

## Corporate Governance Report

Last Update: July 11, 2016

**JSR Corporation.**

President & Representative Director

Mitsunobu Koshiba

Contact: Nobuhiko Kuwashima

Securities Code: 4185

<http://www.jsr.co.jp>

The corporate governance of JSR Corporation (the “Company”) is described below.

### **I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information**

#### **1. Basic Views**

It is the JSR Group's goal to make steady progress in realizing its corporate mission (Materials Innovation: We create value through materials to enrich society, people and the environment). This shall be done through efficient and transparent business management, by sustaining sound and healthy business practices. The Group will also continuously strive to create new corporate value with the hope of becoming an attractive corporation that can earn the trust of and satisfy the interests of all our stakeholders.

As a company with audit & supervisory board members, JSR principally monitors and oversees the execution of its operations through its Board of Directors and audit & supervisory board members. The Company continuously has strengthened the function of management supervision, improved efficiency in decision making and business duties execution, and enhanced the transparency and soundness of its business management to raise corporate value over the medium to long-term. To that end, it has implemented measures, such as introduction of an officer system, appointment of outside directors and audit & supervisory board members who are independent from the Company and have extensive business experience and expertise, establishment of the Remuneration Advisory Committee and the Nomination Advisory Committee of which majority members are independent outside directors, and the introduction of three types of performance-based remuneration covering short, medium and long term.

JSR has three (3) audit & supervisory board members, of which two (2) are independent outside audit & supervisory board members with extensive experience and expertise (currently one is a lawyer and the other is a certified public accountant qualified as a certified public tax accountant as well) and thereby has strengthened their functions in monitoring and overseeing management. Additionally, the Company has strived to ensure and improve the effectiveness of internal control by systematically conducting audits through the Internal Audit Department which is independent from business divisions and reporting directly to the president, by strengthening collaboration between the Internal Audit Department and audit & supervisory board members and by instituting a reporting system whereby important issues are reported by directors and employees to the audit & supervisory board members when

deemed necessary.

JSR will continue focusing on the enhancement of corporate governance as an important management challenge.

**[Reasons for Non-compliance with the Principles of the Corporate Governance Code]**

**[Supplementary Principle 4-11-3] Analysis and evaluation of the effectiveness of the Board of Directors**

JSR plans to disclose the outline of the results of the analysis and evaluation of the effectiveness of the Board of Directors in fiscal year ending in March 2017 or later upon completion of the evaluation.

**[Disclosure Based on the Principles of the Corporate Governance Code]**

**[Principle 1-4] Cross-shareholdings**

(1) Purpose for acquiring and holding listed shares

JSR has maintained cross-shareholdings by comprehensively considering the rationality of both business management strategies and economics of holding cross-shareholdings. The Board of Directors will periodically review the status and the policies for maintaining cross-shareholdings.

(2) Policy for exercising voting rights

When exercising voting rights of cross-shareholdings, JSR, while respecting the judgment of the management of the companies in question in principle, comprehensively determines to vote for or against their proposals after reviewing whether or not their corporate governance system and proposals will contribute to the improvement of their corporate value over the medium and long-term.

**[Principle 1-7] Transactions with related parties**

(1) In accordance with the Companies Act and JSR's "Regulations of the Board of Directors", JSR has obtained the Board of Directors' prior approval for competitive and conflict-of-interest transactions and reported important facts regarding such transactions to the Board of Directors after completion.

(2) In accordance with applicable laws and regulations, JSR has disclosed the outline of transactions with related parties in notes to consolidated financial statements of the Securities Report and notes to non-consolidated financial statements of the ordinary general meeting of shareholders.

(3) JSR has been determining the terms and conditions for the transactions with major shareholders by negotiating prices considering market conditions in the same way as it deals with third parties.

**[Principle 3-1 (i)] Disclosure of corporate mission and business plan**

(1) JSR sets its corporate mission as follows:

Materials Innovation: We create value through materials to enrich society, people and the environment.

(2) JSR has, for the purpose of achieving its corporate mission, established group-wide management policies consisting of two basic components; "Fundamental Pillars of Management" representing general policies for ensuring sustainable growth and "Responsibility to Our Stakeholders" representing JSR's commitment as a good corporate citizen.

For details of the corporate mission and management policies, "the JSR Group's Essential Elements", please visit the following site: [http://www.jsr.co.jp/jsr\\_e/company/mission.shtml](http://www.jsr.co.jp/jsr_e/company/mission.shtml)

(3) JSR Mid-Term Business Plan JSR20i6, a three-year plan from the fiscal year ending in March 2015 to the fiscal year ending in March 2017

Now, JSR is in the second phase of a three-phase mid-term business plan that began in fiscal year ending in March 2012 to achieve its vision for 2020. Under JSR20i6, recognizing the period from fiscal year ending in March 2015 to fiscal year ending in March 2017 as a phase to jump onto the growth track, the Company will implement priority measures from JSR20i3, the previous mid-term business plan, to achieve steady earnings growth.

For details of JSR20i6, please visit the following sites:

(Original plan) [http://www.jsr.co.jp/jsr\\_e/pdf/ir/presentation/20140424mt.pdf](http://www.jsr.co.jp/jsr_e/pdf/ir/presentation/20140424mt.pdf)

(Progress of the plan) [http://www.jsr.co.jp/jsr\\_e/pdf/ir/presentation/20150423mt.pdf](http://www.jsr.co.jp/jsr_e/pdf/ir/presentation/20150423mt.pdf)  
[http://www.jsr.co.jp/jsr\\_e/pdf/ir/presentation/20160525mt.pdf](http://www.jsr.co.jp/jsr_e/pdf/ir/presentation/20160525mt.pdf)

**[Principle 3-1 (ii)] JSR's basic approach towards and policy on corporate governance**

(1) Basic policy

- 1) It is the JSR Group's goal to make steady progress in realizing its corporate mission (Materials Innovation: We create value through materials to enrich society, people and the environment). This shall be done through efficient and transparent business management, by sustaining sound and healthy business practices. The Group will also continuously strive to create new corporate values with the hope of becoming an attractive corporation that can earn the trust of and satisfy the interests of all our stakeholders.
- 2) The Company has been therefore focusing on the enhancement of corporate governance as an important management challenge.

(2) Corporate governance structure

- 1) As a company with audit & supervisory board members, JSR principally monitors and oversees the execution of its operations through its Board of Directors and audit & supervisory board members.
- 2) JSR has continuously strengthened the function of management supervision, improved efficiency in decision making and execution of business duties, and enhanced the transparency and soundness of business management through the introduction of an officer system and the appointment of outside directors and audit & supervisory board members, who are independent from the Company and have extensive business experience and a high level of expertise.
- 3) The Board of Directors has established JSR's corporate mission and makes important decisions including those of the Company's business strategies.
- 4) The Board of Directors has developed an environment where management can take appropriate risks and demonstrate entrepreneurship through the introduction of a performance-based director remuneration scheme.
- 5) The Board of Directors supervises directors and management through the assessment of business performance and appointment of directors.
- 6) The current Board of Directors consists of eight (8) directors, three (3) of whom are independent outside directors with vast experience and extensive expertise in management of corporations and businesses. In the future, the Company will elect two (2) or more independent outside directors with similar expertise in order to increase corporate value and oversee business management.
- 7) The current Audit & Supervisory Board consists of three (3) audit & supervisory board members, two (2) of whom are independent outside audit & supervisory board members with extensive and sophisticated expertise (one is a lawyer and the other is a certified public accountant qualified as a certified public tax accountant as well). In the future, the Company will elect two independent outside audit & supervisory board members with vast experience and extensive and sophisticated expertise in

such fields as law, accounting, and etc., to effectively audit the execution of duties by directors and management.

- 8) JSR has established the Remuneration Advisory Committee of which majority members are independent outside directors in order to ensure the objectivity and transparency of its directors' remuneration scheme. The committee deliberates the basic policy of remuneration, the remuneration structure, the mechanism of a performance-based remuneration, the setting of targets, and assessment of performance, and submits its findings to the Board of Directors.
- 9) JSR has set basic policies on remuneration of directors as follows: the remuneration scheme should increase corporate value over the medium and long-term, attract diverse and superior personnel, be linked to short-term, medium-term and long-term business performance, have management and shareholders share profits, and ensure high transparency. Remuneration for directors consists of a fixed basic remuneration, an annual bonus linked to the attainment level of business performance in each fiscal year, a medium-term business performance-based bonus linked to the attainment level of the medium and long-term business performance, and stock compensation-type stock options designed to allow directors to share the benefits and risks of stock price fluctuations with shareholders. In light of their roles, remuneration for outside directors and audit and supervisory board members consists of basic remuneration only.
- 10) JSR has established the Nomination Advisory Committee of which majority members are independent outside directors to ensure the transparency of the policy and procedures of nominating candidates for directors. The committee deliberates criteria for the size, diversity in breadth of knowledge, experience, and capability necessary for the Board of Directors as well as criteria and procedures for nominating and/or identifying candidates for future appointment as president, directors, officers with directorship status (including senior officers), and audit & supervisory board members, and submits its findings to the Board of Directors.

### (3) Relationship with stakeholders

- 1) JSR has set "Responsibility to Our Stakeholders" (responsibility to customers, business partners, employees, society, and shareholders) as one of the important pillars of its management policies in order to express its commitment to its stakeholders.
- 2) JSR has appropriately responded to issues related to sustainability, such as social and environmental issues and also promoted measures to secure diversity including those for encouraging greater participation of female employees.

For details of JSR's CSR report, please visit the following site: [http://www.jsr.co.jp/jsr\\_e/csr/](http://www.jsr.co.jp/jsr_e/csr/)

- 3) To fulfill its commitment to its stakeholders as stated in its "Responsibility to Our Stakeholders", the JSR Group has established "the JSR Group Principles of Corporate Ethics" as a code of conduct for its directors and employees and endeavored to ensure the code is thoroughly communicated to, and understood and observed by all directors and employees.

For details of the JSR Group Principles of Corporate Ethics, please visit the following site: [http://www.jsr.co.jp/jsr\\_e/csr/ethics.shtml](http://www.jsr.co.jp/jsr_e/csr/ethics.shtml)

### (4) Securing the rights and equal and equitable treatment of shareholders

- 1) JSR has continued to develop an environment where shareholders can appropriately exercise their voting rights at the ordinary general meeting of shareholders.
  - a JSR will continue to implement the following measures: holding an ordinary general meeting of shareholders earlier than other companies (in the middle of June each year); dispatching the notice of convocation of an ordinary general meeting of shareholders three (3) weeks prior to the date of the meeting; introducing an electronic voting platform via the Internet, etc.; participating in the electronic voting platform for institutional investors; enhancing contents of the convocation

notice; and translating the convocation notice into English, etc.

For details of materials prepared for its ordinary general meeting of shareholders, please visit the following site : [http://www.jsr.co.jp/jsr\\_e/ir/shareholder.shtml](http://www.jsr.co.jp/jsr_e/ir/shareholder.shtml)

- b JSR will study measures to deal with institutional investors, etc. who hold the Company's shares under the names of trust banks and who desire to participate in an ordinary general meeting of shareholders of the Company.

- 2) JSR will explain its basic idea on its capital policies to shareholders. Especially in the case of those policies that may undermine the interests of existing shareholders, such as introducing takeover defense measures, MBO, and increase in capital stock, etc., the Company is determined to sufficiently examine their necessity and rationality and to take appropriate procedures to ensure sufficient explanation to shareholders.
- 3) JSR has maintained cross-shareholdings by comprehensively considering the rationality of both business management strategies and economics of holding cross-shareholdings. The Board of Directors will periodically review the status and the policies for maintaining cross-shareholdings. When exercising voting rights of cross-shareholdings, the Company, respecting the judgment of the management of companies in question in principle, comprehensively determines to vote for or against their proposals after reviewing whether or not their corporate governance system and proposals will contribute to the improvement of their corporate value over the medium and long-term.

(5) Capital policy

- 1) While prioritizing growth investment in its petrochemical, fine and life sciences businesses to continuously create corporate value, JSR has been aiming at providing appropriate returns to shareholders, including combination of dividends and treasury stock acquisitions, by taking into account its business performance and medium and long-term capital requirements.
- 2) JSR has been continuously endeavoring to improve capital efficiency indices, such as ROE and ROIC.

(6) Dialogue with shareholders

- 1) JSR has promoted constructive dialogue with shareholders in the following manner.
  - a JSR appoints an officer in charge of IR. The president or the officer in charge of IR explains business performance, financial positions, and the details and progress of the mid-term business plan at the quarterly analyst meeting and mid-term business plan explanatory annual meeting for institutional investors.
  - b Every year, the president or the officer in charge of IR holds interviews with institutional investors in Japan and overseas to explain the above matters.
  - c Opinions and questions that JSR receives from investors through the above-mentioned dialogues are periodically fed back to management.
- 2) In dialogues with shareholders, JSR has strived to appropriately treat insider information.

(7) Information disclosure policy

- 1) JSR has set its information disclosure policy and prepared organizations and systems for information disclosure. The Company has strived to ensure prompt, accurate, active and fair disclosure of information by establishing a company-wide cooperative framework to improve the quality of information disclosure.
- 2) With the aim of actively providing company information to shareholders and investors, JSR posts the information mentioned below on its website: corporation information including business performance, financial position, and details of main businesses, CSR information including efforts to conserve the environment and responsible care (RC), and research and development (R&D) activities.

**[Principle 3-1 (iii)] Policy and procedures to decide remuneration for management and directors**

JSR has established the Remuneration Advisory Committee of which majority members are independent outside directors to ensure the objectivity and transparency of its directors' remuneration scheme. The Remuneration Advisory Committee deliberates the basic policy of remuneration, the remuneration structure, the mechanism of a performance-based remuneration, the targets, and assessment of performance, and submits its findings to the Board of Directors.

For details, please refer to II. 1. [Director Remuneration] Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods of this Corporate Governance Report.

**[Principle 3-1 (iv)] Policy and procedures to nominate candidates for director and audit & supervisory board member**

(1) JSR has established the Nomination Advisory Committee of which majority members are independent outside directors to ensure the transparency of the policy and procedures of nominating candidates for directors. The committee deliberates standard for the diversity in breadth of knowledge, experience, and capability necessary for the Board of Directors, criteria and procedures for the nomination, and candidates for future appointment as president, directors, officers with directorship status (including senior officers), and audit & supervisory board members, and submits its findings to the Board of Directors.

(2) Criteria for nominating candidates for directors

- 1) When nominating candidates for directors, JSR makes it a rule to ensure an appropriate balance among diversity in breadth of knowledge, experience, and capability essential to the Board of Directors and the size thereof in order to make important management decisions and oversee the execution of duties in appropriate and timely fashion.
- 2) JSR nominates persons who are mentally and physically sound and have an exceptional personality and popularity, and high principles and ethical view.
- 3) Candidates for inside directors: JSR nominates persons who have extensive knowledge, experience, and high capability with a superior track record in such fields as business management, R&D, manufacturing, manufacturing technology, human resources, and finance and accounting, etc.
- 4) Candidates for outside directors: JSR nominates persons who have independence, vast experience and extensive expertise of business and management, and the capability to actively express opinions and raise issues on growth strategy and enhancement of governance from a broad perspective.

(3) Criteria for nominating candidates for audit & supervisory board member

- 1) From the perspective of ensuring the transparency and soundness of business management through auditing the process of directors' decision making and execution of duties in accordance with laws and regulations, such as the Companies Act, the articles of incorporation and internal rules, JSR nominates persons with vast experience and extensive and sophisticated expertise necessary for audit (including one person with sufficient knowledge of finance and accounting) among those who are mentally and physically sound and have an exceptional personality and popularity, and high principles and ethical view
- 2) Regarding candidates for outside audit & supervisory board members, in particular, JSR nominates persons who have independence and extensive experience and knowledge of laws and accounting.

**[Principle 3-1 (v)] Reasons for nominating individual candidates for director and audit & supervisory board member**

For details of the reasons for nominating individual candidates for outside directors and audit & supervisory board members, please refer to the materials for the ordinary general meeting of shareholders and II. 1. [Directors] and [Audit & Supervisory Board Member] of this Corporate Governance Report.

Starting from the ordinary general meetings of shareholders held in June 2016, JSR disclosed the reasons for nominating candidates for inside directors and audit & supervisory board members in the reference materials attached to the notice of convocation of ordinary general meeting of shareholders.

**[Supplementary Principle 4-1-1] Scope of the authorization for management**

- (1) The Board of Directors shall make decisions on issues, in addition to those treated as a prerogative of the Board of Directors by laws and regulations and the articles of incorporation, of the following important ones prescribed in “JSR’s Regulations of the Board of Directors”.
  - 1) Issues related to an ordinary general meeting of shareholders
  - 2) Issues related to directors and officers
  - 3) Issues related to financial results
  - 4) Issues related to stocks and corporate bonds
  - 5) Issues related to fundamental management initiatives, management policies, and business plans
  - 6) Issues related to important operations (according to the amount criteria, etc.)

For the issues other than the above, the Company delegates decision making authorities to persons listed below in accordance with its “Regulations on Decision Making Authority” depending upon nature and importance thereof;

- 1) Decision by the president after deliberation at the Executive Committee.
- 2) Decision by the president
- 3) Decision by an officer in charge
- 4) Decision by a head in charge of business department

**[Principle 4-8] Effective use of independent outside directors**

In the future, JSR will elect two (2) or more outside directors who have independence, vast experience and extensive expertise of business and management, and the capability to actively express opinions and raise issues on growth strategy and enhancement of governance from a broad perspective.

**[Principle 4-9] Criteria for judging the independence of independent outside directors**

JSR has set its original criteria for judging the independence of independent outside directors and audit & supervisory board members. For details, please refer to II. 1. [Independent Directors/Audit & Supervisory Board Member] (Matters relating to Independent Directors/Audit & Supervisory Board Member) of this Corporate Governance Report.

**[Supplementary Principle 4-11-1] Concept of capability and diversity of the Board of Directors as a whole**

With the aim of overseeing important management decision making and the execution of duties in appropriate and timely fashion in order to increase corporate value over medium and long-term, JSR considers it important that the Board of Directors as a whole effectively utilize both i) the extensive knowledge, experience and high capability in such fields as business management, R&D, manufacturing, manufacturing technology, human resources, and finance and accounting, etc. held by inside directors and ii) vast experience and extensive expertise of business and management, and capability to actively express opinions and raise issues on growth strategy and enhancement of governance from a broad perspective held by independent outside directors.

JSR will continue to ensure the sufficient diversity in knowledge, experience, and capability that are essential for the Board of Directors and maintain its optimum size but not exceeding 12 people in accordance with the deliberation to be made by the Nomination Advisory Committee and with its business strategies in the future,

**[Supplementary Principle 4-11-2] Positions concurrently held by directors and audit & supervisory board members**

- (1) Outside directors and audit & supervisory board members had a high attendance rate (nearly 100%) at Board of Directors and Audit & Supervisory Board meetings and spared sufficient time to perform their roles and duties since they understood the schedule of the Board of Directors and the Audit & Supervisory Board meetings before assuming their office and received notice of the meeting well in advance after assuming their office.
- (2) Regarding the positions concurrently held by the directors and audit & supervisory board members, please refer to II. 1 [Directors] Outside Directors' Relationship with the Company (2) as well as the business report attached to the notice of convocation of ordinary general meeting of shareholders.

**[Supplementary Principle 4-11-3] Analysis and evaluation on the effectiveness of the Board of Directors**

JSR plans to disclose the outline of the results of the analysis and evaluation of the effectiveness of the Board of Directors in fiscal year ending in March 2017 or later upon completion of evaluation.

**[Supplementary Principle 4-14-2] Policy for training directors and audit & supervisory board members**

- (1) JSR provides newly elected officers—future candidates for directors—with opportunities to participate in outside seminars for newly elected directors.
- (2) JSR provides newly elected outside directors and audit & supervisory board members with opportunities to participate in the introduction education and factory and research institute tours to deepen their understanding of the Company and its businesses.
- (3) When a Board of Directors meeting is held, JSR regularly picks up key issues closely related to its businesses as “A Specific Theme for Review and Discussion” and thereby provides an opportunity to exchange opinions on such themes. This opportunity helps directors and audit & supervisory board members not only deepen their understanding of the Company's business challenges but also promote communication between board members.

**[Principle 5-1] Policy on constructive dialogue with shareholders**

JSR has implemented the following measures to promote constructive dialogue with shareholders and investors.

- (1) An officer, who is responsible for Accounting and Finance Department and Corporate Communications Department, takes charge of IR activities and the Accounting and Finance Department and the Corporate Communications Department jointly assist dialogue with investors.
- (2) JSR holds an analyst meeting every quarter and a mid-term business plan explanatory meeting every fiscal year. In such meetings, the president or officer in charge of IR explains business performance, financial position, details and progress of the mid-term business plan to analysts.
- (3) Every year, the president or officer in charge of IR holds interviews with major institutional investors in Japan and overseas to explain the details and progress of the mid-term business plan.
- (4) JSR has been endeavoring to provide investors with the Company information on its website such as, in addition to financial statement, that on business performance and details of main businesses, on CSR activities including efforts to conserve the environment and responsible care, and that on R&D activities.
- (5) Opinions and questions that JSR receives from investors through the above-mentioned dialogues are fed back to management as IR activities reports.
- (6) In dialogues with shareholders, JSR has appropriately treated insider information (setting a silent period from the start of a new fiscal year to the day of announcing business results, establishing regulations for preventing insider trading, and conducting employee education seminars).

## 2. Capital Structure



Foreign Shareholding Ratio	More than 30%
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**[Status of Major Shareholders]**

Name / Company Name	Number of Shares Owned ('000 shares)	Percentage (%)
Bridgestone Corporation	27,866	12.33
Japan Trustee Services Bank, Ltd. (trust account)	9,855	4.36
The Master Trust Bank of Japan, Ltd. (trust account)	7,988	3.53
Japan Trustee Services Bank, Ltd. (trust account 9)	7,282	3.22
BNYML-NON TREATY ACCOUNT	6,602	2.92
JP MORGAN CHASE BANK 385632	5,809	2.57
STATE STREET BANK CLIENT OMNIBUS OM04	5,592	2.47
HSBC BANK PLC A/C CLIENTS 1	4,771	2.11
Mizuho Bank, Ltd.	4,225	1.87
Nippon Life Insurance Company	3,716	1.64

(Note) Number of Shares Owned are rounded down to thousands of shares

Controlling Shareholder (except for Parent Company)	none
Parent Company	none

Supplementary Explanation

**3. Corporate Attributes**

Listed Stock Market and Market Section	Tokyo Stock Exchange ("TSE") First Section
Fiscal Year-End	March
Type of Business	Chemicals
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion /
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50 /

**4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder**

n.a.
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**5. Other Special Circumstances which may have Material Impact on Corporate Governance**

MEDICAL & BIOLOGICAL LABORATORIES CO., LTD. (MBL), which JSR turned from an equity method affiliated company into a consolidated subsidiary in October 2015, is listed on the JASDAQ market of the Tokyo Stock Exchange.

The Company will strengthen its capital and business alliance with MBL in the field of life science business, will respect the independence of MBL to increase their corporate value, and will try to optimize its consolidated management through the sharing of corporate mission and business strategy with the aim of expanding corporate value of the entire JSR Group.

In addition, the Company's wholly-owned subsidiary sells its products to MBL, of which the terms and conditions are based upon market conditions and similar to those with the third parties.

## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form	Company with Audit & Supervisory Board
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	12
Term of Office Stipulated in Articles of Incorporation	1
Chairperson of the Board	Director other than President
Number of Directors	8
Number of Outside Directors	3
Number of Independent Directors	3

#### Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Kazunori Yagi	From another company								△			
Yuzuru Matsuda	From another company								△			
Shiro Sugata	From another company								△			

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the listed company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/audit & supervisory board member

- g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
- i. Executive of a company, between which and the Company outside directors/audit & supervisory board member are mutually appointed (the director himself/herself only)
- j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Others

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Outside Directors' Relationship with the Company (2)

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Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Kazunori Yagi	Independent Director	<p>(1) Mr. Yagi meets the "Criteria for judging independence of outside directors and audit &amp; supervisory board members", set forth in "Matters relating to Independent Directors/Audit &amp; Supervisory Board Member" in this report.</p> <p>(2) There are some ongoing transactions involving the purchase of control systems and other products between the group companies of Yokogawa Electric Corporation "YEC" (where Mr. Yagi had previously served as Director and Executive Vice President) and the group companies of JSR Corporation. The value of such transactions in the previous business year (from April, 2014 to March, 2015) amounted to less than 0.1% of YEC's consolidated net sales for the previous business year.</p>	<p>Mr. Kazunori Yagi served as Director and Executive Managing Officer at Yokogawa Electric Corporation, He has vast experience in the corporate management of global companies especially in the field of control systems and measurement devices, and possesses the independent perspectives as outside personnel.</p> <p>He has contributed his experiences and independent viewpoints to help the Company in making crucial decisions, to supervise the Company at the BOD level, and to strengthen the Company's fair corporate governance through enhancing the fair and reasonable business judgment and transparent and sound management. He is therefore nominated again as a candidate for Outside Director.</p>
Yuzuru Matsuda	Independent Director	<p>(1) Mr. Matsuda meets the "Criteria for judging independence of outside directors and audit &amp; supervisory board members", set forth in "Matters relating to Independent Directors/Audit &amp; Supervisory Board Member" in this report.</p> <p>(2) There are some ongoing transactions involving the sales of testing reagents and other products</p>	<p>Mr. Yuzuru Matsuda served as the President and Chief Operating Officer of KYOWA HAKKO KOGYO CO., LTD and Kyowa Hakko Kirin, Co., Ltd.</p> <p>He has vast experience in corporate management for global companies especially in the field of medical products and biochemical. He also possesses the independent perspective as outside personnel.</p>

		between the group companies of Kyowa Hakko Kirin, Co., Ltd. (where Mr. Matsuda served as President and Chief Operating Officer) and the group companies of JSR Corporation. The value of such transactions in the business year (from April, 2015 to March, 2016) amounts to less than 0.1% of JSR's consolidated net sales for the business year.	He has utilized his experiences and independent viewpoints to help the Company in making crucial decisions, to supervise the Company at the BOD level, and to strengthen the Company's fair corporate governance through enhancing the fair and reasonable business judgment and transparent and sound management. He is therefore nominated again as a candidate for Outside Director.
Shiro Sugata	Independent Director	<p>(1) Mr. Sugata meets the "Criteria for judging independence of outside directors and audit &amp; supervisory board members", as set forth in "Matters relating to Independent Directors/Audit &amp; Supervisory Board Member" in this report.</p> <p>(2) There have been some ongoing transactions involving the purchase of devices between the group companies of USHIO INC. (where Mr. Sugata served as Representative Director and President and is serving as Director and Advisor) and the group companies of JSR Corporation. The value of such transactions in the previous business year (from April, 2014 to March, 2015) amounted to less than 0.1% of USHIO INC's consolidated net sales for the previous business year.</p>	<p>Mr. Shiro Sugata served as the Representative Director and President of USHIO INC., where he currently serves as the Director and Advisor. He also serves as Vice Chairman, Executive Director at the Japan Association of Corporate Executives.</p> <p>He has vast experience in the corporate management of global companies especially in the field of optical application products and industrial machineries and also has experience obtained through activities in the business community, and possesses the perspectives as an independent outside personnel.</p> <p>He is expected to contribute his experiences and independent viewpoints to help the Company in making crucial decisions, to supervise the Company at the BOD level, and to strengthen the Company's fair corporate governance through enhancing the fair and reasonable business judgment and transparent and sound management. He is therefore nominated as a candidate for Outside Director.</p>

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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Committee's Name, Composition, and Attributes of Chairperson

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	Committee Corresponding to	Committee Corresponding to
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	Nomination Committee	Remuneration Committee
Committee's Name	Nomination Advisory Committee	Remuneration Advisory Committee
All Committee Members	5	4
Full-time Members	5	4
Inside Directors	2	1
Outside Directors	3	3
Outside Experts	0	0
Other	0	0
Chairperson	Outside director	Outside director

#### Supplementary Explanation

##### (1) Nomination Advisory Committee

JSR established the Nomination Advisory Committee of which majority members are outside directors in order to ensure the transparency of the policy and procedures of nominating candidates for directors and audit & supervisory board members. The committee deliberates criteria for ensuring the diversity in breadth of knowledge, experience, and capability as well as the size necessary for the Board of Directors, criteria and procedures for the nomination, and candidates for future president, directors, officers with directorship status (including senior officers), and audit & supervisory board members, and submits its findings to the Board of Directors.

##### (2) Remuneration Advisory Committee

JSR has established the Remuneration Advisory Committee of which majority members are outside directors in order to ensure the objectivity and transparency of its directors' remuneration scheme. The committee deliberates the basic policy of remuneration, the remuneration structure, the mechanism of performance-based remuneration, the setting of targets, and the assessment of performance, and submits its findings to the Board of Directors.

#### [Audit & Supervisory Board Member]

Establishment of Audit & Supervisory Board	Established / Not Established
Maximum Number of Audit & Supervisory Board Member Stipulated in Articles of Incorporation	5
Number of Audit & Supervisory Board Member	3

#### Cooperation among audit & supervisory board member, independent auditors and Internal Audit Departments

Audit & supervisory board members receive audit plans and reports on the implementation of audits from the independent auditors, exchange opinions on accounting matters as necessary, and discuss them, and then judge the appropriateness of the audit results obtained by the independent auditors. In addition, audit & supervisory board members conduct physical inventory taking and a count of physical securities in cooperation with independent auditors.

Furthermore, audit & supervisory board members regularly receive audit plans and reports of audit results from the Internal Audit Department, which is independent from other business divisions and reports directly to the president, strengthen cooperation with the Internal Audit Department by exchanging opinions, and establish a framework that facilitates directors and employees reporting to audit & supervisory board

members in a timely and appropriate manner. Consequently, audit & supervisory board members audit the execution of duties by directors and enforcement of internal control with a high degree of effectiveness.

Appointment of Outside Audit & Supervisory Board Member	Appointed /
Number of Outside Audit & Supervisory Board Member	2
Number of Independent Audit & Supervisory Board Member	2

#### Outside Audit & Supervisory Board Member's Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Hiroichi Uekusa	Lawyer													○
Hisako Kato	CPA & Tax Accountant													○

\* Categories for "Relationship with the Company"

- \* "○" when the director presently falls or has recently fallen under the category;
  - "△" when the director fell under the category in the past
  - \* "●" when a close relative of the director presently falls or has recently fallen under the category;
  - "▲" when a close relative of the director fell under the category in the past
- a. Executive of the Company or its subsidiary
  - b. Non-executive director or accounting advisor of the Company or its subsidiaries
  - c. Non-executive director or executive of a parent company of the Company
  - d. Audit & supervisory board member of a parent company of the Company
  - e. Executive of a fellow subsidiary company of the Company
  - f. A party whose major client or supplier is the Company or an executive thereof
  - g. Major client or supplier of the Company or an executive thereof
  - h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an audit & supervisory board member
  - i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
  - j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the audit & supervisory board member himself/herself only)
  - k. Executive of a company, between which and the Company outside directors/ audit & supervisory board member are mutually appointed (the audit & supervisory board member himself/herself only)
  - l. Executive of a company or organization that receives a donation from the Company (the audit & supervisory board member himself/herself only)
  - m. Others

#### Outside Audit & Supervisory Board Member's Relationship with the Company (2)

Name	Designation as Independent Audit & Supervisory	Supplementary Explanation of the Relationship	Reasons of Appointment
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	Board Member		
Hiroichi Uekusa	Independent Audit & Supervisory Board Member	<p>(1) Mr. Uekusa meets the “Criteria for judging independence of outside directors and audit &amp; supervisory board members”, as set forth in “Matters relating to Independent Directors/Audit &amp; Supervisory Board Member” in this report.</p> <p>(2) No conflict of interest exists between the Company and Minato-Kyouwa Law Office nor University of Tsukuba Law School, where Mr. Hiroichi Uekusa, Audit &amp; Supervisory Board Member, has important concurrent position</p>	Mr. Uekusa has been effectively performing the audit of the Company and greatly contributing to ensure reasonable judgment for, and accountable and sound management of, the businesses of the Company by utilizing range of his professional knowledge and vast experience on legal matters as a Lawyer and by providing necessary and appropriate advices, as well as neutral and independent view point, at the Board of Directors meetings etc. from time to time.
Hisako Kato	Independent Audit & Supervisory Board Member	<p>(1) Ms. Kato meets the “Criteria for judging independence of outside directors and audit &amp; supervisory board members”, as set forth in “Matters relating to Independent Directors/Audit &amp; Supervisory Board Member” in this report.</p> <p>(2) No conflict of interest exists between the Company and either Hisako Kato Accounting Office or NTT Urban Development Corporation where Ms. Hisako Kato has important concurrent positions</p>	Ms. Kato has been effectively performing the audit of the Company and greatly contributing to ensure and reasonable judgment for, and accountable and sound management of, the businesses of the Company, by utilizing range of her professional knowledge and vast experience on financing and accounting matters as a Certified Public Accountant both in Japan and US and a Certified Tax Accountant by providing necessary and appropriate advices, as well as neutral and independent view point, at the Board of Directors meetings etc. from time to time,

**[Independent Directors/Audit & Supervisory Board Member]**

Number of Independent Directors/Audit & Supervisory Board Members	3 independent directors and 2 independent audit& supervisory board members in total 5
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**Matters relating to Independent Directors/Audit & Supervisory Board Member**

1. JSR appoints all of the qualified outside directors and audit & supervisory board members as independent directors and audit & supervisory board members.

**2. Criteria for judging independence of outside directors and audit & supervisory board members**

JSR has set criteria for judging the independence of outside directors and audit & supervisory board members (outside officers). If an outside officer (including a candidate) falls under any of the following categories, the Company judges such person does not have sufficient independence.

(1) Executive (\*1) of JSR or its consolidated subsidiary (JSR Group) or ex-executive

- (2) Major shareholder of JSR (any shareholder who directly or indirectly holds 10% or more of the voting rights)
- (3) Executive of a company, etc. that falls under any of the following
  - 1) Major shareholder of JSR
  - 2) Major business partner of the JSR Group (\*2)
  - 3) Major creditor of the JSR Group (\*3)
  - 4) Company, etc. in which the JSR Group holds 10% or more of the voting rights
- (4) Certified Public Accountant who belongs to an accounting firm that serves as the JSR Group Independent Auditor
- (5) Expert, such as a consultant, accountant, lawyer, judicial scrivener, or patent agent, etc., who receives a large amount (\*4) of monetary consideration or other property benefits from the JSR Group
- (6) Person who receives a large amount of donations from the JSR Group (\*5)
- (7) Executive of a company, between which and JSR outside directors/audit & supervisory board members are mutually appointed (\*6)
- (8) Person with a close relative (\*7) who falls under any of the above paragraphs from (1) to (7) (limited to an important person (\*8) excluding paragraphs (4) and (5))
- (9) Person who fell under any of the above paragraphs from (2) to (8) in the past five years
- (10) Person who is deemed to have special reasons that would cause a conflict of interest with JSR, notwithstanding the provisions of the preceding paragraphs
- (\*1) Executive refers to a director (excluding an outside director), an officer, an executive officer and an employee.
- (\*2) Major business partner refers to a company whose annual transactions with JSR exceed 2% of the consolidated sales of JSR or such company.
- (\*3) Major creditor refers to a financial institution whose loans to JSR exceed 2% of the consolidated total assets of JSR or such financial institution.
- (\*4) A large amount refers to: 10 million yen or more per year in case such expert is an individual; and 2% or more of annual total revenue of such organization in case such expert is an organization such as an enterprise or association. However, when a consideration for services directly offered by such expert exceeds 10 million yen, even if the amount does not exceed 2% of consolidated total assets of JSR or such financial institution, such amount is considered to be a large amount.
- (\*5) Person who receives a large amount of donations refers to a person who receives donations of 10 million yen or more per year from the JSR Group.
- (\*6) Mutually appointed relationship refers to a relationship in which an executive of the JSR Group serves as an outside officer of a company and an executive of such company serves as outside officer of JSR.
- (\*7) Close relative refers to a spouse and a relative within the second degree of consanguinity.
- (\*8) Important person refers to an executive including a director, officer, executive officer and a person in the position of general manager or higher or an executive who has authority equivalent to those persons.

## 2. Agreement for limiting liabilities

In accordance with the provisions of Paragraph 1 Article 427 of the Companies Act, the Company has entered into an agreement with its outside directors and all of audit & supervisory board members to limit indemnity liability under the provisions of Paragraph 1 Article 423 of the Companies Act. Regardless of the amount of liability, the maximum amount liable under the agreement in question shall be limited to that set by applicable laws and regulations; provided that such outside director and audit & supervisory board member (whether outside or not) must have acted in good faith and without gross negligence in performing his/her duties.



**[Incentives]**

Incentive Policies for Directors	Performance-based Remuneration / Stock Options / Other / None
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**Supplementary Explanation**

With the aim of increasing corporate value over the short, medium, and long-term, the remuneration for directors consists of a fixed basic remuneration, an annual bonus linked to the attainment level of business performance in each fiscal year, a medium-term business performance-based bonus linked to the attainment level of medium and long-term business performance, and stock compensation-type stock options designed to allow directors share the benefits and risks of stock price fluctuations over the long-term with shareholders. As indices to evaluate the attainment level of business performance, the target for consolidated net sales and operating income for a single fiscal year are used for the annual bonus linked to the attainment level of business performance and the average consolidated Return on Equity (ROE) over three (3) years is used for the medium-term business performance-based bonus.

Recipients of Stock Options	Inside Directors / Employees
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**Supplementary Explanation****1. Stock options as remuneration to directors**

With the aim of enhancing incentives to improve business performance and raise the stock price over the long-term by having directors share the benefits and risks of stock price fluctuations with shareholders, JSR has abolished retirement bonuses paid in cash and granted stock compensation-type stock options (exercise price at 1.0 yen) to directors and officers excluding outside directors since the fiscal year ending in March 2006.

The number of shares underlying each stock option is 100 shares.

In accordance with a resolution at a Board of Directors meeting to be held in July 2016 JSR will determine the numbers of the units of stock option to be granted to its five (5) directors excluding outside ones and eighteen (18) officers who do not concurrently serve as directors.

**[Director Remuneration]**

Disclosure of Individual Directors' Remuneration	No Individual Disclosure
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**Supplementary Explanation**

Remuneration for directors and audit & supervisory board members paid in the current fiscal year is as follows:

(Fractions smaller than one million yen omitted)

**(1) Remuneration paid to directors and audit & supervisory board members**

Eight (8) directors: 196 million yen (of which four (4) outside directors: 38 million yen)

Three (3) audit & supervisory board members: 43 million yen (of which two (2) outside audit & supervisory board members: 15 million yen)

**(2) Bonuses for the current fiscal year (annual bonus)**

Four (4) directors: 21 million yen

(3) Stock options as remuneration to directors (\*)

Four (4) directors: 30 million yen

(\*) Fair value of stock acquisition rights allotted to JSR's directors as remuneration to be recorded in the current fiscal year

Policy on Determining Remuneration Amounts  
and Calculation Methods

Established / Not Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

(1) Principles on remuneration for directors and audit & supervisory board members

The Company has set forth the following basic policies in order to ensure continuous and sustainable growth and medium to long term improvement in corporate value by steadily pursuing its management plans and business strategies while maintaining transparency and accountability to its shareholders;

1) Remuneration framework should:

- a attract, secure, and reward diverse and excellent personnel for the purpose of further enhancing and improving its competitive advantages;
- b encourage the management to demonstrate healthy entrepreneurial spirits by motivating them to achieve the objectives of business strategies aiming at continuous growth while addressing the incentives reflecting the latent risks therein;
- c promote medium to long term improvement in corporate value by sharing the benefit between management and shareholders via the reinforcement of stock ownership during his/her term of office as directors; and
- d be subject to deliberation of the remuneration advisory committee of which majority members are independent outside directors (hereinafter to be referred to as "Remuneration Advisory Committee"), and therefore be objective and transparent especially in the determination process and method thereof

2) Remuneration structure

- a Remuneration for directors of the Company consists of basic remuneration, annual bonuses linked to the annual business performance of the Company, stock option as remuneration to directors designed for having directors share the benefits and risks of changes in stock prices with shareholders, and mid-term performance-based bonuses that are linked to the level of achievement of medium to long term business results.
- b However, remuneration for independent outside directors and audit & supervisory board members, in light of their roles, consists only of basic remuneration.
- c The standard amount of annual bonuses is around 25-30% of the basic remuneration depending upon the position; the annual amount of Stock option as remuneration to directors is around 15-25% of the basic remuneration depending upon the position; and the annual standard amount of the mid-term performance-based bonuses is around 30-50% of the basic remuneration depending upon the position respectively.
- d The Company recommends the reinforcement of stock ownership while in office via the exercise of stock option as remuneration to directors.

3) Performance-based structure

- a Annual bonuses are determined based on the evaluation of business performance in terms of annual consolidated business results and individual evaluation including the achievement level of assigned segments and duties. The Company uses both consolidated net sales and consolidated operating income as performance evaluation references and the level of achievement relative to their respective targets set at the beginning of the fiscal year will be reflected in the pay-out ratio which may vary from 0-200% with 100% being standard for 100% level of achievement.
- b Mid-term performance-based bonuses are determined based on the evaluation of business performance in terms of mid-term consolidated business results.
- c The Company uses 3 year average of the consolidated ROE (return on equity ratio) as performance evaluation reference and the level of achievement relative to its target set at the beginning of each period will be reflected in the pay-out ratio which may vary from 0-150% with 100% being standard for 100% level of achievement.
- d The targets used in the above respective evaluations of business performance are determined by the Board of Directors based on deliberation of the Remuneration Advisory Committee.

4) Method to determine remuneration level

- a The Company determines the level of remuneration to its directors by referring to directors' remuneration survey from an outside specialist institution, and by annual benchmarking companies similar to the Company in business scope, industry and business category, and considering latent risks related to the achievement of business targets.
- b The determination of remuneration levels is subject to deliberation by the Remuneration Advisory Committee.

5) Process to determine remuneration

- a For the purpose of ensuring objectivity, transparency and accountability during the course of monitoring and reviewing remuneration structures, the Company has set up the Remuneration Advisory Committee, which deliberates and reports to the Board of Directors in a timely fashion the basic remuneration policy, remuneration structure, method for reflecting business performances, determination of targets and evaluation of business performance.
- b In the Remuneration Committee, in order to ensure the necessary commitment and appropriate advices from the independent outside directors in deliberation of the remuneration structure, the Company provides them with sufficient information in advance such as annual committee schedule, possible agendas, and advices attained from outside specialists.
- c The Remuneration for audit & supervisory board members is determined through consultation among the audit & supervisory board members.

**[Supporting System for Outside Directors and/or Audit & Supervisory Board Member]**

The Corporate Planning Department explains items on the agenda to outside directors before a regular or extraordinary Board of Directors meeting as well as to outside audit & supervisory board members.

JSR appoints a dedicated member of staff as an assistant to audit & supervisory board members including outside members and has such assistant support audits and collect and transmit information. In addition, the standing audit & supervisory board member provides outside audit & supervisory board members with information on the Company as necessary as well as with reports on important matters and on the progress and results of the audits at the Audit and Supervisory Board meetings.

## **2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)**

As a company with audit & supervisory board members, JSR principally monitors and oversees the execution of its operations through its Board of Directors and audit & supervisory board members.

The Company continuously has strengthened the function of management supervision, improved efficiency in decision making and execution of business duties, and enhanced the transparency and soundness of its business management through the introduction of an officer system and the appointment of outside directors and audit & supervisory board members, who are independent from the Company and have extensive business experience and a high level of expertise.

JSR has registered at Tokyo Stock Exchange three (3) independent directors out of eight (8) in total and two (2) independent audit & supervisory board members out of three (3) in total, who have been greatly contributing to enhance rationality, legitimacy and transparency of management decisions by offering advice and opinions from a neutral standpoint independent from the Company utilizing extensive business experience and high level of expertise.

In addition, the Company has been endeavoring to enhance the transparency of business management by actively disclosing information and aggressively conducting IR activities for investors in a timely and appropriate manner.

Furthermore, JSR has provided shareholders with opportunities to express their trust and evaluations to the Board of Directors by way of electing directors and approving the annual bonuses at its annual general meeting of shareholders. At the same time, the Company has endeavored to make its annual general meeting of shareholders easy to attend and participate by holding the meeting and dispatching convocation notice thereof earlier than other companies, and participating in the electronic voting platform.

### **(1) Board of Directors**

The Board of directors consists of eight (8) directors three (3) of whom are independent outside directors with independence and extensive experience of business and management) and holds meetings once monthly, in principle. The Board discusses and makes decisions on important business matters, including the direction of the Company's business strategy, and also supervises directors' and officers' execution of their business duties.

The Board of Directors is chaired by the chairman. However, if the position of the chairman is vacant, a director other than the president will serve as the chairman. This aims to secure corporate governance by distinguishing the rolls of president, the chief executive officer of the Company, from those of chairman of the Board of Directors responsible for monitoring and overseeing the execution of the Company's operations. In addition, all three (3) audit & supervisory board members including two (2) outside audit & supervisory board members regularly attend the Board of Directors meetings to state their opinions.

JSR has established the Remuneration Advisory Committee and Nomination Advisory Committee as an advisory organization to Board of Directors. For details of the committees, please refer to II. 1. [Directors] [Voluntary Establishment of Committee] Supplementary Explanation of this Corporate Governance Report.

### **(2) Executive Committee**

The Executive Committee holds extensive discussions on items relating to 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 in relation to these issues or receives reporting. 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 of expediting decision making and improving the efficiency of such operations. As a rule, this committee meets once a week, and is chaired by the president. The standing audit & supervisory board member also attends these committee meetings.

(3) 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 the company's direction. 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.

(4) Officers Committee

This committee consists of the president and all officers (except overseas representatives; however overseas representatives attend the committee at least semi-annually) and aims to ensure members' thorough understanding of business conditions and important business matters. As a rule, this committee, which meets twice a month, is chaired by the president and the standing audit & supervisory board member is also present.

(5) Audit & Supervisory Board and audit & supervisory board members

The Audit & Supervisory Board, consisting of three (3) audit & supervisory board members and holding meetings once monthly in principle as stipulated in the Regulations of the Audit & Supervisory Board, receives reports on important matters, holds discussions, and makes decisions. The two (2) outside audit & supervisory board members are independent ones, a lawyer and a certified public accountant qualified as a certified public tax accountant as well, and conduct audits from a standpoint independent from the Company and by using their professional expertise.

In accordance with standards for audits by audit & supervisory board members, the audit & supervisory board members attend meetings of the Board of Directors, and other important meetings including Executive Committee meetings to monitor how important decisions are reached and business activities are executed. The audit & supervisory board members also receive reports from the independent auditors, directors, and employees. Through these activities, audit & supervisory board members holds deliberations in order to form auditing opinions.

(6) Outline of Audit by Audit & Supervisory Board Members, Internal Audit, and Independent Auditors

1) Audit by audit & supervisory board members

The details of audit by audit & supervisory board members are stated as in the above (5) Audit & Supervisory Board and audit & supervisory board members.

2) Internal Audit

JSR has established the Internal Audit Department to improve the effectiveness of the JSR Group's

internal control system. In accordance with the audit plan, the Internal Audit Department regularly conducts internal audits such as compliance audits and business operation audits at its divisions and departments as well as its Group companies both in Japan and overseas and reports the audit results to the president, related departments, and audit & supervisory board members.

3) Independent Auditors

- a JSR's independent auditor is KPMG AZSA LLC.
- b Three (3) certified public accountants, Takao Tominaga, Tomoyuki Inoue, and Tetsufumi Noda, conducted the accounting audit. The professional staff included eight (8) certified public accountants.
- c The audit & supervisory board members work closely with the independent auditors. The audit & supervisory board members interview the independent auditors about the audit plan and receive reports on the audit results. Furthermore, the audit & supervisory board members and independent auditors exchange information and opinions as necessary in the course of each fiscal year.
- d In fiscal year ending in March 2016, JSR paid remuneration to KPMG AZSA LLC, its independent auditors, as follows:
  - Amount of remuneration for services stipulated in Article 2 Paragraph 1 of the Certified Public Accountants Act: 57 million yen
  - Total remuneration to be paid by JSR and its subsidiaries: 69 million yen

(7) CSR Committee

Through the JSR Group's Corporate Social Responsibility (CSR) policy, the Company is committed to behave faithfully as a good corporate citizen and meet the expectations of our stakeholders. It has established the CSR Committee to promote CSR. Under the CSR Committee, there are the following four committees: the Corporate Ethics Committee, the Responsible Care (RC) Promotion 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 responsible for manufacturing, manufacturing technology, environment & safety, R&D, human resources development, accounting & financing, corporate planning, corporate communication, legal, general affairs, petrochemicals businesses, fine businesses and life sciences businesses and secretaries 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.

(7)-1 Corporate Ethics Committee

JSR and the JSR Group have provided the JSR Group Principles of Corporate Ethics as a code of conduct to accomplish responsibilities to stakeholders, one of the management policies to promote the realization of the corporate mission. The Group has established the Corporate Ethics Committee, in which the officer in charge of General Affairs serves as the chairperson, to conduct and advance our corporate ethics efforts.

The Corporate Ethics Committee has been endeavoring to ensure all parties understand its action guidelines to be obeyed in daily corporate activities in the JSR Group. It has also confirmed regularly that all officers and employees comply with the guidelines and continuously improved them. In addition, the Group has introduced hotlines as part of its whistleblower system: an internal hotline for employees (calls are transferred to the Corporate Ethics Committee), two external hotlines for employees (calls are transferred to either lawyers or a third party who are specialized in such services and can respond in English, Chinese, Korean, and Thai) and an external hotline for business partners.

(7)-2 Responsible Care Promotion Committee

It is the belief of the JSR Group that the Company is responsible for making sustainable development possible, and has promoted responsible care. The Group has regarded responsible care as an important issue that forms the basis of business management and established the Responsible Care Promotion Committee, in which the officer in charge of Safety and Environment Affairs serves as the chairperson, to effectively promote the group-wide activities for responsible care.

The Responsible Care Promotion Committee has approved plans regarding responsible care, assessed and verified the results of responsible care activities, strived to eradicate accidents and disasters, reduce loads on the environment, and maintain and improve the level of chemical goods management and product safety.

The JSR Group has been endeavoring to earn the trust of its customers and give a sense of ease to local people by disclosing the details of its activities and results in its CSR report and Responsible Care report. The Group has also made efforts to enhance the reliability of data and transparency of its activities by having a third party verify its CSR report.

(7)-3 Risk Management Committee

The JSR Group regards preventing a serious crisis from occurring and minimizing influence on its business activities if a serious crisis occurs as an important issue for business management. Therefore, the Group has stipulated the Risk Management Rules and established the Risk Management Committee, in which the officer in charge of Corporate Planning serves as the chairperson. The Risk Management Committee has continuously improved the Group's policy and plans to deal with a crisis or a potential crisis.

(7)-4 Social Contribution Committee

The JSR Group has established the Social Contribution Committee, in which the officer in charge of Corporate Communications serves as the chairperson. Based on the JSR Group's "Basic Approach towards Social Contribution", the Social Contribution Committee has examined new activities and advanced social contribution activities.

(8) Corporate lawyer

The JSR Group may seek necessary legal advices during the course of management of the company or proceeding with day to day businesses from relevant law offices.

The following are the activities made in fiscal year ending in March 2016 for enhancement of corporate governance of the JSR Group

- (1) The JSR Group has been issuing "The JSR Group CSR Report" annually both in Japanese and in English and thereby promoting unified CSR activities among both domestic and overseas group companies. The Group has obtained third party opinion to ensure accountabilities and reliabilities of the contents in the JSR Group CSR Report.
- (2) In order to further enhance activities relating to corporate ethics, JSR has established "the JSR Group Principles of Corporate Ethics" as its code of conduct to be globally relied upon. The Company has distributed the brochures thereof written in Japanese, traditional and simplified Chinese, Korean and Thai to its employees of the JSR Group on global basis. As for education on the JSR Group Principles of Corporate Ethics, the Company provided educational sessions for newly appointed managers, new recruits, or on similar occasions as well as e-learning for all employees of JSR Group companies in Japan. In addition, the global JSR Group companies has been carrying out an annual survey to monitor its employees' awareness and behaviors relating to corporate ethics on global basis, and the results and

findings of which are examined and used for improvement in corporate culture and corporate ethics.

- (3) As a part of program ensuring business continuity upon disasters, the Company carried out a company-wide training for counter measuring the crisis by simulating entire processes of the large scale disaster in December 2015. The Company is committed to enhance risk management system that prevents accidents and crisis and ensures continuity of business upon occurrence of crisis.
- (4) The Company has been promoting since 2009 unique risk management activities under the Risk Management Committee by regularly identifying and evaluating the potential risks and studying counter measures thereto at every business department in both domestic and overseas inclusive of Group companies. As for the risk which potentially represents material adverse effect on business continuity, the Company has been, under the supervision of CSR Committee and Risk Management Committee, endeavoring to minimize the impact of such risks.
- (5) The Company has been systematically performing environmental health and safety audit at manufacturing plant and laboratory of the Company as well as domestic and overseas group companies with manufacturing facilities. In fiscal year ending in March 2016, the Company changed programs for audit such as items, duration, departments for audit based upon the rolls of departments in charge for carrying out auditing and those of departments receiving such audit and enhanced the communication such as dialogues with its employees and discussion on major challenges of the each business premises in order to achieve further understanding on the effectiveness of PDCA on such audits and the details of activities to improve safety awareness made at each of its business premises.
- (6) The Company has made and distributed a brochure “Compliance Handbook” to employees of the JSR Group companies in Japan since January 2013 in order to strengthen its activities to ensure compliance with laws and regulations. The Company has established and has been performing the procedures to regularly check and improve conformity of business activities with the relevant laws and regulation at the global JSR Group regularly on annual basis. The Company performed such procedures during April to September in fiscal year ending in March 2016, and made necessary improvement.
- (7) In order to prevent insider trading, the Company has established an internal rule, “Rules for preventing the employees of JSR Group from insider trading”, and every year provided different positions of employees with education for preventing insider trading. This internal rule requires employees of JSR Group to submit a prior notice before selling shares of the Company, which is subject to review by the officer in charge of Corporate Communications. In fiscal year ending in March 2016, the Company held two educational session; education to new recruits by using lecture materials prepared by TSE and internal rules on regulations against internal trading and lectures given by specialized instructors from TSE to the assistant managers of JSR who could not receive such lecture in 2014.

### 3. Reasons for Adoption of Current Corporate Governance System

JSR is a company with audit & supervisory board members. The Company believes that its corporate governance works effectively due to the following reasons;

The Company pursues its basic policies and enhance the structures for corporate governance as stated in “[Principle 3-1 (ii)] JSR’s basic approach towards and policy on corporate governance” in “Disclosure Based on the Principles of the Corporate Governance Code” mentioned in this report as well as it steadily performs its various commitments to shareholders and other stake holders



### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	JSR dispatched the convocation notice and meeting materials for ordinary general meeting of shareholders on May 26, 2016, 21 days prior to the date of the meeting. In addition, the Company disclosed via internet the contents of the convocation notice and meeting material 5days prior to the date of dispatching such materials
Scheduling AGMs Avoiding the Peak Day	Ordinary general meeting of shareholders for fiscal year ending in March 2016was held on June 17, 2016. (JSR normally holds ordinary general meeting of shareholders, during the 3rd week in June)
Allowing Electronic Exercise of Voting Rights	JSR has allowed its shareholders to exercise voting rights by electronic means since 2004.
Participation in Electronic Voting Platform	JSR has been participating in the Electronic voting Platform for institutional investors since 2006.
Providing Convocation Notice in English	JSR provides the convocation notice of an ordinary general meeting of shareholders both in Japanese and English on its website, the above-mentioned electronic voting platform, and website prepared by TSE.
Other	As for convocation notice and other documents prepared for its ordinary general meeting of shareholders, JSR has endeavored to enhance the contents by providing information on its products and mid-term business plan in addition to those required by law and to make the documents easy to understand by using color graphics and pictures. (available only in Japanese at present)  The Company makes efforts to provide presents its business report by audio visual presentation as well as presentation by the president on its mid-term business plan at its ordinary general meeting of shareholders and the introduction of the Company's products by exhibition prior to the meeting as well.

#### 2. IR Activities

	Supplementary Explanations
Preparation and Publication of Disclosure Policy	In fiscal year ending in March 2005, JSR formulated its disclosure policy to further enhance the reliability of its disclosures.
Regular Investor Briefings for Individual Investors	JSR explains the outline and latest performance of the Company to shareholders by updating the contents of its website and by posting IR movies presented and explained by the president himself at the web site of the Company.
Regular Investor Briefings for Analysts and Institutional Investors	JSR holds analyst meetings for analysts and institutional investors four times a year (the year-end, interim, and first and third quarters). JSR holds a meeting to explain its mid-term business plan once a year. In the meeting, the president explains to approximately 200 analysts and institutional investors. In July 2016, JSR provided analysts with an explanatory meeting on its life sciences businesses, one of its core businesses, by an Officer and other persons in charge.

Regular Investor Briefings for Overseas Investors	Every year, the president or director in charge of IR visits investors in North America, Europe, and Asia to hold explanatory meetings.
Posting of IR Materials on Website	IR materials posted on the Company's website include: business performance, IR information video (in which the president appears), presentation materials, securities reports, interim reports, the mid-term business plan, annual reports, CSR reports. Please refer to the following URL to understand IR of JSR <a href="http://www.jsr.co.jp/jsr_e/ir/">http://www.jsr.co.jp/jsr_e/ir/</a>
Establishment of Department and/or Manager in Charge of IR	Mr. Takao Shimizu, Senior Officer is the officer in charge for IR and Mr. Nobuhiko Kuwashima, General Manager, Corporate Communication Department, is responsible for communication related to IR with support from Finance Department for regular IR activities.
Other	In fiscal year ending in March 2005, JSR formulated its disclosure policy to enhance the reliability of its disclosures.

### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	As stated in “(3) Relationship with stakeholders” of “[Principle 3-1 (ii)] JSR's basic approach towards and policy on corporate governance” under [Disclosure Based on the Principles of the Corporate Governance Code] of this report.
Implementation of Environmental Activities, CSR Activities etc.	Creating value through materials to enrich society, people and the environment is the JSR Group's corporate mission and the significance of its existence. JSR considers it is important to behave faithfully as a good corporate citizen and meet the expectations of our stakeholders in such a process. Since the code of conduct to achieve the above targets is the JSR Group's CSR, the Company places it as an important issue of business management. Four committees (Corporate Ethics Committee, Responsible Care Promotion Committee, Risk Management Committee, and Social Contribution Committee) centering on the CSR Committee have responded to new themes associated with the requirements of a society that increasingly becomes sophisticated. Furthermore, as a member of the chemical industry, the Company has promoted Responsible Care—a voluntary initiative to improve safety, health, and environmental performance—and disclosed information by posting the details and results of its activities on JSR Group's CSR report and Responsible Care Report made at Yokkaichi Plant.
Development of Policies on Information Provision to Stakeholders	JSR stipulated its Disclosure Policy in fiscal year ending in March 2005 to enhance the reliability of information disclosure further. The Company has been endeavoring to ensure prompt, accurate, active and fair information disclosure by preparing organizations and systems for information disclosure to establish a company-wide cooperative framework with the aim of improving the quality of information disclosure.
Other	JSR believes that understanding and accepting diverse human resources regardless of gender, nationality, business background, and their diverse values will lead to the generation of unique inspiration and innovation. The Company sets promoting value creation through diversity as a managerial

	<p>target. To achieve the above targets, it established the Diversity Development Office in June 2015.</p> <p>Among diversity development, active support for female employees is one of the key management issues.</p> <p>As one of measures to support female employees, the Company has proceeded with systematic personnel programs to increase female career managers to be, to support non-career female employees to cultivate business skills and to encourage female employees with strong motivation to switch from non-career to career positions.</p> <p>Furthermore, in order to show management's strong determination and ask all employees for their understanding on and cooperation for active support for female employees, the Company sets the percentage of female to the total number of college graduates recruited in the normal recruiting period and the proportion of female employees in managerial positions as its immediate numerical target.</p>
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#### IV. Matters Related to the Internal Control System

##### 1. Basic Views on Internal Control System and the Progress of System Development

(Reference) Structures to Ensure Propriety of Business Conduct (effective from May 1, 2015)

The Board of Directors of the Company made a resolution at its meeting on May 11, 2015 with regard to the revised structures to ensure propriety of business conduct of the Company effective from May 1, 2015 as detailed below;

##### (1) Basic policies for management

"JSR Group" (which hereinafter means JSR group companies consisting of the Company and those whose parent company under the Corporation Law is the Company) holds and relies on the following Corporate Mission and Management Policies for managing and conducting its businesses.

##### **Corporate Mission :**

Materials Innovation :

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

##### **Management Policies:**

- Persistently challenge "revolution", constantly "evolve" globally and strive to be a technology oriented company.
- Pursue efficient, transparent, and sound management practices, and strive to be a company trusted by stakeholders.
- Practice Responsible Care for the world's future.

##### (2) Structures to ensure that execution of duties of directors and employees of JSR Group complies with the laws and ordinances and the Articles of Incorporation

- 1) Under the rules of the Board of Directors and other relevant rules, the Board of Directors of the Company inclusive of independent Outside Directors monitors and directs the execution of duties of Directors and Officers (hereafter including Executive Vice President, Executive Managing Officers, Managing Officers and Senior Officers) of the Company, as well as makes decisions on important management matters of the Company and on fundamental management matters of JSR Group.

As for the monitoring and directing execution of duties of the directors and employees of the “Group Companies” (which hereinafter means companies that which belong to JSR Group but other than the Company), an Officer in charge of the business division of the Company responsible for the relevant Group Companies as specified under “the Code of Group Companies Management” (“responsible business division”, is responsible for such monitoring and direction.

- 2) The Company has established CSR Committee chaired by the Officer in charge and consisting of four committees such as Corporate Ethics Committee, Responsible Care Promotion Committee, Risk Management Committee, and Social Contribution Committee, which directs and supervises the activities to ensure and promote CSR of JSR Group including compliance with laws, ordinances and other rules.
- 3) The Company has established “JSR Group Principles of Corporate Ethics” as a code of conduct for the directors and employees of JSR Group, which JSR Group endeavors to make thoroughly understood and penetrated among their respective directors and employees by continual education and promotion under the supervision of the Corporate Ethics Committee.
- 4) The Company has, in accordance with the Financial Instruments and Exchange Law, established and been managing and maintaining the internal control system to ensure appropriateness of financial report of JSR Group.
- 5) The Company has established an organization specialized in internal auditing independent from the business execution divisions (“Internal Auditing Office”) in order to monitor and internally audit the effectiveness of the internal control system of JSR Group.
- 6) The Company has established consulting and reporting channel so that any directors and employees of JSR Group can report directly to the Corporate Ethics Committee of respective Group Companies to which they belong or of the Company, or through designated external hotlines involving outside attorneys (which may be done anonymously) when they become aware of internal actions that violate or are likely to violate the compliance rules. The Company has also established suppliers’ hotlines so that the suppliers of JSR Group can report the issues relating to compliance rules to the Company. The Company ensures that, in any case, the person who made such reports suffers no disadvantageous treatment as a result of such reporting.
- 7) The JSR Group’s basic principle against the anti-social forces is to cut off all relationships including but not limited to any business transactions with such forces. The management and the entire organization of the Company or, as the case may be, of respective Group Companies shall resolutely and firmly reject any claims or requirements made by anti-social forces in collaboration with external entities such as the police forces.

(3) Structures to ensure efficient execution of duties of directors of JSR Group

1) At the Company

- a The Board of Directors holds regular meetings on monthly basis in principle and ad hoc basis if required in order to deliberate and resolve important matters relating to the execution of businesses and to monitor and direct supervise the execution of duties of Directors and Officers.
- b Executive Committee consisting of President, Executive Vice President, Executive Managing Officer, Managing Officers, and Senior Officers and/or Officers designated by President holds meetings on weekly basis in principle in order to deliberate, direct and/or receive reports on the

matters relating to fundamental management policies, managerial guidelines, management plans and/or major business issues from business divisions. After review and deliberation by the Executive Committee, major issues will be brought up to the Board of Directors for resolution while the rest will be determined by the President.

- c In addition, Business Issue Committee consisting of President, Executive Vice President, Executive Managing Officer, Managing Officers, and Senior Officers and/or Officers designated by President holds meetings on weekly basis in principle in order to, through discussion and sharing information and views, clarify and determine the direction of the key issues relating to management principles and fundamental management policies, policies behind the individual business decisions, or the changes in business strategies well in advance, which will be further reviewed and discussed at the Board of Directors Meetings or Executive Committee Meetings.
- d The Company has adopted officer system in order to clearly distinguish managerial decision-making and monitoring functions from those of business execution and to enhance respective functions. Officers Committee consisting of President and all of the Officers except for those reside abroad holds two meetings on monthly basis (Officers reside abroad will attend such meeting on quarterly basis) in principle for the purpose of sharing common and thorough understanding on the status and major issues relating to the management and performance of the Company.
- e The Company has established “the Code of Group Companies Management” for the management of Group Companies. Relevant responsible business divisions of the Company are responsible for administration and management of respective Group Companies, while other corporate functional departments such as safety and environmental affairs, accounting, finance, general affairs and legal affairs, provide support and services to Group Companies.

## 2) At Group Companies

- a As Group Companies in Japan does not have the board of directors, executive committee of the company consisting of the president, other key management personnel, and audit & advisory board of members of the company, and representatives from the responsible business divisions of the Company holds meetings on regular basis and deliberate and decide important business matters in accordance with the relevant internal rules and regulations.
  - b At overseas Group Companies, the board of directors holds meetings on regular basis and deliberate and decide important business matters in accordance with the relevant internal rules and regulations.
- 3) The JSR Group has established its mid-term business plan “JSR 20i6” considering possible changes in business environment in the future, of which implementation plans were broken down into corporate annual targets and budget of JSR Group as a whole. Each of the companies of JSR Group and the business divisions thereof will set up and implement its action plans to achieve the objectives.
- 4) The JSR Group has shortened the tenure of office of its directors from two years to one year so that JSR Group can quickly cope with the ever-changing business environment.

## (4) Structures for loss and risk management and other rules of JSR Group

- 1) The Company has been continually monitoring the risks associated with the execution and progress of the businesses of JSR Group by way of reporting and discussion at the meetings of the Board of Directors, Executive Committee, Business Issues Committee, Officers Committee, and/or other important meetings as well as controlling budget.
- 2) As for the major risks other than those described in the preceding paragraph 1) above, Risk

Management Committee of the Company chaired by the Officer responsible for Corporate Planning, determines appropriate countermeasures in relation to the degree of visible or potential risks, as well as enhances preparation and implementation of the risk management plans of JSR Group made by the relevant Committees (Corporate Ethics Committee, Responsible Care Promotion Committee) or by individual business divisions, or proceeds company-wide risk management activities.

- 3) In the event of serious crisis of the JSR Group, the “Emergency Headquarters” (“Anti-Disaster Headquarters” in the case of accidents or disaster) directed by the President of the Company will be set up in order to proceed necessary crisis management in accordance with the “Risk Control Manual.”

(5) Structures for maintenance and management of information relating to execution of duties of Directors of the Company

The Company has, in accordance with the relevant laws and “Rules for Documents and Information Management”, been properly maintaining the relevant documents and/or those in electromagnetic forms in relation to the execution of duties of Directors and Officers such as minutes of meetings of the shareholders, the Board of Directors, Executive Committee, Officers Committee and authorization documents so as to make such documents easily accessible by the Directors and Audit & Supervisory Board Members of the Company.

(6) Structures for reporting the execution of duties by directors and employees of the Group Companies

- 1) The relevant responsible business divisions of the Company reports business results and financial statements of the Group Companies in charge to Executive Committee and the Board of Directors on regular basis.
- 2) The audit & supervisory board members of a Group Company on regular basis reports to audit & advisory board member and Internal Audit Department of the Company the results of the audit made at the Group Company.

(7) Matters related to audit by audit & supervisory board members

- 1) Matters related to employees assisting audit & supervisory board members and ensuring his/her independence

The Company has appointed a personnel whose responsibilities are to assist audit & supervisory board members (“the assistant”). Any personnel decisions on the assistant are subject to prior consultation and approval by the Audit & Supervisory Board. In addition, solely audit & supervisory board members are responsible for evaluating the performance of the assistant.

- 2) Matters related to effectiveness of command by audit & advisory board members to the assistant  
The assistant shall follow instructions and command solely made by audit & advisory board members.
- 3) Structures for Directors and employees of the Company, for directors and employees of the Group Companies or for those who received reports from them to report to Audit & Supervisory Board Members of the Company to receive reports from its Directors and Employees, or from directors and employees of the Group Companies, or from those who received reports from directors and employees of the Group Companies. .
  - a Audit & Supervisory Board Members ensures that they can review major decisions on the execution of duties of Directors through participation to the meetings of the Board of Directors, Executive Committee, Business Issues Committee, and Officer Committee and the circulation of authorization documents after approval by the relevant personnel.

- b Such corporate administrative department including general affairs, legal and CSR as designated by Audit & Advisory Board Members regularly, or upon request, report to Audit & Advisory Board Members on the progress and operating status of internal control system such as compliance with rules and regulations and risk management.
  - c Internal Auditing Office regularly, or upon request, reports the results of internal auditing on JSR Group to Audit & Advisory Board Members.
  - d Directors and employees of the Company promptly and effectively report to Audit & Supervisory Board Members such items, but not limited to, as the fact that might cause material damages to the Company and/or materially violate the laws and/or articles of incorporation of the Company, or as specified in advance in accordance with the prior agreement with the Audit & Supervisory Board Members.
  - e Directors and employees of JSR Group promptly report to Audit & Supervisory Board Members relating to execution of businesses.
- 4) Structures to ensure that persons who report to Audit & Advisory Board Members do not suffer disadvantageous treatment as a result of such report.  
The JSR Group prohibits disadvantageous treatment its directors and employees solely because they had reported to Audit & Advisory Board Members.
- 5) Matters related to policies related to procedures for advance payment or pay back of audit expenses and handling audit expenses and others  
The Company bears all the expenses incurred in relation to execution of duties of Audit & Advisory Board Members unless such expenses are deemed unnecessary
- 6) Other structures to ensure effectiveness of auditing by Audit & Supervisory Board Members  
The Audit & Supervisory Board Members maintain cooperation and communication from time to time with relevant parties such as Internal Auditing Office, the Independent auditors, audit & supervisory board members of Group Companies.

**(8) Policies for establishing an internal control system for a Listed Subsidiary Group of the Company**

Policies for establishing an internal control system for the “Listed Subsidiary Group” (which means a corporate group consisting of companies whose parent company under the Companies Act is a listed subsidiary of the Company) are as detailed below:

- 1) In order to respect the independence of the Listed Subsidiary Group, the matters described above under “(3) Structures to ensure the efficient execution of duties of the Directors of the JSR Group” are not applied to the Listed Subsidiary Group, and the policies for establishing an internal control system for the Listed Subsidiary Group are respected.
- 2) However, with the aim of ensuring the propriety of the business conduct of the JSR Group as a whole including the Listed Subsidiary Group, the following measures are taken.
  - a Significant decision-making in the Listed Subsidiary Group is conducted by decision-making bodies such as the Board of Directors or the Management Committee, etc., of a listed subsidiary. It is not required to obtain a prior approval from decision-making bodies such as the Board of Directors or the Management Committee, etc., of the Company.
  - b A listed subsidiary submits the minutes of its Board of Directors and/or the Management Committee along with attachments to the relevant Responsible Business Divisions of the JSR Group and the Audit & Supervisory Board Members.
  - c The Relevant Responsible Business Divisions of the JSR Group review the minutes and report the contents to the Board of Directors and/or the Management Committee of the Company in accordance with designated criteria. Thereby, the Company confirms that the propriety of the business conduct of the Listed Subsidiary Group has been ensured at the Board of Directors and/or

the Management Committee of the Company.

- d In accordance with “the Code of Group Companies Management,” the relevant Responsible Business Divisions of the JSR Group supervise and advise on the management of the respective Listed Subsidiary Group, while other management divisions such as safety and environmental affairs, accounting, finance, general affairs, legal affairs, and CSR, provide support and services to the listed subsidiaries.
- e The Internal Auditing Office of the Company audits the effectiveness of the internal control systems in order to ensure the appropriateness of the financial report by the Listed Subsidiary Group in accordance with the Financial Instruments and Exchange Act, as well as the effectiveness of the internal control systems, in order to ensure the propriety of the business conduct of the Listed Subsidiary Group.
- f The Audit & Supervisory Board Members of the Company review the minutes prescribed in ii) above and receive reports as prescribed in iii) above at the Board of Directors and/or the Management Committee, in order to ensure the propriety of the business conduct of the Listed Subsidiary Group.
- g While respecting the independence of the Listed Subsidiary Group, the Company endeavors to establish a unified and effective internal control system for the JSR Group from now on.

## **2. Basic Views on Eliminating Anti-Social Forces**

### **(1) Basic views on eliminating anti-social forces**

The JSR Group’s basic principle against the anti-social forces is to cut off all relationships including but not limited to any business transactions with such forces. The management and the entire organization of the Company or, as the case may be, of respective Group Companies shall resolutely and firmly reject any claims or requirements made by anti-social forces in collaboration with external entities such as the police forces.

The JSR Group has stated in the “Code of Conduct against Antisocial Forces” under the “JSR Group Principles of Corporate Ethics” that its basic policy, upheld by its top executive and the company as a whole, is to firmly reject any demand made by anti-social forces. The Group has stipulated its basic policy and specific countermeasures in normal times and an emergency in the Standards for Response against Antisocial Forces.

### **(2) Establishment of structures for eliminating anti-social forces**

#### **1) Establishment of the person and the department in charge against anti-social forces**

The JSR Group has made the officer in charge the General Affairs Department and the department itself responsible for coping with anti-social forces through organizational confrontation under his/her supervision. In head office and each office, the general managers in charge of general affairs will cope with the demand made by anti-social forces, if any.

#### **2) Cooperation with external professional organizations**

The department in charge against anti-social forces has been endeavoring to establish good relationships with external professional organizations including the police regularly and to strengthen its cooperation with such organizations by frequent consultation.

#### **3) Collection and management of information regarding anti-social forces**

The JSR Group’s department in charge against anti-social forces regularly collects information regarding anti-social forces through the media and actively participates in information exchange meetings and training seminars sponsored by external professional organizations including the police to gather and



	unitarily manage information regarding the activities of anti-social forces, the actual situation of illegal demands, and policies to cope with anti-social forces, and prepares materials.
4)	Preparation of manuals to cope with anti-social forces The department in charge against anti-social forces has stipulated internal manuals to respond to anti-social forces.
5)	Implementation of training activities The JSR Group educates its employees, mainly personnel in the department in charge against anti-social forces on how to cope with anti-social forces using educational materials prepared by external professional organizations including the police.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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#### Supplementary Explanation

JSR has not adopted anti-takeover measures.

The Company considers it is important to increase its corporate value by gaining the trust and appreciation from all stakeholders as an enterprise that has high profitability and can steadily realize safety and its environmental mission.

### 2. Other Matters Concerning Corporate Governance System

(1) For the diagram showing the structure of corporate governance of the Company including its internal control system, please refer to the Attachment : “Corporate Governance Structural Diagram”

(2) Outline of timely disclosure system

Here is an outline of JSR’s internal system to disclose company information in a timely manner.

#### 1) Basic policy for disclosing information

JSR has stipulated its Disclosure Policy as a rule to disclose important company information to investors in a prompt, accurate, and fair manner. The Company has focused on actively disclosing information on its business conditions in accordance with related laws and regulations, such as the Financial Instruments and Exchange Act, and rules regarding timely disclosure provided by the Tokyo Stock Exchange Inc.

In addition, JSR has strived to disclose information, which does not fall under the TSE’s timely disclosure rules but is deemed to influence investors’ investment decisions, in a timely and appropriate manner. Furthermore, the Company has stipulated Rules for Preventing JSR Group’s Employees from Committing Insider Trading. It has made endeavors to ensure that all directors and employees understand and comply with basic rules regarding the management of insider information which they have come to know through conducting their duties and the purchase and sale of stocks by directors and employees with the aim of preventing insider trading from occurring.

#### 2) Internal structure for timely disclosure

##### a. Decisions made

Important decisions are made at a Regular Board of Directors’ meeting or the Executive Committee and as necessary, an Extraordinary Board of Directors’ meeting is held to make prompt decisions. If important decisions made fall under the TSE’s timely disclosure rules, the Company shall disclose such information in a prompt manner after obtaining approval at the Board of Directors’ meeting.

JSR shall disclose information on account settlement immediately after having an audit by independent auditor on its books and obtaining approval at the Board of Directors' meeting.

b. Facts that have occurred

Regarding important facts that have occurred, JSR has established a structure that enables the Company to gather information and make immediate response and disclose information in an appropriate manner.

c. Risk information

Regarding risk information, JSR has established the CSR Committee, which is designed to ensure issues related to responsible care and corporate ethics are communicated to, understood, and observed by all parties. The Company has established a structure that enables it to respond to an emergency by preparing an information network to transmit information from JSR and JSR Group companies to the CSR Committee when a crisis occurs.

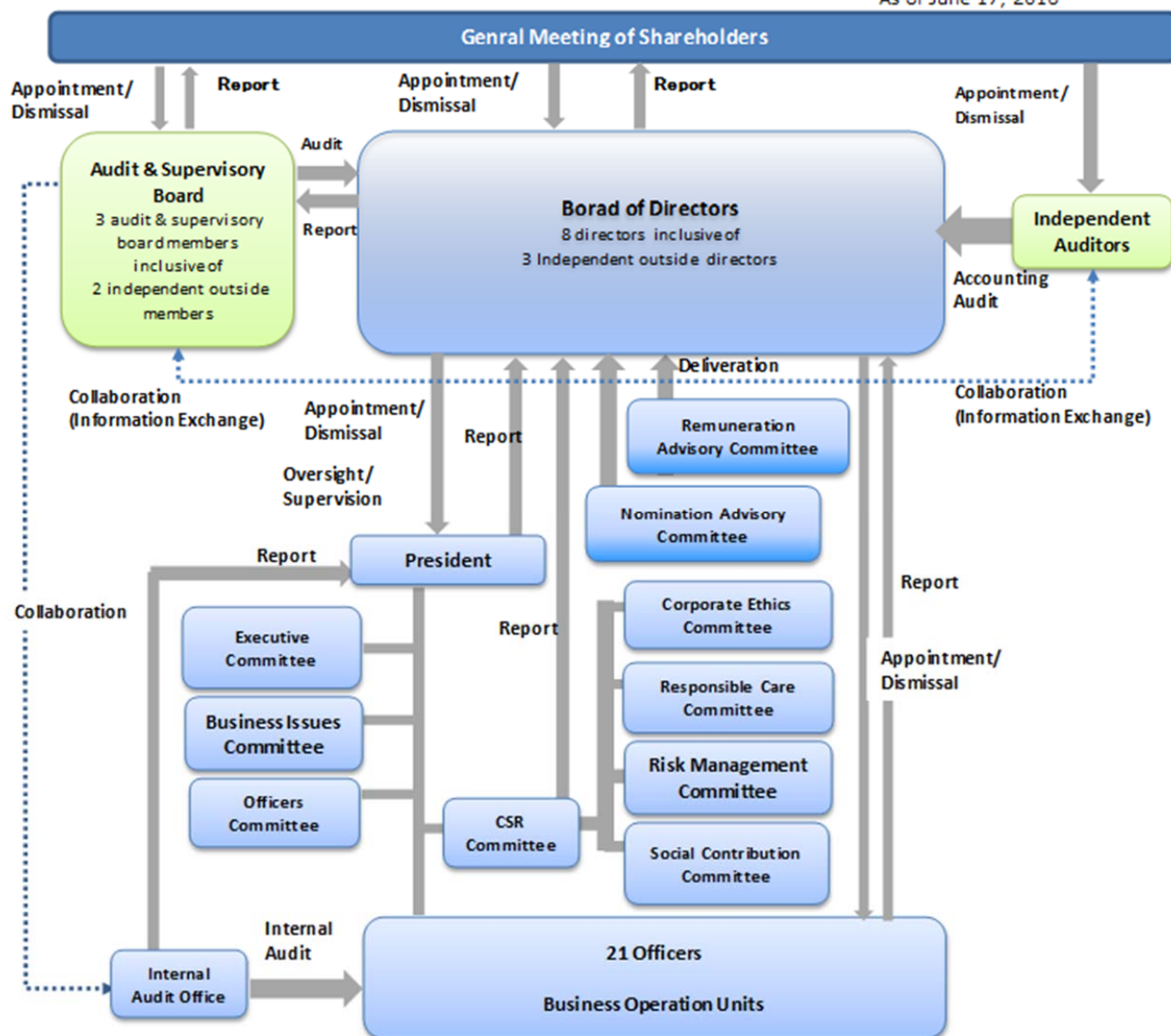
d. Disclosure of information

The Corporate Communications Department, which takes the leadership in disclosing information, has strived to disclose information promptly in cooperation with related departments. In addition, the Department has put disclosed materials on the Company's website so that shareholders and investors can easily access them any time.

For the diagram of the internal structure for disclosing company information in a timely manner, please refer to the attached Material 2: Information Disclosure Structural Diagram.

# Corporate Governance Structure Diagram

As of June 17, 2016



Information Disclosure Structural Diagram

