value because of their short maturities
- (5) Notes and accounts payable—trade  
The carrying values of notes and accounts payable—trade approximate fair values because of their short maturities.
- (6) Short-term loans payable  
Short-term loans payable approximate fair value.
- (7) 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
	2012	2013	2013
Non-listed equity securities	¥18,077	¥20,694	\$220,042

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

	Millions of yen				Total
	Due within one year	Due after one year and within five years	Due after five years and within ten years	Due over ten years	
March 31, 2012:					
(1) Cash and deposits	¥ 9,581	¥200	¥—	¥—	¥ 9,781
(2) Notes and accounts receivable-trade	89,913	—	—	—	89,913
(3) Short-term investment securities and investment securities					
Available-for-sale securities with fixed maturities					
Other	69,496	—	—	—	69,496
(4) Current assets — other (short-term loans receivable)	13,493	—	—	—	13,493
Total	¥182,483	¥200	¥—	¥—	¥182,683
March 31, 2013:					
(1) Cash and deposits	¥ 8,583	¥200	¥—	¥—	¥ 8,783
(2) Notes and accounts receivable — trade	91,972	—	—	—	91,972
(3) Short-term investment securities and investment securities					
Available-for-sale securities with fixed maturities					
Other	79,412	—	—	—	79,412
(4) Current assets — other (short-term loans receivable)	3,498	—	—	—	3,498
Total	¥183,465	¥200	¥—	¥—	¥183,665
Thousands of U.S. dollars					
March 31, 2013:					
(1) Cash and deposits	\$ 91,259	\$2,127	\$—	\$—	\$ 93,386
(2) Notes and accounts receivable — trade	977,905	—	—	—	977,905
(3) Short-term investment securities and investment securities					
Available-for-sale securities with fixed maturities					
Other	844,365	—	—	—	844,365
(4) Current assets — other (short-term loans receivable)	37,196	—	—	—	37,196
Total	\$1,950,725	\$2,127	\$—	\$—	\$1,952,852

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, 2012 and 2013:

(a) Securities with book value exceeding acquisition cost

	Millions of yen		
	2012		
	Acquisition cost	Book value	Difference
Equity securities	¥ 9,122	¥16,119	¥ 6,997

	Millions of yen		
	2013		
	Acquisition cost	Book value	Difference
Equity securities	¥ 9,026	¥22,517	¥13,491

	Thousands of U.S. dollars		
	2013		
	Acquisition cost	Book value	Difference
Equity securities	\$95,970	\$239,418	\$143,448

(b) Securities with book value not exceeding acquisition cost

	Millions of yen		
	2012		
	Acquisition cost	Book value	Difference
Equity securities	¥ 2,809	¥2,437	¥ (372)

	Millions of yen		
	2013		
	Acquisition cost	Book value	Difference
Equity securities	¥ 2,782	¥ 2,338	¥ (444)

	Thousands of U.S. dollars		
	2013		
	Acquisition cost	Book value	Difference
Equity securities	\$29,584	\$240,860	\$ (4,724)

(2) Total sales of available-for-sale securities sold and the related gains and losses for the years ended March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Total sales	¥29	¥341	\$ 3,623
Gain	10	223	2,375
Loss	—	(9)	(95)

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

Short-term loans payable represent primarily overdrafts from banks bearing interest at 0.8% and 0.7% per annum (weighted average interest rate) at March 31, 2012 and 2013, respectively.

Long-term loans payable at March 31, 2012 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Loans principally from banks and insurance companies due through 2019 with interest rates 0.9% and 1.7% per annum (weighted average interest rate) in 2012 and 2013, respectively:			
Secured	¥ 1	¥ 1	\$ 11
Unsecured	1,506	6,625	70,437
	1,507	6,626	70,448
Less amount due within one year	(1,007)	—	—
	¥ 500	¥6,626	\$70,448

At March 31, 2013, property, plant and equipment, at book value of ¥7,008 million (\$74,521 thousand) were pledged as collateral for secured loans.

The annual maturities of long-term debt at March 31, 2013 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,	Long-term loans payable	Long-term loans payable
2014	—	—
2015	¥ 716	\$ 7,615
2016	1,225	13,026
2017	1,725	18,343
2018	1,225	13,026
2019 and thereafter	1,735	18,438
	¥6,626	\$70,448

## 8. Employees' Severance and Retirement Benefits

Provision for retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2012 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Projected benefit obligation	¥49,994	¥50,080	\$532,480
Less fair value of pension assets	(34,768)	(35,310)	(375,439)
Unfunded retirement benefit liabilities	15,226	14,770	157,041
Unrecognized actuarial differences	(1,259)	441	4,696
Net retirement benefit liabilities	13,967	15,211	161,737
Provision for retirement benefits	¥13,967	¥15,211	\$161,737

Included in the consolidated statements of income for the years ended March 31, 2012 and 2013 were retirement benefit expenses consisting of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Service costs-benefits earned during the year	¥1,984	¥1,849	\$19,658
Interest cost on projected benefits obligation	940	810	8,615
Expected return on plan assets	(278)	(234)	(2,490)
Amortization of actuarial differences	(125)	1,259	13,386
Retirement benefit expenses	¥2,521	¥3,684	\$39,169

The discount rates used by the Companies for the years ended March 31, 2012 and 2013 are mainly 1.8% and 1.6%, respectively. The rates of expected return on plan assets used by the Companies for the years ended March 31, 2012 and 2013 are

mainly 0.9% and 0.7%, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years.

## 9. Income Taxes

Income taxes in the accompanying consolidated statements of income comprise corporation, enterprise and inhabitants' taxes. The statutory income tax rate was approximately 38.0%.

Amendments to the Japanese tax regulations were enacted into law on December 2, 2011. As a result of these amendments, the statutory income tax rate will be reduced from 40.7% to 38.0% effective from the year beginning April 1, 2012, and to 35.6% effective from the year beginning April 1, 2015, thereafter.

Consequently, the statutory income tax rate utilized for deferred tax assets and liabilities expected to be settled or realized in the period from April 1, 2012 to March 31, 2015 is 38.0% and for periods subsequent to March 31, 2015 is 35.6%.

The following table summarizes the significant differences between the statutory income tax rate and the Companies' effective tax rates for financial statement purposes for the years ended March 31, 2012 and 2013:

	2012	2013
Statutory income tax rate	40.7%	38.0%
Equity in earnings of affiliated companies	(4.7)	(4.2)
Tax credit on research and development costs	(3.4)	(3.5)
Lower tax rates for foreign consolidated subsidiaries	(2.2)	(4.3)
Valuation allowance	2.7	2.4
Effect of enacted changes in tax laws and rates on Japanese tax	2.2	—
Other	0.6	0.9
Effective tax rate	35.9%	29.3%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Deferred tax assets:			
Provision for retirement benefits	¥ 4,925	¥ 5,402	\$ 57,440
Loss carried forward	2,162	2,956	31,435
Accrued bonuses	1,527	1,518	16,137
Impairment loss	1,543	1,267	13,474
Unrealized gain on sale of inventories	825	1,179	12,535
Unrealized gain on sale of noncurrent assets	842	916	9,742
Provision for environmental measures	962	748	7,954
Other	3,336	3,644	38,733
Sub-total	16,122	17,630	187,450
Valuation allowance	(2,983)	(3,911)	(41,579)
Total deferred tax assets	13,139	13,719	145,871
Deferred tax liabilities:			
Unrealized gains on securities	(2,358)	(4,712)	(50,097)
Deferred gain on sales of noncurrent assets	(3,163)	(3,060)	(32,539)
Other	(909)	(1,290)	(13,716)
Total deferred tax liabilities	(6,430)	(9,062)	(96,352)
Net deferred tax assets	¥ 6,709	¥ 4,657	\$ 49,519

#### 10. Gain on Sales of Noncurrent Assets

Gain on sales of noncurrent assets for the year ended March 31, 2012 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Land	¥4,288	¥—	\$—

#### 11. Impairment loss of Noncurrent Assets

The Companies recognized impairment losses on the following group of noncurrent assets for the year ended March 31, 2012 and 2013.

		Millions of yen				
		2012				
Use	Location	Land	Buildings and structures	Machinery, equipment and vehicles	Other	Total
Assets for fine chemical business	Hidaka City, Saitama Prefecture	¥1,141	¥225	¥ —	¥—	¥1,366
Manufacturing facilities for elastomers	Yokkaichi City, Mie Prefecture	—	104	448	2	554

The Companies did not recognize impairment loss of noncurrent assets for the year ended March 31, 2013.

The Companies have grouped their noncurrent assets into

business units. Noncurrent assets that are idle or not being used for business activities are assessed individually. The book value of noncurrent asset was written down to its recoverable value.

#### 12. Loss on Disaster

Loss on disaster for the year ended March 31, 2012, mainly included expenses relevant to facilities (mainly at Kashima Plant) that

had been inactive by Great East Japan Earthquake.

For the year ended March 31, 2013, the Companies did not recognize loss on disaster.

### 13. Comprehensive Income

Amounts reclassified to net income 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
	2012	2013	2013
Unrealized gains in securities:			
Occurrence amount	¥518	¥ 6,832	\$ 72,649
Recycling	21	(205)	(2,182)
Total	¥539	¥ 6,627	\$ 70,467
Foreign currency translation adjustments			
Occurrence amount	¥(619)	¥ 5,756	\$ 61,200
Total	¥(619)	¥ 5,756	\$ 61,200
Share of other comprehensive income of associates accounted for using equity method			
Occurrence amount	¥(454)	¥ 2,046	\$ 21,753
Total	¥(454)	¥ 2,046	\$ 21,753
Total other comprehensive income before tax	¥(534)	¥14,429	\$153,420
Tax effect	¥ 115	¥ (2,354)	\$ (25,024)
Other comprehensive income, net of tax	¥(419)	¥12,075	\$128,396

All tax effect of other comprehensive income arise from unrealized gains on securities.

### 14. 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 ("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 accompanying consolidated balance sheets.

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 21, 2013, the shareholders resolved cash dividends amounting to ¥4,037 million (\$42,922 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2013. Such appropriations are recognized in the period in which they are resolved.

On February 4, 2013, the Company retired 17.9 million shares of treasury stock by the resolution of the Board of Directors at the meeting held on January 28, 2013.

## 15. 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, 2013	37,500 shares	28,000 shares	45,600 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, 2013	69,900 shares	80,200 shares	84,200 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	
The maximum number of shares to be issued	81,000 shares	95,200 shares	
Exercisable period of stock options	From July 13, 2011 to July 12, 2031	From July 11, 2012 to July 10, 2032	
Stock subscription rights which have been vested outstanding as of March 31, 2013	81,000 shares	95,200 shares	
Exercise price per share	¥1 \$0.01	¥1 \$0.01	

The compensation cost recognized for these stock options for the years ended March 31, 2012 and 2013 was ¥111 million and ¥107 million (\$1,133 thousand) respectively, and was included in selling, general and administrative expenses in the consolidated statements of income.

## 16. Derivative Transactions

### (1) Qualitative disclosure about derivatives

The Companies enter into foreign exchange forward contracts, foreign currency swap contracts and interest rate swap contracts as derivative financial instruments. The Companies deal with foreign exchange forward transactions to hedge exchange rate risks of trade receivables and payables denominated in foreign currency. Foreign currency swap transactions are made in order to mitigate foreign exchange risks on loans receivable denominated in foreign currencies. Interest rate swap transactions are made in order to reduce interest rate risks on loans payable.

The Companies do 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.

### (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.

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 and foreign currency swaps that the Companies entered have risks due to fluctuations in foreign exchange rates. Interest rate swap contracts that the Companies entered have risks due to fluctuations in interest rates. Due to the fact that counterparties to the Companies represent major financial institutions that have high creditworthiness, the Companies believe that the overall credit risk related to its financial instruments is insignificant.

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

Contract amounts, market values and recognized gains or losses on the derivative transactions, except those accounted for using hedge accounting, at March 31, 2012 and 2013 were as follows:



## (a) Related to currencies

	Millions of yen			Recognized gains or losses
	Contract amount	Over one year	Market value	
March 31, 2012:				
Items not traded on exchanges				
Foreign exchange forward contracts				
Selling:				
U.S. Dollars	¥4,467	¥ —	¥ 4,525	¥ (58)
Euro	587	—	611	(24)
Buying:				
U.S. Dollars	223	—	224	1
Euro	59	—	63	4
Swiss Franc	21	—	22	1
Australian dollar	—	—	—	—
Foreign currency swaps				
receiving Japanese Yen paying, Taiwan dollar	1,806	—	410	410
Total	¥ —	¥ —	¥ —	¥ 334

	Millions of yen			Recognized gains or losses
	Contract amount	Over one year	Market value	
March 31, 2013:				
Items not traded on exchanges				
Foreign exchange forward contracts				
Selling:				
U.S. Dollars	¥1,829	¥ —	¥ 1,920	¥ (91)
Euro	605	—	641	(36)
Buying:				
U.S. Dollars	619	—	620	1
Euro	79	—	78	(1)
Swiss Franc	19	—	19	0
Australian dollar	2	—	2	0
Foreign currency swaps				
receiving Japanese Yen paying, Taiwan dollar	—	—	—	—
Total	¥ —	¥ —	¥ —	¥ (127)

	Thousands of U.S. dollars			Recognized gains or losses
	Contract amount	Over one year	Market value	
March 31, 2013:				
Items not traded on exchanges				
Foreign exchange forward contracts				
Selling:				
U.S. Dollars	\$19,446	\$ —	\$20,412	\$ (966)
Euro	6,437	—	6,824	(387)
Buying:				
U.S. Dollars	6,581	—	6,590	9
Euro	843	—	833	(10)
Swiss Franc	197	—	200	3
Australian dollar	17	—	17	0
Foreign currency swaps				
receiving Japanese Yen paying, Taiwan dollar	—	—	—	—
Total	\$ —	\$ —	\$ —	\$(1,351)

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, 2012:			
Special treatment for interest rate swaps			
Interest rate swaps (paid floating / received fix)			
(Hedged item: Short-term loans payable)	¥ 1,000	¥ —	¥ 5
Total	¥ 1,000	¥ —	¥ 5

	Millions of yen		
	Contract amount	Over one year	Market value
March 31, 2013:			
Special treatment for interest rate swaps			
Interest rate swaps (paid fix / received floating)			
(Hedged item: Long-term loans payable)	¥ 6,126	¥ 6,126	¥ (120)
Total	¥ 6,126	¥ 6,126	¥ (120)

	Thousands of U.S. dollars		
	Contract amount	Over one year	Market value
March 31, 2013:			
Special treatment for interest rate swaps			
Interest rate swaps (paid fix / received floating)			
(Hedged item: Long-term loans payable)	\$65,131	\$65,131	\$(1,272)
Total	\$65,131	\$65,131	\$(1,272)

**17. Contingent Liabilities**

At March 31, 2013, the Company and certain consolidated subsidiaries were contingently liable as guarantors for loans of employees and others in the amount of ¥11 million (\$117 thousand).

**18. Research and Development Expenses**

Research and development expenses of the Companies for the years ended March 31, 2012 and 2013 were, ¥ 17,373 million and ¥19,458 million (\$206,894 thousand), respectively, which are included in selling, general and administrative expenses or manufacturing costs.

## 19. Segment Information

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

A summary of net sales, costs and expenses, operating income, identifiable assets, depreciation, impairment loss and capital expenditures by segment of business activities for the years ended March 31, 2012 and 2013 were as follows:

	Millions of yen					
	Elastomers	Plastics	Fine chemicals and other products	Total	Reconciliation	Consolidated
For 2012:						
Sales to external customers	¥180,835	¥51,236	¥117,876	¥349,947	¥ —	¥349,947
Inter-segment sales/transfers	4,887	—	—	4,887	(4,887)	—
Sales total	185,722	51,236	117,876	354,834	(4,887)	349,947
Operating income	¥ 19,358	¥ 2,138	¥ 14,468	¥ 35,964	¥ —	¥ 35,964
Identifiable assets	¥181,673	¥34,146	¥106,706	¥322,525	¥108,168	¥430,693
Depreciation and amortization	8,377	1,333	8,074	17,784	—	17,784
Impairment loss	554	—	1,366	1,920	—	1,920
Capital expenditures	9,642	1,035	9,051	19,728	—	19,728
Amortization of goodwill	—	44	—	44	—	44
Goodwill	—	753	—	753	—	753

	Millions of yen					
	Elastomers	Plastics	Fine chemicals and other products	Total	Reconciliation	Consolidated
For 2013:						
Sales to external customers	¥195,797	¥51,759	¥123,931	¥371,487	¥ —	¥371,487
Inter-segment sales/transfers	5,039	—	—	5,039	(5,039)	—
Sales total	200,836	51,759	123,931	376,526	(5,039)	371,487
Operating income	¥ 17,923	¥ 2,962	¥ 14,321	¥ 35,206	¥ —	¥ 35,206
Identifiable assets	¥214,427	¥35,961	¥124,607	¥374,995	¥107,940	¥482,935
Depreciation and amortization	7,714	1,144	10,287	19,145	—	19,145
Impairment loss	—	—	—	—	—	—
Capital expenditures	14,154	855	12,599	27,608	—	27,608
Amortization of goodwill	—	44	—	44	—	44
Goodwill	—	708	—	708	—	708

	Thousands of U.S. dollars					
	Elastomers	Plastics	Fine chemicals and other products	Total	Reconciliation	Consolidated
For 2013:						
Sales to external customers	\$2,081,841	\$550,332	\$1,317,717	\$3,949,890	\$ —	\$3,949,890
Inter-segment sales/transfers	53,576	—	—	53,576	(53,576)	—
Sales total	2,135,417	550,332	1,317,717	4,003,466	(53,576)	3,949,890
Operating income	\$ 190,570	\$ 31,499	\$ 152,266	\$ 374,335	\$ —	\$ 374,335
Identifiable assets	\$2,279,926	\$382,366	\$1,324,897	\$3,987,189	\$1,147,688	\$5,134,877
Depreciation and amortization	82,022	12,163	109,378	203,563	—	203,563
Impairment loss	—	—	—	—	—	—
Capital expenditures	150,495	9,095	133,957	293,547	—	293,547
Amortization of goodwill	—	471	—	471	—	471
Goodwill	—	7,532	—	7,532	—	7,532

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

Geographic segment information with respect to net sales for the years ended March 31, 2012 and 2013 were as follows:

	Millions of yen		
	Japan	Others	Total
For 2012:	¥196,470	¥153,477	¥349,947
For 2013:	¥196,966	¥174,521	¥371,487

	Thousands of U.S. dollars		
For 2013:	\$2,094,267	\$1,855,623	\$3,949,890

The geographical segments consist of Japan and Others. Japan has been divided as independent segments considering the materiality of the sales. Main countries included in Others segment were as follows;

Korea, China, Taiwan, Thailand, United States, Belgium

Geographic segment information with respect to property, plant and equipment for the years ended March 31, 2012 and 2013 were as follows:

	Millions of yen			
	Japan	Thailand	Others	Total
For 2012:	¥69,317	¥ 969	¥10,218	¥80,504
For 2013:	¥68,247	¥13,725	¥11,233	¥93,205

	Thousands of U.S. dollars			
For 2013:	\$725,658	\$145,928	\$119,432	\$991,018

The geographical segments consist of Japan, Thailand and Others. Japan and Thailand have been divided as independent segments considering the materiality of the property, plant and equipment. Main countries included in Others segment were as follows;

Korea, China, Taiwan, United States, Belgium

Major customer information with respect to sales for the years ended March 31, 2012 and 2013 were as follows:

	Millions of yen		
	Customer Name	Segment	Sales
For 2012:	BRIDGESTONE Corporation	Elastomers	¥40,527
For 2013:	BRIDGESTONE Corporation	Elastomers	¥39,890

	Thousands of U.S. dollars		
For 2013:	BRIDGESTONE Corporation	Elastomers	\$424,137

## 20. Related Parties

### (1) Related party transactions

Significant transactions and balances with related parties as of and for the years ended March 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
BRIDGESTONE Corporation (a major shareholder):			
Sales	¥40,090	¥39,522	\$420,225
Notes and accounts receivable—trade, net	17,382	16,998	180,731
Tobu Butadiene Co., Ltd. (an affiliated company):			
Purchases	11,152	14,393	153,034
Notes and accounts payable—trade	6,251	7,131	75,820
Supply of raw material gas	9,421	11,723	124,642
Accounts receivable—other	5,212	6,884	73,193
KRATON JSR Elastomers K.K. (an affiliated company):			
Purchases	9,930	10,385	110,423
Notes and accounts payable—trade	5,083	5,573	59,258
Supply of raw material gas	4,015	4,945	52,574
Accounts receivable—other	2,515	3,154	33,535
Japan Butyl Co., Ltd. (an affiliated company):			
Purchases	12,190	13,495	143,486
Notes and accounts payable—trade	2,594	5,457	58,019

### (2) Significant Affiliates

Condensed financial information for significant affiliate for the years ended March 31, 2012 and 2013 were as follows:

	Millions of won		Thousands of U.S. dollars
	2012	2013	2013
Kumho Polychem Co., Ltd.			
Total current assets	w155,672	w162,145	\$146,198
Total noncurrent assets	152,975	240,129	216,513
Total current liabilities	73,573	85,693	77,265
Total noncurrent liabilities	12,168	9,899	8,926
Total net assets	222,906	306,682	276,520
Net sales	403,243	430,827	388,455
Income before income taxes	142,911	136,237	122,838
Net income	110,630	105,648	95,258

The translations of the Korea won amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2013, which was 1,109.08 won to U.S.\$1.00. The convenience translations should

not be construed as representations that the Korea won amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 21. Subsequent Events

At the June 21, 2013 annual meeting, the Companies' shareholders approved the following appropriations of retained earnings: Payment of a year-end cash dividend of ¥17.00 per share aggregating ¥4,037 million (\$42,922 thousand).



## **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, 2013 and 2012, 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 misstatements, 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 JSR Corporation and its consolidated subsidiaries as at March 31, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 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 21, 2013

Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



## Corporate Data

(As of March 31, 2013)

### JSR Corporation

#### Established

December 10, 1957

#### Capital (Common Stock)

¥23,320 million (\$248 million)

#### Employees

5,659

#### Closing date

JSR books are closed on March 31, each year.

### Ordinary General Meeting of Shareholders

The annual general meeting of shareholders is held in June each year. The 2013 annual general meeting was held on June 21, 2013.

### Transfer Agent and Register

The Chuo Mitsui Trust and Banking Co., Ltd.

### Auditors

KPMG AZSA & Co.

## Shareholders Information (As of March 31, 2013)

### Stock Listing

Tokyo Stock Exchange, Osaka Securities Exchange

### Number of Shares Issued

237,973,205 shares

### Number of Shareholders

20,068

### Major Shareholders

	Percentage of shares held (%)	Number of shares held (thousands)
Bridgestone Corporation	16.36	38,866
Japan Trustee Services Bank, Ltd. (Trust Account)	5.81	13,799
The Master Trust Bank of Japan, Ltd. (Trust Account)	4.85	11,535
The Chase Manhattan Bank 385036	2.73	6,496
The Master Trust Bank of Japan, Ltd. (Trust Account) (Number of Retirement Allowance Trust Shares of Mitsubishi Chemical Corporation)	2.20	5,236
Mizuho Corporate Bank, Ltd.	2.15	5,125
Nippon Life Insurance Company	1.76	4,199
SSBT OD05 OMNIBUS ACCOUNT-TREATY CLIENTS	1.65	3,940
State Street Bank and Trust Company 505225	1.61	3,839
Meiji Yasuda Life Insurance Company	1.52	3,631

\* 515,440 shares of treasury stock held by the Company are not included in the above breakdown of major shareholders.

### Common stock price range

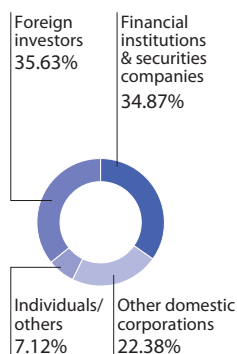
(Yen/share: Tokyo Stock Exchange)

		1st Q	2nd Q	3rd Q	4th Q
FY2004	High	1,477	2,080	2,540	2,435
	Low	1,141	1,429	1,795	2,055
FY2005	High	2,520	2,180	2,265	2,255
	Low	1,892	1,655	1,790	2,040
FY2006	High	2,395	2,635	3,150	2,810
	Low	2,000	2,175	2,370	3,040
FY2007	High	3,710	2,930	3,170	3,240
	Low	2,535	2,280	2,505	2,530
FY2008	High	2,985	3,120	3,020	2,875
	Low	2,540	2,445	2,465	1,886
FY2009	High	2,460	2,180	1,397	1,312
	Low	2,000	1,246	795	990
FY2010	High	1,687	1,960	1,959	1,974
	Low	1,162	1,561	1,545	1,714
FY2011	High	1,999	1,666	1,543	1,875
	Low	1,436	1,201	1,341	1,183
FY2012	High	1,724	1,655	1,582	1,790
	Low	1,413	1,221	1,218	1,408
FY2013	High	1,695	1,455	1,644	1,994
	Low	1,255	1,274	1,224	1,670

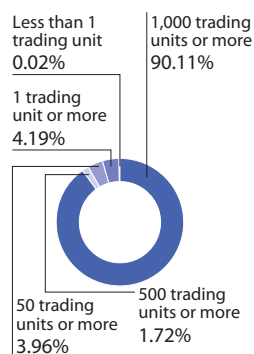
### Composition of Shareholders

	Shareholders	Shares held (thousands)
Individuals and others	19,260	16,934
Foreign corporations and individuals	414	84,798
Other domestic corporations	263	53,255
Financial institutions	88	81,142
Securities companies	43	1,842
Total	20,068	237,973

### By Type of Shareholders



### By Number of Shares Held



# Directors, Corporate Auditors, and Officers

As of June 21, 2013

## Directors and Corporate Auditors

---

**Mitsunobu Koshiba**  
*Representative Director and President*

**Hozumi Sato**  
*Representative Director*

**Yoshinori Yoshida**  
*Director, Executive Advisor*

**Hayato Hirano**  
*Director*

**Takuya Goto**  
*Outside Director*

**Michio Kariya**  
*Outside Director*

**Kazunori Yagi**  
*Outside Director*

### Corporate Auditors:

**Shoichi Kataoka**  
*Standing Corporate Auditor*

**Kenji Ito**  
*Corporate Auditor (Outside)*

**Hiroichi Uekusa**  
*Corporate Auditor (Outside)*

## Officers (\* Directors)

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**Hozumi Sato\***  
*Executive Vice President  
Research and Development, Strategic Businesses  
Chairman of J&W Beijing Biotech Co., Ltd.*

**Koichi Kawasaki**  
*Managing Officer  
Petrochemicals Sector (including Plastics),  
Safety and Environment Affairs,  
General Manager of Petrochemical Products Div.,  
President of Japan Butyl Co., Ltd.,  
President of KRATON JSR ELASTOMERS K. K.*

**Hisao Hasegawa**  
*Managing Officer  
Manufacturing and Technology, Product Safety and  
Quality Assurance, Procurement, Logistics,  
IT Strategy  
General Manager of Manufacturing and  
Technology Group,  
President of Tobu Butadiene, Co., Ltd.*

**Yasuhisa Nagahiro**  
*Managing Officer  
Display Materials Business, Optical Materials  
Business*

**Atsushi Kumano**  
*Senior Officer  
Research & Development (deputy),  
General Manager of R&D Department*

**Nobuo Kawahashi**  
*Senior Officer  
President of JSR Micro Korea Co., Ltd.*

**Kazuyoshi Nakazawa**  
*Senior Officer  
Yokkaichi Plant Manager*

**Takatoshi Nagatomo**  
*Officer  
President of JSR BST Elastomer Co., Ltd.*

**Takeshi Sugimoto**  
*Officer  
Electronic Materials Business  
General Manager of Electronic Materials Division  
and General Manager of Lithography Materials  
Department*

**Tsuyoshi Watanabe**  
*Officer  
Strategic Business, Biomedical Materials(deputy)  
Executive Member of MEDICAL & BIOLOGICAL  
LABORATORIES CO., LTD.*

**Hayato Hirano\***  
*Officer  
CSR, Accounting and Finance,  
Corporate Communications,  
General Manager of Group Companies Coordination  
Department*

**Katsuya Inoue**  
*Officer  
Business Planning, Fine Chemical Business,  
General Manager of Business Planning,  
Fine Chemical Business*

**Fumio Tsutsumi**  
*Officer  
Strategic Businesses, Performance Chemicals (deputy)  
General Manager of Performance Chemicals Division  
and General Manager of Department II*

**Kazumasa Yamawaki**  
*Officer  
General Manager of Department for Global  
Business Alliance*

**Eric Johnson**  
*Officer  
President of JSR Micro, Inc.*

**Eiichi Kobayashi**  
*Officer  
Strategic Businesses, Precision Materials and  
Processing and Lithium Ion Capacitors (deputy)  
General Manager of Precision Materials and  
Process Division, President of JM Energy  
Corporation*

**Makoto Doi**  
*Officer  
Legal, General Affairs  
General Manager of Legal Department*

**Takao Shimizu**  
*Officer  
Corporate Planning  
General Manager of Corporate Planning Department*

**Tsutomu Shimokawa**  
*Officer  
Yokkaichi Research Center  
General Manager of Yokkaichi Research Center,  
General Manager of Advanced Materials Research  
Laboratories*

**Yoshio Shiota**  
*Officer  
Human Resources  
General Manager of Human Resource Development  
Department*



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## JSR Corporation

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