

JSR Corporation



# MATERIALS INNOVATION

ANNUAL REPORT 2018

For the year ended March 31, 2018



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\* In this report, Fiscal Year (FY) means the year ending March 31.  
For example, FY2017 means April 1, 2017 – March 31, 2018.

### Forward-Looking Statements

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



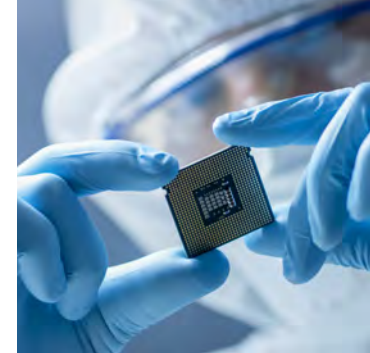
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## FINANCIAL SECTION

(Supplementary Volume)



# OVERVIEW

CORPORATE MISSION

# MATERIALS INNOVATION

WE CREATE VALUE THROUGH MATERIALS TO ENRICH SOCIETY, PEOPLE AND THE ENVIRONMENT

## PROFILE

JSR Corporation (formerly Japan Synthetic Rubber Co., Ltd.) was established in December 1957 under the Special Measures Law for the Synthetic Rubber Manufacturing Industry with the aim of pioneering synthetic rubber production in Japan. Since transitioning into a private corporation in 1969, JSR has expanded its petrochemical business from synthetic rubber to include emulsions, plastics and other materials, and has augmented business operations for the semiconductor, flat panel display and optical materials fields by leveraging proprietary polymer technologies. The promotion of the Fine Chemicals Business based on IT materials has served as a gateway to innovative changes to the company's business structure and we changed our company name to JSR Corporation at the timing of 40th anniversary on December 10, 1997.

Recently, the Life Sciences Business as the third business pillar is expanding its scale through measures such as mergers and acquisitions (M&A). A new company was established at the Plastics Business through a merger, too. Also, the previous Fine Chemicals Business was changed to the Digital Solutions Business to seek new business opportunities. We will achieve sustainable growth by steadily overcoming issues in each business fields and increasing our profits.

## BUSINESS OUTLINE

JSR Group aims to create new value through materials and to help in solving social problems.

### Social Priorities

1960s

#### PRODUCTION OF SYNTHETIC RUBBER IN JAPAN

Petrochemicals played a vital role as industrial raw materials during Japan's postwar recovery and reconstruction phase. There was an urgent need to establish synthetic rubber manufacturing in Japan because reliance on imports left Japan vulnerable to a tight supply-demand environment.

1980s

#### CHANGES IN THE INDUSTRIAL STRUCTURE

Electronic materials were vital to the emergence of the new computer industry and products such as electronic devices with embedded microchips, and digital communications devices.

2000s

#### SOCIAL PRIORITIES FOR THE FUTURE

Rising awareness of environmental problems is reflected in the need to create environmentally responsible living. Another major social priority in Japan, which is at the head of the pack in the global trend toward super-aging societies, is the development of medical services.

### New Segment Classification

We have changed our disclosure segment classification from FY ending March 2019.

By FY 2017

Petrochemical Products Business	Elastomers Business
	Plastics Business
Fine Chemicals and Other Products Business	Semiconductor Materials Business
	Display Materials Business
	Other



From FY 2018

Elastomers Business
Plastics Business
Digital Solutions Business (Semiconductor Materials Business, Display Materials Business and Edge Computing Business)
Life Sciences Business
Other Businesses

## CONSOLIDATED FINANCIAL HIGHLIGHTS

In fiscal 2017, we achieved significant year-on-year increases in consolidated revenue and earnings, and also exceeded our full-year guidance.

**Revenue**  
**421.9** billion yen  
Previous year **388.5** billion yen  
**↑ +8.6%**

Revenue increased substantially thanks to higher sales in the Elastomers Business—stemming from revision of sales prices to reflect rising raw materials costs—as well as our increased adoption of advanced materials in the Semiconductor Materials Business, where market conditions are healthy.

**Total Equity**  
**411.6** billion yen  
Previous year **376.4** billion yen  
**↑ +9.4%**

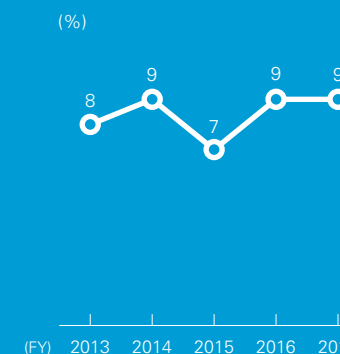
Total equity increased year on year, buoyed by a 22.4 billion yen rise in retained earnings. The equity ratio at fiscal year-end was 60.8%.

**Operating Profit**  
**43.6** billion yen  
Previous year **35.9** billion yen  
**↑ +21.2%**

Operating profit increased year on year for several reasons. These included revision of sales prices in the Elastomers Business to reflect rising raw materials costs, sales expansion of solution polymerization styrene-butadiene rubber (SSBR) for fuel-efficient tires at our subsidiary in Thailand, and our efforts to expand sales in the Plastics Business.

**ROE**  
**8.8** %  
Previous year **8.5** %  
**↑ +0.3%**

Return on equity (ROE) increased year on year thanks to growth in profit.





# OUR STRATEGY

## TOWARD SUSTAINABLE GROWTH

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As a company that provides innovative value to society, we will make efforts to address social issues and evolve our organization to achieve sustainable growth.



**mitsunobu (Nobu) KOSHIBA**  
Representative Director and President



## THE JSR VISION

We launched a three-year mid-term business plan, JSR20i9\* from April 2017. We place SSBR, Semiconductor Materials Business and Life Sciences Business as earnings driver and promote the profit expansion. Also we work on labor productivity improvement through working on digitalization and will enhance our competitiveness.

We Will Achieve Sustainable  
Growth to Fulfill Our Responsibility  
to All Our Stakeholders

## JSR20i9\*

Phase  
IIIStrengthening Competitiveness  
for the Future

## Mission of JSR20i9

- Solid earnings growth by SSBR, semiconductor materials and the Life Sciences Business

## JSR20i6\*

Phase  
II

## Results of JSR20i6

- Progress of globalization
- Restructuring of the Strategic Business and focusing on the Life Sciences Business

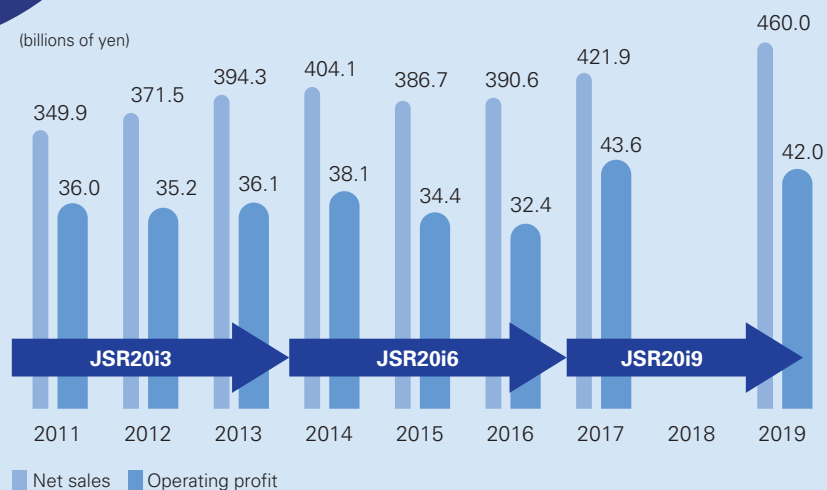
## JSR20i3\*

Phase  
I

## Results of JSR20i3

- Clarification of the strategy toward growth
- Decision of resource investment

The trends toward global diversification and the formation of the multipolar world are expected to accelerate. We see these environmental changes as opportunities to expand our corporate value through initiatives based on our corporate mission.



\*The “i” in “JSR20i3” (twenty-thirteen), “JSR20i6” (twenty-sixteen) and “JSR20i9” (twenty-nineteen) emphasizes the “Innovation” to realize Materials Innovation, which is the heart of our corporate mission.

From FY ended March 2018, IFRS (International Accounting Standard) has been applied.

## TO OUR SHAREHOLDERS

### Please explain the reasons for revenue and earnings growth in fiscal 2017.

Among JSR Group's main customer industries, automobile tire production and automobile production rose above the previous year's level globally, but domestic tire production remained mostly unchanged from the previous year. Demand in the semiconductor market grew, and production of panels in the display market was robust. The exchange rate had a slightly weaker yen compared to the previous year.

Amid these circumstances, the Petrochemicals Business of JSR Group saw revenue rise in the Elastomers Business over the previous year, despite a decline in overall sales volume, due to growth in the sales volume of solution polymerization styrene-butadiene rubber (SSBR) for fuel-efficient tires and revisions to sales prices to reflect butadiene prices, which shot up in the fourth quarter of the previous year. The Plastics Business also saw revenue increase from the previous year because of price revisions accompanied by the rise in raw materials prices and because of worldwide sales volume growth. Revenue in the Petrochemicals Business as a whole was also up from the previous year. Operating profit of the Elastomers Business increased significantly over the previous year on the back of improved profitability from the sales price revisions mentioned above. Similarly, the Plastics Business's operating profit was up significantly, driven by increased sales volume and improved profitability from the sales price revisions mentioned above. These factors combined to push the operating profit of the Petrochemicals Business up significantly over the previous year.

In the Fine Chemicals and Other Products Business, the Semiconductor Materials Business saw a significant increase in revenue over the previous year due to larger sales volume of lithography materials, CMP materials, cleaning solutions, and packaging materials. In the Display Materials Business, the sales volume for the China market grew, although prices fell due to competition pressures and the overall sales volume declined. Revenue from the Life Sciences Business, positioned as JSR Group's third core business, saw a notable increase, and revenue from the Fine Chemicals and Other Products Business as a whole increased compared to the previous year. Operating profit of the Fine Chemicals and Other Products Business was mostly unchanged from the previous year due to additional advance capital investment in the Life Sciences Business and other factors.

Profit attributable to owners of parent rose above the previous year's level, thanks to increased operating profit.

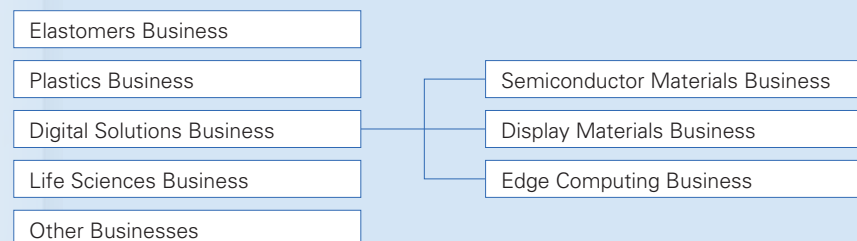




## TO OUR SHAREHOLDERS

In fiscal 2017, we reported revenue of 421,930 million yen (up 8.6% year-on-year), operating profit of 43,569 million yen (up 21.2% year-on-year), and profit attributable to owners of parent of 33,230 million yen (up 9.9% year-on-year).

JSR Group has maintained three reporting segments: Elastomers Business, Plastics Business, and Fine Chemicals and Other Products Business. With the expansion of the Life Sciences Business, however, Life Sciences Business will become a new reporting segment starting in fiscal 2018. Furthermore, the previous Petrochemical Products Business and the Fine Chemicals and Other Products Business will be discontinued, and the Fine Chemicals Business will be renamed Digital Solutions Business and made a reporting segment. Accordingly, the Group reporting segments from fiscal 2018 will be the Elastomers Business, the Digital Solutions Business, the Life Sciences Business, and the Plastics Business led by Techno-UMG Co., Ltd. The positioning of the reporting segments will be as shown below.

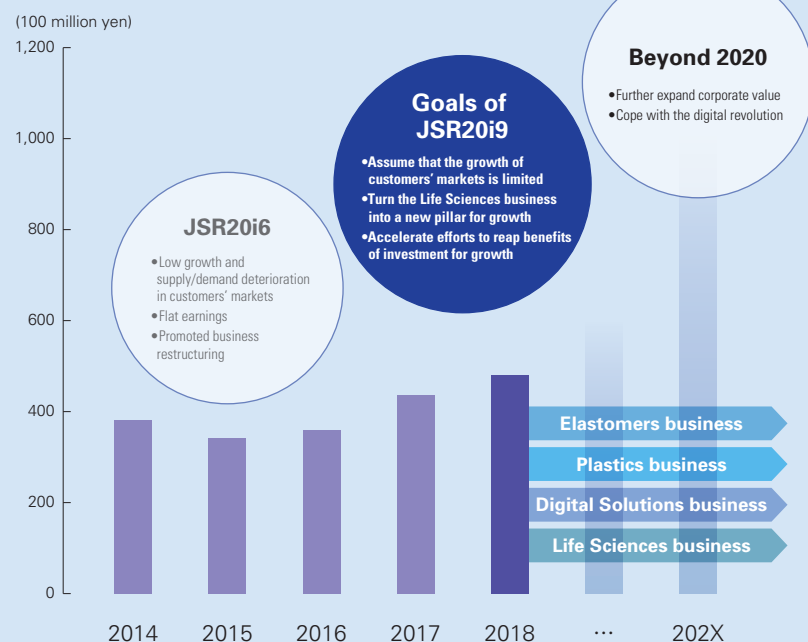


### Please describe the progress of mid-term business plan, JSR20i9, and how you plan to proceed in the future.

In the JSR20i9, our consolidated numerical targets for fiscal 2019, the final year of the plan, are revenue of 460 billion yen, operating profit of 42 billion yen, and ROE of 8% or higher. In fiscal 2017, we posted revenue of 421.9 billion yen, operating profit of 43.6 billion yen, and ROE of 8.8%. In other words, we exceeded our final-fiscal-year numerical targets for operating profit and ROE. Although we achieved our numerical targets for fiscal 2017, the first year of the plan, we will not change our final targets because we are currently working on major issues in each business.

## TO OUR SHAREHOLDERS

Operating profit



In the Elastomers Business, we aim to seize the No. 1 market share of the global market for SSBR, our strategic product. In fiscal 2017, we posted a steady increase in sales volume on the back of expanded production capacity. This reflected the launch of operation at the second-phase facilities of JSR BST Elastomer Co., Ltd. (JBE), our joint venture in Thailand. As for future issues, an important priority for fiscal 2018 is to launch operations at the plant of JSR MOL Synthetic Rubber Ltd., established in Hungary.

In the Plastics Business, in April 2018 we merged two companies, Techno Polymer Co., Ltd. and UMG ABS, Ltd. to form a new company, Techno-UMG Co., Ltd. This integration of two leading domestic manufacturers will enable us to combine the strengths in manufacturing, R&D, and sales amassed by both companies, which we will utilize to expand sales in high-end overseas markets.

In the Semiconductor Materials Business (a category of the Digital Solutions Business segment), we will continue striving to maintain a high market share for cutting-edge lithography materials while expanding sales of semiconductor peripheral materials. With respect to EUV resists, widely expected to become a next-generation lithography material, we will aim for top-runner status by deploying EUV Resist Manufacturing & Qualification Center N.V., a manufacturing joint venture in Belgium. In the Display Materials Business (a second category of the Digital Solutions Business segment), we will focus on alignment films and insulating films, while in China, a market expected to grow in the future, we will strive to further expand sales by deploying JSR Micro (Changshu) Co., Ltd., a manufacturing joint venture. In the Edge Computing Business (a third category of the Digital Solutions Business segment), we aim to expand our presence in the mobile field, while striving to further expand sales of infrared cut filters for mobile devices.

In the Life Sciences Business, our plan is to broaden our presence in the bio-pharmaceutical field and make it a new pillar of our operations. Specifically, we are targeting revenue in that field in the 50 billion yen range in fiscal 2019, growing to more than 100 billion yen in the 2020s and thereafter. In the life sciences field, in addition to developing our own innovative materials and products, it is very effective to use M&As to incorporate other companies' technologies.

In fiscal 2017, we acquired a Swiss company, Selexis SA, which has a technology in quickly generating cell lines used to culture antibodies efficiently. We also completed our acquisition of Crown Bioscience International, a provider of preclinical drug discovery and development support services, on May 31, 2018. Through these companies, together with

## TO OUR SHAREHOLDERS

KBI Biopharma, Inc. and Medical & Biological Laboratories Co., Ltd., both already JSR Group members, we now have a system enabling us to offer a wide range of services and products. In addition, we established an industry-academia collaboration with the opening of the JSR-Keio University Medical and Chemical Innovation Center (JKiC) in October 2017. Our aim is to uncover new themes in the field of advanced medicine. Going forward, JSR Group companies will unite in an effort to expand our drug discovery and development support business in the bio-pharmaceutical field and contribute to reducing the costs and shortening the lead-times of pharmaceutical development.

**What is management's view on returning profits to shareholders?**

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

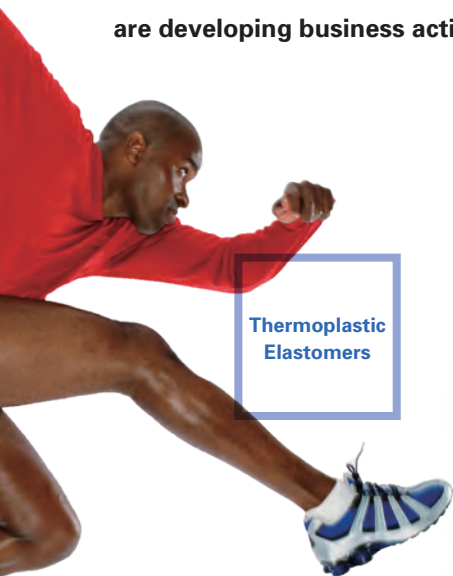
The Company will appropriate profits by taking into account business performance and mid- and long-term demand for funds, while paying continuous, stable cash dividends based on consideration of taking balance between appropriating profits to our shareholders and retaining earnings necessary for future business advancement. Carefully considering the stock market environment and other factors, we will comprehensively study purchases of treasury shares as a measure to return profits to our shareholders. We allocate retained earnings to a variety of investments linked to future growth of businesses, contributing to the enhancement of corporate value. During the JSR20i9 mid-term business plan, we aim for a return to shareholders, through a combination of dividends and share buybacks, of 50 percent or higher.





# CREATING CORPORATE VALUE

The three strategic domains for JSR Group are Elastomers Business, Digital Solutions Business and Life Sciences Business. In each of these domains, we are developing business activities based on mid- and long-term perspectives.



Thermoplastic  
Elastomers



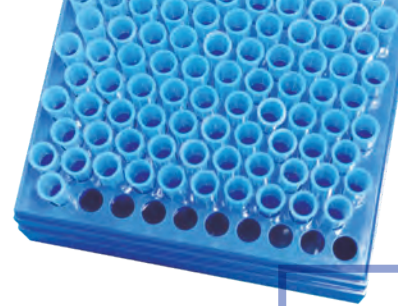
Elastomers



Emulsions



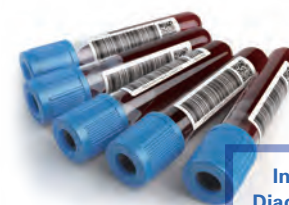
Plastics



Bioprocess  
Materials

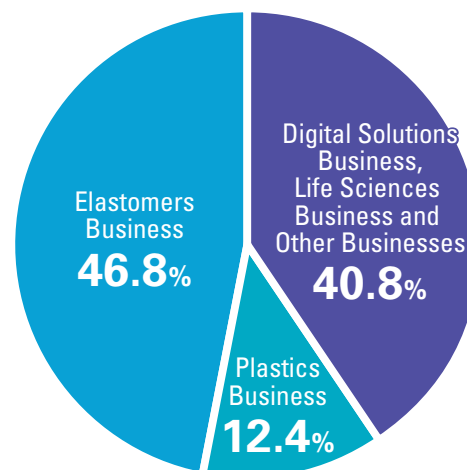


Display  
Materials



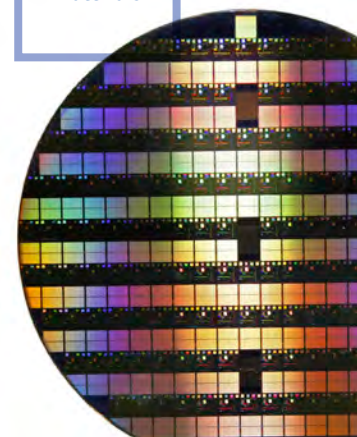
In Vitro  
Diagnostics  
and Life  
Science  
Research

Revenue Breakdown by  
Business Segment



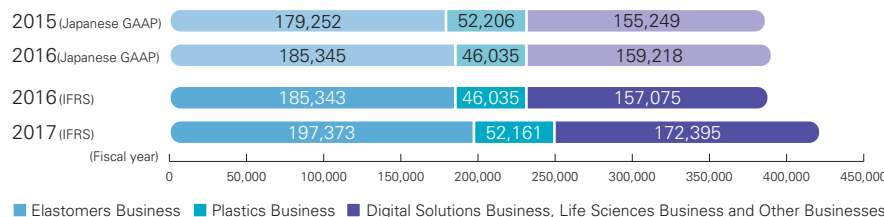
Optical  
Materials

Semiconductor  
Materials



## AT A GLANCE

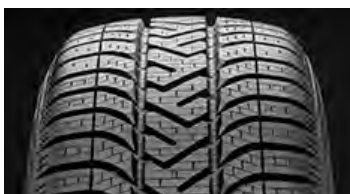
### Revenue by Business Segments (Millions of yen)



JSR Group has reclassified its disclosure segments effective from fiscal 2018, the fiscal year ending March 31, 2019. Please refer to page 3 for details.

Pursuant to Paragraph 1 Article 120 of the Rules of Corporate Accounting, the Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) effective from fiscal 2017, the fiscal year ended March 31, 2018. Moreover, numerical data for fiscal 2016, the fiscal year ended March 31, 2017 is presented in accordance with IFRS for reference purposes.

### ELASTOMERS BUSINESS



#### General-Purpose Synthetic Rubbers

- SSBR (Solution polymerization styrene-butadiene rubber), ESBR (Emulsion polymerization styrene-butadiene rubber), BR (Polybutadiene rubber), IR (Isoprene rubber), etc.

#### Special-Purpose Synthetic Rubbers

- NBR (Nitrile rubber), IIR (Butyl rubber), EPM/EPDM (Ethylene-propylene rubber), etc.

#### Thermoplastic Elastomers (TPE)

- RB (Butadiene type TPE), DYNARON™ (Hydrogenated polymer), TR (Styrene-butadiene type TPE), SIS (Styrene-isoprene type TPE), EXCELINK™ (Olefin type TPE), etc.

#### Emulsions

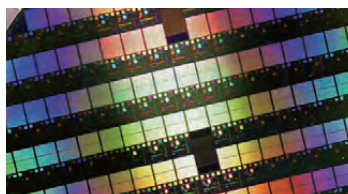
- Paper coating latex, SB latex, Acrylic emulsions, Binders for batteries, SIFCLEAR™ (Water-based durable stain resistant emulsion), etc.

### PLASTICS BUSINESS



- ABS resins, AES resins, HUSHLOY™ (Anti-squeak material), etc.

### DIGITAL SOLUTIONS BUSINESS



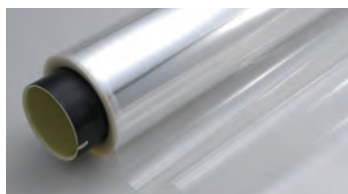
#### Semiconductor Materials

##### Lithography Materials

- Photoresists, Multilayer materials, etc.

##### Advanced Electronic Materials

- CMP slurries, CMP pads, Thick-film photoresists, photosensitive insulation materials, etc.



#### Edge Computing

- ARTON™ (Heat-resistant transparent resin), etc.
- High-performance UV curable resins, etc.



#### Display Materials

##### LCD Materials

- Alignment films, Protective coatings, Color pigment dispersed resists, Photosensitive spacers, Insulating layers, etc.

##### OLED Materials

- Insulating layers, Planarization layers, etc.

### LIFE SCIENCES BUSINESS



#### In-vitro Diagnostic and Research Reagents

- Beads for clinical diagnostics, Research reagents, Magnetic beads, Size standard beads

#### Bioprocess Materials

- Amsphere™ A3 (Protein A chromatography resin)

#### Drug Discovery Support Services

- Development and manufacturing services

### OTHER BUSINESSES



- Lithium ion capacitors, next generation technology research, etc.

## ELASTOMERS BUSINESS

### Performance Overview

#### Revenue

**197.4** billion yen  
↑ +6.5%

#### Operating Profit

**14.9** billion yen  
↑ +69.0%

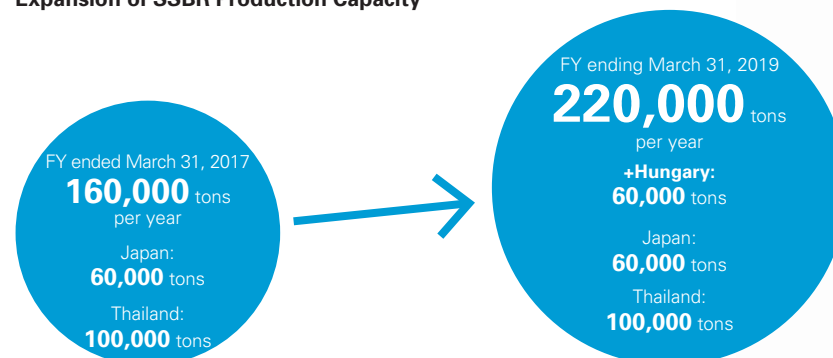
- Production of automobile tires increased year on year in China and elsewhere in Asia, as well as in Europe, but remained mostly unchanged in Japan.
- In the Elastomers Business segment, the sales volume declined slightly from the previous year, when exports had been healthy.
- Segment revenue increased year on year thanks to our revision of sales prices to reflect butadiene prices, which surged in the fourth quarter of the previous year.
- Segment operating profit also rose significantly year on year. This was due to improved profitability stemming from the sales price revision, as well as growth in the sales volume of SSBR for fuel-efficient tires at JSR BST Elastomer Co., Ltd. (JBE), our joint venture in Thailand, where second-phase facilities went into operation.

### Three-pronged SSBR Supply System; Tire-related Solutions

The SSBR market is expected to grow 6–7% annually as rising environmental awareness bolsters demand for fuel-efficient tires. Currently, we have a total SSBR production capacity of 160,000 tons (Thailand and Japan combined), but we will raise this to 220,000 tons when we commission a new factory in Hungary in fiscal 2018. By expanding sales of SSBR globally, we will target annual growth in sales volume of 10% or more, which is higher than the market growth rate.

Meanwhile, to strengthen sales in Europe, where demand is expected to grow, we established JSR Elastomer Europe GmbH in Germany, and in Tianjin, China, we established Tianjin Technology Center to provide technical support with close ties to customers. The spread of electric cars and the like is giving rise to growing technical needs for high-performance tires. For example, electric vehicles require tires with high abrasion resistance. In response, we will offer tire-related solutions that combine our comprehensive know-how and processing technologies, in addition to providing materials.

### Expansion of SSBR Production Capacity





## PLASTICS BUSINESS

### Performance Overview

#### Revenue

**52.2** billion yen  
↑ **+13.3%**

#### Operating Profit

**5.6** billion yen  
↑ **+44.8%**

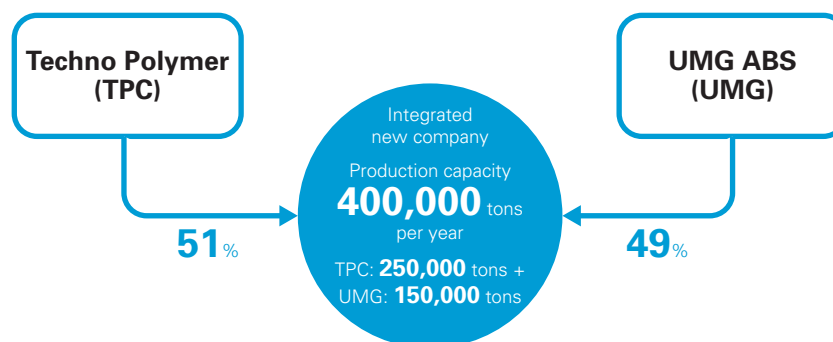
- The sales volume of the Plastics Business increased year on year owing mainly to higher demand among overseas customers for such products as automobiles, one of the segment's main customer industries.
- Segment revenue also increased due to a revision of sales prices to reflect the surge in raw materials costs, as well as the higher sales volume.
- Operating profit jumped significantly thanks to the greater sales volume and improved profitability stemming from the sales price revision.

### Merger of Plastics Business

On April 1, 2018, we established a new company, Techno-UMG Co., Ltd., through the merger of two companies: Techno Polymer Co., Ltd. (a wholly owned subsidiary of JSR) and UMG ABS, Ltd. (equally owned by Mitsubishi Chemical Corporation and Ube Industries, Ltd.).

Thanks to this integration of two leading domestic manufacturers of ABS and other styrene-based resins, we have expanded the scale of our Plastics Business in terms of revenue, production capacity, sales operations, and the like. Specifically, the former Techno Polymer has strengths in automotive interior material applications, while the former UMG ABS specializes in automotive exterior material applications. Both companies have accumulated impressive manufacturing, product development, and sales capabilities. We will use these assets to further enhance manufacturing efficiency and cost-competitiveness and thus enjoy stable domestic supply, while increasing the number of differentiated products to expand sales in high-end overseas markets.

### Overview of New Company



## DIGITAL SOLUTIONS BUSINESS

### Performance Overview

Revenue

**172.4** billion yen  
⬆️ +9.8%

Operating Profit

**23.1** billion yen  
⬇️ -0.7%

- Segment revenue increased year on year, but operating profit remained mostly unchanged.

### Semiconductor Materials

#### Performance Overview

Revenue

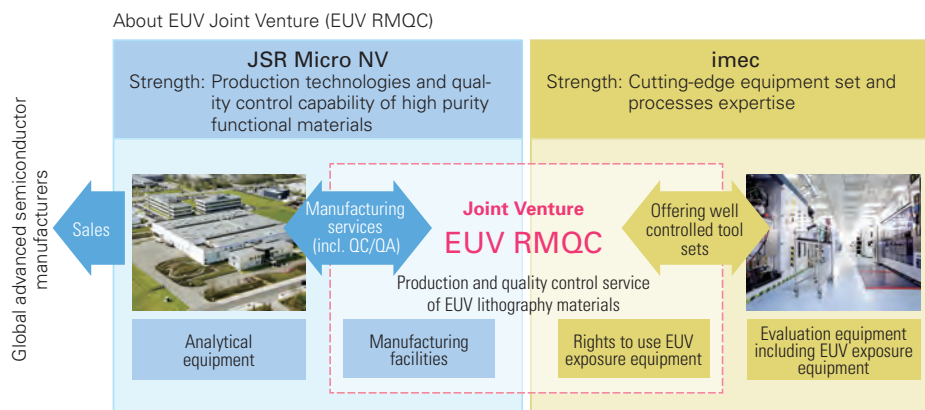
**75.4** billion yen  
⬆️ +21.3%

- The Semiconductor Materials Business saw dramatic growth in revenue. In addition to particularly favorable growth in semiconductor demand, this was due to higher volume of sales to the segment's main customers, especially for cutting-edge photoresists, as well as increased sales volume for semiconductor peripheral materials, such as CMP materials, cleaning solutions, and packaging materials.

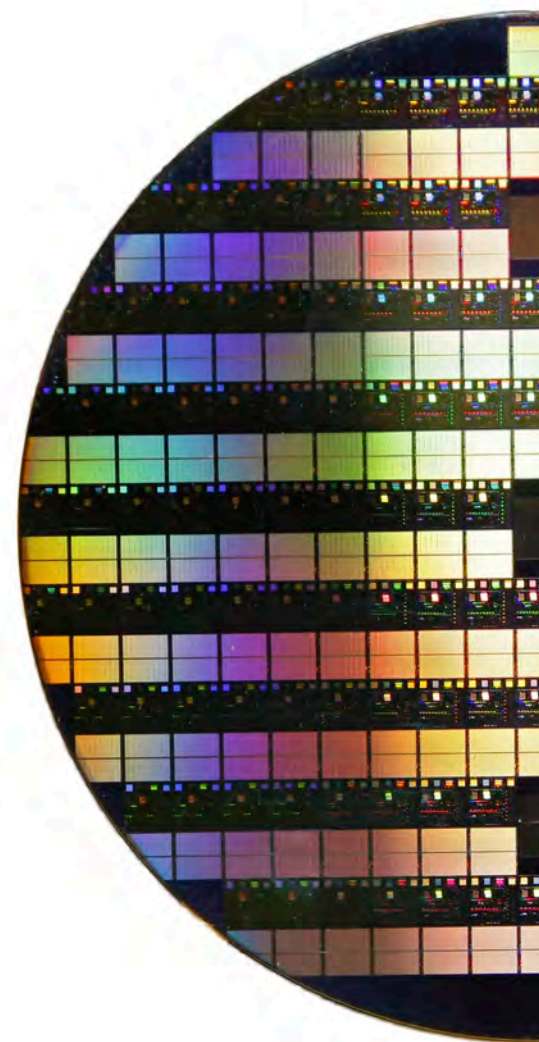
### Seeking Top-runner Status in the EUV Sector

We work to maintain the industry top-runner status by securing a high global market share in the field of cutting-edge lithography materials including 10nm generations and engaging in commercial production of EUV lithography materials for next 7nm generations and beyond. In addition, we continuously expand sales of the peripheral materials, such as CMP materials, cleaning solutions and packaging materials.

In March 2017, the production facilities of EUV Resist Manufacturing & Qualification Center N.V. (EUV RMQC) was completed. EUV RMQC is a joint venture with imec, a world-leading research institute for research on cutting-edge nanoelectronics technology in Belgium, providing manufacturing and quality control services of EUV lithography materials. In order to contribute the industry for practical use of EUV lithography, JSR will push forward with its stable commercial production of EUV photoresists through evaluation by the segment's main customers.



Build infrastructure of production and quality control facility of EUV lithography materials to the semiconductor industry for advanced devices.



## DIGITAL SOLUTIONS BUSINESS

## Display Materials

## Performance Overview

## Revenue

54.1 billion yen

↓-4.7%

- We achieved an increase in sales volume in China, where panel production rose dramatically, although prices declined due to competition pressures and the overall sales volume was also down.

## Development of the Display Business in the Chinese Market

In the Display Materials Business, we entered China, where LCD panel production is expanding rapidly, and relocated the operating body from our head office (Japan) to there. We also strengthened our sales and technical service systems with the establishment of sales bases in Beijing, Hefei, Chongqing, Fuzhou, and Shenzhen. We particularly focused on sales expansion of alignment films and insulating films, achieving an increased market share, and a new factory built for JSR Micro (Changshu) Co., Ltd. started operations during fiscal 2017. We will continue restructuring our business while targeting further sales expansion in the Chinese market.





# LIFE SCIENCES BUSINESS

## Performance Overview

### Revenue

**42.9** billion yen  
↑ +12.5%

- The Life Sciences Business posted a year-on-year increase in segment revenue on the back of higher sales of diagnostic reagent materials, in addition to increased sales volume by KBI Biopharma, Inc. (KBI), a Group company.

However, operating profit remained mostly unchanged, largely because of additional upfront capital investments targeting future expansion of this business segment.

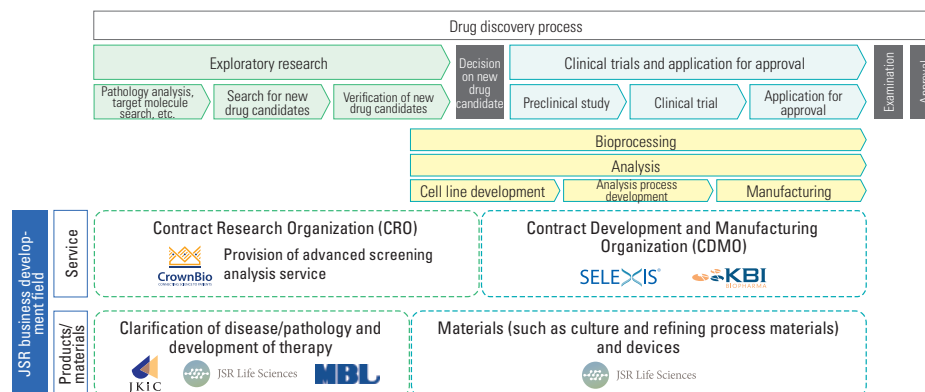
## Life Sciences as a New Business Pillar

In the Life Sciences Business, which has grown to become the third pillar of JSR Group's businesses, we established a system capable of providing integrated support for all processes, from antibody drug discovery to manufacturing. In addition to two companies that are already Group members, KBI Biopharma, Inc. and Medical & Biological Laboratories Co., Ltd. (MBL), we acquired two other companies in this business: Switzerland-based Selexis SA, which has a technology in quickly generating cell lines used to culture antibodies efficiently, and U.S.-based Crown Bioscience International, a provider of preclinical drug discovery and development support services. Accordingly, we now have an integrated system in place to support all processes, from antibody drug discovery to manufacturing. All Group companies involved in the Life Sciences Business will unite in an effort to expand our bio-pharmaceutical discovery support business. Our aim is to provide services that improve the probability of success in the drug discovery process for antibody drugs and shorten the development period.

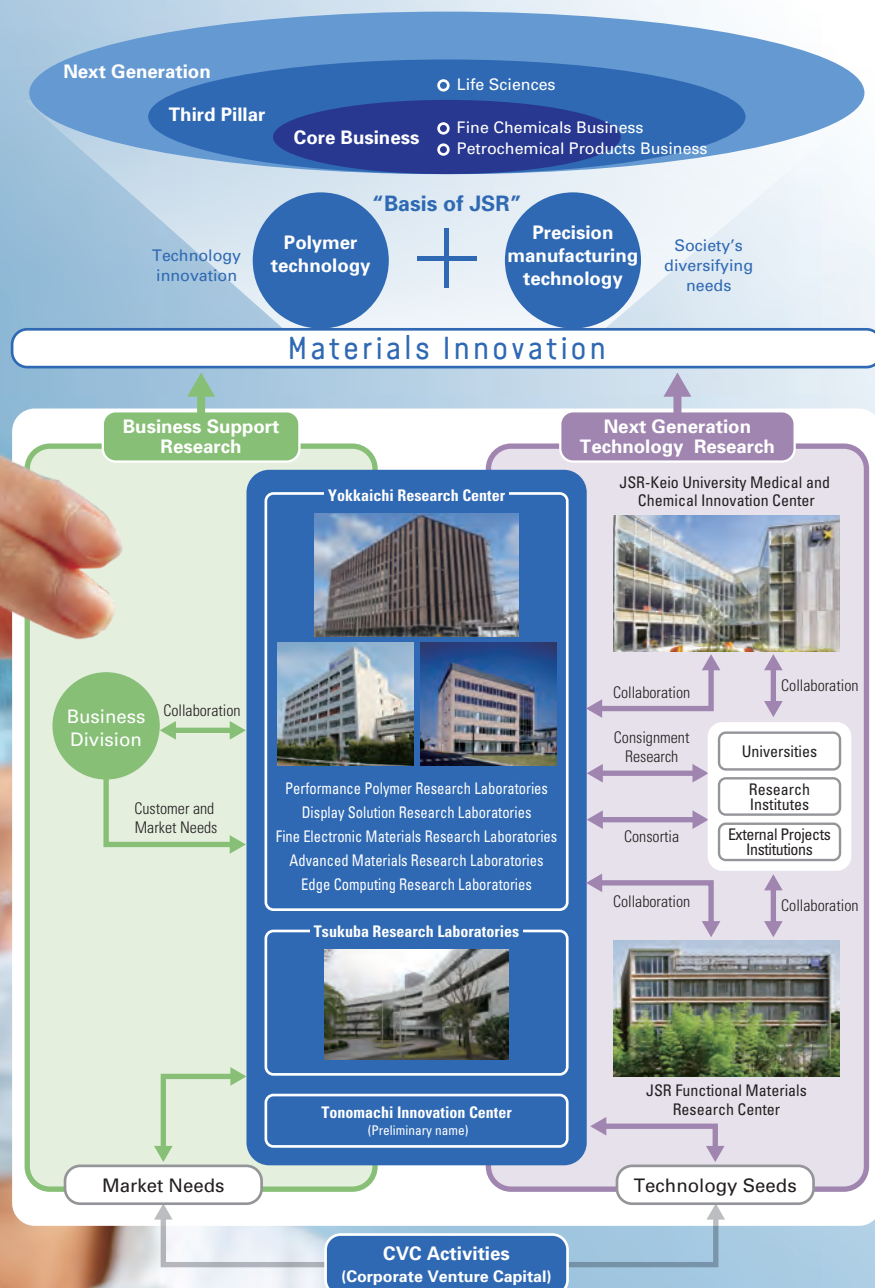
To address demand for commercial-level manufacturing, KBI completed an upgrade of its facilities at the end of 2017 and has started rolling out production. In the first half of 2018, we launched analytical services at a base established on the premises of JSR Micro NV in Europe. In addition, we started commercial production at new manufacturing facilities, also established on NV's premises, to address expected growth in demand from the increased adoption of Amsphere™ A3, chromatography resin for refining use.

Meanwhile, we recently established the JSR-Keio University Medical and Chemical Innovation Center (JKiC) in research alliance with Keio University and Keio University Hospital. Through this industry-academia collaboration, we will work to develop innovative materials and products that support advancements in new medical fields, with the aim of expanding our Life Sciences Business into the future.

We will provide innovative services, products, and materials to pharmaceutical companies, biotechnology companies, and academia covering the entire development process for new medical treatments.



## R&amp;D POLICY AND ORGANIZATION



With deep expertise in its core polymer and precision manufacturing technologies, JSR Group has widened the scope of its technological domains by integrating technologies from disparate fields such as photochemistry, inorganic chemistry, precision processing, and biotechnologies. On this basis, the Group has advanced R&D activities, and its accumulated efforts have enabled it to develop unique strengths relative to chemical companies worldwide, which is our driving force to expand superior materials and technologies globally.

JSR Group's main R&D centers are located at Yokkaichi City in Mie Prefecture and Tsukuba City in Ibaraki Prefecture. There we carry out R&D activities aimed at tracking swiftly evolving societal needs such as the changes that are emanating from the digital revolution.

Our R&D mission can be broadly divided into two categories: "business support research" for business domains we are developing, and "next-generation technology research," such as novel and applied research for peripheral fields. In promoting research, we emphasize close linkages in the Group's value chain, ranging from market development to process development and manufacturing technology development, and extending to manufacturing, sales, and distribution. We also promote integration within the system, with researchers themselves making direct contacts to customers to uncover their needs. Moreover, we are enhancing technical services in various countries and building a system capable of providing global and timely support for customers' business promotion activities.

For next-generation technology and seed research, it is necessary for R&D to anticipate latent market needs. Particularly in the case of new R&D fields, we promote open innovation such as joint research with universities and research institutions in Japan and overseas. We have established the JSR-Keio University Medical and Chemical Innovation Center (JKiC), a joint research facility on Keio University's Shinanomachi campus, which opened in October 2017.

We will create innovation through investigating the wholly novel concept of fusing medicine and chemistry, which will lead to establish practical technologies that contribute to global society with people living long and healthy lives.



# CREATING SUSTAINABLE VALUE

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We are a company that delivers “sustainable growth” toward the future. Our corporate mission, “Materials Innovation,” states that “We create value through materials to enrich society, people, and the environment.” Based on this mission, we are building good relationships with various stakeholders in our quest to become a trusted and indispensable corporate citizen. Accordingly, we are working to resolve social issues based on our belief that our practicing our corporate mission in management and engaging in CSR activities are one and the same.





# CORPORATE MISSION AND CSR

Integration of management and CSR creates benefits for both society and JSR Group through its contribution to the development of a sustainable global environment and society.

## Corporate Mission and Priority Issues

### Corporate Mission

#### Materials Innovation

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

#### Management Policies:

##### Fundamental Pillars of Management

- Continuous Creation of Businesses
- Enhancement of Corporate Culture
- Increase in Corporate Value

#### Management Policies:

##### Responsibility to Our Stakeholders

- Responsibility to Our Customers/Business Partners
- Responsibility to Our Employees
- Responsibility to Society
- Responsibility to Shareholders

#### Course of Action: The 4Cs

CHALLENGE  
COMMUNICATION  
COLLABORATION  
CULTIVATION

Issues facing society  
that need to be addressed

#### WE SUPPORT



- Business Development for Higher Profitability
- Reinforcement of Global Competitiveness
- Nurturing of Next-Generation Businesses

## Innovation

### Social Issues that JSR Group Can Help Resolve

- Eco-Friendly Products
- Health and Longevity
- Better Access to Healthcare and Medical Care
- Quality of Life and Happiness

## Sustainability

### Social Issues Attributable to JSR Group's Corporate Activity

- Health and Safety Initiatives
- Environmental Impact Reduction
- Climate Change Mitigation
- Water Resources Conservation
- Waste Reduction
- Human Rights
- Labor Environment
- Diversity
- Supply Chain Management
- Communication with Stakeholders

Development of a Sustainable Global Environment and Society

## CSR MANAGEMENT

Our corporate mission, “Materials Innovation,” states that “We create value through materials to enrich society, people, and the environment.” Based on this mission, we are building good relationships with various stakeholders in our quest to become a trusted and indispensable corporate citizen. Accordingly, we are working to resolve social issues based on our belief that our practicing our corporate mission in management and engaging in CSR activities are one and the same.

### CSR Advancement Structure

JSR Group promotes CSR through the CSR Committee, which reports to Representative Directors. There are four committees that function under the supervision of the CSR committee: the Corporate Ethics Committee, which enlightens corporate ethics standards and strengthens compliance; the Responsible Care Committee, which works to realize a sustainable society through promoting responsible care; the Risk Management Committee, which seeks to further strengthen the Group’s risk management system; and the Social Contribution Committee, which considers and promotes the Group’s necessary contribution to society. The CSR Committee coordinates and guides the activities of these four committees and works to strengthen and promote CSR management through regular meetings four times a year, as well as extraordinary meetings.

### Compliance

JSR Group practices corporate ethics to fulfill its responsibility to stakeholders, which is its management policy, in addition to ensuring legal compliance as a matter of course. We have also formulated the “JSR Group

Corporate Ethics Guidelines” to provide specific guidance related to corporate ethics. The Corporate Ethics Committee promotes activities to encourage employees to maintain high ethical standards and act with fairness and integrity. We conduct a Corporate Ethics Awareness Survey at business sites in Japan and overseas to ascertain the state of awareness of corporate ethics among employees, identify issues and prepare a follow-up plan to address any issues identified in the survey. To strengthen compliance, in April 2013 we prepared the Compliance Handbook containing key points concerning laws and regulations to be observed and distributed to all employees in Japan. JSR has issued compliance handbooks based on regulations in South Korea and China and distributed to JSR Group companies in South Korea and China.

### Risk Management

JSR Group considers preventing major crises from occurring and minimizing the impact of unprecedented crises on its business activities if they were to occur as important management priorities, and engages in risk management activities accordingly. JSR Group operates its own

risk management system to periodically identify, evaluate, and formulate countermeasures for a wide range of risks, including explosions, fires, major earthquakes, and terrorist attacks. Among identified risks, we designate serious risks which are likely to have a big impact on the continuation of business as “major company-wide risks” and we monitor and periodically review the risks that the management itself has identified. In these ways, we are building and maintaining systems to prevent and/or prepare for the occurrence of crises.

JSR holds crisis management training once a year for members of the Disaster Countermeasure Division, which is headed by the president. In fiscal 2017, our annual crisis management training was held assuming that a major earthquake occurred immediately beneath nation’s capital (centered on the northern part of Tokyo Bay) that damaged not only our headquarters but Group companies and other bases across the Kanto District. JSR Group will continue to prepare through training assuming various crises and other ways to ensure safety, reduce damage and keep our businesses running in the event of a serious crisis.

## CSR MANAGEMENT

### Responsibility to Our Stakeholders

Based on our recognition that “everything derives from social expectations,” we emphasize dialogue with stakeholders to avoid resorting to one-sided judgment criteria. For JSR Group, the term “stakeholder” refers to all customers and business partners, employees, society, and shareholders.

### Responsibility to Our Customers and Business Partners

We believe that the most important role for JSR Group is to contribute to the creation of a better society by supplying innovative materials and quality products that meet the needs of our customers. We would like our customers to use our products in relief, and we place particular emphasis on quality assurance and product safety initiatives. These initiatives have been recognized, and we have received top-rank supplier awards from global customers.

Through communication with our business partners, meanwhile, we are improving the business activities of JSR Group.

### Responsibility to Our Employees

We strive to develop mechanisms and a corporate culture to help employees accurately perceive and solve issues in order to foster a JSR that not only maintains its organizational capacity but ensures its future growth. We are also focused on

promoting work-style innovation and raising the added value of our operations. At the same time, we have established a global personnel system for JSR Group and are engaged in training and managing the Group’s human resources on a global level. Throughout the entire JSR Group, synergistic effects are being generated from the great successes being achieved by our diverse human resources.

### Responsibility to Society

Seeking to earn the deep trust of communities and societies where it conducts its business activities, JSR Group is working to reduce environmental impacts through responsible care initiatives. We are also making efforts aimed at sustainable social development. These include promoting biodiversity, reducing waste, recycling resources, and engaging in social contribution activities.

### Responsibility to Our Shareholders

Through our IR activities, we work hard to ensure that shareholders and investors are promptly and accurately informed about our business situation and corporate policies. To facilitate the exercise of shareholders’ voting rights, we convene ordinary general meetings of shareholders early so as to avoid the heaviest-scheduled dates, and send out convocation notices well in

advance of meeting dates. We have also introduced a system that allows shareholders to vote via the Internet. Our wide-ranging mutual communication activities also include quarterly briefings on our financial results and seminars for institutional investors and analysts (including technical seminars).

Aiming to increase corporate value by creating business opportunities through materials

- Constantly enhancing its management efficiencies
- Inspiring trust by being highly transparent and conducting sound corporate management practices
- In April 2009, JSR Group became a participant in the United Nations Global Compact. As a company that conducts business globally, we recognize the need to increase our considerations of human rights, labor, the environment, and anti-corruption cited in the Ten Principles of the UN Global Compact. To this end, we will step up proactive efforts to fulfill our corporate social responsibilities. Moreover through our business activities, we will promote initiatives to achieve the “Sustainable Development Goals (SDGs)” adopted by the United Nations in 2015.



## CSR PERFORMANCE

### Evaluation by Outside Organizations

The CSR activities of JSR Group have been assessed by external evaluation agencies. We have been selected for inclusion in the ESG indexes and the socially responsible investment (SRI) indices listed below, and we have also been selected for inclusion in the Global Compact 100. In addition, we received next-generation “Kurumin” accreditation, awarded by the Minister of Health, Labour and Welfare as a company that supports parenting.

### Inclusion in ESG indexes and socially responsible investment (SRI) indexes and stocks (AS OF JULY 1, 2018)



#### FTSE4Good (U.K.)

We have been listed in the FTSE4Good Index Series since 2004.



#### EURONEXT Vigeo Eiris World 120 (France)

We were selected as one of the top 120 global companies included in the Euronext Vigeo Eiris World 120 Index.



#### ETHIBEL PIONEER & EXCELLENCE Investment Registers (Belgium)

We have been reconfirmed for inclusion in the Ethibel Pioneer & Excellence Investment Registers since June 2017.



#### MS-SRI (Japan)\*

(January 4, 2018)

We have been selected as a member of the Morningstar Socially Responsible Investment Index, Japan's major SRI index, since 2009.



#### SNAM Sustainability Index (Japan)

We were selected for inclusion in the SNAM Sustainability Investment Fund as a company that Sampo Japan Nipponkoa Asset Management (SNAM) evaluates highly on environment, social and governance (ESG).



#### FTSE Blossom Japan Index (Japan)

We were selected by FTSE Russell for inclusion in the FTSE Blossom Japan Index as a Japanese company that makes exceptional responses in the field of ESG (environment, society, and governance).



#### MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

We were selected by MSCI for inclusion in the MSCI Japan Empowering Women Index (WIN) as a company that practices exceptional gender diversity.



#### Health and Productivity Management program 2018 “White 500” (Japan)

We were recognized as a company demonstrating outstanding health and productivity management by the Ministry of Economy, Trade and Industry (METI) and Nippon Kenko Kaigi.

\* The Morningstar Socially Responsible Investment Index comprises 150 companies selected from among listed companies in Japan by assessing their social responsibility. This index does not guarantee future performance, accuracy, completeness, etc. Morningstar Japan K.K. and Morningstar, Inc. shall not bear any responsibility for damage that might result from use of the index. Copyright and all other rights rest with Morningstar Japan K.K. and Morningstar, Inc. Copies, reproductions, and citations without permission are prohibited.

# CORPORATE GOVERNANCE SYSTEM

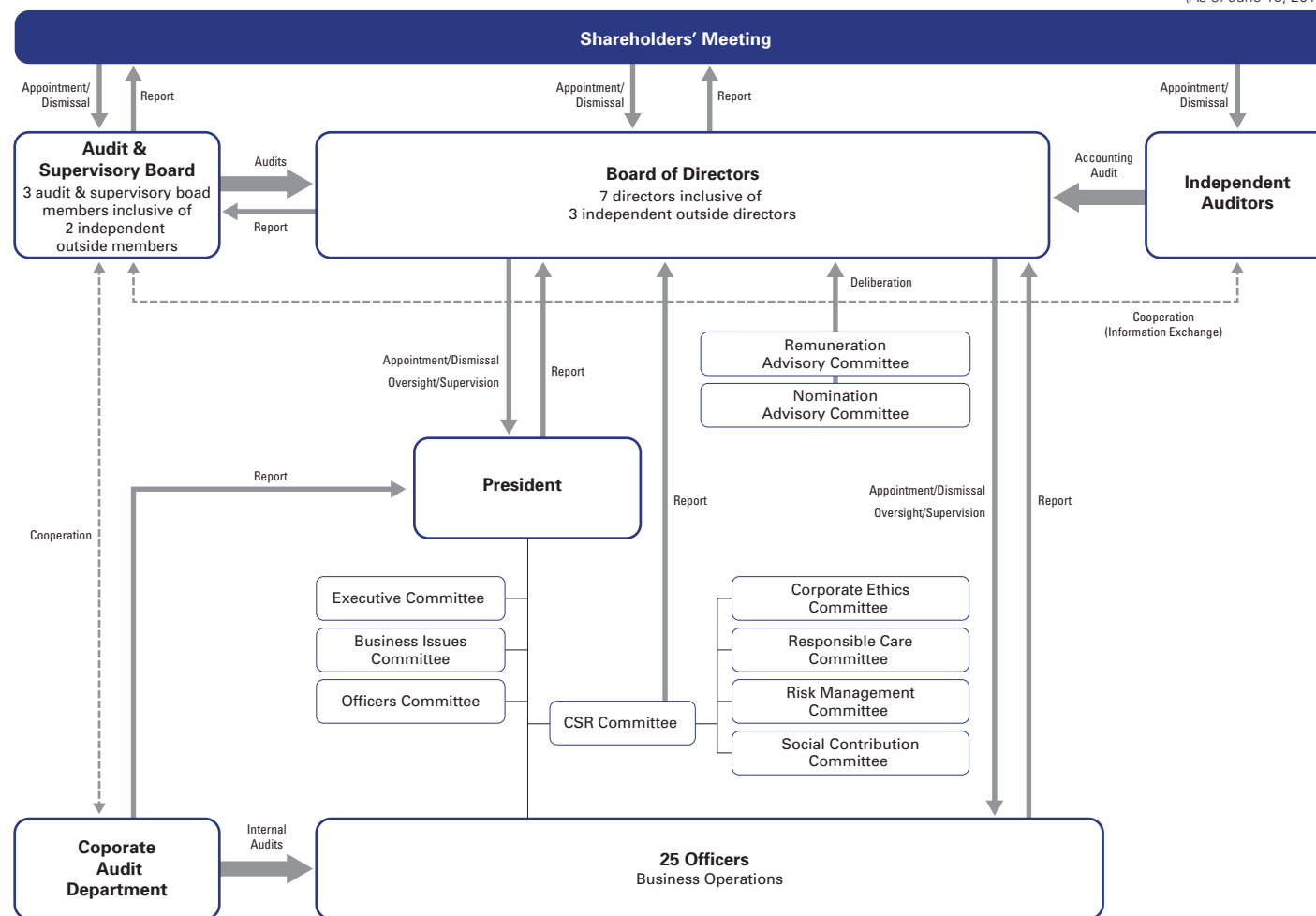
## Aiming to Maintain a Trusted, Appealing Corporate Structure

JSR is constantly improving its system of corporate governance with the aim of obtaining the trust of shareholders and all other stakeholders and building an appealing corporate structure. We will strengthen and enhance our corporate governance to ensure that management processes are implemented fairly, transparently and promptly, by implementing initiatives targeting each of the items required under the corporate governance code.

Target Period: April 1, 2017 – March 31, 2018

### Corporate Governance Structure Diagram

(As of June 15, 2018)



## CORPORATE GOVERNANCE SYSTEM

**Basic Views and Policies on Corporate Governance of JSR****1. Basic policy**

- (1) It is 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 therefore has been and will continue 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 duties by directors and the management 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 seven (7) 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 the management.
- (8) JSR has established the Remuneration Advisory Committee of which majority members are independent outside directors and the chair of which is an independent director 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.



## CORPORATE GOVERNANCE SYSTEM

(9) JSR has set basic policies on remuneration of directors as follows: the remuneration scheme should increase corporate value over the mid- and long-term, attract diverse and superior personnel, be linked to short-term, mid-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 mid-term business performance-based bonus linked to the attainment level of the mid- and long-term business performance, and restricted stock shares as remuneration designed to facilitate earlier sharing of corporate values between directors and the shareholders of the Company. 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 and the chair of which is an independent director 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 Group’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”, 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/2016/management/compliance.shtml](http://www.jsr.co.jp/jsr_e/csr/2016/management/compliance.shtml)

PDF file :

[http://www.jsr.co.jp/csr/pdf/CoC\\_en.pdf](http://www.jsr.co.jp/csr/pdf/CoC_en.pdf)

### 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.
- 1) 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

## CORPORATE GOVERNANCE SYSTEM

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)

- 2) 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 mid- and long-term.

**5.Capital policy**

- (1) While prioritizing growth investment in its Elastomers, Plastics, Digital Solutions 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 mid- 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.
  - 1) 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.
  - 2) 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.
  - 3) 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

## CORPORATE GOVERNANCE SYSTEM

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.

### Management System

#### 1.Board of Directors

The Board of directors consists of seven (7) 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 in principle. However, in the

absence of the chairman, a representative director other than the president is currently serving as the chairman for the purpose of securing 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 "Basic Views and Policies on Corporate Governance of JSR 2.(8), (10)" .

#### 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 twice a month, consists of the president, executive managing officers and managing officers, and is chaired by the president.



## CORPORATE GOVERNANCE SYSTEM

**4. Officers Committee**

This committee consists of the president and all officers (except for those of overseas officers who attend the committee meeting at least annually) and aims to ensure members' thorough understanding of management conditions and important management issues. As a rule, this committee, which meets once 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 Corporate Audit Department to improve the effectiveness of JSR Group's internal control system. In accordance with the audit plan, the Corporate 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**

JSR's independent auditor is KPMG AZSA LLC. 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.

**7. CSR Committee**

Through 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) 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 management of the Company's CSR and proceed CSR activities.

## CORPORATE GOVERNANCE SYSTEM

**Directors and Audit & Supervisory Board Member**

(As of March 31, 2018)

Representative Director and President

**Mitsunobu Koshiba**

Representative Director

**Koichi Kawasaki**

Director

**Nobuo Kawahashi****Hideki Miyazaki**

Standing Audit &amp; Supervisory Board Member

**Atsushi Kumano**

Independent Outside Director

**Yuzuru Matsuda****Shiro Sugata****Tadayuki Seki**

Independent Outside Audit &amp; Supervisory Board Member

**Hisako Kato****Sumio Moriwaki****Independent Outside Directors**

(As of March 31, 2017)

The Company has appointed three independent outside directors in order to further reinforce the Board of Directors' monitoring functions as well as the important decision-making functions in an appropriate and timely manner. By welcoming independent outside directors with extensive experience in management of companies and businesses with highly independent and neutral perspectives, the Company ensures reasonable judgement for, and transparent and sound management of, the businesses of the Company.

**Yuzuru Matsuda**

Mr. Yuzuru Matsuda served as the President and Chief Officer of KYOWA HAKKO KOGYO CO., LTD and Kyowa

Hakko Kirin, Co., Ltd. and the Advisor of Kyowa Hakko Kirin Co., Ltd. He has vast experience in corporate management for global companies especially in the field of medical and biochemical products and pharmaceuticals. He also possesses an independent perspective as outside personnel. He has utilized his experiences and independent viewpoints to help the Company



in making crucial decisions, to supervise the performance of duty at the BOD level, and to strengthen the Company's fair corporate governance through enhancement of fair and reasonable business judgment and transparent and sound management, thereby continually contributing further to the enhancement of JSR Group's corporate value.

**[Major activities in the year under review]**

Mr. Matsuda participated in all 17 meetings of the Board of Directors held during the current fiscal year. Mr. Matsuda has been greatly contributing to ensuring reasonable judgment for, and transparent and sound management of, the businesses of the Company, by providing necessary appropriate advices at the meetings of the Board of Directors as well as attending Nomination Advisory Committee and Remuneration Advisory Committee.

## CORPORATE GOVERNANCE SYSTEM

**Shiro Sugata**

Mr. Shiro Sugata

served as the  
Representative

Director and President  
of USHIO INC., where  
he currently serves as

Advisor. He also served as Vice Chairman,  
Executive Director at the Japan Association  
of Corporate Executives. He has vast experience  
in the corporate management of  
global companies especially in the field  
of optical application products and industrial  
machineries. He also has experience  
obtained through activities in the business  
community and possesses the perspective  
of independent outside personnel.

He has utilized his experiences  
and independent viewpoints to help the  
Company in making crucial decisions,  
to supervise the performance of duty  
at the BOD level, and to strengthen the  
Company's fair corporate governance  
through enhancement of fair and reasonable  
business judgment and transparent  
and sound management, thereby continually  
contributing further to the enhancement  
of JSR Group's corporate value.

**[Major activities in the year under review]**

Mr. Sugata participated in all 17 meetings  
of the Board of Directors held during the  
current fiscal year. Mr. Sugata has been  
greatly contributing to ensuring reasonable  
judgment for, and transparent and sound  
management of, the businesses of the  
Company, by providing necessary appropriate  
advices at the meetings of the Board of  
Directors as well as attending Nomination  
Advisory Committee and Remuneration  
Advisory Committee.

**Tadayuki Seki**

Mr. Tadayuki Seki

served as the  
Representative

Director and  
Executive Vice

President and there-

after as an Advisory Member at ITOCHU  
Corporation. He has vast experience in the  
corporate management of a general trading  
company which operates a global trading  
business, as well as extensive experience  
in financing and accounting matters cultivated  
during his service as CFO, and possesses  
the perspectives of independent  
outside personnel.

He has utilized his experiences  
and independent viewpoints to help the  
Company in making crucial decisions,



to supervise the performance of duty  
at the BOD level, and to strengthen the  
Company's fair corporate governance  
through enhancement of fair and reasonable  
business judgment and transparent  
and sound management, thereby continually  
contributing further to the enhancement  
of JSR Group's corporate value.

**[Major activities in the year under review]**

Mr. Seki participated in all 13 meetings  
of the Board of Directors held after his  
appointment as a Director. Mr. Seki has  
been greatly contributing to ensuring reasonable  
judgment for, and transparent and  
sound management of, the businesses  
of the Company, by providing necessary  
appropriate advices at the meetings of  
the Board of Directors as well as attending  
Nomination Advisory Committee and  
Remuneration Advisory Committee.

## CORPORATE GOVERNANCE SYSTEM

**Independent Outside Audit & Supervisory Board Members**

The Company appoints one standing Audit & Supervisory Board member and two independent outside ones (but not standing) in order to further enhance management monitoring functions of the Audit & Supervisory Board and its members. By appointing certified public accountants and lawyers with respective highly professional knowledge and vast experience in their field with highly independent and neutral perspective, the Company ensures reasonable judgement for, and transparent and sound management of, the businesses of the Company.

**Hisako Kato**

Ms. Hisako Kato has a vast financial and accounting expertise and experience as as a Certified Public Account both in Japan and US and as a Certified Tax Accountant . She has utilized her vast experience, knowledge, and sophisticated expertise as well as her viewpoint as an independent outsider to audit the Directors' decision-making and execution of operation, and to commit to enhancing fair and reasonable judgment for, and accountable and sound management of, the businesses of the Company.

**[Major activities in the year under review]**

Ms. Kato participated in all 17 meetings of the Board of Directors and in all 19 meetings of the Audit & Supervisory Board respectively held during the current fiscal year. Ms. Kato has been greatly contributing to ensuring reasonable judgment for, and transparent and sound management of, the businesses of the Company, by providing necessary and appropriate advices at the meetings of the Board of Directors and Audit & Supervisory Board.

**Sumio Moriwaki**

Mr. Sumio Moriwaki has a vast legal expertise and experience as a lawyer. He has utilized his vast experience, knowledge, and sophisticated expertise as well as his viewpoint as an independent outsider to audit the Directors' decision-making and execution of operations and has been greatly contributing to ensuring reasonable judgment for, and transparent and sound management of, the businesses of the Company.

**[Major activities in the year under review]**

Mr. Moriwaki participated in all 13 meetings of the Board of Directors and in all 14 meetings of the Audit & Supervisory Board respectively held after his appointment as an Audit & Supervisory Board Member. Mr. Moriwaki has been greatly contributing to ensuring reasonable judgment for, and transparent and sound management of, the businesses of the Company, by providing necessary and appropriate advices at the meetings of the Board of Directors and Audit & Supervisory Board.



## CORPORATE GOVERNANCE SYSTEM

### Directors and Audit & Supervisory Board Members



Representative Director  
and President  
**Mitsunobu Koshiba**



Representative Director  
**Koichi Kawasaki**



Director  
**Nobuo Kawahashi**



Director  
**Hideki Miyazaki**



Outside Director  
**Yuzuru Matsuda**



Outside Director  
**Shiro Sugata**



Outside Audit &  
Supervisory Board Member  
**Hisako Kato**



Outside Audit &  
Supervisory Board Member  
**Sumio Moriwaki**



Standing Audit &  
Supervisory Board Member  
**Tatsushi Kumano**



Outside Director  
**Tadayuki Seki**

### Officers (\*Directors)

Representative Director and  
Executive Managing Officer  
**Koichi Kawasaki\***  
Procurement, Logistics, Manufacturing  
and Technology, Product Safety & Quality  
Assurance, Safety and Environment Affairs  
President of Japan Butyl Co., Ltd.

Director and Executive Managing Officer  
**Nobuo Kawahashi\***  
Research & Development, Human  
Resources, Diversity Development

Managing Officer  
**Hayato Hirano**  
Elastomer Business, Plastics Business  
General Manager of Elastomer Div.  
President of Techno-UMG Co., Ltd.

Managing Officer  
**Katsuya Inoue**  
Corporate Planning, Business Planning  
and Investment & Development, Digital  
Solutions Business  
General Manager of Corporate Planning Div.  
Chairman of JSR Micro (Changshu) Co., Ltd.

Managing Officer  
**Eric Johnson**  
Life Science, North America Business  
General Manager of Life Sciences Div.  
President of JSR Micro, Inc.

Director and Managing Officer  
**Hideki Miyazaki\***  
Accounting, Finance, Corporate  
Communications

Senior Officer  
**Takatoshi Nagatomo**  
President of JSR MOL Synthetic Rubber Ltd.

Senior Officer  
**Takeshi Sugimoto**  
Electronic Materials Business,  
General Manager of Electronic Materials Div.

Senior Officer  
**Takao Shimizu**  
Office of the President, IT  
Strategy, Business Process Renovation  
General Manager of Office of the President  
General Manager of Office of Business  
Process Renovation

Senior Officer  
**Tsuyoshi Watanabe**  
China Business, Chairman of JSR  
(Shanghai) Co., Ltd.

Senior Officer  
**Kazumasa Yamawaki**  
Elastomer Business (deputy)  
Deputy General Manager of Elastomer Div.  
General Manager of Business Planning  
Dept., Elastomer Div. Executive Vice  
President of KRATON JSR ELASTOMERS K.  
K. Director of JSR Elastomer Europe GmbH

Senior Officer  
**Makoto Doi**  
Legal General Manager of Legal Dept.

Senior Officer  
**Kiichiro Kamiya**  
Life Sciences(deputy) Deputy General  
Manager of Life Sciences Div. Director of  
MEDICAL & BIOLOGICAL LABORATORIES  
CO., LTD. JSR Life Sciences Limited  
Liability Company Executive Officer

Senior Officer  
**Yoshikazu Yamaguchi**  
Display Solution Business Representative  
Director of JSR Micro Korea Co., Ltd.

Officer  
**Eiichi Kobayashi**  
Executive Vice President of JSR Micro, Inc.

Officer  
**Hiroaki Nemoto**  
Emerging Business

Officer  
**Yoichi Mizuno**  
Edge Computing Business,  
General Manager of Edge Computing Div.

Officer  
**Mika Nakayama**  
General Manager of Intellectual Property  
Dept.

Officer  
**Koichi Saeki**  
Yokkaichi Plant, Yokkaichi Plant Manager

Officer  
**Kazushi Abe**  
President of ELASTOMIX CO., LTD.,  
President of ELASTOMIX (FOSHAN) CO.,  
LTD., The Chief Director of JSR Group  
Corporate Pension Fund

Officer  
**Seiji Takahashi**  
Manufacturing and Technology (deputy)  
General Manager of SSBR Global  
Manufacturing & Technology Management  
Dept.

Officer  
**Yasufumi Fujii**  
General Affairs, Secretarial Office, CSR  
General Manager of General Affairs Dept.  
General Manager of Secretarial Office

Officer  
**Mikio Yamachika**  
Lithium Ion Capacitors Business,  
President of JM Energy Corporation

Officer  
**Tim Lowery**  
Executive Vice President of JSR Micro, Inc.  
General Manager of Bioprocess Dept., Life  
Sciences Div.

Officer  
**Koichi Hara**  
General Manager of Life Sciences Business  
Planning Dept. Director of MEDICAL &  
BIOLOGICAL LABORATORIES CO., LTD.

# JSR GLOBAL NETWORK (AS OF JUNE 30, 2018)



## HEAD OFFICE

**JSR Corporation**  
Shiodome Sumitomo Bldg.  
1-9-2, Higashi-Shimbashi, Minato-ku, Tokyo  
105-8640 Japan

## BRANCH OFFICES

**Nagoya Branch**  
**Taiwan Branch**

## PLANTS

**Yokkaichi Plant**  
100, Kawajiricho, Yokkaichi-shi, Mie  
510-8552 Japan

**Chiba Plant**  
5, Chigusakaigan, Ichihara-shi, Chiba  
299-0108 Japan

**Kashima Plant**  
34-1, Towada, Kamisu-shi, Ibaraki  
314-0102 Japan

## LABORATORIES

**Yokkaichi Research Center**  
100, Kawajiricho, Yokkaichi-shi, Mie  
510-8552 Japan

**Tsukuba Research Laboratories**  
25, Miyukigaoka, Tsukuba-shi, Ibaraki  
305-0841 Japan

**JSR-Keio University Medical and Chemical Innovation Center**  
35, Shinanomachi, Shinjuku-ku, Tokyo  
160-8582 Japan

## JAPAN

### Elastomers Business

**ELASTOMIX CO., LTD.**  
Compounding of crude rubber and sales of compounded products

**Japan Butyl Co., Ltd.**  
Production, processing, and sales of butyl rubber

**KRATON JSR ELASTOMERS K. K.**  
Production, purchase, and sales of thermoplastic rubber

**Emulsion Technology, Co., Ltd.**  
Compounding and sales of crude latex

### Plastics Business

**Techno-UMG Co., Ltd.**  
Production, sales, and R&D of ABS resin

**JAPAN COLORING CO., LTD.**  
Coloring of synthetic resin and sales of colored products

### Digital Solutions Business

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

**JSR Micro Kyushu Co., Ltd.**  
Production of photoresist, semiconductors, and materials for displays

**JAPAN FINE COATINGS Co., Ltd.**  
Sales and manufacture of coating materials for fiber-optic cables reinforced by ultraviolet or electron radiation and for other apparatus

### Life Sciences Business

**JSR Life Sciences Corporation**  
Production and sales of life science related materials

**MEDICAL & BIOLOGICAL LABORATORIES CO., LTD.**  
Research, development, manufacturing, and sales of diagnostic and research reagents

**LEXI Co., Ltd.**  
Development of medical software and hardware, development of engineering and business systems

**CMIC JSR Biologics Co., Ltd.**  
Development of design and manufacturing process for next-generation antibodies and methods for management and quality control of next-generation antibodies

### Other Businesses

**JM Energy Corporation**  
Design, development, production and sales of lithium ion capacitors

### JSR Trading Co., Ltd.

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

**JEY-TRANS CO., LTD.**  
Freight forwarding, warehousing, and delivery management

**JSR Logistics & Customer Center Co., Ltd.**  
Customer service agent and logistics management

**JSR ENGINEERING CO., LTD.**  
Engineering and consultation for chemical engineering equipment

**JSR Business Services Co., Ltd.**  
Undertaking of human resources, payroll calculation, welfare, general affairs

**JN System Partners Co., Ltd.**  
Computer system design, programming and system operation, and maintenance

**Goko Trading Co., Ltd.**  
Exports and Imports, purchase and sales of synthetic rubber, natural rubber, and rubber related materials

## OVERSEAS

### Elastomers Business

**Kumho Polychem Co., Ltd.**  
Production and sales of ethylene-propylene rubber (EPR)

**ELASTOMIX (THAILAND) CO., LTD.**  
Compounding of crude rubber and sales of compounded products

**PT.ELASTOMIX INDONESIA**  
Compounding of crude rubber and sales of compounded products

**ELASTOMIX (FOSHAN) CO., LTD.**  
Compounding of crude rubber and sales of compounded products

**ELASTOMIX MEXICO, S.A. de C.V.**  
Production and sales of rubber carbon master batch

**Tianjin Kuo Cheng Rubber Industry Co., Ltd.**  
Compounding of crude rubber and sales of compounded products

**JSR BST Elastomer Co., Ltd.**  
Sales and manufacturing of SSB (Solution Polymerization Styrene-Butadiene Rubber)

**JSR MOL Synthetic Rubber, Ltd.**  
Sales and manufacturing of Solution Polymerization Styrene-Butadiene Rubber (SSBR)

### JSR Elastomer Korea Co., Ltd.

Sales agency of products such as synthetic rubber

### JSR Elastomer Europe GmbH

Sales agency of products such as synthetic rubber

**JSR Elastomer India Private Limited**  
Sales agent for synthetic rubbers and other elastomer products

### Plastics Business

**Techno-UMG Hong Kong Co., Ltd.**  
Sales and technical services of synthetic resin in Hong Kong and neighboring regions

**Techno Polymer (Thailand) Co., Ltd.**  
Sales and technical services of synthetic resin in ASEAN region

**Techno Europe N.V.**  
Sales and technical services of synthetic resin in Europe

**Techno-UMG Europe GmbH**  
Sales and technical services of synthetic resin in Europe

**Techno-UMG Shanghai Co., Ltd.**  
Sales and technical services of synthetic resin in China

**Techno-UMG Shanghai Technical Center Co., Ltd.**

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

**Techno-UMG Guangzhou Co., Ltd.**  
Sales and technical services of synthetic resin in Guangzhou and neighboring regions

**Techno-UMG America, Inc**  
Sales of plastics and technical services related to plastics in North America

**PT. Techno UMG Indonesia**  
Sales and technical services of synthetic resin in ASEAN region

### Digital Solutions Business

**JSR Micro N.V.**  
Production and sales of semiconductor materials and life sciences related materials

**JSR Micro, Inc.**  
Production and sales of semiconductor materials and sales of life sciences products

**JSR Micro Korea Co., Ltd.**  
Production, development, and sales of display materials

**JSR Electronic Materials Korea Co., Ltd.**  
Sales agent for semiconductor materials

**JSR Micro (Changshu) Co., Ltd.**  
Production of display materials

**JSR Micro Taiwan Co., Ltd.**  
Production, development, and sales of display materials

### EUV Resist Manufacturing & Qualification Center N.V.

Production of EUV photoresist for semiconductors

**JSR (Shanghai) Co., Ltd.**  
Sales agency of products such as synthetic rubber, semiconductor materials, liquid crystal display materials, and performance chemicals

### Life Sciences Business

**JSR Micro N.V.**  
Production and sales of semiconductor materials and life sciences related materials

**JSR Micro, Inc.**  
Production and sales of semiconductor materials and sales of life sciences products

**J&W Beijing Biotech Co., Ltd.**  
Development, manufacturing and sale of latex reagent intermediates and chemiluminescent reagent intermediates

**MBL Beijing Biotech Co., Ltd.**  
Sales of in-vitro diagnostic reagents, basic research reagents, IVD reagent materials and bioprocess materials, sales and contract manufacturing of gene diagnostic materials and synthetic DNA, RNA products

**MBL International Corporation**  
Development, manufacturing and sales of solutions-based products for both life science research and clinical diagnostics

**MBL Hangzhou Biotech Co., Ltd.**  
Manufacture of clinical diagnostics materials antibody and intermediate

**KBI Biopharma, Inc.**  
Biopharmaceutical contract development and manufacturing services

**Selexis SA**  
Cell-line development services

**Crown Bioscience International**  
Efficiency testing services for candidates of drugs against oncology, inflammation, cardiovascular and metabolic disease and development of antibodies for those diseases

### Other Businesses

**JSR Trading, Inc.**  
Purchases and sales of synthetic rubber

**JSR Trading (Shanghai) Co., Ltd.**  
Export, import, sales and purchases of industrial-use chemical products

**JSR Trading Bangkok Co., Ltd.**  
Export, purchases and sales of various chemicals and distribution materials. Purchase and wholesale of various equipment

**JSRT Mexico S.A. de C.V.**  
Sales of synthetic rubber, steel box, materials and market development

## CORPORATE DATA (AS OF MARCH 31, 2018)

### JSR Corporation

#### Established

December 10, 1957

#### Capital (Common Stock)

23,370 million yen

#### Employees

7,203

#### Closing date

JSR books are closed on March 31, each year.

### Shareholders Information (As of March 31, 2018)

#### Stock Listing

Tokyo Stock Exchange

#### Number of Shares Issued

226,126,145 shares

#### Number of Shareholders

14,811

#### Major Shareholders

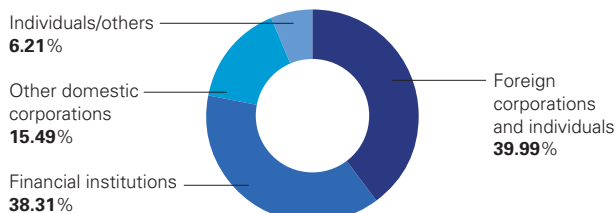
Name of shareholder	Percentage of shares held (voting rights)(%)	Number of shares held (thousands)
Bridgestone Corporation	10.05	22,366
Japan Trustee Services Bank, Ltd. (trust account)	6.22	13,837
The Master Trust Bank of Japan, Ltd. (trust account)	5.47	12,185
Japan Trustee Services Bank, Ltd. (trust account 9)	3.33	7,405
BNYMSAMV AS AGENT/CLIENTS LUX UCITS NON TREATY 1	3.24	7,219
Japan Trustee Services Bank, Ltd. (trust account 5)	1.81	4,024
Mizuho Bank, Ltd.	1.67	3,725
Nippon Life Insurance Company	1.67	3,717
STATE STREET BANK WEST CLIENT-TREATY 505234	1.67	3,708
Meiji Yasuda Life Insurance Company	1.63	3,631

\* 3,534,779 shares of treasury stock held by the Company are not included in the above breakdown of major shareholders.

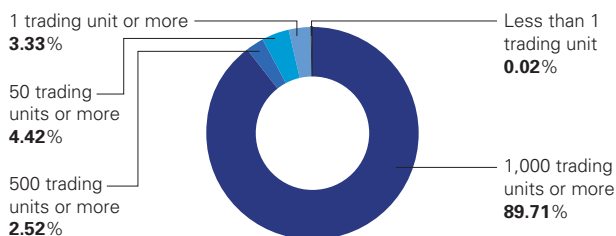
### Composition of Shareholders

	Shareholders	Shares held (thousands)
Individuals and others	13,891	13,827
Foreign corporations and individuals	578	89,002
Other domestic corporations	217	34,487
Financial institutions	87	82,028
Securities companies	43	3,247
Treasury stock	1	3,535
<b>Total</b>	<b>14,811</b>	<b>226,126</b>

#### By Type of Shareholders



#### By Number of Shares Held



### Ordinary General Meeting of Shareholders

The annual General Meeting of Shareholders is held in June each year. The 2018 annual General Meeting was held on June 15, 2018.

### Transfer Agent and Register

SUMITOMO MITSUI TRUST BANK, LIMITED

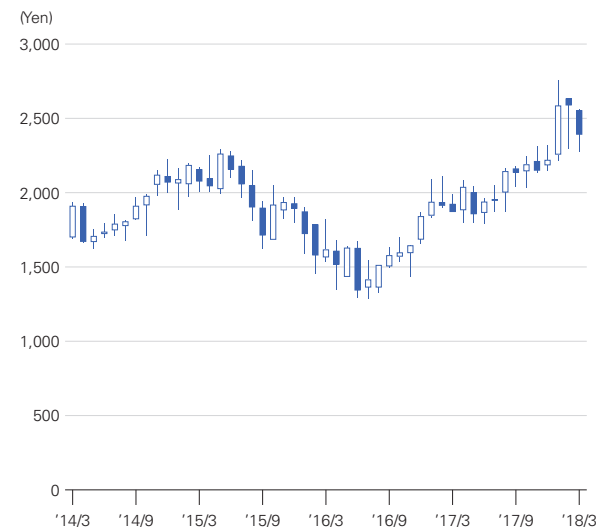
### Independent Auditors

KPMG AZSA LLC.

### Common stock price range

(Yen/share: Tokyo Stock Exchange)

		1st Q	2nd Q	3rd Q	4th Q
FY2006	High	3,710	2,930	3,170	3,240
	Low	2,535	2,280	2,505	2,530
FY2007	High	2,985	3,120	3,020	2,875
	Low	2,540	2,445	2,465	1,886
FY2008	High	2,460	2,180	1,397	1,312
	Low	2,000	1,246	795	990
FY2009	High	1,687	1,960	1,959	1,974
	Low	1,162	1,561	1,545	1,714
FY2010	High	1,999	1,666	1,543	1,875
	Low	1,436	1,201	1,341	1,183
FY2011	High	1,724	1,655	1,582	1,790
	Low	1,413	1,221	1,218	1,408
FY2012	High	1,695	1,455	1,644	1,994
	Low	1,255	1,274	1,224	1,670
FY2013	High	2,360	2,073	2,049	2,085
	Low	1,748	1,713	1,663	1,694
FY2014	High	1,933	1,975	2,229	2,171
	Low	1,622	1,681	1,711	1,893
FY2015	High	2,296	2,227	2,054	1,903
	Low	1,998	1,626	1,688	1,455
FY2016	High	1,682	1,635	1,872	2,115
	Low	1,292	1,287	1,437	1,835
FY2017	High	2,082	2,177	2,320	2,758
	Low	1,794	1,871	2,035	2,215



# FINANCIAL SECTION 2018

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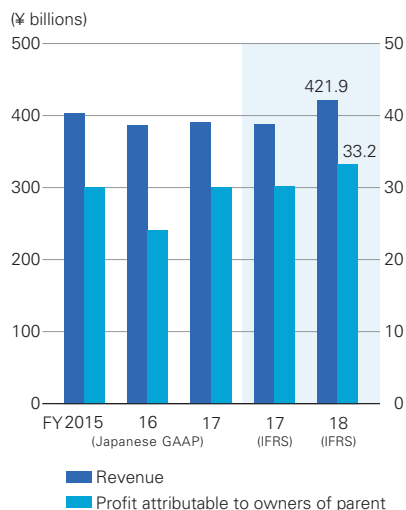
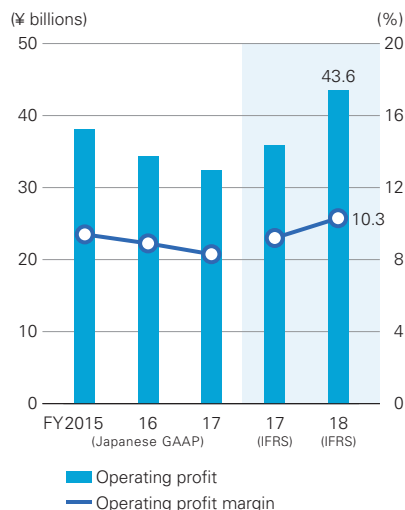
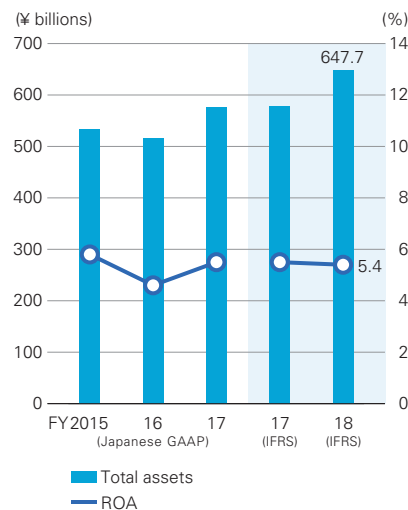


## TEN-YEAR SUMMARY

Fiscal Years ended March 31	2009	2010	2011	2012	2013	2014
<b>Results for the year</b>						
Net sales	¥ 352,503	¥ 310,184	¥ 340,666	¥ 349,947	¥ 371,487	¥ 394,309
Costs and expenses	(322,155)	(289,954)	(301,571)	(313,982)	(336,281)	(358,247)
Operating profit	30,348	20,230	39,095	35,964	35,206	36,062
Interest and dividends income	1,230	568	626	634	809	916
Interest expenses	(271)	(172)	(146)	(147)	(126)	(142)
Profit before income taxes	20,803	19,458	40,674	41,245	42,847	36,956
Profit attributable to owners of parent	13,981	13,645	27,571	26,407	30,278	25,173
Capital expenditures	19,081	17,707	11,801	19,728	27,608	21,499
Depreciation	24,833	22,380	19,245	17,784	19,145	18,096
<b>Year-end financial position</b>						
Total assets	339,498	373,566	390,591	430,693	482,935	501,320
Long-term loans payable	1,500	1,500	1,028	500	6,626	11,069
Total liabilities	97,512	122,865	126,475	148,335	167,202	164,060
Equity	240,896	249,440	262,679	280,955	308,641	331,284
Current ratio (times)	2.5	2.3	2.4	2.3	2.3	2.5
Return on assets (%)	4.1	3.7	7.1	6.4	6.6	5.1
Return on equity (%)	5.7	5.6	10.8	9.7	10.3	7.9
Equity ratio (%)	71.0	66.8	67.3	65.2	63.9	66.1
<b>Per share of common stock (Yen and U.S. Dollars)</b>						
Profit attributable to owners of parent	¥ 56.36	¥ 55.87	¥ 113.07	¥ 109.46	¥ 126.13	¥ 106.10
Cash dividends	32.00	26.00	32.00	32.00	34.00	38.00
Equity	986.33	1,021.31	1,088.87	1,164.63	1,299.77	1,409.06

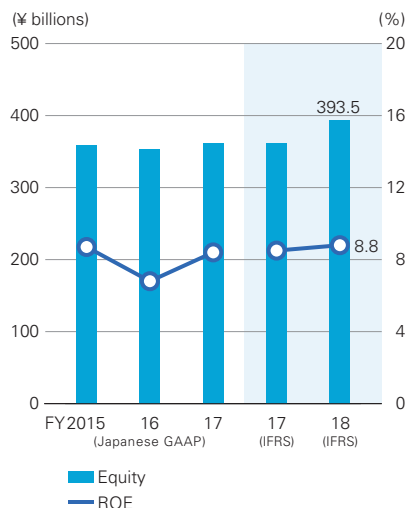
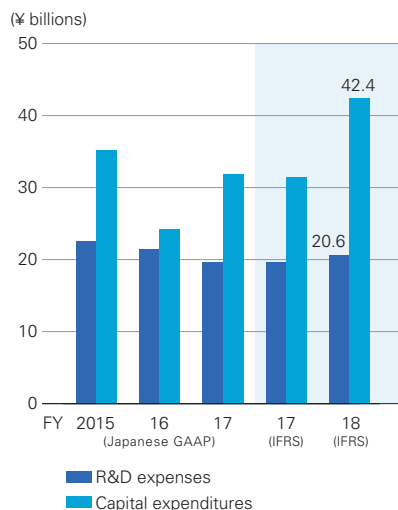
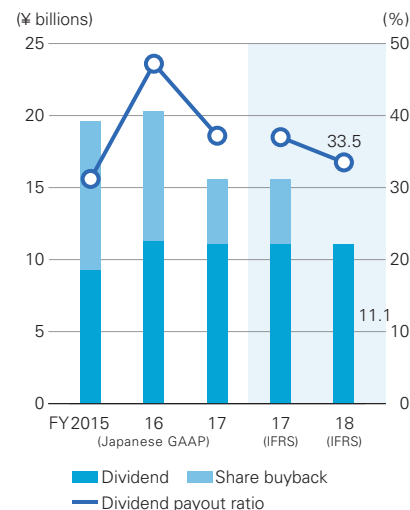
(Notes) 1. Amounts in U.S. dollars are translated from yen, provided for convenience only, at the exchange rate of 1.00 U.S. dollar = 106.24 Japanese yen; the prevailing rate on March 31, 2018.

2. The Group has adopted International Financial Reporting Standards (IFRS) as from the fiscal year ending March 2018.

**Revenue/  
Profit attributable to owners of parent**

**Operating Profit/  
Operating Profit Margin**

**Total Assets/ROA**


Millions of yen			Millions of yen			Thousands of U.S. dollars
2015	2016	2017		FY2017	FY2018	FY2018
			Results for the year			
¥ 404,073	¥ 386,709	¥ 390,599	Revenue	¥ 388,455	¥ 421,930	\$ 3,971,478
(366,005)	(352,301)	(358,228)	Costs, other income and expenses	(352,512)	(378,360)	(3,561,374)
38,068	34,408	32,370	Operating profit	35,943	43,569	410,104
1,390	1,380	1,369	Finance income	3,045	3,659	34,436
(345)	(527)	(699)	Finance costs	(694)	(1,022)	(9,619)
41,069	27,367	38,327	Profit before tax	38,294	46,206	434,922
29,919	24,069	30,078	Profit attributable to owners of parent	30,243	33,230	312,784
35,157	24,276	31,785	Capital expenditures	31,377	42,408	399,174
17,407	18,508	14,676	Depreciation	14,793	16,973	159,757
			Year-end financial position			
534,592	516,360	576,016	Total assets	578,484	647,699	6,096,564
20,387	22,249	38,381	Borrowings (non-current liabilities)	38,381	53,456	503,165
169,918	154,006	199,302	Total liabilities	202,120	236,084	2,222,173
358,303	353,145	361,394	Total equity attributable to owners of parent	361,889	393,499	3,703,869
2.5	2.7	2.5	Current ratio (times)	2.5	2.3	2.3
5.8	4.6	5.5	Return on assets (%)	5.5	5.4	5.4
8.7	6.8	8.4	Return on equity (%)	8.5	8.8	8.8
67.0	68.4	62.7	Equity ratio (%)	62.6	60.8	60.8
			Per share of common stock (Yen and U.S. Dollars)			
¥ 128.19	¥ 105.87	¥ 134.43	Profit attributable to owners of parent	¥ 135.17	¥ 149.32	\$ 1.41
40.00	50.00	50.00	Cash dividends	50.00	50.00	0.47
1,557.08	1,565.45	1,624.14	Equity attributable to owners of parent	1,626.36	1,767.81	16.64

## Equity/ROE

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Analysis of Operating Results

### Overview of FY ended March 2018 (April 1, 2017 to March 31, 2018)

In FY ended March 2018 (April 1, 2017 to March 31, 2018), among the JSR Group's main customer industries, automobile tire production and automobile production rose above the previous year's level globally, but domestic tire production remained unchanged from the previous year. Demand in the semiconductor market grew, and production of panels in the display market was robust. The exchange rate had a slightly weaker yen compared to the previous year.

Amid these circumstances, the Petrochemicals Business of the JSR Group saw revenue rise in the Elastomers Business over the previous year, despite a decline in overall sales volume, due to growth in the sales volume of solution styrene-butadiene rubber (SSBR) for fuel-efficient tires and revisions to sales prices to reflect butadiene prices, which shot up in the fourth quarter of the previous year. The Plastics Business saw revenue increase from the previous year because of price revisions accompanied by the rise in raw material prices and because of worldwide sales volume growth. Revenue in the Petrochemicals Business as a whole was also up from the previous year. Operating profit of the Elastomers Business increased significantly over the previous year on the back of improved profitability from the sales price revisions mentioned above. Similarly, the Plastics Business's operating profit was up significantly, driven by increased sales volume and improved profitability from the sales price revisions mentioned above. These factors combined to push the operating profit of the Petrochemicals Business up significantly over the previous year.

In the Fine Chemicals and Other Products Business, the Semiconductor Materials Business saw a significant increase in revenue over the previous year due to larger sales volume of lithography materials, CMP materials, cleaning solutions, and packaging materials. In the Display Materials Business, the sales volume for the China market grew, although prices fell due to competition pressures and the overall sales volume declined. Revenue from the Life Sciences Business, positioned as the JSR Group's third core business, saw a notable increase, and revenue from the Fine Chemicals and Other Products Business as a whole increased compared to the previous year. Operating profit of the Fine Chemicals and Other Products Business was unchanged from the previous year due to additional advance capital investment in the Life Sciences Business.

Profit attributable to owners of parent rose above the previous year's level, thanks to increased operating profit.

In the fiscal year ended March 31, 2018, we reported revenue of 421,930 million yen (up 8.6% year-on-year), operating profit of 43,569 million yen (up 21.2% year-on-year), and profit attributable to owners of parent of 33,230 million yen (up 9.9% year-on-year).

### Review of Operations

#### <Elastomers Business Segment>

The production of automobile tires, one of the segment's main customer industries, increased from the previous year in Europe and Asia, led by China, while it remained unchanged from the previous year's level in Japan.

Under such circumstances, revenue from the Elastomers Business increased above the previous year's level due to sales price revisions to reflect butadiene prices, which shot up in the fourth quarter of the previous year. This was achieved despite a slight decline in the overall sales volume compared to the previous year, in which exports were robust. Operating profit was also up significantly over the previous year because of improved profitability caused by sales price revisions and because of a rise in the sales volume of SSBR for fuel-efficient tires at JSR BST Elastomer Co., Ltd. (JBE), a joint venture in Thailand where second-phase facilities went into operation.

As a result, the Elastomers Business segment posted an operating profit of 14,870 million yen (up 69.0% year-on-year) on revenue of 197,373 million yen (up 6.5% year-on-year).

#### <Plastics Business Segment>

The sales volume of plastics increased from the previous year owing mainly to increased demand from overseas customers in automobiles, one of the segment's main customer industries. Revenue was up from the previous year because, in addition to the higher sales volume, product prices were revised to reflect the jump in raw material prices. Operating profit was driven significantly higher by the greater sales volume and improved profits from higher sales prices.

As a result, the Plastics Business segment posted an operating profit of 5,575 million yen (up 44.8% year-on-year) on revenue of 52,161 million yen (up 13.3% year-on-year).

#### <Fine Chemicals and Other Products Business Segment>

Revenue rose from the previous year, but operating profit remained unchanged in the Fine Chemicals and Other Products Business segment as a whole.

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

Years ended March 31	2015	2016	2017
Elastomers Business	¥198,958	¥179,253	¥185,345
Operating profit	10,736	7,492	8,340
Plastics Business	55,161	52,207	46,035
Operating profit	2,842	5,114	3,773
Fine Chemicals and Other Products Business	149,954	155,250	159,218
Operating profit	24,490	21,803	20,257
Net Sales	404,073	386,709	390,599
Operating profit	¥ 38,068	¥ 34,409	¥ 32,370

Years ended March 31	2017	2018
Elastomers Business	¥185,345	¥197,373
Operating profit	8,800	14,870
Plastics Business	46,035	52,161
Operating profit	3,850	5,575
Fine Chemicals and Other Products Business	157,075	172,395
Operating profit	23,293	23,124
Revenue	388,455	421,930
Operating profit	¥ 35,943	¥ 43,569

\*From FY ended March 2018, IFRS has been applied.

The semiconductor materials business saw a dramatic increase in revenue. This was due to particularly favorable growth in semiconductor demand as well as increased sales volume at the segment's main customers, particularly for cutting-edge photoresists, and growth in sales volume of peripheral materials such as CMP materials, cleaning solutions, and packaging materials. In the display materials business, prices fell due to competition pressures and the overall sales volume declined, but the sales volume did grow in China, where panel production is expanding rapidly. Revenue from the Life Sciences Business climbed as a result of revenue growth in diagnostic reagent materials, in addition to expanded sales volume by a Group company KBI Biopharma, Inc. (KBI). Operating profit, however, remained unchanged from the previous year, in large part because of additional advance capital investment in the Life Sciences Business for future business expansion.

As a result, the Fine Chemicals and Other Products Business segment posted an operating profit of 23,124 million yen (down 0.7% year-on-year) on revenue of 172,395 million yen (up 9.8% year-on-year).

## Business Outlook

The following is the outlook of the Group's main customer industries at a time of uncertainty in global economic trends. JSR forecasts that automobile tire production will remain unchanged from 2017 levels in Japan but will grow overseas, particularly in China and other Asian countries, North America, and Europe. Automobile production is expected to decline slightly in Japan from 2017 levels, but it is forecast to grow overseas, especially in emerging markets in South America and in Asia outside of China. The semiconductor market will see favorable progress, driven by such factors as higher smartphone demand and increases in data center applications. The display market will also likely see robust progress in panel production, and production in China will continue to surge.

In the Elastomers Business, JSR forecasts expansion in global tire demand. In this industry, we anticipate steady growth in demand for SSBP for fuel-efficient tires. Under such circumstances, we will strive to bolster sales by taking advantage of the new second-phase facilities at JBE in Thailand that are now in operation along with the first-phase facilities, which are in full operation. We also plan to address further demand expansion with the launch of JSR MOL Synthetic Rubber Ltd. (JMSR) scheduled for FY 2018, a joint venture in Hungary.

In the Plastics Business, JSR established the new Group company Techno-UMG Co., Ltd. in April 2018 through a business integration of the Group company Techno Polymer Co., Ltd. and UMG ABS, Ltd., a company equally owned by Mitsubishi Chemical Corporation and Ube Industries, Ltd. Techno-UMG Co., Ltd. will improve manufacturing efficiencies and cost competitiveness, introduce more differentiated products, and expand sales in high-end markets overseas.

In the Fine Chemicals and Other Products Business, our semiconductor materials business will strive to maintain its global market competitiveness with lithography materials for state-of-the-art 10 nm generation processes and continue to expand sales of peripheral semiconductor materials such as mounting materials, solvents, and CMP materials. We are also moving toward volume production of extreme

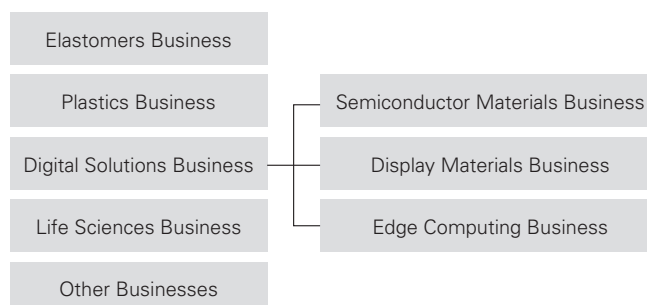
ultraviolet (EUV) lithography materials intended for the next 7 nm generation at EUV Resist Manufacturing & Qualification Center N.V. (EUV RMQC), a joint venture providing manufacturing and quality control services that we established with imec, a world-leading research institute in cutting-edge nanoelectronics technology in Belgium.

In the display materials business, although we expect continued solid growth in the liquid crystal panel market, we will strive to increase sales by launching full-scale operations in FY 2018 at JSR Micro (Changshu) Co., Ltd., a joint venture manufacturing company in the Chinese market, where considerable growth is expected, while simultaneously continuing with business reforms to secure business revenues as display materials become more generalized and competition intensifies.

In the Life Sciences Business, JSR made Selexis S.A., which has cell-line generation technology enabling stable and efficient production of antibodies, a consolidated subsidiary in FY 2017, following KBI and MEDICAL & BIOLOGICAL LABORATORIES CO., LTD. (MBL). JSR has also agreed to make Crown Bioscience International, a provider of preclinical drug discovery and development services, a consolidated subsidiary. These Group companies will work in unison to develop our drug-discovery-process support business, which includes the provision of magnetic particles, protein A media, and other materials. We will concentrate on realizing benefits from advance investments, pursuing further sales expansion, and improving operating profits.

For FY ending March 2019, JSR forecasts revenue of 490,000 million yen (up 16.1 percent year-on-year), operating profit of 48,000 million yen (up 10.2 percent year-on-year), and profit attributable to owners of parent of 33,500 million yen (up 0.8 percent year-on-year). These forecasts assume an exchange rate of 105 yen per U.S. dollar.

JSR Group has maintained three reporting segments: Elastomers Business, Plastics Business, and Fine Chemicals and Other Products Business. With the expansion of the Life Sciences Business, however, Life Sciences Business will become a new reporting segment starting in FY ending March 2019. Furthermore, the previous Petrochemical Products Business and the Fine Chemicals and Other Products Business will be discontinued, and the Fine Chemicals Business will be renamed Digital Solutions Business and made a reporting segment. Accordingly, the Group reporting segments from FY ending March 2019 will be the Elastomers Business, the Digital Solutions Business, the Life Sciences Business, and the Plastics Business led by Techno-UMG Co., Ltd. The positioning of the reporting segments will be as shown below.





## Analysis of Financial Position

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

Total assets as of March 31, 2018 amounted to 647,699 million yen, up 69,215 million yen from a year earlier.

Current assets totaled 357,908 million yen, up 13,780 million yen, mainly due to an increase in cash and cash equivalents, and trade and other receivables, despite a decrease in other financial assets.

Non-current assets totaled 289,791 million yen, up 55,435 million yen, due to an increase in property, plant and equipment, other financial assets, and other assets.

Total liabilities amounted to 236,084 million yen, up 33,963 million yen from a year earlier, due to an increase in borrowings, trade and other payables, other current liabilities, and other liabilities.

In terms of equity, total equity attributable to owners of parent amounted to 393,499 million yen, up 31,610 million yen, due to an increase in retained earnings and other equity. Total equity, including non-controlling interests, amounted to 411,615 million yen, up 35,252 million yen.

### Analysis of Cash Flows

Cash and cash equivalents ("funds") as of March 31, 2018 stood at 124,956 million yen, up 27,539 million yen from a year earlier.

Net cash provided by operating activities amounted to 43,596 million yen, down 898 million yen from the previous year. The main factors included profit before tax of 46,206 million, depreciation and amortization of 16,973 million yen, and income taxes paid of 15,892 million yen.

Net cash used in investing activities totaled 20,423 million yen, down 20,799 million yen from the previous year. The main factors were 37,312 million yen in expenditures for the purchase of property, plant and equipment and a decrease in time deposits of 22,205 million yen.

Net cash provided by financing activities totaled 3,860 million yen, up 7,395 million yen from the previous year. The main factors were 18,173 million yen in proceeds from long-term borrowings and 11,127 million yen in dividends paid.

## Basic Policy on Profit Allocation and Dividends for the Fiscal Year ended March 31, 2018 and the Fiscal Year ending March 31, 2019

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

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

a variety of investments linked to future growth of businesses, contributing to the enhancement of corporate value. During the JSR20i9 mid-term business plan, JSR aims for a return to shareholders, through a combination of dividends and share buybacks, of more than 50 percent.

Based on this policy, as already announced, we have decided to pay a year-end dividend of 25.00 yen per share, the same amount as the interim dividend. Including the interim dividend already paid, the total annual dividend for FY ended March 2018 will be 50.00 yen per share.

With regard to the dividend for the next fiscal year (FY ending March 2019), JSR plans to pay 60.00 yen per share annually (an interim dividend of 30.00 yen and a year-end dividend of 30.00 yen), taking into account the business outlook.

## Risk Information

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

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

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

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

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

### (3) Fluctuation in Exchange Rates

As JSR Group undertakes product exports in foreign currencies and imports goods such as raw materials, the Company takes measures to reduce risks such as entering into forward exchange contracts; however, fluctuation in exchange rates could give rise to adverse 06

JSR Corporation Annual Report 2017 outcomes. In addition, operating results of consolidated subsidiaries and equity-method affiliates located overseas are converted into Japanese yen amounts for the purposes of preparing the consolidated financial statements. However, due to the yen's appreciation, JSR Group's business results could be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

or disrupts manufacturing could adversely affect JSR Group's operating results.

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

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

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

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

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

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

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

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

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

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

## CONSOLIDATED FINANCIAL STATEMENTS

### Financial Section

#### 1. Preparation Policy of the Consolidated Financial Statements

The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") pursuant to the provisions of Article 93 of the Regulation on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976; hereinafter the "Regulation on Consolidated Financial Statements").

#### 2. Audit Certification

In accordance with the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act of Japan, the consolidated financial statements for the fiscal year ended March 31, 2018 were audited by KPMG AZSA LLC.

#### 3. Special Efforts to Ensure the Appropriateness of Consolidated Financial Statements, etc., and Development of a System for Fair Preparation of Consolidated Financial Statements, etc. in Accordance with IFRS

(1) The Company has implemented special efforts to ensure the appropriateness of consolidated financial statements, etc. Specifically, the Company has become a member of the Financial Accounting Standards Foundation and obtains information including the latest accounting standards in order to develop a system that enables it to properly understand contents of accounting standards, etc. or respond appropriately to changes in accounting standards, etc. In addition, the Company's staff members have attended seminars, lectures and other events held by the Accounting Standards Board of Japan.

(2) For the adoption of IFRS, the Company keeps up with the latest accounting standards by obtaining press releases and standards published by the International Accounting Standards Board as needed. To prepare appropriate consolidated financial statements under IFRS, the Company has developed accounting policies, etc. of the Group in accordance with IFRS and performs accounting procedures based on these policies.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents (Notes 7, 8 and 18)	¥ 97,283	¥ 97,416	¥ 124,956	\$ 1,176,164
Trade and other receivables (Notes 7, 9, 18 and 31)	91,034	111,130	122,476	1,152,824
Inventories (Notes 11, 13 and 18)	77,857	81,918	87,567	824,237
Other financial assets (Notes 10, 18 and 31)	28,868	44,970	13,776	129,666
Other current assets (Notes 7, 12 and 18)	9,101	8,695	9,134	85,974
Total current assets	304,142	344,128	357,908	3,368,865
<b>Non-current assets</b>				
Property, plant and equipment (Notes 7, 13, 15 and 18)	120,612	131,748	159,834	1,504,466
Goodwill (Notes 7, 14 and 15)	9,354	9,331	19,389	182,501
Other intangible assets (Notes 7, 14 and 18)	8,133	9,190	10,403	97,923
Investments accounted for using equity method (Note 16)	23,206	21,712	24,777	233,217
Retirement benefit asset	—	373	1,003	9,437
Other financial assets (Notes 10 and 31)	47,185	46,529	64,970	611,540
Other non-current assets (Notes 12 and 18)	5,819	7,129	1,862	17,531
Deferred tax assets (Note 17)	7,481	8,343	7,552	71,084
Total non-current assets	221,790	234,355	289,791	2,727,699
Total assets	525,933	578,484	647,699	6,096,564
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables (Notes 19 and 31)	77,984	95,037	110,303	1,038,248
Borrowings (Notes 18 and 31)	20,793	23,740	25,947	244,234
Income taxes payable	1,948	8,360	4,520	42,547
Other financial liabilities (Notes 18 and 31)	546	626	641	6,036
Other current liabilities (Notes 7 and 21)	10,191	11,357	12,607	118,666
Total current liabilities	111,461	139,120	154,019	1,449,731
<b>Non-current liabilities</b>				
Borrowings (Notes 7, 18 and 31)	22,245	38,381	53,456	503,165
Retirement benefit liability (Note 20)	15,180	13,904	14,500	136,485
Other financial liabilities (Notes 18, 31 and 35)	2,534	2,005	1,674	15,756
Other non-current liabilities (Note 21)	2,448	2,278	2,480	23,339
Deferred tax liabilities (Note 17)	6,223	6,432	9,955	93,699
Total non-current liabilities	48,630	63,000	82,064	772,442
Total liabilities	160,091	202,120	236,084	2,222,173
<b>Equity</b>				
<b>Equity attributable to owners of parent</b>				
Share capital (Note 22)	23,320	23,320	23,370	219,977
Capital surplus (Note 22)	26,110	18,441	18,502	174,150
Retained earnings (Note 22)	288,147	309,517	331,913	3,124,185
Treasury shares	(957)	(5,396)	(5,358)	(50,429)
Other components of equity (Note 22)	15,569	16,006	25,071	235,986
Total equity attributable to owners of parent	352,189	361,889	393,499	3,703,869
Non-controlling interests	13,653	14,475	18,116	170,522
Total equity	365,842	376,364	411,615	3,874,391
Total liabilities and equity	¥ 525,933	¥ 578,484	¥ 647,699	\$ 6,096,564

See accompanying notes.



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2018
<b>Revenue</b> (Notes 6 and 24)	¥ 388,455	¥ 421,930	\$ 3,971,478
Cost of sales (Notes 11 and 13)	(272,422)	(291,796)	(2,746,572)
<b>Gross profit</b>	116,034	130,134	1,224,906
Selling, general and administrative expenses (Notes 7, 13, 25 and 30)	(81,759)	(86,977)	(818,682)
Other operating income (Note 26)	4,906	2,262	21,289
Other operating expenses (Note 26)	(3,916)	(2,187)	(20,586)
Share of profit of investments accounted for using equity method	678	338	3,177
<b>Operating profit</b> (Note 6)	35,943	43,569	410,104
Finance income (Notes 6 and 27)	3,045	3,659	34,436
Finance costs (Notes 6 and 27)	(694)	(1,022)	(9,619)
<b>Profit before tax</b> (Note 6)	38,294	46,206	434,922
<b>Income taxes</b> (Notes 17 and 28)	(7,776)	(11,227)	(105,676)
<b>Profit</b>	¥ 30,518	¥ 34,979	\$ 329,246
<b>Profit attributable to:</b>			
Owners of parent	30,243	33,230	312,784
Non-controlling interests (Note 32)	275	1,749	16,463
Total	¥ 30,518	¥ 34,979	\$ 329,246

	Yen		U.S. Dollars
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2018
<b>Earnings per share</b>			
Basic earnings per share (Note 29)	¥ 135.17	¥ 149.32	\$ 1.41
Diluted earnings per share (Note 29)	134.77	148.89	1.40

See accompanying notes.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2018
<b>Profit</b>	¥ 30,518	¥ 34,979	\$ 329,246
<b>Other comprehensive income</b>			
Items that will not be reclassified to profit or loss			
Net change in financial assets measured at fair value through other comprehensive income (Notes 10 and 28)	2,781	8,046	75,739
Remeasurements of defined benefit plans (Note 28)	918	160	1,505
Share of other comprehensive income of entities accounted for using equity method (Notes 16 and 28)	51	(50)	(471)
Items that may be reclassified to profit or loss			
Net change in fair value of cash flow hedges (Note 28)	295	154	1,454
Exchange differences on translation of foreign operations (Note 28)	(303)	1,001	9,420
Share of other comprehensive income of entities accounted for using equity method (Notes 16 and 28)	(1,179)	1,581	14,878
Total other comprehensive income, net of tax	2,564	10,892	102,525
Total comprehensive income	33,082	45,871	431,771
Comprehensive income attributable to:			
Owners of parent	32,946	43,275	407,332
Non-controlling interests	135	2,596	24,439
Total	¥ 33,082	¥ 45,871	\$ 431,771

See accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

*Fiscal year ended March 31, 2017*

Fiscal year ended March 31, 2017	Millions of yen							
	Equity attributable to owners of parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total		
Balance at April 1, 2016	¥ 23,320	¥ 26,110	¥ 288,147	¥ (957)	¥ 15,569	¥ 352,189	¥ 13,653	¥ 365,842
Profit			30,243			30,243	275	30,518
Other comprehensive income					2,703	2,703	(140)	2,564
Total comprehensive income	—	—	30,243	—	2,703	32,946	135	33,082
Share-based payment transactions		(4)				(4)		(4)
Dividends (Note 23)			(11,202)			(11,202)	(90)	(11,291)
Changes in treasury shares		8		(4,439)		(4,432)		(4,432)
Transfer from other components of equity to retained earnings			2,271		(2,271)	—		—
Changes in non-controlling interests		(7,671)			5	(7,666)	741	(6,925)
Other movements			57			57	35	92
Total transactions with owners, etc.	—	(7,668)	(8,873)	(4,439)	(2,266)	(23,246)	687	(22,559)
Balance at March 31, 2017	¥ 23,320	¥ 18,441	¥ 309,517	¥ (5,396)	¥ 16,006	¥ 361,889	¥ 14,475	¥ 376,364

*Fiscal year ended March 31, 2018*

Fiscal year ended March 31, 2018	Millions of yen							
	Equity attributable to owners of parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total		
Balance at April 1, 2017	¥ 23,320	¥ 18,441	¥ 309,517	¥ (5,396)	¥ 16,006	¥ 361,889	¥ 14,475	¥ 376,364
Profit			33,230			33,230	1,749	34,979
Other comprehensive income					10,045	10,045	847	10,892
Total comprehensive income	—	—	33,230	—	10,045	43,275	2,596	45,871
Share-based payment transactions	50	27			(25)	52		52
Dividends (Note 23)			(11,127)			(11,127)	(42)	(11,169)
Changes in treasury shares		5		38		43	0	43
Transfer from other components of equity to retained earnings			292		(292)	—		—
Changes in non-controlling interests		28			4	32	111	143
Other movements			1		(666)	(665)	976	311
Total transactions with owners, etc.	50	60	(10,833)	38	(980)	(11,665)	1,045	(10,620)
Balance at March 31, 2018	¥ 23,370	¥ 18,502	¥ 331,913	¥ (5,358)	¥ 25,071	¥ 393,499	¥ 18,116	¥ 411,615

*Fiscal year ended March 31, 2018*

Fiscal year ended March 31, 2018	Thousands of U.S. dollars							
	Equity attributable to owners of parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total		
Balance at April 1, 2017	\$ 219,505	\$ 173,582	\$ 2,913,373	\$ (50,790)	\$ 150,662	\$ 3,406,332	\$ 136,247	\$ 3,542,579
Profit			312,784			312,784	16,463	329,246
Other comprehensive income					94,549	94,549	7,976	102,525
Total comprehensive income	—	—	312,784	—	94,549	407,332	24,439	431,771
Share-based payment transactions	472	252			(236)	488		488
Dividends (Note 23)			(104,733)			(104,733)	(397)	(105,130)
Changes in treasury shares		47		361		409	0	409
Transfer from other components of equity to retained earnings			2,753		(2,753)	—		—
Changes in non-controlling interests		268			36	304	1,042	1,346
Other movements			8		(6,272)	(6,264)	9,191	2,928
Total transactions with owners, etc.	472	568	(101,972)	361	(9,225)	(109,795)	9,836	(99,959)
Balance at March 31, 2018	\$ 219,977	\$ 174,150	\$ 3,124,185	\$ (50,429)	\$ 235,986	\$ 3,703,869	\$ 170,522	\$ 3,874,391

See accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
<b>Cash flows from operating activities</b>			
Profit before tax	¥ 38,294	¥ 46,206	\$ 434,922
Depreciation and amortization	14,758	16,973	159,765
Interest and dividend income	(1,369)	(2,321)	(21,844)
Interest expenses	694	1,022	9,617
Share of loss (profit) of investments accounted for using equity method	(678)	(338)	(3,177)
Impairment loss	2,111	—	—
Decrease (increase) in trade and other receivables	(20,562)	(9,798)	(92,226)
Decrease (increase) in inventories	(4,367)	(5,421)	(51,022)
Increase (decrease) in trade and other payables	21,908	9,388	88,364
Other	(5,629)	2,003	18,854
Interest and dividends received	2,128	2,749	25,872
Interest paid	(478)	(976)	(9,183)
Income taxes paid	(4,171)	(15,892)	(149,584)
Income taxes refund	1,858	—	—
Net cash provided by (used in) operating activities	44,494	43,596	410,358
<b>Cash flows from investing activities</b>			
Net decrease (increase) in time deposits	(19,714)	22,205	209,010
Net decrease (increase) in marketable securities	4,500	8,000	75,301
Purchase of property, plant and equipment	(33,143)	(37,312)	(351,209)
Proceeds from sale of property, plant and equipment	1,368	733	6,902
Proceeds from transfer of business	772	—	—
Purchase of investments	(2,833)	(5,403)	(50,856)
Proceeds from sale of investments	5,417	1,179	11,101
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(9,231)	(86,885)
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	(98)	—	—
Purchase of shares in associates	(74)	(1,104)	(10,387)
Proceeds from sale of shares in associates	1,249	—	—
Payments for loans receivable	(294)	(2,292)	(21,570)
Collection of loans receivable	1,550	2,968	27,934
Other	77	(168)	(1,580)
Net cash provided by (used in) investing activities	(41,223)	(20,423)	(192,238)
<b>Cash flows from financing activities</b>			
Net increase (decrease) in short-term borrowings (Note 18)	629	3,379	31,803
Repayments of long-term borrowings (Note 18)	(4,766)	(5,951)	(56,019)
Proceeds from long-term borrowings (Note 18)	24,034	18,173	171,058
Payments for purchase of treasury shares	(4,526)	(2)	(21)
Dividends paid (Note 23)	(11,200)	(11,127)	(104,734)
Dividends paid to non-controlling interests	(81)	(42)	(395)
Proceeds from non-controlling interests	1,141	—	—
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(8,098)	(0)	(1)
Proceeds from sales shares of subsidiaries not resulting in change in scope of consolidation	—	98	922
Other	(668)	(667)	(6,278)
Net cash provided by (used in) financing activities	(3,535)	3,860	36,334
Effect of exchange rate changes on cash and cash equivalents	397	506	4,765
Increase (decrease) in cash and cash equivalents	134	27,539	259,219
Cash and cash equivalents at beginning of period	97,283	97,416	916,945
Cash and cash equivalents at end of period	¥ 97,416	¥ 124,956	\$ 1,176,164

See accompanying notes.



# NOTES ON CONSOLIDATED FINANCIAL STATEMENTS

JSR Corporation and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

## (1) Reporting Entity

JSR Corporation (the "Company") is incorporated in Japan. The consolidated financial statements comprise the Company and its subsidiaries (collectively, the "Group"). The Group is primarily engaged in the Elastomers Business, the Plastics Business, and the Fine

Chemicals and Other Products Business, as well as businesses related to these. The products of these businesses are wide ranging. See the note "(6) Segment Information" for further details.

## (2) Basis of Preparation

### 1) Compliance with Accounting Standards

The Group meets the requirements of a "specified company" set forth in Article 1-2 of the "Ordinance on Consolidated Financial Statements." Accordingly, the Group prepares consolidated financial statements in accordance with IFRS pursuant to the provisions of Article 93 of said Ordinance.

The Group has adopted IFRS from the current fiscal year (April 1, 2017 to March 31, 2018), and the annual consolidated financial statements for the current fiscal year will be the first consolidated financial statements prepared in accordance with IFRS. The date of transition to IFRS was April 1, 2016, and the Group has applied IFRS 1 — First-time Adoption of International Financial Reporting Standards. The effects of the transition from Japanese GAAP to IFRS are stated on the note "(36) Disclosure on Transition to IFRS."

### 2) Basis for Measurement

The Group's consolidated financial statements, with the exception of assets pertaining to post-employment benefit plans, financial instruments measured at fair value, etc., stated on "(4) Significant Accounting Policies," are prepared on a historical cost model.

### 3) Presentation Currency and Units

The Group's consolidated financial statements are presented in Japanese yen, the currency of the primary economic environment in which the Company performs business activities (the "functional currency"), with amounts rounded to the nearest million yen.

The translation of the amounts in Japanese yen into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate on March 31, 2018, which was ¥106.24 to U.S. \$1.00. The amounts translated should not be construed as representations that the amounts in Japanese yen have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rates of exchange.

### 4) Matters Related to Early Adoption of New Standards

The Group was in compliance with IFRS effective as of June 30, 2017 and has early adopted IFRS 9 "Financial Instruments" (Revised in July 2014).

### 5) Authorization of Consolidated Financial Statements

The consolidated financial statements have been authorized by Mitsunobu Koshiba, the Company's representative director and president, and Hideki Miyazaki, the Company's CFO, on June 15th, 2018.

## (3) Explanation of New Standards and Interpretations Not Applied

Of the major new or revised standards and interpretations published prior to the date of authorization of the consolidated financial statements, the Group is not applying the following standards at the end of the current fiscal year because their application is not yet mandatory. The Group estimates, at the present time, that the

application of IFRS 15 "Revenue from Contracts with Customers" will have no significant impact on the Group's consolidated financial statements. In addition, the impacts of the application of IFRS 16 "Leases" on the Group's consolidated financial statements are under review and cannot be estimated at the present time.

Standard	Name of Standard	Mandatory Effective Date	The Group's application timing	Summary of New / Revised Standard
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Reporting period ending March 2019	Revises accounting related to recognition of revenue (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18, and SIC-31)
IFRS 16	Leases	January 1, 2019	Reporting period ending March 2020	Revises accounting related to lease contracts (replaces IAS 17, IFRIC 4, SIC-15, and SIC-27)

## (4) Significant Accounting Policies

The significant accounting policies that have been applied to the consolidated financial statements are as follows and are identical to those applied to all periods stated in the consolidated financial statements (including the consolidated statement of financial position on the date of transition to IFRS).

### 1) Basis of Consolidation

#### (i) Subsidiaries

Subsidiaries refer to all entities controlled by the Group. The Group is deemed to have control over an entity if it has exposure or rights to variable returns from its involvement in the entity and has the ability to use its power over an entity to affect such returns. The financial statements of subsidiaries are included in the Group's consolidated financial statements from the date that control commences until the date the control ceases.

In cases where the accounting policies applied by a subsidiary are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary. All intergroup balances of payables and receivables, internal transactions and unrealized gains or losses arising from transactions within the Group are eliminated in preparing the consolidated financial statements.

When the Company retains control when there has been partial disposal of ownership interest in a subsidiary, the partial disposal is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity attributable to owners of parent.

If the Company loses control over the subsidiary, gains or losses derived from such loss are recognized as profit or loss.

When the fiscal year-end of a subsidiary is different from the end of reporting period of the Group, the Company uses financial statements of the subsidiary based on the provisional accounting as of the end of reporting period of the Group.

#### (ii) Associates

Associates are entities over which the Group has significant influence, and of which does not have control over the financial and operating policies. The equity method is applied to all associates from the date that the Group acquires significant influence to the date that it loses the significant influence.

Goodwill recognized on acquisition (less accumulated impairment losses) is included in investments in associates.

In cases where the accounting policies applied by an associate are different from those applied by the Group, adjustments are made to the associate's financial statements, if necessary.

#### (iii) Joint Ventures

A joint venture is an entity jointly controlled by two or more parties including the Group under the contractually agreed sharing of control over economic activities of the joint venture, which exists only when decisions for strategic financial and operating decisions related to relevant activities require unanimous consent of the

parties sharing control.

Joint ventures of the Group are accounted for using the equity method.

In cases where the accounting policies applied by a joint venture are different from those applied by the Group, adjustments are made to the joint venture's financial statements, if necessary.

### 2) Business Combinations

The Group accounts for business combinations using the acquisition method.

The aggregate of the consideration paid for a business combination measured at fair value on the acquisition date and the amount of non-controlling interests in the acquired entity are taken as the acquisition costs based on the acquisition method.

Non-controlling interests are measured at equivalent amount for the fair price of the acquired entity's identifiable net assets and liabilities in proportion to the share of the non-controlling interest.

Ancillary costs incurred relating to business combination such as brokerage fees, attorney's fees, due diligence costs, and other professional fees, consulting fees, and other acquisition-related costs are recognized as expenses in the periods in which such costs are incurred.

In the event that the aggregate amount of fair value of the consideration paid in relation to the business combination, the amount of non-controlling interests in the acquired entity, and the fair value of equity interests on the control commencement date in the acquired entity previously held by the acquiring entity exceeds the net value of identifiable assets and liabilities at the acquisition date, the excess amount is recognized as goodwill.

If, on the other hand, such aggregate amount does not exceed the net value of identifiable assets and liabilities at the acquisition date, the difference is recognized in profit or loss. Additional acquisitions of non-controlling interests after the controlling acquisition are accounted for as capital transactions and are not recognized as goodwill from the original transaction.

### 3) Foreign Currency Translation

#### (i) Functional Currency and Presentation Currency

The Group's consolidated financial statements are presented in Japanese yen being the Company's functional currency. The Group's foreign operations generally use the local currency as their functional currency, but if any currency other than the local currency is primarily used in the economic environment in which the entity operates, such currency is used as the entity's functional currency.

#### (ii) Foreign Currency Transactions

Foreign currency transactions, meaning transactions conducted in a currency other than the respective entity's functional currency, are translated into the functional currency either by using the exchange rates prevailing at the date of the transaction or using an average rate when there are no material fluctuations in exchange rates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates

prevailing at the reporting date, and exchange differences are recognized in profit or loss.

#### **(iii) Foreign Operations**

The assets and liabilities (including goodwill arising from acquisitions and adjustments of fair value) of foreign operations that use a currency other than Japanese yen as their functional currency are translated into Japanese yen at the exchange rates prevailing at the reporting date. The revenues and expenses of foreign operations are translated into Japanese yen at the average rates of exchange over the reporting period, unless there are material fluctuations in exchange rates. Exchange differences arising from such translations in foreign operations' financial statements are recognized in other comprehensive income, and are included and accounted for in other components of equity.

### **4) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash in hand, deposits that can be withdrawn as needed, and short-term investments that are easily converted into cash and with minimal risk of changes in value.

### **5) Inventories**

Inventories are measured at the lower of cost or net realizable value. Cost of inventories is calculated based on the weighted-average cost formula. Net realizable value is the estimated selling price of inventories in the ordinary course of business, less the estimated costs of completion and estimated selling expenses. Inventories and work in process manufactured by the Company include the amounts of manufacturing overhead appropriately allocated based on the ordinary operating rate.

### **6) Property, Plant and Equipment**

The cost model has been adopted, and all property, plant and equipment are measured at cost less any accumulated depreciation and accumulated impairment losses. Cost includes costs directly attributable to the acquisition of the assets, and the present value of the estimated costs of removal of the assets and site restoration. Furthermore, borrowing costs that satisfy certain conditions directly attributable to the acquisition, construction, etc., of the assets are recognized as part of the cost of the assets.

Depreciation expenses are recognized using the straight-line method over the estimated useful life of each asset to depreciate the cost less the residual value of the asset. The estimated useful lives, residual values, and depreciation methods are reviewed at the end of the reporting period. In the event of the modification in estimates, any impacts therefrom are recognized in the accounting period in which the estimates were modified and in the future accounting periods.

The estimated useful lives of major assets are as follows:

- Buildings and structures: 15 to 50 years
- Machinery, equipment, and vehicles: 5 to 15 years
- Tools, furniture, and fixtures: 4 to 10 years

### **7) Intangible Assets**

#### **(I) R&D Expenses**

Research-related expenditures are recognized as expenses when they are incurred. Development-related expenditures are capitalized as intangible assets only when all of the following conditions are satisfied; the amount for such expenditures can be reliably measured; the products or the processes to be developed therefrom are technically and commercially viable; there is a high probability of generating future economic benefits; the Group has intention to complete the development and use the process or the products therefrom as well as sufficient resources to make them feasible. All other expenditures are recognized as expenses when they are incurred.

#### **(ii) Goodwill**

The measurement of goodwill at initial recognition is stated in "2) Business Combinations." The Group does not amortize goodwill, but tests for impairment every fiscal year. Impairment of goodwill is stated in "8) Impairment of Non-Financial Assets." Impairment losses of goodwill are recognized as profit or loss and not reversed subsequently.

After the initial recognition, goodwill is presented at cost less accumulated impairment losses.

#### **(iii) Intangible Assets Acquired as a Result of a Business Combination**

Cost of intangible assets acquired as a result of a business combination is measured at fair value on the acquisition date.

Intangible assets acquired as a result of a business combination are accounted after initial recognition at cost less any accumulated amortization and accumulated impairment losses, which are amortized using straight-line method over the estimated useful life of each asset.

#### **(iv) Intangible Assets Acquired Individually**

Other intangible assets acquired individually inclusive of software, patent rights, etc., are accounted at cost less any accumulated amortization and accumulated impairment losses, which are amortized using the straight-line method over the estimated useful life of each asset.

The estimated useful life of major asset is as follows:

- Software: 5 years

### **8) Impairment of Non-Financial Assets**

The Group assesses its non-financial assets, excluding inventories and deferred tax assets at the end of each reporting period to identify any indications of a potential inability to recover the carrying amount due to changes in such assets or circumstances. If any such indication exists, impairment testing is conducted.

If the carrying amount of an asset exceeds its recoverable amount, the difference is recognized as impairment loss.

The recoverable amount of an asset is the higher of the fair value less costs of disposal and the value in use. In calculating value in use, the estimated future cash flows from the asset are discounted to the present value using a before-tax discount rate that reflects the time value of money and the inherent risks of the asset. For the purposes of determining impairment, assets

are grouped into an individual asset or the smallest asset group (cash-generating unit) generating cash inflows that are largely independent of the cash flows of other assets.

Goodwill is tested for impairment once a year periodically, regardless of whether any indications of impairment exist, and the cost at the time of acquisition less any accumulated impairment losses is recognized as the carrying amount.

In the case of property, plant and equipment and intangible assets, excluding goodwill, for which impairment losses have been recognized in prior years, an assessment is conducted at the end of each reporting period to determine if there are any possibilities of reversal of such impairment losses.

## 9) Financial Instruments

### (9.1) Financial Assets

#### (i) Initial Recognition and Measurement

The Group initially recognizes financial assets on the date when it becomes a party to the contract on the financial instruments concerned. Financial assets bought or sold by ordinary methods are initially recognized on the transaction date. Financial assets are subsequently classified into those measured at amortized cost or those measured at fair value.

Financial assets measured at fair value through profit or loss are initially measured at fair value. Financial assets measured at fair value through other comprehensive income and financial assets measured at amortized cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

#### (a) Financial Assets Measured at Amortized Cost

Financial assets are classified as those measured at amortized cost only when both of the following conditions are satisfied; the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

#### (b) Financial Assets Measured at Fair Value

Financial assets are classified as those measured at fair value if they fail to meet either of the two requirements given above.

Of these assets, financial assets which generate, on specified dates, cash flows that are solely payments of principal and interest on the principal amount outstanding and which are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling the assets are classified as debt financial assets measured at fair value through other comprehensive income.

Moreover, for certain equity financial assets, the Group has made an irrevocable election to present subsequent changes in fair value in other comprehensive income and classified these assets as equity financial assets measured at fair value through other comprehensive income.

Financial assets such as derivative assets, other than the above assets, are classified as financial assets measured at

fair value through profit or loss.

#### (ii) Subsequent Measurement

After initial recognition, financial assets are measured according to their classification as follows:

#### (a) Financial Assets Measured at Amortized Cost

Measured at amortized cost using the effective interest method

#### (b) Financial Assets Measured at Fair Value

Measured at fair value on the reporting date

Any changes in fair value of financial assets are recognized in profit or loss or in other comprehensive income according to their respective classification of the financial asset. Dividends received arising from designated equity instruments measured at fair value through other comprehensive income are recognized in profit or loss. If the fair value of the equity instrument depreciates materially or if the equity instrument is disposed, any accumulated other comprehensive income or loss is reclassified to retained earnings.

#### (iii) Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from the investment expire or when the contractual rights to the cash flows from the investment are assigned and substantially all the risks and rewards of the Group's ownership of such financial assets are transferred.

### (9.2) Financial Liabilities

#### (i) Initial Recognition and Measurement

The Group initially recognizes financial liabilities on the contract date. Financial liabilities are classified into financial liabilities measured at fair value through profit or loss and financial liabilities measured at amortized cost. Financial liabilities measured at fair value through profit or loss are initially measured at fair value, and financial liabilities measured at amortized cost are initially measured at fair value less transaction costs that are directly attributable to the acquisition of the financial liability.

#### (ii) Subsequent Measurement

After initial recognition, financial liabilities are measured according to their classification as follows:

#### (a) Financial Liabilities Measured at Fair Value Through Profit or Loss

Measured at fair value on the reporting date

#### (b) Financial Liabilities Measured at Amortized Cost

Measured at amortized cost using the effective interest method

#### (iii) Derecognition

Financial liabilities are derecognized when contractual obligations are discharged, cancelled, or expired.

### (9.3) Offsetting Financial Instruments

Financial assets and liabilities are offset if and only if there is a legally enforceable right to set off the recognized amount of financial assets against the recognized amount of financial liabilities; and there is the intent either to settle on a net basis or to realize assets and settle liabilities simultaneously.

## 10) Impairment of Financial Assets

The Group estimates expected credit losses as of the reporting date for financial assets measured at amortized cost.



If credit risk has not increased materially from initial recognition, the 12-month expected credit loss is recognized as allowance for credit losses. In the case of trade receivables, however, the loss allowance is always measured at lifetime expected credit loss. If credit risk has increased materially from initial recognition, the lifetime expected credit loss is recognized as allowance for credit losses. Judgement as to whether or not a material increase in credit risk has occurred from the initial recognition is based on degree of changes in default risk. When the Group judges whether or not there are material changes in default risk, it reviews the information on the past due status as well as the following factors;

- External credit grades of the financial asset
- Internal credit grades
- Results of operations of the borrower
- Financial assistance from the parent company, etc. of the borrower

Expected credit losses are measured as weighted average of the present value of difference between all contractual cash flows that are due to the entity in accordance with the contract and all cash flows that the entity expects to receive, weighted by respective risks of default occurring. The Group treats any financial assets as a credit-impaired financial asset in cases where the financial asset is considered to have defaulted, including cases where the financial asset is significantly past due even after enforcement activities for the performance of obligations are taken and where the debtor files legal proceedings for bankruptcy, corporate reorganization, civil rehabilitation and special liquidation. When the Group has no reasonable expectations of recovering all or part of a financial asset, the carrying amount of the asset is directly written off by that amount.

## 11) Derivatives and Hedge Accounting

Derivatives are initially recognized at fair value on the date when the derivative contract is entered into and are subsequently remeasured at fair value on each reporting date after initial recognition. Any changes in fair value of derivatives arising from the remeasurements are recognized in profit or loss of the consolidated statement of profit or loss. Nonetheless, cash flow hedges are recognized in other comprehensive income of the consolidated statement of profit or loss. The Group has designated a portion of derivatives as hedging instruments of cash flow hedges (a particular risk related to a recognized asset or liability or a hedge of a highly probable forecast transaction).

The Group documents, at the start of the transaction, the relationship between hedging instruments and hedged items as well as the objectives and strategies for managing risk regarding execution of their hedging transactions. Furthermore, the Group documents at the start of the hedge, and on a continuing basis, assessments of whether or not the derivatives used in the hedging transaction are effective in offsetting changes in the hedged items' cash flow.

Hedge effectiveness is assessed on a continuing basis, and a hedge is deemed effective when it satisfies all of the following conditions: an economic relationship exists between hedged items and hedging instruments; the effect of credit risk is not such that it materially dominates value changes arising from the economic

relationship; and the hedge ratio of the hedging relationship is equivalent to the ratio arising from the volume of hedging instruments and hedged items that are actually being hedged.

The effective portions of changes to the fair price of derivatives designated as hedging instruments of cash flow hedges and satisfying the conditions thereof are recognized in other comprehensive income. Gains or losses arising from ineffective portions are recognized immediately as profit or loss.

Accumulated gains or losses recognized through other comprehensive income are reclassified to profit or loss in the period when the cash flow originating from the hedged items effects profit or loss.

When hedge accounting conditions are no longer satisfied due to forfeit, sale, etc., of hedging instruments, hedge accounting will no longer be applied prospectively. When a hedged future cash flow is expected to occur again, the accumulated gains or losses recognized in other comprehensive income will continue to be recognized as other components of equity. In cases where forecast transactions are no longer expected to occur, the accumulated gains or losses recognized in other comprehensive income are reclassified immediately to profit or loss.

## 12) Leases

Lease transactions are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, while all other leases are classified as operating leases.

Whether a contract is a lease or whether a contract contains a lease is determined based on the substance of the contract following IFRIC 4 — *Determining Whether an Arrangement Contains a Lease*, even when the contract is not legally a lease-type contract.

In finance lease transactions, lease assets and lease liabilities are recognized in the consolidated statement of financial position at the lower of the fair value of the leased property calculated on the inception date of the lease term and the aggregate present value of the minimum lease payments. Lease payments are allocated to liabilities and finance costs. Interest components in finance costs are expensed as profit or loss over the lease term in such a way that a fixed term interest rate applies to the liability balance in each reporting period. Lease assets are depreciated using the straight-line method based on the accounting policies applied to the assets.

In operating lease transactions, lease payments are recognized as an expense over the lease term on a straight-line basis.

## 13) Employee Benefits

### (i) Short-Term Employee Benefits

Short-term employee benefits are recognized as an expense in the period in which the employee renders the related service without discounting. Bonus payments are recognized as liabilities in the amount estimated to be paid based on the applicable bonus payment system, when there is a legal or constructive obligation to pay and the obligation can be estimated reliably.

### (ii) Long-Term Employee Benefits

The Group has adopted defined contribution plans and defined

benefit plans as post-employment benefit plans for employees.

Liabilities (assets) recognized in connection to defined benefit pension plans are calculated at the present value of defined benefit obligations under such plans at the end of the reporting period less the fair value of the plan assets. An independent specialist calculates the defined benefit obligations each reporting period using the projected unit credit method. Any amount recognized as assets from this calculation is limited to the present value of any future economic benefit available in the form of refunds from the plans or reductions in future contributions to the plans when there is possibility for the assets to generate these to the Group. Calculations of the present value of economic benefits take into consideration the minimum funding requirement. The present value of defined benefit obligations is calculated by discounting estimated future cash flows in reference to market yields on high quality corporate bonds that pay benefits and with maturities similar to the estimated timing of payment of the obligations.

Changes due to remeasurements of net defined benefit liabilities (assets) that were recognized in other comprehensive income in the period they occurred are immediately reclassified from other comprehensive income to retained earnings.

Defined contribution plans are post-employment benefit plans under which an employer pays fixed contributions into an independent entity and has no legal or constructive obligation to pay further contributions. Contribution obligations under the defined contribution plans are recognized as an expense in the period in which the employee renders the related service.

## 14) Provisions

Provisions are recognized if the Group has a present legal or constructive obligation as a result of a past event that can be estimated reliably and it is probable that an outflow of resources will be required to settle the obligation.

When the time value of money is significant, the estimated future cash flow is discounted by the present value using a before-tax discount rate that reflects the time value of money and inherent risks of the liability. Transfer-backs of the discounted amount over time are recognized as finance costs.

## 15) Share Capital

The issue price of equity instruments issued by the Company are recognized in share capital and capital surplus, and direct issue costs (net of tax effects) are deducted from capital surplus.

On the purchase of treasury shares, costs net of tax effects including direct transaction costs are recognized as an equity deduction. On the sale of treasury shares, including disposal of treasury shares with the exercise of stock options, the balance of disposals is recognized as capital surplus. Common shares are classified to equity.

## 16) Share-Based Payment Plans

### (i) Stock Options

The Group operated an equity-settled share-based payment plan

where the Group received services from directors, executive officers, and employees and paid equity instruments (options) as consideration thereof until June 2017.

The fair value on the date the option was granted under the plan is recognized as an expense over the option's vesting period and the same amount is recorded as an increase of equity. The plan was terminated in June 2017 (however, of share acquisition rights as share-based stock options that were already granted to directors, etc., those share acquisition rights which have not been exercised will be continued).

### (ii) Restricted Share-Based Payment Plan

The Company has adopted the restricted share-based payment plan for its directors and others as a performance-linked remuneration plan and applied the accounting treatment for equity-settled share-based plans under this plan.

Fair value of the share-based payment is determined using fair value of ordinary shares on the grant date. The fair value is recognized as an expense over the share's vesting period, and the same amount is recorded as an increase of equity.

## 17) Revenue Recognition

Revenue is recognized when the significant risks and rewards of ownership of goods have been transferred to the customer; neither continuing managerial involvement associated with ownership nor effective control is retained over the goods; there is a high probability that the economic benefits associated with the transaction will flow to the Group; and costs incurred and revenue in respect of the transaction can be measured reliably.

Excise taxes, rebates, etc., are deducted from revenue, and the inflow amount of economic benefits less these items is accounted for as revenue.

The Group also provides biopharmaceutical process development and manufacturing services. Revenue from these services is recognized when a service has been delivered.

## 18) Government Grants

Government grants are recognized when there is reasonable assurance that the Group will comply with the conditions attached to the grant and that the grant will be received. Government grants are recognized in profit or loss on a systematic basis over the period the associated costs, which the grant is intended to compensate, are recognized as expenses.

For government grants associated with acquiring assets, the amounts of the grants are deducted directly when calculating the carrying amounts of the assets. Grants are recognized in profit or loss over the useful lives of the depreciated assets as changes in depreciation expense.

## 19) Finance Income and Finance Cost

Finance income comprises interest received, dividends received, etc. Interest received is recognized when it incurs using the effective interest method. Dividends received are recognized when the Group's rights to receive dividends has been established; there is a high

probability that the economic benefits associated with the dividends will flow into the Group; and the amounts can be measured reliably.

Finance cost comprises interest paid, etc.

With respect to an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, borrowing costs that are directly attributable to the acquisition, construction or manufacture of the asset form part of the cost of that asset. All other borrowing costs are recognized as an expense in the period in which they are incurred.

## 20) Income Taxes

Income taxes comprise current taxes and deferred taxes. They are recognized in profit or loss, with the exception of income taxes associated with items recognized in other comprehensive income or items that are directly recognized in equity.

### (i) Current Taxes

The Group recognizes current taxes based on taxable profits for the reporting period. Current tax amounts are calculated using the tax rates that are in force or substantially in force on the final day of the reporting period. Income taxes receivable and payable are measured at the estimated refund from or payment to the tax authorities.

### (ii) Deferred Taxes

The Group recognizes deferred taxes using the asset and liability approach for temporary differences between the amounts of assets and liabilities for accounting purposes and their tax bases. In principle, deferred tax liabilities are all recognized in taxable temporary differences, and deferred tax assets are recognized only to the extent that it is probable that there will be taxable profits against which deductible temporary differences, tax losses, etc., may be utilized. Deferred tax assets and liabilities, however, are not recognized for the following temporary differences:

- Taxable temporary differences arising from initial recognition of goodwill;

- Temporary differences arising from initial recognition of assets or liabilities in transactions (excluding business combinations) that do not affect taxable profits (tax losses) in profit or loss for accounting purposes; and
- Taxable temporary differences pertaining to investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets pertaining to deductible temporary differences associated with investments in subsidiaries and associates are recognized only to the extent that the temporary difference will reverse in the foreseeable future and that it is probable that there will be adequate taxable profits against which benefits from the temporary difference can be utilized.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply to the period when the associated deferred tax assets will be realized or the period when the deferred tax liabilities will be settled, based on the tax rates that are in force or substantially in force at the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax assets and liabilities are associated with the income taxes levied on the same taxable entity, or the equivalent or different taxable entity intended to be settled on a net basis, by the same tax authority.

## 21) Earnings per Share

Basic quarterly earnings per share are calculated by dividing profit for the quarter attributable to ordinary shareholders by the weighted-average number of common stock outstanding during the reporting period. Diluted quarterly earnings per share are calculated through adjustments for the effect of all potential dilutive common stock.

## (5) Significant Accounting Estimates and Judgments Involving Estimates

In the preparation of consolidated financial statements, management is required to make judgments, estimates, and assumptions.

The estimates and the underlying assumptions are reviewed on an ongoing basis, and the effects of the review are recognized in the period in which the review was conducted and in future periods. Actual results may differ from these estimates.

Estimates and judgments that have significant effects on amounts recognized in the Group's consolidated financial statements are as follows. These assumptions have been determined based on management's best estimates and judgments. However, the assumptions may be affected by results of uncertain changes in economic conditions in the future and amendment or promulgation of related laws and regulations, and if a review is necessary, this may have significant effects on amounts recognized in consolidated financial statements in the following fiscal years.

### 1) Impairment of Non-Financial Assets

In the calculation of recoverable amount in impairment test, certain assumptions have been made for useful life of the asset, future cash flows, discount rate reflecting risks inherent to the asset, long-term growth rate and others. Details of the method for calculating recoverable amount, etc. are provided in the note "(15) Impairment of Non-Financial Assets."

### 2) Employee Benefits

The present value of defined benefit plan obligations, service cost, etc. pertaining to post-employment benefit plans adopted by the Group have been calculated based on actuarial assumptions. For actuarial assumptions, estimates and judgments on a variety of variables including discount rate are required. Actuarial assumptions and related sensitivity are provided in the note "(20) Employee Benefits."

### 3) Recoverability of Deferred Tax Assets

For the recognition of deferred tax assets, the amount is determined, assuming the probability that there will be the taxable profits, by estimating the timing when taxable profits that can be

obtained in the future are available and the amount of these profits based on the business plan. The relevant content and amount of deferred tax assets are provided in the note “(17) Income Taxes.”

## (6) Segment Information

### 1) Overview of Reportable Segments

JSR Group's reportable segments are based on the Group's business segments for which separate financial information is available and which the Board of Directors determines the basis that are subject to regular reviews for decisions on the allocation of managerial resources and the evaluation of business results.

The Group has established divisions by product at its head office. Each division formulates comprehensive domestic and overseas strategies for its products and conducts business activities according to the strategies. Core Group companies also take the initiative in working out comprehensive domestic and overseas strategies and conduct business activities according to the strategies. Thus, the JSR Group's businesses consist of business segments by product based on divisions and core Group companies.

JSR Group has three reportable segments: Elastomers

Business, which consists mainly of the manufacture and sale of general-purpose synthetic rubber products for automobile tires, functional special synthetic rubber for automobile components, thermoplastic elastomers for modifying plastics, and synthetic rubber latex for coated paper; Plastics Business, which engages mainly in the manufacture and sale of ABS and other resins for automobiles, office equipment, and amusement applications; and Fine Chemicals and Other Products Business, which conducts mainly the manufacture and sale of semiconductor materials, display materials, and materials related to edge computing. The Fine Chemicals and Other Products Business is a reportable segment comprising multiple segments based on the nature of the products and services, the nature of production processes, and similarity in markets and other economic characteristics.

### Main Products in Each Business Segment

Business segments	Main products
Elastomers Business	Synthetic rubbers, such as styrene-butadiene rubber, poly-butadiene rubber, ethylene and propylene rubber and compounded products; thermoplastic elastomers and compounded products; latex for paper processing; general industrial-use latex; acrylic emulsions; natural latex compounded products; high-functional coating materials; high-functional dispersants; industrial particles; thermal control materials; materials for heat insulation paints; materials for batteries; butadiene monomers; etc.
Plastics Business	Synthetic resins including ABS resins, AES resins, AS resins, and ASA resins
Fine Chemicals and Other Products Business	<p>&lt;Semiconductor Materials&gt; Lithography materials (photoresists, multilayer materials); CMP materials; mounting materials; etc.</p> <p>&lt;Display Materials&gt; Materials for color LCDs; functional coating materials; etc.</p> <p>&lt;Edge Computing Materials&gt; Heat-resistant transparent resins and functional films; high-functional UV curable resins; photo fabrication and photo molding systems; etc.</p> <p>&lt;Life Sciences Business and Others&gt; Life Sciences (diagnostic and research reagents and similar materials; bio-process materials; contract bio-process development and manufacturing); lithium-ion capacitors; etc.</p>

The accounting methods for reportable segments are the same as the methods adopted for preparation of consolidated financial statements.



## 2) Segment Revenues, Profits or Losses, and Other Material Items

The following information pertains to the Group's reportable segments.

*Fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017)*

	Reportable Segments				Adjustments	Amount Recorded on the Consolidated Financial Statements
	Elastomers	Plastics	Fine Chemicals and Other Products	Total		
Revenue from external customers	¥ 185,345	¥ 46,035	¥ 157,075	¥ 388,455	¥ —	¥ 388,455
Operating profit	8,800	3,850	23,293	35,943	—	35,943
Finance income	—	—	—	—	—	3,045
Finance cost	—	—	—	—	—	(694)
Profit before tax	—	—	—	—	—	38,294
Total assets	267,570	29,948	169,207	466,726	111,758	578,484
Other items						
Depreciation and Amortization	6,600	669	7,524	14,793	—	14,793
Impairment losses	—	—	2,111	2,111	—	2,111
Capital expenditures	20,709	1,189	9,479	31,377	—	31,377

*Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)*

	Reportable Segments				Adjustments	Amount Recorded on the Consolidated Financial Statements
	Elastomers	Plastics	Fine Chemicals and Other Products	Total		
Revenue from external customers	<b>¥ 197,373</b>	<b>¥ 52,161</b>	<b>¥ 172,395</b>	<b>¥ 421,930</b>	¥ —	<b>¥ 421,930</b>
Operating profit	<b>14,870</b>	<b>5,575</b>	<b>23,124</b>	<b>43,569</b>	—	<b>43,569</b>
Finance income	—	—	—	—	—	<b>3,659</b>
Finance cost	—	—	—	—	—	<b>(1,022)</b>
Profit before tax	—	—	—	—	—	<b>46,206</b>
Total assets	<b>282,456</b>	<b>38,428</b>	<b>211,383</b>	<b>532,268</b>	<b>115,431</b>	<b>647,699</b>
Other items						
Depreciation and Amortization	<b>7,901</b>	<b>718</b>	<b>8,353</b>	<b>16,973</b>	—	<b>16,973</b>
Capital expenditures	<b>22,981</b>	<b>1,028</b>	<b>18,399</b>	<b>42,408</b>	—	<b>42,408</b>

*Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)*

	Reportable Segments				Adjustments	Amount Recorded on the Consolidated Financial Statements
	Elastomers	Plastics	Fine Chemicals and Other Products	Total		
Revenue from external customers	<b>\$ 1,857,806</b>	<b>\$ 490,976</b>	<b>\$ 1,622,697</b>	<b>\$ 3,971,478</b>	\$ —	<b>\$ 3,971,478</b>
Operating profit	<b>139,969</b>	<b>52,472</b>	<b>217,663</b>	<b>410,104</b>	—	<b>410,104</b>
Finance income	—	—	—	—	—	<b>34,436</b>
Finance cost	—	—	—	—	—	<b>(9,619)</b>
Profit before tax	—	—	—	—	—	<b>434,922</b>
Total assets	<b>2,658,662</b>	<b>361,714</b>	<b>1,989,677</b>	<b>5,010,054</b>	<b>1,086,509</b>	<b>6,096,564</b>
Other items						
Depreciation and Amortization	<b>74,368</b>	<b>6,762</b>	<b>78,627</b>	<b>159,757</b>	—	<b>159,757</b>
Capital expenditures	<b>216,309</b>	<b>9,676</b>	<b>173,188</b>	<b>399,174</b>	—	<b>399,174</b>

The adjustment amounts in the total assets are corporate assets not allocated to any reportable segment. Corporate assets mainly include investment of surplus funds (deposits and securities) and long-term investment funds (investment securities) by the parent company.

### 3) Information on Products and Services

Information on products and services is stated on “1) Overview of Reportable Segments.”

### 4) Information by Region

The following is a breakdown of revenue and non-current assets by region.

#### Revenue from External Customers

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2018
Japan	¥ 173,692	¥ 183,308	\$ 1,725,415
China	47,983	53,547	504,015
Other regions	166,780	185,075	1,742,048
Total	¥ 388,455	¥ 421,930	\$ 3,971,478

Note: Revenue is divided into countries or regions based on the locations of customers.

#### Property, Plant and Equipment

	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Japan	¥ 74,401	¥ 75,054	¥ 79,686	\$ 750,057
Thailand	27,193	27,402	27,642	260,182
Hungary	5,264	14,585	28,280	266,186
Other regions	13,754	14,707	24,227	228,041
Total	¥ 120,612	¥ 131,748	¥ 159,834	\$ 1,504,466

Note: We confine items presented to property, plant and equipment considering cost of the preparation.

### 5) Information on Major Customers

Information on major customers is omitted, since no single external customer accounts for more than 10 percent of the Group's revenue in terms of revenue through transactions with a single external customer.

## (7) Business Combination and Acquisition of Non-controlling Interest

### 1) Business Combination

*Fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017)*

Not Applicable

*Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)*

Acquisition of Selexis S.A.

#### (i) Overview

##### (a) Name and Business of the Company Acquired

Name: Selexis S.A.

Industry and Business

Life sciences; development and sales of products using mammalian cell line generation technologies

##### (b) Date of Acquisition

June 21, 2017

##### (c) Ownership Acquired

100%

##### (d) Method to Obtain Control

Acquisition of shares in exchange for cash payment

##### (e) Major Reason of the Business Combination

The purpose of this business combination is to expand the Group's life sciences business.

Selexis S.A. has made its mark with its technologies that facilitates the rapid, stable, and cost-effective generation of cell lines producing virtually any recombinant protein in mammalian cell line development. With our subsidiary KBI Biopharma, Inc.'s strengths in process development and analytics, the Group will be able to deliver the fastest timelines of new drug development and substantial cost savings in the pharmaceutical industry.

*(ii) Fair Value of Consideration Transferred and Recognized  
Amount of Assets Acquired and Liabilities Received on the  
Date of Acquisition*

	Millions of yen	Thousands of U.S. dollars
Fair value of consideration	<b>¥ 9,307</b>	<b>\$ 87,603</b>
Cash and cash equivalents	<b>585</b>	<b>5,504</b>
Trade and other receivables	<b>338</b>	<b>3,182</b>
Other current assets	<b>47</b>	<b>438</b>
Property, plant and equipment	<b>158</b>	<b>1,489</b>
Other intangible assets	<b>76</b>	<b>712</b>
Other current liabilities	<b>(320)</b>	<b>(3,011)</b>
Borrowings	<b>(1,171)</b>	<b>(11,018)</b>
Goodwill	<b>9,594</b>	<b>90,306</b>

Acquisition cost associated with this business combination was ¥16 million (\$154 thousand) and recorded as expense under "selling, general and administrative expenses." A provisional accounting treatment has been applied at the end of the current fiscal year for amounts such as goodwill generated and assets acquired at the date of the business combination as identifiable assets at the date of the business combination are under review and the allocation of the acquisition cost has not been completed. The goodwill arose mainly in relation to the expected future earnings capability.

Among goodwill recognized, there is no goodwill expected to be deductible for tax purposes.

*(iii) Cash Flow Through the Acquisition*

	Millions of yen	Thousands of U.S. dollars
Cash and cash equivalents used for the acquisition	<b>¥ 9,307</b>	<b>\$ 87,603</b>
Cash and cash equivalents held by the company acquired on the date of acquisition	<b>585</b>	<b>5,504</b>
Purchase of shares of a subsidiary	<b>¥ 8,722</b>	<b>\$ 82,099</b>

*(iv) The Effect of the Business Combination on the Group's Profit or Loss*

The effect of the business combination on profit or loss in the consolidated statement of profit or loss is immaterial. Furthermore, the effect on revenue and profit or loss on the assumption that the business combination was executed at the beginning of the current fiscal year is immaterial.

**2) Acquisition of Non-Controlling Interest**

*Fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017)*

Additional acquisition of subsidiary's shares

*(i) Overview*

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

*(ii) Acquisition Cost and Types of Consideration*

Consideration	Millions of yen
Cash and cash equivalents	¥ 8,098
Total acquisition cost	¥ 8,098

*(iii) Details on Decrease in Capital Surplus Due to the Transaction with the Non-Controlling Shareholder*

*(a) Reason for Decrease of Capital Surplus*

Additional acquisition of the subsidiary's shares

*(b) Amount Decreased in Capital Surplus Due to the Transaction with the Non-Controlling Shareholder*

¥7,660 million

*Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)*

Not Applicable

**(8) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash, short-term deposits (not later than three months) and short-term investments (e.g. securities redeemable not later than three months from the date of acquisition).

Cash and cash equivalents on the indicated dates consisted of the following items.

	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Cash and cash equivalents				
Cash and deposit	¥ 54,088	¥ 73,391	¥ 68,955	\$ 649,051
Short-term investment	43,194	24,025	56,000	527,113
Total	¥ 97,283	¥ 97,416	¥ 124,956	\$ 1,176,164

**(9) Trade and Other Receivables**

Trade and other receivables are classified as financial assets measured at amortized cost.

Trade and other receivables include following items.

	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Trade receivables				
Notes receivable	¥ 2,577	¥ 2,547	¥ 3,140	\$ 29,559
Account receivable-trade	74,904	88,796	99,330	934,956
Allowance for credit losses	(418)	(647)	(536)	(5,049)
Other receivables				
Account receivables-other	13,774	19,994	20,193	190,069
Other	197	441	350	3,290
Total	¥ 91,034	¥ 111,130	¥ 122,476	\$ 1,152,824

**(10) Other Financial Assets****1) Breakdown of Other Financial Assets**

The breakdown of other financial assets is as follows.

	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Derivative asset	¥ —	¥ 69	¥ 160	\$ 1,505
Investments (equity financial assets)	41,279	42,762	61,267	576,681
Investments (debt financial assets)	22,500	18,000	10,000	94,127
Term deposits	5,825	25,542	3,287	30,937
Other	6,808	5,597	4,461	41,992
Allowance for credit losses (non-current)	(359)	(471)	(429)	(4,036)
Total	¥ 76,053	¥ 91,499	¥ 78,746	\$ 741,206
Current assets	28,868	44,970	13,776	129,666
Non-current assets	47,185	46,529	64,970	611,540
Total	¥ 76,053	¥ 91,499	¥ 78,746	\$ 741,206

Derivative assets are classified as financial assets measured at fair value through profit or loss. Investments (equity financial assets) are classified as financial assets measured at fair value through other comprehensive income. Investments (debt financial assets) and time deposits are classified as financial assets measured at amortized cost.

## 2) Financial Assets Measured at Fair Value through Other Comprehensive Income

Major stocks classified as financial assets measured at fair value through other comprehensive income and their fair values are as follows.

Name of Stock	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
BRIDGESTONE Corporation	¥ 20,361	¥ 21,804	¥ 22,389	\$ 210,744
Tosoh Corporation	1,493	3,088	3,296	31,028
Optorun Co., Ltd.	600	578	7,900	74,362

Amounts of dividends received recognized related to financial assets measured at fair value through other comprehensive income are as follows.

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2018
Dividends received	¥ 1,143	¥ 2,083	\$ 19,608

## 3) Derecognition of Financial Assets Measured at Fair Value through Other Comprehensive Income

The Group has derecognized certain financial assets measured at fair value through other comprehensive income by disposing of such assets for the purpose of improving the asset efficiency. Fair value and accumulated gains or losses (net of tax) recognized as other comprehensive income at the time of disposal in each fiscal year are as follows:

Millions of yen				Thousands of U.S. dollars	
Fiscal year ended March 31, 2017		Fiscal year ended March 31, 2018		Fiscal year ended March 31, 2018	
Fair Value	Accumulated gains or losses	Fair Value	Accumulated gains or losses	Fair Value	Accumulated gains or losses
¥ 5,417	¥ 2,005	¥ 1,179	¥ 183	\$ 11,101	\$ 1,719

For financial assets measured at fair value through other comprehensive income, accumulated gains or losses recognized as other comprehensive income are transferred to retained earnings when the assets are derecognized.

## (11) Inventories

Inventories consist of following items.

Name of Stock	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Finished goods and merchandise	¥ 52,080	¥ 52,722	¥ 55,979	\$ 526,914
Work in process	3,418	3,373	4,161	39,164
Raw materials and supplies	22,359	25,823	27,427	258,159
Total	¥ 77,857	¥ 81,918	¥ 87,567	\$ 824,237

The amount of valuation losses on inventories recognized as expenses was ¥131 million (\$1,233 thousand, ¥693 million in the previous year). The write-off amount is included in "cost of sales" on the consolidated statement of profit or loss. The amount included in cost of sales was ¥280,273 million (\$2,638,112 thousand, ¥263,424 million in the previous year).



## (12) Other Assets

The breakdown of other assets is as shown below.

	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Other current assets				
Excise tax receivable	¥ 4,621	¥ 5,317	¥ 5,803	\$ 54,626
Income taxes receivable	1,982	140	485	4,567
Prepaid expenses	894	899	1,007	9,475
Other	1,604	2,338	1,839	17,307
Total	¥ 9,101	¥ 8,695	¥ 9,134	\$ 85,974
Other non-current assets				
Long-term prepaid expenses	326	591	379	3,563
Other	5,493	6,538	1,484	13,968
Total	¥ 5,819	¥ 7,129	¥ 1,862	\$ 17,531

## (13) Property, Plant and Equipment

Changes in carrying amounts and the balance of acquisition costs and accumulated depreciation of property, plant and equipment are as follows. For the information of impairment losses, see "(15) Impairment of Non-Financial Assets."

### Changes in Carrying Amounts

	Millions of yen						Total
	Buildings and structures	Machinery and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Other	
<b>April 1, 2016</b>	¥ 34,575	¥ 39,464	¥ 5,819	¥ 17,468	¥ 23,282	¥ 3	¥ 120,612
Acquisition	141	1,339	754	775	25,726	—	28,736
Depreciation	(2,542)	(7,749)	(2,814)	—	—	(0)	(13,106)
Impairment loss	—	—	—	(2,111)	—	—	(2,111)
Sales and disposals	(481)	(260)	(68)	(252)	(172)	—	(1,233)
Transfer	1,802	21,796	4,604	—	(28,205)	3	—
Exchange differences of foreign operations	79	869	(33)	(17)	(645)	(4)	250
Other	77	(88)	(82)	(129)	(1,183)	4	(1,400)
<b>March 31, 2017</b>	¥ 33,652	¥ 55,371	¥ 8,181	¥ 15,734	¥ 18,804	¥ 5	¥ 131,748
Acquisition	64	2,056	490	—	37,417	203	40,230
Acquisition from business combination	1	140	24	—	—	—	165
Depreciation	(2,758)	(8,957)	(3,449)	—	—	0	(15,163)
Sales and disposals	(68)	(121)	(40)	(524)	(630)	—	(1,382)
Transfer	7,694	10,282	3,867	—	(21,838)	(5)	—
Exchange differences of foreign operations	(49)	955	23	(58)	1,360	(3)	2,228
Other	(24)	(264)	(2)	—	2,298	0	2,009
<b>March 31, 2018</b>	¥ 38,512	¥ 59,463	¥ 9,095	¥ 15,153	¥ 37,412	¥ 199	¥ 159,834

	Thousands of U.S. Dollars						
	Buildings and structures	Machinery and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Other	Total
<b>March 31, 2017</b>	\$ 316,754	\$ 521,191	\$ 77,005	\$ 148,099	\$ 176,998	\$ 46	\$ 1,240,093
Acquisition	602	19,348	4,610	—	352,195	1,912	378,667
Acquisition from business combination	7	1,322	227	—	—	—	1,555
Depreciation	(25,959)	(84,306)	(32,462)	—	—	1	(142,726)
Sales and disposals	(637)	(1,135)	(376)	(4,929)	(5,930)	—	(13,007)
Transfer	72,424	96,782	36,401	—	(205,556)	(51)	—
Exchange differences of foreign operations	(464)	8,987	218	(544)	12,805	(32)	20,969
Other	(221)	(2,485)	(14)	—	21,634	1	18,914
<b>March 31, 2018</b>	<b>\$ 362,505</b>	<b>\$ 559,704</b>	<b>\$ 85,608</b>	<b>\$ 142,626</b>	<b>\$ 352,146</b>	<b>\$ 1,877</b>	<b>\$ 1,504,466</b>

### Acquisition Cost

	Millions of yen						
	Buildings and structures	Machinery and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Other	Total
April 1, 2016	¥ 111,269	¥ 282,430	¥ 56,508	¥ 17,468	¥ 23,282	¥ 5	¥ 490,963
March 31, 2017	110,289	302,427	59,239	17,845	18,804	5	508,610
<b>March 31, 2018</b>	<b>¥ 117,510</b>	<b>¥ 312,766</b>	<b>¥ 60,729</b>	<b>¥ 15,153</b>	<b>¥ 37,412</b>	<b>¥ 199</b>	<b>¥ 543,769</b>

	Thousands of U.S. Dollars						
	Buildings and structures	Machinery and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Other	Total
<b>March 31, 2018</b>	<b>\$ 1,106,081</b>	<b>\$ 2,943,959</b>	<b>\$ 571,619</b>	<b>\$ 142,626</b>	<b>\$ 352,146</b>	<b>\$ 1,877</b>	<b>\$ 5,118,309</b>

### Accumulated Depreciation and Impairment

	Millions of yen						
	Buildings and structures	Machinery and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Other	Total
April 1, 2016	¥ 76,694	¥ 242,966	¥ 50,689	¥ —	¥ —	¥ 2	¥ 370,351
March 31, 2017	76,637	247,056	51,058	2,111	—	—	376,862
<b>March 31, 2018</b>	<b>¥ 78,998</b>	<b>¥ 253,303</b>	<b>¥ 51,634</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ 383,935</b>

	Thousands of U.S. Dollars						
	Buildings and structures	Machinery and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Other	Total
<b>March 31, 2018</b>	<b>\$ 743,577</b>	<b>\$ 2,384,255</b>	<b>\$ 486,011</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 3,613,843</b>

- (Notes) 1. Depreciation expenses of property, plant and equipment are recorded as “inventories” on the consolidated statement of financial position, or “cost of sales” and “selling, general and administrative expenses” on the consolidated statement of profit or loss.
2. “Other” in the changes of carrying amounts includes transfer to/from “inventories” on the consolidated statement of financial position, or “cost of sales” and “selling, general and administrative expenses” on the consolidated statement of profit or loss.
3. Amounts of property, plant and equipment pledged as collateral for liabilities are stated in “(18) Borrowings and Other Financial Liabilities.”

## (14) Goodwill and Other Intangible Assets

Changes in carrying amounts and the balance of acquisition costs and accumulated amortization of goodwill and other intangible assets are as follows. For the information of impairment losses, see “(15) Impairment of Non-Financial Assets.”

### Changes in Carrying Amounts

	Millions of yen			
	Goodwill	Other intangible asset		Total
		Software	Other	
<b>April 1, 2016</b>	¥ 9,354	¥ 2,608	¥ 5,525	¥ 8,133
Acquisition	—	2,368	210	2,578
Amortization	—	(987)	(670)	(1,657)
Sales and disposals	—	(5)	(115)	(121)
Transfer to other property, plant and equipment	—	(324)	324	—
Exchange differences of foreign operations	(23)	186	517	704
Other	—	(12)	(434)	(447)
<b>March 31, 2017</b>	¥ 9,331	¥ 3,834	¥ 5,356	¥ 9,190
Acquisition	—	2,032	146	2,179
Acquisition from business combination	10,593	9	78	87
Amortization	—	(895)	(914)	(1,809)
Sales and disposals	—	(134)	(66)	(199)
Transfer to other property, plant and equipment	—	(2,593)	2,593	—
Exchange differences of foreign operations	(535)	135	462	597
Other	0	345	14	359
<b>March 31, 2018</b>	<b>¥ 19,389</b>	<b>¥ 2,734</b>	<b>¥ 7,670</b>	<b>¥ 10,403</b>

	Thousands of U.S. dollars			
	Goodwill	Other intangible asset		Total
		Software	Other	
<b>March 31, 2017</b>	\$ 87,832	\$ 36,087	\$ 50,416	\$ 86,503
Acquisition	—	19,131	1,376	20,507
Acquisition from business combination	99,704	88	732	820
Amortization	—	(8,425)	(8,601)	(17,026)
Sales and disposals	—	(1,257)	(617)	(1,874)
Transfer to other property, plant and equipment	—	(24,408)	24,408	—
Exchange differences of foreign operations	(5,032)	1,269	4,350	5,619
Other	0	3,246	129	3,375
<b>March 31, 2018</b>	<b>\$ 182,501</b>	<b>\$ 25,730</b>	<b>\$ 72,193</b>	<b>\$ 97,923</b>

## Acquisition Cost

	Millions of yen			
	Goodwill	Other intangible asset		Total
		Software	Other	
April 1, 2016	¥ 9,354	¥ 13,870	¥ 20,674	¥ 34,544
March 31, 2017	9,331	16,233	20,769	37,001
<b>March 31, 2018</b>	<b>¥ 19,389</b>	<b>¥ 18,141</b>	<b>¥ 20,927</b>	<b>¥ 39,068</b>

	Thousands of U.S. dollars			
	Goodwill	Other intangible asset		Total
		Software	Other	
<b>March 31, 2018</b>	<b>\$ 182,501</b>	<b>\$ 170,756</b>	<b>\$ 196,979</b>	<b>\$ 367,734</b>

## Accumulated Amortization and Impairment

	Millions of yen			
	Goodwill	Other intangible asset		Total
		Software	Other	
April 1, 2016	¥ —	¥ 11,262	¥ 15,149	¥ 26,411
March 31, 2017	—	12,399	15,412	27,811
<b>March 31, 2018</b>	<b>¥ —</b>	<b>¥ 15,408</b>	<b>¥ 13,257</b>	<b>¥ 28,665</b>

	Thousands of U.S. dollars			
	Goodwill	Other intangible asset		Total
		Software	Other	
<b>March 31, 2018</b>	<b>\$ —</b>	<b>\$ 145,026</b>	<b>\$ 124,785</b>	<b>\$ 269,811</b>

(Notes) 1. Amortization expenses of other intangible assets are recorded as “cost of sales” and “selling, general and administrative expenses” on the consolidated statement of profit or loss.

2. “Other” in the changes of carrying amounts includes transfer to/from “cost of sales” and “selling, general and administrative expenses” on the consolidated statement of profit or loss.

## (15) Impairment of Non-Financial Assets

### 1) Impairment Losses on Property, Plant and Equipment and Intangible Assets Other Than Goodwill

Impairment losses in the fiscal years ended March 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	<b>Fiscal year ended March 31, 2018</b>	<b>Fiscal year ended March 31, 2018</b>
Property, plant and equipment			
Land	¥ 2,111	¥ —	\$ —
Total	¥ 2,111	¥ —	\$ —

With regard to the impairment loss recognized in the fiscal year ended March 31, 2017, the carrying amount of land (Tsu, Mie) in the Fine Chemicals and Other Products Business segment was reduced to the recoverable amount (¥523 million) because use of this asset is no longer expected in the future. The recoverable amount was measured at fair value less costs of disposal. The fair value was measured based on real estate appraisal evaluated

by the sales comparison approach and others, and classified as Level 3 in the hierarchy. The impairment loss has been recorded as “other operating expenses” in the consolidated statement of profit or loss.

There was no impairment loss recognized in the fiscal year ended March 31, 2018.

## 2) Impairment Losses on Goodwill

Carrying amount of goodwill allocated to cash-generating units or (groups of cash-generating units) is as follows:

Segment	Cash-generating units (groups of cash-generating units)	Millions of yen			Thousands of U.S. dollars
		IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Plastics business	Plastics	¥ 585	¥ 585	¥ 585	\$ 5,502
Fine chemicals and other products business	In Vitro Reagents for Diagnostics and/or Research	3,641	3,641	3,641	34,276
	Bioprocess (Contract Development and Manufacturing)	5,127	5,104	5,002	47,086
	Bioprocess (Contract Development and Generation of Cell-lines)	—	—	9,330	87,823
	Other	—	—	830	7,814
Total		¥ 9,354	¥ 9,331	¥ 19,389	\$ 182,501

Of the above goodwill, major goodwill was tested for impairment as follows. The recoverable amount was measured as the higher of the value in use or the fair value less costs of disposal.

### (i) In Vitro Reagents for Diagnostics and/or Research (recoverable amount: measured at the value in use)

The value in use was calculated by discounting estimated cash flows based on the three-year plan, which was prepared by reflecting past experience and external information and approved by the management, to the present value. The continued growth rate was determined at 1.0%, and the pre-tax discount rate was calculated at 5.6% based on the weighted average cost of capital of the cash-generating unit.

The recoverable amount sufficiently exceeds the carrying amount of the cash-generating unit. The Group considers that the recoverable amount will not fall below the carrying amount even if there is a change in future cash flows, discount rate, etc. used for the calculation of the recoverable amount within a reasonable range.

### (ii) Bioprocess (Contract Development and Manufacturing) (recoverable amount: measured at the value in use)

The value in use was calculated by discounting estimated cash flows based on the three-year plan, which was prepared by reflecting past experience and external information and approved by the management, to the present value. The continued growth rate was

determined at 2.0%, and the pre-tax discount rate was calculated at 16.5% based on the weighted average cost of capital of the cash-generating unit.

The recoverable amount sufficiently exceeds the carrying amount of the cash-generating unit. The Group considers that the recoverable amount will not fall below the carrying amount even if there is a change in future cash flows, discount rate, etc. used for the calculation of the recoverable amount within a reasonable range.

### (iii) Bioprocess (Contract Development and Generation of Cell-lines) (recoverable amount: measured at the value in use)

The value in use was calculated by discounting estimated cash flows based on the three-year plan, which was prepared by reflecting past experience and external information and approved by the management, to the present value. The continued growth rate was determined at 2.0%, and the pre-tax discount rate was calculated at 13.1% based on the weighted average cost of capital of the cash-generating unit.

The recoverable amount sufficiently exceeds the carrying amount of the cash-generating unit. The Group considers that the recoverable amount will not fall below the carrying amount even if there is a change in future cash flows, discount rate, etc. used for the calculation of the recoverable amount within a reasonable range.

## (16) Investments Accounted for Using Equity Method

### 1) Investments in Associates

There are no investments in significant associates.

Carrying amount of investments in associates that are not individually significant is as follows:

	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Carrying amount	¥ 1,137	¥ 1,128	¥ 2,892	\$ 27,218



The Group's share of comprehensive income of associates that are not individually significant is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2018
Share of profit (loss)	¥ 707	¥ 408	\$ 3,838
Share of other comprehensive income	11	2,124	19,991
Share of total comprehensive income	¥ 719	¥ 2,532	\$ 23,828

## 2) Investments in Joint Ventures

There are no investments in significant joint ventures.

Carrying amount of investments in joint ventures that are not individually significant is as follows:

	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Carrying amount	¥ 22,068	¥ 20,585	¥ 21,893	\$ 206,074

The Group's share of comprehensive income of joint ventures that are not individually significant is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2018
Share of profit (loss)	¥ (29)	¥ (70)	\$ (661)
Share of other comprehensive income	(1,139)	(593)	(5,584)
Share of total comprehensive income	¥ (1,168)	¥ (663)	\$ (6,244)

## (17) Income Taxes

### 1) Deferred Tax Assets and Liabilities

#### (i) Deferred Tax Assets and Liabilities Recognized

The breakdown of deferred tax assets and liabilities by major causes for occurrence in each fiscal year is as follows:

*Fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017)*

	Millions of yen				March 31, 2017
	April 1, 2016	Recognized through profit (loss)	Recognized through other comprehensive income	Other	
<b>Deferred Tax Assets</b>					
Inventories	¥ 1,155	¥ 352	¥ —	¥ —	¥ 1,507
Accrued bonuses	1,294	150	—	(12)	1,432
Non-current assets	2,373	374	—	—	2,747
Retirement benefit liability	3,961	535	(405)	(8)	4,083
Unused tax losses	72	80	—	129	281
Other	3,631	(41)	299	(10)	3,879
Total	¥ 12,487	¥ 1,450	¥ (106)	¥ 99	¥ 13,930
<b>Deferred Tax Liabilities</b>					
Non-current assets	(2,608)	130	—	—	(2,479)
Financial asset measured at fair value through other comprehensive income	(6,968)	—	(661)	—	(7,629)
Other	(1,652)	(260)	—	—	(1,912)
Total	¥ (11,228)	¥ (130)	¥ (661)	¥ —	¥ (12,019)

*Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)*

	Millions of yen				
	April 1, 2017	Recognized through profit (loss)	Recognized through other comprehensive income	Other	March 31, 2018
Deferred Tax Assets					
Inventories	¥ 1,507	¥ (354)	¥ —	¥ —	¥ 1,153
Accrued bonuses	1,432	140	—	2	1,574
Non-current assets	2,747	(849)	—	—	1,898
Retirement benefit liability	4,083	184	(71)	9	4,205
Unused tax losses	281	109	—	—	390
Other	3,879	(1,004)	(140)	15	2,751
Total	¥ 13,930	¥ (1,774)	¥ (210)	¥ 26	¥ 11,972
Deferred Tax Liabilities					
Non-current assets	(2,479)	965	—	—	(1,513)
Financial asset measured at fair value through other comprehensive income	(7,629)	—	(3,468)	—	(11,097)
Other	(1,912)	148	—	—	(1,764)
Total	¥ (12,019)	¥ 1,113	¥ (3,468)	¥ —	¥ (14,374)

*Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)*

	Thousands of U.S. dollars				
	April 1, 2017	Recognized through profit (loss)	Recognized through other comprehensive income	Other	March 31, 2018
Deferred Tax Assets					
Inventories	\$ 14,184	\$ (3,330)	\$ —	\$ —	\$ 10,854
Accrued bonuses	13,484	1,314	—	17	14,815
Non-current assets	25,857	(7,989)	—	—	17,868
Retirement benefit liability	38,434	1,728	(664)	84	39,582
Unused tax losses	2,648	1,022	—	—	3,670
Other	36,515	(9,448)	(1,313)	143	25,897
Total	\$ 131,122	\$ (16,702)	\$ (1,977)	\$ 244	\$ 112,687
Deferred Tax Liabilities					
Non-current assets	(23,332)	9,086	—	—	(14,246)
Financial asset measured at fair value through other comprehensive income	(71,806)	—	(32,647)	—	(104,453)
Other	(17,994)	1,392	—	—	(16,602)
Total	\$ (113,132)	\$ 10,477	\$ (32,647)	\$ —	\$ (135,301)

*(ii) Temporary Differences, Etc. for Which Deferred Tax Assets Have Not Been Recognized*

The Group assesses the recoverability of deferred tax assets in each period and recognizes deferred tax assets taking into account significant uncertainty on the recoverability of its deferred tax assets.

The amount of tax losses carried forward and deductible temporary differences for which deferred tax assets have not been recognized is as follows:

	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Unused tax losses	¥ 3,767	¥ 4,039	¥ 5,274	\$ 49,641
Deductible temporary differences	3,449	2,921	3,128	29,443
Total	¥ 7,216	¥ 6,960	¥ 8,402	\$ 79,084

Expiration schedule of tax losses carried forward for which no deferred tax asset is recognized is as follows:

	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Not later than one year	¥ 95	¥ 24	¥ 208	\$ 1,954
Later than one year and not later than five years	1,284	1,125	1,159	10,911
Later than five year	2,388	2,890	3,907	36,775
Total	¥ 3,767	¥ 4,039	¥ 5,274	\$ 49,641

The amount of taxable temporary differences pertaining to investments in subsidiaries, etc. for which deferred tax liabilities have not been recognized on the date of transition, March 31, 2017 and March 31, 2018 was ¥15,204 million, ¥14,687 million and ¥16,899 million (\$159,066 thousand), respectively. For these temporary

differences, deferred tax liabilities have not been recognized because the Group can control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 2) Income Tax Expense

The breakdown of income tax expense is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2018
Current tax expenses	¥ 9,096	¥ 10,566	\$ 99,451
Deferred tax expenses	(1,320)	661	6,225
Total	¥ 7,776	¥ 11,227	\$ 105,676

Deferred tax expenses include tax losses that were not recognized previously and the amount of benefits arising from temporary differences in past periods. The amount of decrease in deferred tax

expenses due to these items was ¥330 million in the fiscal year ended March 31, 2017 and ¥304 million (\$2,863 thousand) in the fiscal year ended March 31, 2018.

Differences between statutory income tax rates and average effective tax rates can be explained with following factors.

	%	
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Statutory income tax rate	30.9	30.9
Tax credit on experiment and research expenses	(4.8)	(3.6)
Differences in tax rates applied to foreign operations	(1.7)	(3.6)
Impact of change in U.S. tax rates	—	1.2
Accumulated earnings tax	0.6	(0.4)
Other	(4.7)	(0.2)
Average effective tax rate	20.3	24.3

**(18) Borrowings and Other Financial Liabilities****1) Financial Liabilities**

Borrowings and other financial liabilities consisted of the followings.

	Millions of yen		Thousands of U.S. dollars	%	
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018	Average interest rates
Current borrowings	¥ 14,840	¥ 15,496	¥ 18,901	\$ 177,904	1.29%
Current portion of non-current borrowings	5,952	8,245	7,047	66,330	1.75%
Non-current borrowings	22,245	38,381	53,456	503,165	1.49%
Current lease obligations	546	613	523	4,918	—
Non-current lease obligation	2,221	1,988	1,674	15,756	—
Derivative liabilities	312	30	119	1,118	—
Total	¥ 46,118	¥ 64,752	¥ 81,719	\$ 769,191	—
Current liabilities	21,339	24,366	26,589	250,270	—
Non-current liabilities	24,779	40,386	55,130	518,920	—
Total	¥ 46,118	¥ 64,752	¥ 81,719	\$ 769,191	—

Borrowings and lease obligations are classified as financial liabilities measured at cost. Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss.

No restrictive financial covenants have been attached to the Group's borrowings.

Payment schedules of non-current borrowings are as follows:

	Later than one year and not later than two years	Later than two years and not later than three years	Later than three years and not later than four years	Later than four years and not later than five years	Later than five years	Total
Millions of yen	¥ 11,050	¥ 11,294	¥ 10,840	¥ 8,589	¥ 11,683	¥ 53,456
Thousands of U.S. dollars	\$ 104,007	\$ 106,310	\$ 102,037	\$ 80,843	\$ 109,969	\$ 503,165

**2) Pledged Assets**

The Company and its consolidated subsidiaries have pledged collateral under standard customary terms in standard borrowing contracts.

Pledged assets are as follows:

	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Cash and cash equivalents	¥ 712	¥ 798	¥ 393	\$ 3,696
Trade and other current receivables	2,738	3,467	4,884	45,969
Current inventories	987	1,940	2,170	20,428
Other current financial assets	152	253	0	0
Other current non-financial assets	809	738	837	7,876
Property, plant and equipment	8,762	9,146	12,098	113,871
Intangible assets	102	172	694	6,532
Non-current assets	167	829	2,007	18,895
Total	¥ 14,429	¥ 17,343	¥ 23,082	\$ 217,267

Corresponding liabilities are as follows:

	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Current borrowings and current portion of non-current borrowings	¥ 1,352	¥ 2,244	¥ 1,912	\$ 18,000
Non-current portion of non-current borrowings	206	1	4,203	39,566
Total	¥ 1,559	¥ 2,245	¥ 6,116	\$ 57,566

### 3) Reconciliation of Liabilities Arising from Financing Activities

*Fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017)*

	Millions of yen							
	Non-cash items							
	As of April 1, 2016	Cash flow	Business Combination	Acquisition	Exchange differences	Transfer between non-current and current	Other	As of March 31, 2017
Borrowings (non-current)	¥ 22,245	¥ 19,268	¥ —	¥ —	¥ 81	¥ (2,949)	¥ (264)	¥ 38,381
Borrowings (Current)	20,793	629	—	—	(543)	2,949	(86)	23,740
Lease obligations	2,767	(668)	—	411	10	—	81	2,601
Total	¥ 45,805	¥ 19,229	¥ —	¥ 411	¥ (453)	¥ —	¥ (270)	¥ 64,723

*Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)*

	Millions of yen							
	Non-cash items							
	As of April 1, 2017	Cash flow	Business Combination	Acquisition	Exchange differences	Transfer between non-current and current	Other	As of March 31, 2018
Borrowings (non-current)	¥ 38,381	¥ 18,154	¥ 362	¥ —	¥ 232	¥ (4,779)	¥ 1,106	¥ 53,456
Borrowings (Current)	23,740	(2,554)	37	—	(115)	4,779	60	25,947
Lease obligations	2,601	(667)	—	288	(32)	—	6	2,196
Total	¥ 64,723	¥ 14,933	¥ 399	¥ 288	¥ 85	¥ —	¥ 1,173	¥ 81,600

*Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)*

	Thousands of U.S. dollars							
	Non-cash items							
	As of April 1, 2017	Cash flow	Business Combination	Acquisition	Exchange differences	Transfer between non-current and current	Other	As of March 31, 2018
Borrowings (non-current)	\$ 361,267	\$ 170,878	\$ 3,409	\$ —	\$ 2,181	\$ (44,982)	\$ 10,413	\$ 503,165
Borrowings (Current)	223,461	(24,037)	346	—	(1,084)	44,982	566	244,234
Lease obligations	24,484	(6,278)	—	2,709	(300)	—	59	20,674
Total	\$ 609,211	\$ 140,563	\$ 3,755	\$ 2,709	\$ 797	\$ —	\$ 11,038	\$ 768,073



## (19) Trade and Other Payables

Trade and other payables are classified as financial liabilities measured at amortized cost. The breakdown is show below.

	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Trade Payable				
Notes payable	¥ 380	¥ 332	¥ 326	\$ 3,072
Accounts payable-trade	53,927	74,694	82,616	777,633
Other Payable				
Accounts payable-other	15,200	10,653	17,092	160,879
Other	8,477	9,359	10,270	96,664
Total	¥ 77,984	¥ 95,037	¥ 110,303	\$ 1,038,248

## (20) Employee Benefits

### 1) Outline of Post-Employment Benefit Plans

The Company and certain consolidated subsidiaries have adopted funded and unfunded defined benefit plans and defined contribution plans, and virtually all employees of these companies are covered by these plans. In Japan, as defined benefit plans under the Defined-Benefit Corporate Pension Act, defined benefit corporate pension plans and lump-sum retirement benefit plans have been operated. The amount of these benefits is calculated based on certain points, etc. given in accordance with service years and contribution. These pension plans are exposed to general investment risk, interest rate risk, inflation risk and others.

Funded defined benefit plans have been operated by a corporate pension fund that is legally separated from the Group in accordance

with laws and regulations including Defined-Benefit Corporate Pension Act. The board of the corporate pension fund and the pension-managing trustee are required by laws and regulations to act in the best interests of plan participants, and are responsible for managing plan assets based on predetermined policies.

The management of plan assets is conducted based on basic asset allocation aimed to ensure stable revenue in the medium to long term within the limits of tolerable risks, in order to ensure the payment of pension benefits, etc. now and in the future. The basic asset allocation is periodically reviewed in order to respond to changes in the market environment and the funding position from initial assumptions made.

### 2) Defined Benefit Plans

#### (i) Reconciliation of Defined Benefit Plan Obligations and Plan Assets

The relationship between defined benefit plan obligations and plan assets, and net defined benefit liabilities and assets recorded in the consolidated statement of financial position is as follows:

	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Present value of funded retirement benefit obligation	¥ 40,002	¥ 38,506	¥ 37,795	\$ 355,753
Fair value of plan assets	(36,479)	(36,593)	(36,227)	(340,991)
Subtotal	3,523	1,913	1,568	14,762
Present value of unfunded retirement benefit obligation	11,656	11,618	11,929	112,285
Total Net liability (asset) for retirement benefit	¥ 15,180	¥ 13,531	¥ 13,498	\$ 127,047

Amounts on consolidated statement of financial position

Retirement benefit liability	15,180	13,904	14,500	136,485
Retirement benefit asset	—	(373)	(1,003)	(9,437)
Total Net liability (asset) for retirement benefit	¥ 15,180	¥ 13,531	¥ 13,498	\$ 127,047

*(ii) Reconciliation of Present Value of Defined Benefit Plan Obligations*

Increase or decrease in the present value of defined benefit plan obligations is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2018
Balance of present value of retirement benefit obligation at the beginning of the fiscal year	¥ 51,659	¥ 50,124	\$ 471,799
Service cost	2,196	2,461	23,164
Interest expense	183	221	2,079
Remeasurement			
Actuarial gains (losses) arising from changes in demographic assumptions	(380)	(487)	(4,580)
Actuarial gains (losses) arising from changes in financial assumptions	(601)	352	3,309
Benefits paid	(2,814)	(2,989)	(28,130)
Other	(119)	42	397
Balance of present value of retirement benefit obligation at the end of the fiscal year	¥ 50,124	¥ 49,724	\$ 468,038

The weighted average duration of defined benefit plan obligations was 13.6 years in the fiscal year ended March 31, 2017 and 13.7 years in the fiscal year ended March 31, 2018.

*(iii) Reconciliation of Fair Value of Plan Assets*

Increase or decrease in the fair value of plan assets is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2018
The balance of fair value of plan assets at the beginning of the fiscal year	¥ 36,479	¥ 36,593	\$ 344,436
Interest revenue	130	172	1,618
Remeasurement			
Return on plan assets	342	95	898
Contributions paid by the employer	1,598	1,470	13,840
Benefits paid	(1,882)	(2,092)	(19,689)
Other	(74)	(12)	(112)
The balance of fair value of plan assets at the end of the fiscal year	¥ 36,593	¥ 36,227	\$ 340,991

For contributions to defined benefit plans, contributions are determined by making an actuarial review periodically so that balanced budgets can be maintained in the future. In the actuarial review, the Group reviews assumptions related to the determination of contributions (such as expected rate of interest, expected

mortality rate and expected withdrawal rate) and verifies the appropriateness of contributions determined.

The Group will make contributions of ¥1,470 million in the fiscal year ending March 31, 2019.

*(iv) Items of Plan Assets*

Plan assets consisted of the following items.

	Millions of yen					
	IFRS Transition Date As of April 1, 2016			As of March 31, 2017		
	Assets for which active market prices are available	Assets for which active market prices are not available	Total	Assets for which active market prices are available	Assets for which active market prices are not available	Total
Cash and cash equivalents	¥ 535	¥ —	¥ 535	¥ 2,881	¥ —	¥ 2,881
Equity instruments						
Domestic equity securities	1,127	—	1,127	1,069	—	1,069
Foreign equity securities	1,893	—	1,893	1,816	—	1,816
Debt instruments						
Domestic bonds	20,468	—	20,468	18,462	—	18,462
Foreign bonds	5,028	—	5,028	5,053	—	5,053
General accounts of life insurance	—	502	502	—	530	530
Alternative investments*	—	6,925	6,925	—	6,782	6,782
Total	¥ 29,051	¥ 7,427	¥ 36,479	¥ 29,281	¥ 7,312	¥ 36,593

\*Alternative investments include hedge funds.

	Millions of yen			Thousands of U.S. dollars		
	As of March 31, 2018			As of March 31, 2018		
	Assets for which active market prices are available	Assets for which active market prices are not available	Total	Assets for which active market prices are available	Assets for which active market prices are not available	Total
Cash and cash equivalents	¥ 3,961	¥ —	¥ 3,961	\$ 37,282	\$ —	\$ 37,282
Equity instruments						
Domestic equity securities	1,042	—	1,042	9,810	—	9,810
Foreign equity securities	3,111	—	3,111	29,285	—	29,285
Debt instruments						
Domestic bonds	8,740	—	8,740	82,267	—	82,267
Foreign bonds	10,054	—	10,054	94,634	—	94,634
General accounts of life insurance	—	551	551	—	5,183	5,183
Alternative investments*	—	8,768	8,768	—	82,530	82,530
Total	¥ 26,908	¥ 9,319	¥ 36,227	\$ 253,278	\$ 87,713	\$ 340,991

\*Alternative investments include hedge funds.

*(v) Main Components used for Actuarial Assumption*

	%		
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018
Discount rates (Weighted average)	0.40	0.50	0.44

*(vi) Sensitivity Analysis*

In the fiscal year ended March 31, 2018, a 0.5% increase (decrease) in the discount rate used in actuarial calculation would have resulted in a decrease (increase) in the present value of defined benefit plan obligations by ¥2,881 million (\$27,120 thousand). This provisional calculation assumes that variables other than the assumptions used in

the calculation are constant. In reality, since individual assumptions are affected by changes in economic indicators and conditions at the same time, the assumptions are expected to change independently or in a correlated fashion, and actual effects of such changes on defined benefit plan obligations may differ.

### 3) Defined Contribution Plans

The amount recognized as expenses in relation to defined contribution plans was ¥372 million in the fiscal year ended March 31, 2017 and ¥406 million (\$3,822 thousand) in the fiscal year ended March 31, 2018.

### 4) Employee Benefits Expense

The total amount of employee benefits expense included in “cost of sales” and “selling, general and administrative expenses” in the consolidated statement of profit or loss in the fiscal year ended March 31, 2017 and the fiscal year ended March 31, 2018 was ¥2,566 million (\$24,154 thousand) and ¥2,865 million (\$26,965 thousand), respectively.

## (21) Other Liabilities

Other liabilities includes following items.

	IFRS Transition Date As of April 1, 2016	Millions of yen As of March 31, 2017	As of March 31, 2018	Thousands of U.S. dollars As of March 31, 2018
Other current liabilities				
Accrued bonuses	¥ 4,274	¥ 4,299	¥ 4,523	\$ 42,582
Unearned revenue	3,502	4,163	4,860	45,744
Advances received	811	943	585	5,506
Accrued consumption taxes	301	727	751	7,067
Other	1,303	1,224	1,888	17,768
Total	¥ 10,191	¥ 11,357	¥ 12,607	\$ 118,666
Other non-current assets				
Provision for environmental measures	1,069	824	701	6,601
Other	1,379	1,454	1,778	16,738
Total	¥ 2,448	¥ 2,278	¥ 2,480	\$ 23,339

## (22) Equity and Other Equity Items

### 1) Share Capital and Capital Surplus

Capital surplus consists of legal capital surplus and other capital surplus.

The Companies Act of Japan (hereinafter the “Companies Act”) stipulates that at least half of payment or contribution at the share issue shall be credited to share capital, and the remaining amount may be recorded as legal capital surplus included in capital surplus. In addition, under the Companies Act, legal capital surplus may be credited to share capital by resolution of the general meeting of shareholders.

Increase or decrease in the number of authorized shares and the number of issued shares is as follows:

	Number of shares authorized	Number of shares issued
<b>IFRS Transition Date As of April 1, 2016</b>	696,061,000	226,074,545
Increase/Decrease	—	—
<b>As of March 31, 2017</b>	696,061,000	226,074,545
Increase/Decrease	—	51,600
<b>As of March 31, 2018</b>	<b>696,061,000</b>	<b>226,126,145</b>

(Notes) 1. All shares issued by the Company are ordinary shares with no rights limitations and without par value and restricted shares. Issued shares are fully paid up.  
2. Major factors for the increase or decrease during the period are changes related to directors’ remuneration.

## 2) Treasury Shares

The Companies Act stipulates that entities may determine the number of shares to be acquired, the total amount of acquisition price, etc. and acquire treasury shares by resolution of the general meeting of shareholders, to the extent of the distributable

amount. Moreover, in the case of acquisition through market transactions or a takeover bid, treasury shares may be acquired by resolution of the Board of Directors within the requirements prescribed in the Companies Act in accordance with the provisions of the Articles of Incorporation.

Increase or decrease in the number of treasury shares is as follows:

	Number of shares
<b>IFRS Transition Date As of April 1, 2016</b>	488,223
Increase/Decrease	3,072,309
<b>As of March 31, 2017</b>	3,560,532
Increase/Decrease	(25,753)
<b>As of March 31, 2018</b>	<b>3,534,779</b>

(Note) Increase or decrease during the period is mainly due to purchase of shares less than one unit.

## 3) Retained Earnings

Retained earnings consist of legal retained earnings and other retained earnings.

The Companies Act stipulates that one tenth of the amount paid as dividends of surplus shall be reserved as legal capital surplus or legal retained earnings until the sum of legal capital surplus included in capital surplus and legal retained earnings included in retained earnings reaches one quarter of share capital. Accumulated legal retained earnings may be appropriated to cover a deficit. It is specified that legal retained earnings may be reversed by resolution of general meeting of shareholder.

## 4) Other Components of Equity

Fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017)

	Millions of yen					
	Net change in financial assets measured at fair value through other comprehensive income	Net change in fair value on cash flow hedges	Exchange differences on translation of foreign operations	Remeasurements of defined benefit plans	Restricted Shares	Total
<b>As of April 1, 2016</b>	¥ 15,728	¥ (159)	¥ —	¥ —	¥ —	¥ 15,569
Other comprehensive income	2,805	151	(1,221)	969	—	2,703
Total comprehensive income	2,805	151	(1,221)	969	—	2,703
Share-based payment plan	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	(1,302)	—	—	(969)	—	(2,271)
Changes in non-controlling interests	(18)	—	23	—	—	5
Other movements	—	—	—	—	—	—
Total transactions with owners, etc.	(1,320)	—	23	(969)	—	(2,266)
<b>As of March 31, 2017</b>	¥ 17,213	¥ (8)	¥ (1,198)	¥ —	¥ —	¥ 16,006



## Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

Millions of yen

	Net change in financial assets measured at fair value through other comprehensive income	Net change in fair value on cash flow hedges	Exchange differences on translation of foreign operations	Remeasurements of defined benefit plans	Restricted Shares	Other	Total
<b>As of April 1, 2017</b>	¥ 17,213	¥ (8)	¥ (1,198)	¥ —	¥ —	¥ —	¥ 16,006
Other comprehensive income	8,034	79	1,822	110	—	—	10,045
Total comprehensive income	8,034	79	1,822	110	—	—	10,045
Share-based payment plan	—	—	—	—	(25)	—	(25)
Transfer from other components of equity to retained earnings	(183)	—	—	(110)	—	—	(292)
Changes in non-controlling interests	—	—	4	—	—	—	4
Other movements	—	—	(206)	—	—	(460)	(666)
Total transactions with owners, etc.	(183)	—	(202)	(110)	(25)	(460)	(980)
<b>As of March 31, 2018</b>	<b>¥ 25,064</b>	<b>¥ 70</b>	<b>¥ 422</b>	<b>¥ —</b>	<b>¥ (25)</b>	<b>¥ (460)</b>	<b>¥ 25,071</b>

## Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

Thousands of U.S. dollars

	Net change in financial assets measured at fair value through other comprehensive income	Net change in fair value on cash flow hedges	Exchange differences on translation of foreign operations	Remeasurements of defined benefit plans	Restricted Shares	Other	Total
<b>As of April 1, 2017</b>	\$ 162,017	\$ (81)	\$ (11,273)	\$ —	\$ —	\$ —	\$ 150,662
Other comprehensive income	75,624	742	17,149	1,034	—	—	94,549
Total comprehensive income	75,624	742	17,149	1,034	—	—	94,549
Share-based payment plan	—	—	—	—	(236)	—	(236)
Transfer from other components of equity to retained earnings	(1,719)	—	—	(1,034)	—	—	(2,753)
Changes in non-controlling interests	—	—	36	—	—	—	36
Other movements	—	—	(1,946)	—	—	(4,325)	(6,272)
Total transactions with owners, etc.	(1,719)	—	(1,910)	(1,034)	(236)	(4,325)	(9,225)
<b>As of March 31, 2018</b>	<b>\$ 235,922</b>	<b>\$ 660</b>	<b>\$ 3,966</b>	<b>\$ —</b>	<b>\$ (236)</b>	<b>\$ (4,325)</b>	<b>\$ 235,986</b>

## (a) Exchange Differences on Translation of Foreign Operations

They represent translation differences on foreign operations' financial statements.

## (b) Net Change in Financial Assets Measured at Fair Value through Other Comprehensive Income

It represents valuation differences on fair value of equity instruments measured at fair value through other comprehensive income.

## (c) Net Change in Fair Value of Cash Flow Hedges

It represents change in profit or loss on valuation of derivatives as hedging instruments that were recorded in the statement of comprehensive income on and before the date of cessation of hedge accounting.

## (d) Remeasurements of Defined Benefit Liabilities (Assets)

Remeasurements of defined benefit liabilities (assets) are changes in actuarial differences, return on plan assets (excluding the amount included in interest revenue) and the effect of the asset ceiling (excluding the amount included in interest revenue). Actuarial differences are adjustments based on actual results related to defined benefit plan obligations (differences between actuarial assumptions at the beginning of the period and actual results) and the effect of changes in actuarial assumptions. These items are recognized in other comprehensive income when they arise, and immediately transferred from other components of equity to retained earnings.

## (e) Restricted Shares

Under the restricted share-based payment plan, monetary remuneration to be used as contributed properties for restricted shares

is provided. The amount equivalent to fair value of remuneration determined at the initial recognition is recorded in share capital, and recognized as the amount debited to other components of equity. Over the vesting period, other components of equity recognized as

the debited amount are deducted at the time when remuneration cost is recognized.

Details of the restricted share-based payment plan are provided in the note “(30) Share-Based Payment.”

## (23) Dividends

The amounts of dividends paid are as follows:

*Fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017)*

Resolution	Class of shares	Total amount of dividends	Dividends per share	Record date	Effective date of dividends	Source of dividends
Ordinary General Meeting of Shareholders on June 17, 2016	Ordinary shares	¥ 5,640 million	¥ 25	March 31, 2016	June 20, 2016	Retained Earnings
Board of Directors Meeting on October 24, 2016	Ordinary shares	¥ 5,562 million	¥ 25	September 30, 2016	November 24, 2016	Retained Earnings

*Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)*

Resolution	Class of shares	Total amount of dividends	Dividends per share	Record date	Effective date of dividends	Source of dividends
Ordinary General Meeting of Shareholders on June 16, 2017	<b>Ordinary shares</b>	<b>¥ 5,563 million (\$ 52,361 thousand)</b>	<b>¥ 25 (\$ 0.24)</b>	<b>March 31, 2017</b>	<b>June 19, 2017</b>	<b>Retained Earnings</b>
Board of Directors Meeting on October 30, 2017	<b>Ordinary shares</b>	<b>¥ 5,564 million (\$ 52,374 thousand)</b>	<b>¥ 25 (\$ 0.24)</b>	<b>September 30, 2017</b>	<b>November 30, 2017</b>	<b>Retained Earnings</b>

Dividends of which record dates belong to the current consolidated fiscal year and of which effective dates of dividends fall after the end of the current consolidated fiscal year are as follows:

*Fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017)*

Resolution	Class of shares	Total amount of dividends	Dividends per share	Record date	Effective date of dividends	Source of dividends
Ordinary General Meeting of Shareholders on June 16, 2017	Ordinary shares	¥ 5,563 million	¥ 25	March 31, 2017	June 19, 2017	Retained Earnings

*Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)*

Resolution	Class of shares	Total amount of dividends	Dividends per share	Record date	Effective date of dividends	Source of dividends
Ordinary General Meeting of Shareholders on June 15, 2018	<b>Ordinary shares</b>	<b>¥ 5,565 million (\$ 52,379 thousand)</b>	<b>¥ 25 (\$ 0.24)</b>	<b>March 31, 2018</b>	<b>June 18, 2018</b>	<b>Retained Earnings</b>

## (24) Revenue

Revenue composed of the followings.

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	<b>Fiscal year ended March 31, 2018</b>	<b>Fiscal year ended March 31, 2018</b>
Sale of products	¥ 377,096	<b>¥ 405,600</b>	<b>\$ 3,817,772</b>
Service revenue	11,359	<b>16,330</b>	<b>153,707</b>
Total	¥ 388,455	<b>¥ 421,930</b>	<b>\$ 3,971,478</b>

## (25) Selling, General and Administrative Expenses

1) Major Items in Selling, General and Administrative Expenses are as Follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2018
Transportation and warehousing expenses	¥ 8,421	¥ 8,776	\$ 82,607
Salaries and allowances	17,874	18,949	178,363
Retirement benefit expenses	1,020	860	8,097
Experiment and research expenses	19,585	20,678	194,638
Depreciation	2,159	2,320	21,840
Supplies expenses	3,386	3,695	34,777
Business consignment expenses	2,790	3,631	34,177
Other	26,522	28,067	264,184
Total	¥ 81,759	¥ 86,977	\$ 818,682

2) Amount of Research and Development Expense included in General and Administrative Expenses and Manufacturing Costs

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2018
Research and development expense	¥ 19,370	¥ 20,322	\$ 191,281

## (26) Other Operating Income and Expenses

Other operating Income consisted of as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2018
Gain on sales of non-current assets	¥ 663	¥ 170	\$ 1,603
Rent income	89	94	883
Gain on transfer of business	749	—	—
Gain on bargain purchase	—	441	4,155
Settlement received	—	602	5,670
Other	3,404	954	8,978
Total	¥ 4,906	¥ 2,262	\$ 21,289

Other operating expenses consisted of as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2018
Loss on abandonment of non-current assets	¥ 283	¥ 921	\$ 8,665
Loss on sales of non-current assets	43	11	105
Impairment loss	2,111	—	—
Other	1,479	1,255	11,817
Total	¥ 3,916	¥ 2,187	\$ 20,586

**(27) Financial Income and Costs**

Financial income consisted of as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	<b>Fiscal year ended March 31, 2018</b>	<b>Fiscal year ended March 31, 2018</b>
Financial assets measured at amortized cost			
Interest income	¥ 226	<b>¥ 238</b>	<b>\$ 2,236</b>
Equity financial assets measured at fair value through other comprehensive income			
Dividend income	1,143	<b>2,083</b>	<b>19,608</b>
Foreign exchange gains	1,676	<b>1,338</b>	<b>12,592</b>
Total	¥ 3,045	<b>¥ 3,659</b>	<b>\$ 34,436</b>

Financial costs consisted of as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017	<b>Fiscal year ended March 31, 2018</b>	<b>Fiscal year ended March 31, 2018</b>
Financial liabilities measured at amortized cost			
Interest expenses	¥ 694	<b>¥ 1,022</b>	<b>\$ 9,619</b>
Total	¥ 694	<b>¥ 1,022</b>	<b>\$ 9,619</b>

**(28) Other Comprehensive Income**

Changes in items of other comprehensive income are shown below.

*Fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017)*

	Millions of yen				
	Amount incurred	Reclassification	before tax	Income tax	Net of tax
Other comprehensive income that will not be reclassified to profit or loss					
Net change in financial assets measured at fair value through other comprehensive income	¥ 4,026	¥ —	¥ 4,026	¥ (1,245)	¥ 2,781
Remeasurements of defined benefit plans	1,323	—	1,323	(405)	918
Share of other comprehensive income of entities accounted for using equity method	51	—	51	—	51
Total	5,400	—	5,400	(1,650)	3,750
Items that may be reclassified to profit or loss					
Cash flow hedges	162	133	295	—	295
Exchange differences on translation of foreign operations	(303)	—	(303)	—	(303)
Share of other comprehensive income of entities accounted for using equity method	(1,179)	—	(1,179)	—	(1,179)
Total	(1,319)	133	(1,187)	—	(1,187)
Total	¥ 4,080	¥ 133	¥ 4,213	¥ (1,650)	¥ 2,564

*Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)*

	Millions of yen				
	Amount incurred	Reclassification	before tax	Income tax	Net of tax
Other comprehensive income that will not be reclassified to profit or loss					
Net change in financial assets measured at fair value through other comprehensive income	¥ 11,588	¥ —	¥ 11,588	¥ (3,541)	¥ 8,046
Remeasurements of defined benefit plans	230	—	230	(71)	160
Share of other comprehensive income of entities accounted for using equity method	(50)	—	(50)	—	(50)
Total	11,768	—	11,768	(3,612)	8,156
Items that may be reclassified to profit or loss					
Cash flow hedges	95	59	154	—	154
Exchange differences on translation of foreign operations	1,001	—	1,001	—	1,001
Share of other comprehensive income of entities accounted for using equity method	1,581	—	1,581	—	1,581
Total	2,677	59	2,736	—	2,736
Total	¥ 14,445	¥ 59	¥ 14,504	¥ (3,612)	¥ 10,892

*Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)*

	Thousands of U.S. dollars				
	Amount incurred	Reclassification	before tax	Income tax	Net of tax
Other comprehensive income that will not be reclassified to profit or loss					
Net change in financial assets measured at fair value through other comprehensive income	\$ 109,073	\$ —	\$ 109,073	\$ (33,335)	\$ 75,739
Remeasurements of defined benefit plans	2,169	—	2,169	(664)	1,505
Share of other comprehensive income of entities accounted for using equity method	(471)	—	(471)	—	(471)
Total	110,772	—	110,772	(33,999)	76,773
Items that may be reclassified to profit or loss					
Cash flow hedges	896	558	1,454	—	1,454
Exchange differences on translation of foreign operations	9,420	—	9,420	—	9,420
Share of other comprehensive income of entities accounted for using equity method	14,878	—	14,878	—	14,878
Total	25,194	558	25,752	—	25,752
Total	\$ 135,966	\$ 558	\$ 136,524	\$ (33,999)	\$ 102,525



**(29) Earnings per Share**

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2018
1) Basic earnings per share	¥ 135.17	¥ 149.32	\$ 1.41
(Basis of calculation)			
Profit attributable to owners of parent	¥ 30,243 million	¥ 33,230 million	\$ 312,784 thousand
Average shares outstanding during the year (1,000 shares)	223,743	222,551	222,551
2) Diluted earnings per share	¥ 134.77	¥ 148.89	\$1.40
(Basis of calculation)			
Increase in common stock due to stock options (1,000 shares)	652	637	637
Average diluted shares outstanding during the year (1,000 shares)	224,395	223,187	223,187

**(30) Share-Based Payment****1) Stock Options***(i) Overview of Share-Based Payment Plan*

The Group operated an equity-settled share-based payment plan where the Group received services from directors, executive officers, and employees and paid equity instruments (options) as consideration thereof until June 2017.

The fair value on the date the option was granted under the plan is recognized as an expense over the option's vesting period and

the same amount is recorded as an increase of equity. The plan was terminated in June 2017 (however, of share acquisition rights as share-based stock options that were already granted to directors, etc., those share acquisition rights which have not been exercised will be continued).

*(ii) Number and Weighted Average Exercise Prices of Stock Options*

	Shares	Yen	Shares	Yen
	Fiscal year ended	March 31, 2017	Fiscal year ended	March 31, 2018
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at the beginning	621,400	¥ 1	642,100	¥ 1
Granted	74,200	1	—	—
Exercised	(53,500)	1	(26,800)	1
Forfeited	—	—	—	—
Expired	—	—	—	—
Outstanding at the end	642,100	1	615,300	1
Exercisable at the end	307,100	1	364,500	1

The weighted average share price as of the exercise date of stock options exercised during the period was ¥ 1,762 and ¥ 2,353 in the fiscal years ended March 31, 2017 and 2018, respectively.

In the fiscal years ended March 31, 2017 and 2018, the exercise price of unexercised stock options was ¥ 1 each. The weighted

average remaining contract terms in the fiscal years ended March 31, 2017 and 2018 were 11.6 years and 10.7 years, respectively, for the unexercised balance at the end of the fiscal year, and 13.1 years and 12.3 years, respectively, for the exercisable balance at the end of the fiscal year.

### (iii) Fair Value of Stock Options Granted During the Period and Assumptions

The weighted average grant-date fair value of stock options granted during the period is measured based on the following assumptions using the Black-Scholes model.

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Share price at date of grant (Yen)	1,201	—
Exercise price (Yen)	1	—
Expected volatility (%)	28.0	—
Expected option life (Year)	5	—
Expected dividend (%)	4.16	—
Risk free interest rate (%)	(0.381)	—

- (Notes) 1. The expected volatility was determined by tabulating actual share prices in the period corresponding to the expected remaining period on the basis of closing price at the end of each month.
2. Since the expected remaining period is difficult to reasonably estimate due to lack of sufficient data accumulated, the average tenure of directors up to this point was deemed as the expected remaining period.
3. Expected dividends were calculated as "actual dividends paid per share ÷ share price at the grant date."
4. For the risk free rate, the government bond yield corresponding to the expected remaining period was used.

## 2) Restricted Share-Based Payment Plan

From the fiscal year ended March 31, 2018, the Group has introduced the restricted share-based payment plan in order to further promote sharing of values with shareholders and establish a remuneration structure that contributes to sustained improvement in corporate value in the medium to long term. Under this plan, to grant restricted shares to directors, excluding outside directors, and executive officers (hereinafter "Eligible Directors, etc."), the Company is to provide the Eligible Directors, etc. with claims for monetary remuneration in principle in each period and have them contribute these claims in kind as contributed properties to the Company. Accordingly, the Company is to issue or dispose of ordinary shares of the Company to the Eligible Directors, etc. and make them hold the shares.

The Company enters into an agreement with Eligible Directors, etc. for allotment of restricted shares, and Eligible Directors, etc. cannot transfer, pledge or dispose of in any other way shares granted under the allotment agreement at will during a given period of time stipulated in the agreement (hereinafter the "Transfer Restriction Period") (hereinafter, the "Transfer Restriction"). The Transfer Restriction is lifted for all shares held by Eligible Directors, etc. when the Transfer Restriction Period expires, on the condition that the Eligible Directors, etc. continued to hold a position of directors, executive officers, audit & supervisory board members, employees, or any other equivalent position of the Company or its subsidiaries during the Transfer Restriction Period. On the other hand, under this structure, shares for which the Transfer Restriction has not been lifted at the time when the Transfer Restriction Period expires are acquired by the Company without any payment in principle.

Details of restricted shares granted during the period are as follows:

	Fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)
Number of restricted shares granted	51,600 shares
Fair value on the grant date	¥ 1,944 per share (\$18.30 per share)
Calculation method for fair value measurement	Calculated on the basis of closing price of ordinary shares of the Company at the Tokyo Stock Exchange on the business day preceding the date when the Board of Directors adopted a resolution.
Transfer Restriction Period	3 years

## 3) Share-Based Payment Expense

The amount of share-based expense included in "selling, general and administrative expenses" on the consolidated statement of profit or loss was, ¥ 90 million in fiscal year ended March 31, 2017 and ¥ 98 million (\$920 thousand) in fiscal year ended in March 31, 2018, respectively.

## (31) Financial Instruments

### 1) Capital Management Policy

The Group considers it vitally important to improve corporate performance on a long-term basis and achieve improvement in corporate value in the medium to long term by strengthening its research and development activities from a long-term viewpoint and enhancing competitiveness through development of new businesses. For capital efficiency, the Group monitors ROE on a timely basis.

### 2) Financial Risks

The Group is exposed to financial risks related to operating activities (market risk, credit risk and liquidity risk), and conducts risk management based on certain policy to avoid or mitigate effects of the risks. For fund management, approval of the Company's Board

of Directors is received in principle at the beginning of each period. Transactions and risk management during the period are principally conducted based on internal management regulations. The Group uses derivatives to avert risks described below, and as its policy, does not perform any speculative transaction.

#### (i) Market Risks

##### (a) Exchange Rate Risks

The Group operates business globally and sells products manufactured by the Company and each subsidiary and others abroad. Thus, the Group is exposed to the risk that profit or loss, cash flows, etc. are affected by fluctuations in exchange rates.

To avoid exchange rate risks, the Group mainly utilizes foreign exchange forward contracts as derivative transactions for trade receivables and payables denominated in foreign currencies.

The Company's responsible department manages risks in

accordance with the derivative transaction management regulations that specify authority for transactions, maximum amount, etc. and reports monthly trading results to responsible Directors.

Details of currency derivatives are as follows:

#### Derivative Transactions which Hedge Accounting Is Not Applied

	Millions of yen					
	IFRS Transition Date As of April 1, 2016			As of March 31, 2017		
	Contracted Amount	Later than one year	Fair value	Contracted Amount	Later than one year	Fair value
U.S. dollar						
Forward exchange contracts						
Purchase	¥ 1,318	¥ —	¥ (3)	¥ 3,170	¥ —	¥ 5
Sell	1,242	—	30	6,653	—	(3)
Total	¥ 2,560	¥ —	¥ 27	¥ 9,823	¥ —	¥ 2

	Millions of yen			Thousands of U.S. dollars		
	As of March 31, 2018			As of March 31, 2018		
	Contracted Amount	Later than one year	Fair value	Contracted Amount	Later than one year	Fair value
U.S. dollar						
Forward exchange contracts						
Purchase	¥ 1,454	¥ —	¥ (33)	\$ 13,690	\$ —	\$ (311)
Sell	2,336	—	27	21,984	—	253
Total	¥ 3,790	¥ —	¥ (6)	\$ 35,674	\$ —	\$ (58)

Although the Group does not apply hedge accounting to these derivative transactions, it considers that the transactions effectively offset effects of exchange fluctuations.

#### Exposure to Exchange Rate Risks

The Group's exposure of Japanese yen, Korean won and Thai baht as functional currencies against U.S. dollar, the major foreign currency, is as follows. These amounts are after deduction of amounts of exchange rate risks hedged through derivative transactions, etc.

Functional Currency	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Japanese yen	¥ 6,059	¥ 5,714	¥ 14,702	\$ 138,387
Korean won	8,059	11,826	3,998	37,632
Thai baht	¥ (23,887)	¥ (25,009)	¥ (11,231)	\$ (105,718)

#### Foreign Exchange Sensitivity Analysis

With regard to foreign currency receivables and payables held by the Group at the end of each fiscal year, effects of 1% depreciation of US dollar against each functional currency on profit before tax in the consolidated statement of profit or loss are as follows. If each currency moves inversely, this will have effects opposite to and at the same amount as the table below. The calculation is based on the assumption that currencies other than the currency used do not fluctuate.

Functional Currency	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Japanese yen (weak U.S. dollar)	¥ (57)	¥ (147)	\$ (1,384)
Korean won (weak U.S. dollar)	(118)	(40)	(376)
Thai baht (weak U.S. dollar)	¥ 250	¥ 112	\$ 1,057

**(b) Equity Price Risks**

Equity instruments held by the Group are principally shares of companies with which the Group has business relationships. These shares were acquired to expand businesses mutually and enhance the transaction relationships, and the Group does not hold the shares for the purpose of short-term trading.

Equity instruments include listed shares and unlisted shares. The Group periodically monitors market value, financial conditions of the issuers (business partners), etc. and reviews the ownership in light of the relationships with the business partners.

If the share price increases (decreases) by 5% with other changing factors remaining constant, other components of equity (net of related tax effects) will increase (decrease) by ¥ 2,332 million (\$21,948 thousand) for the fiscal year ended March 31, 2018 (date of transition: ¥ 1,744 million, fiscal year ended March 31, 2017: ¥ 1,792 million) due to the change in fair value.

**(c) Interest Rate Risks**

The Group is exposed to interest rate fluctuation risks because it receives variable-rate loans from financial institutions.

For variable-rate, long-term borrowings involving interest rate fluctuation risks, the Group mitigates the risks by fixing cash flows using interest rate swap transactions, and applies cash flow hedges.

Exposure to interest rate fluctuation risks for the Group is limited, and effects of interest rate fluctuations are insignificant.

**(ii) Credit Risks**

The Group's trade and other receivables, other financial assets, etc. are exposed to credit risks of customers.

The Group establishes terms of collection and credit limit for transaction partners. In addition, the Group confirms the credit status periodically by obtaining the latest credit report on transaction partners from external organizations where necessary and analyzing the report as well as past results of collection and other factors. If it is considered that there is any change or abnormality in

the credit status as a result of the confirmation, measures for protection of receivables are taken appropriately, including change in the credit limit, modification of the terms of collection or obtaining transaction credit insurance.

In the execution of derivative transactions, the Group conducts transactions only with financial institutions with high credit ratings in principle to mitigate credit risks.

The Group classifies receivables, etc. based on nature of the credit risk to calculate loss allowance.

In terms of trade receivables, the loss allowance is always determined as the same amount as lifetime expected credit loss (simplified approach). The amount of expected credit loss is calculated by classifying receivables, etc. according to nature of the credit risk of the counterparty and multiplying the receivables amount by the allowance rate set according to the classification. This allowance rate is set in view of the probability of future occurrence of credit loss based on external credit reports.

In terms of other receivables, etc., the loss allowance is measured as the same amount as the 12-month expected credit loss in principle. The amount of expected credit loss is calculated by multiplying the gross carrying amount by the allowance rate established as stated above, in accordance with the general approach.

Of other receivables, etc., in terms of assets for which the credit risk has significantly increased from the initial recognition, including the case where the receivable is past due for payment, and credit-impaired financial assets, the loss allowance is recognized at the same amount as lifetime expected credit loss. In doing so, the amount of expected credit loss is determined as the difference between the present value, which is calculated by discounting future estimated cash flows using the original effective interest rate for the asset, and the gross carrying amount.

Gross carrying amount and loss allowance of financial assets for which loss allowance is recognized are as shown below. Investments (debt financial assets) and time deposits are excluded from the table below as those are judged as they are not exposed to credit risks.

	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Trade and other receivables				
Measured at 12-month expected credit losses	¥ 13,907	¥ 20,405	<b>¥ 20,520</b>	<b>\$ 193,146</b>
Measured at lifetime expected credit losses	252	431	<b>287</b>	<b>2,704</b>
Measured by simplified approach	74,548	88,382	<b>99,059</b>	<b>932,410</b>
Other financial assets				
Measured at 12-month expected credit losses	5,944	4,209	<b>2,783</b>	<b>26,199</b>
Measured at lifetime expected credit losses	321	1,100	<b>390</b>	<b>3,674</b>

\* Financial assets for which loss allowance is measured at the amount equivalent to lifetime expected credit loss are principally credit-impaired financial assets.

\* Credit risk rating:

For financial assets for which loss allowance is measured at 12-month expected credit loss, the credit risk rating for expected credit loss (assets to which the

simplified approach is applied also correspond to this) is relatively high compared to financial assets for which loss allowance is measured at the amount equivalent to lifetime expected credit loss, and the credit rating of financial assets falling in the same category is basically the same.

	Millions of yen				
	Loss Allowance				
	Trade and other receivables			Other financial assets	
	Measured at 12-month expected credit losses	Measured at life-time expected credit losses	Measured by simplified approach	Measured at 12-month expected credit losses	Measured at life-time expected credit losses
<b>IFRS Transition Date As of April 1, 2016</b>	¥ —	¥ 227	¥ 191	¥ 0	¥ 321
Increase	—	250	115	1	145
Decrease(Utilization)	—	—	—	—	—
Decrease(Reversal)	—	(60)	(71)	—	(34)
Other	—	(8)	2	—	—
<b>As of March 31, 2017</b>	¥ —	¥ 410	¥ 237	¥ 1	¥ 433
Increase	—	77	16	—	54
Decrease(Utilization)	—	(220)	—	—	—
Decrease(Reversal)	—	(13)	(15)	(0)	(35)
Other	—	10	34	—	(62)
<b>As of March 31, 2018</b>	¥ —	¥ 263	¥ 273	¥ 1	¥ 390

	Thousands of U.S. dollars				
	Loss Allowance				
	Trade and other receivables			Other financial assets	
	Measured at 12-month expected credit losses	Measured at life-time expected credit losses	Measured by simplified approach	Measured at 12-month expected credit losses	Measured at life-time expected credit losses
<b>As of March 31, 2017</b>	\$ —	\$ 3,855	\$ 2,233	\$ 7	\$ 4,071
Increase	—	720	152	—	512
Decrease(Utilization)	—	(2,067)	—	—	—
Decrease(Reversal)	—	(126)	(138)	(0)	(326)
Other	—	94	324	—	(584)
<b>As of March 31, 2018</b>	\$ —	\$ 2,476	\$ 2,571	\$ 6	\$ 3,674

\* There is no significant change in gross carrying amount that could affect a change in loss allowance.

The maximum exposure for credit risk of financial assets is the carrying amount presented in the consolidated statement of financial position.

With regard to debt guarantees, the maximum exposure for credit risk is as follows:

	Millions of yen			Thousands of U.S. dollars
	IFRS Transition Date As of April 1, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Guarantee Obligation	¥ 1,281	¥ 2,367	¥ 2,764	\$ 26,018

\* Loss allowance related to losses that could arise due to performance of a debt guarantee contract has not been recorded.

*(iii) Liquidity Risks*

Liquidity risks are the risk that the Group cannot execute a payment on the due date. Funds of the Group as a whole are in a position of net cash where funds held exceed borrowings. The Group formulates a financial plan based on the annual business plan, and then manages liquidity risks by ensuring an appropriate balance between direct and indirect financing and between short-term and long-term financing to prepare for these risks.

The balance of financial liabilities of the Group by maturity is as follows:

Millions of yen								
IFRS Transition Date As of April 1, 2016	Carrying amount	Not later than one year	1-2 years	2-3 years	3-4 years	4-5 years	Later than 5 years	contractual cash flows Total
Trade and other receivables	¥ 77,984	¥ 77,984	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 77,984
Borrowings	43,038	21,089	6,438	6,292	5,532	3,593	1,233	44,178
Derivative liabilities	312	—	—	—	—	—	312	312
Other	2,767	546	497	370	242	242	871	2,767
Total	¥ 124,101	¥ 99,619	¥ 6,935	¥ 6,662	¥ 5,774	¥ 3,835	¥ 2,416	¥ 125,241

Millions of yen								
As of March 31, 2017	Carrying amount	Not later than one year	1-2 years	2-3 years	3-4 years	4-5 years	Later than 5 years	contractual cash flows Total
Trade and other receivables	¥ 95,037	¥ 95,037	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 95,037
Borrowings	62,121	24,257	7,290	7,520	9,300	6,141	9,631	64,138
Derivative liabilities	30	13	—	—	—	—	17	30
Other	2,601	613	519	437	330	311	391	2,601
Total	¥ 159,790	¥ 119,920	¥ 7,809	¥ 7,957	¥ 9,630	¥ 6,452	¥ 10,039	¥ 161,806

Millions of yen								
<b>As of March 31, 2018</b>	Carrying amount	Not later than one year	1-2 years	2-3 years	3-4 years	4-5 years	Later than 5 years	contractual cash flows Total
Trade and other receivables	<b>¥ 110,303</b>	<b>¥ 110,303</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ 110,303</b>
Borrowings	<b>79,404</b>	<b>26,163</b>	<b>11,633</b>	<b>11,654</b>	<b>11,079</b>	<b>8,695</b>	<b>11,732</b>	<b>80,956</b>
Derivative liabilities	<b>119</b>	<b>119</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>119</b>
Other	<b>2,196</b>	<b>520</b>	<b>456</b>	<b>344</b>	<b>320</b>	<b>286</b>	<b>271</b>	<b>2,196</b>
Total	<b>¥ 192,022</b>	<b>¥ 137,105</b>	<b>¥ 12,089</b>	<b>¥ 11,998</b>	<b>¥ 11,399</b>	<b>¥ 8,981</b>	<b>¥ 12,003</b>	<b>¥ 193,574</b>

Thousands of U.S. dollars								
<b>As of March 31, 2018</b>	Carrying amount	Not later than one year	1-2 years	2-3 years	3-4 years	4-5 years	Later than 5 years	contractual cash flows Total
Trade and other receivables	<b>\$ 1,038,248</b>	<b>\$ 1,038,248</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,038,248</b>
Borrowings	<b>747,399</b>	<b>246,261</b>	<b>109,494</b>	<b>109,693</b>	<b>104,287</b>	<b>81,844</b>	<b>110,431</b>	<b>762,011</b>
Derivative liabilities	<b>1,118</b>	<b>1,118</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,118</b>
Other	<b>20,674</b>	<b>4,894</b>	<b>4,292</b>	<b>3,236</b>	<b>3,010</b>	<b>2,688</b>	<b>2,554</b>	<b>20,675</b>
Total	<b>\$ 1,807,439</b>	<b>\$ 1,290,521</b>	<b>\$ 113,786</b>	<b>\$ 112,930</b>	<b>\$ 107,297</b>	<b>\$ 84,532</b>	<b>\$ 112,985</b>	<b>\$ 1,822,052</b>



### 3) Fair Value of Financial Instruments

The Group classifies financial instruments into the following three levels in the fair value hierarchy according to the observability of inputs used for fair value measurement in markets:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2: Directly or indirectly observable inputs that are not included in Level 1

Level 3: Fair value that is determined using a valuation technique including unobservable inputs

Carrying amount and fair value of financial instruments measured at amortized cost are as follows:

	Millions of yen						Thousands of U.S. dollars	
	IFRS Transition Date As of April 1, 2016		As of March 31, 2017		As of March 31, 2018		As of March 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term loans payable	¥ 28,198	¥ 27,789	¥ 46,626	¥ 46,617	¥ 60,503	¥ 60,360	\$ 569,494	\$ 568,147

The above figures include balances to be collected within one year or to be repaid and redeemed within one year.

Financial instruments for which the carrying amount is reasonably approximate to the fair value are not included in the table above.

For fair value of long-term borrowings, the method where the fair value is calculated by discounting the total amount of principal and interest using the interest rate assumed for a similar new loan is used. Borrowings are classified as Level 3 in the fair value hierarchy.

Assets and liabilities measured at fair value by the Group are as follows:

IFRS Transition Date As of April 1, 2016	Millions of yen			
	Level 1	Level 2	Level 3	Total
<Financial Assets>				
Financial assets measured at fair value through other comprehensive income				
Investments (equity financial assets)	¥ 34,885	¥ —	6,134	¥ 41,019
Total	¥ 34,885	¥ —	¥ 6,134	¥ 41,019
<Financial Liabilities>				
Financial liabilities defined as hedging instruments				
Derivatives	—	312	—	312
Total	¥ —	¥ 312	¥ —	¥ 312

As of March 31, 2017	Millions of yen			
	Level 1	Level 2	Level 3	Total
<Financial Assets>				
Financial assets measured at fair value through profit or loss				
Derivatives	¥ —	¥ 69	¥ —	¥ 69
Financial assets measured at fair value through other comprehensive income				
Investments (equity financial assets)	35,847	—	6,536	42,382
Total	¥ 35,847	¥ 69	¥ 6,536	¥ 42,452
<Financial Liabilities>				
Financial liabilities measured at fair value through profit or loss				
Derivatives	—	13	—	13
Financial liabilities defined as hedging instruments				
Derivatives	—	17	—	17
Total	¥ —	¥ 30	¥ —	¥ 30

As of March 31, 2018	Millions of yen			
	Level 1	Level 2	Level 3	Total
<Financial Assets>				
Financial assets measured at fair value through profit or loss				
Investments (equity financial assets)	¥ —	¥ —	¥ 4,620	¥ 4,620
Derivatives	—	22	—	22
Financial assets measured at fair value through other comprehensive income				
Investments (equity financial assets)	46,636	—	10,011	56,646
Financial assets defined as hedging instruments				
Derivatives	—	138	—	138
Total	¥ 46,636	¥ 160	¥ 14,631	¥ 61,426
<Financial Liabilities>				
Financial liabilities measured at fair value through profit or loss				
Derivatives	—	119	—	119
Total	¥ —	¥ 119	¥ —	¥ 119

As of March 31, 2018	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
<Financial Assets>				
Financial assets measured at fair value through profit or loss				
Investments (equity financial assets)	\$ —	\$ —	\$ 43,488	\$ 43,488
Derivatives	—	211	—	211
Financial assets measured at fair value through other comprehensive income				
Investments (equity financial assets)	438,964	—	94,229	533,193
Financial assets defined as hedging instruments				
Derivatives	—	1,295	—	1,295
Total	\$ 438,964	\$ 1,505	\$ 137,717	\$ 578,186
<Financial Liabilities>				
Financial liabilities measured at fair value through profit or loss				
Derivatives	—	1,118	—	1,118
Total	\$ —	\$ 1,118	\$ —	\$ 1,118

(Note) Other than the above assets and liabilities, the Company has entered into an agreement with non-controlling shareholders that the Company purchases all interests held by the non-controlling shareholders under certain terms and conditions. With regard to the obligations to purchase these interests, ¥460 million (\$4,325 thousand) that is the present value of the purchase amount has been recognized as financial liabilities. These are classified as Level 3 in the fair value hierarchy.

Transfer between levels in the fair value hierarchy is recognized on the day when the event or change in circumstances that caused the transfer occurred. In each fiscal year, there was no significant transfer between Level 1 and Level 2 in the fair value hierarchy.

Changes in financial instruments classified as Level 3 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)	<b>Fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)</b>	<b>Fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)</b>
Balance at the beginning	¥ 6,134	<b>¥ 6,536</b>	<b>\$ 61,517</b>
Total gains and losses	(1,831)	<b>2,165</b>	<b>20,382</b>
Profit or loss	—	<b>32</b>	<b>305</b>
Other comprehensive income (Note)	(1,831)	<b>2,133</b>	<b>20,077</b>
Purchase	2,399	<b>4,515</b>	<b>42,497</b>
Selling	(167)	<b>(673)</b>	<b>(6,332)</b>
Other	—	<b>2,088</b>	<b>19,653</b>
Balance at the end	¥ 6,536	<b>¥ 14,631</b>	<b>\$ 137,717</b>

(Notes) 1. Gains and losses included in other comprehensive income relate to financial assets measured at fair value through other comprehensive income as at the reporting date. These gains and losses are included in "net change in financial assets measured at fair value through other comprehensive income" in the consolidated statement of comprehensive income.

2. Other than the above assets and liabilities, the Company acquired the obligations to purchase non-controlling interests amounting to ¥460 million (\$4,325 thousand) in the fiscal year ended March 31, 2018. No material gain or loss has arisen from this transaction.

Financial assets and liabilities classified as Level 2 are derivative transactions related to foreign exchange forward contracts, interest rate swaps, etc. Fair value of foreign exchange forward contracts, interest rate swaps, etc. is calculated based on observable market data such as interest rate presented by financial institutions with which the Group has transactions and others.

Financial assets classified as Level 3 are mainly unlisted shares.

With regard to valuation of unlisted shares, principally, the fair value is measured taking into account future profitability or cash flows of the investees comprehensively. The results are reviewed and approved by a person with appropriate authority. For financial instruments classified as Level 3, an increase or decrease in fair value if unobservable inputs are changed to reasonably possible alternative assumptions is not significant.

#### 4) Hedge Accounting

Effects of hedging instruments designated as hedge on the Group's consolidated statement of financial position are as follows:

IFRS Transition Date As of April 1, 2016	Millions of yen			Item on the consolidated statement of financial position
	Notional principal of hedging instruments	Carrying amount of hedging instruments		
		Asset	Liability	
Cash flow hedges				
Interest rate risk				
Interest rate swap	¥ 16,158	¥ —	¥ 312	Other financial liabilities

As of March 31, 2017	Millions of yen			Item on the consolidated state- ment of financial position
	Notional principal of hedging instruments	Carrying amount of hedging instruments		
		Asset	Liability	
Cash flow hedges				
Interest rate risk				
Interest rate swap	¥ 15,527	¥ —	¥ 17	Other financial liabilities

As of March 31, 2018	Millions of yen			Item on the consolidated statement of financial position
	Notional principal of hedging instruments	Carrying amount of hedging instruments		
		Asset	Liability	
Cash flow hedges				
Interest rate risk				
Interest rate swap	¥ 11,467	¥ 138	¥ —	Other financial liabilities

As of March 31, 2018	Thousands of U.S. dollars			Item on the consolidated statement of financial position
	Notional principal of hedging instruments	Carrying amount of hedging instruments		
		Asset	Liability	
Cash flow hedges				
Interest rate risk				
Interest rate swap	\$ 107,930	\$ 1,295	\$ —	Other financial liabilities

There are no cash flow hedge reserve arising from hedge relationship for which the hedge accounting was discontinued, and no ineffective portion of hedges recognized in profit or loss.

Effects of hedging instruments designated as cash flow hedges on the Group's profit or loss and other comprehensive income are as follows:

Fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017)	Millions of yen		
	Hedging gains(losses) recog- nized as other comprehensive income (Note)	Transfer from other compo- nents of equity to profit or loss as reclassification adjustments (Note)	Item of transfer to profit or loss as reclassification adjustments
Cash flow hedges			
Interest rate risk			
Interest rate swap	¥ 295	¥ 133	Financial costs

(Note) Before tax effect

Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)	Millions of yen		
	Hedging gains(losses) recog- nized as other comprehensive income (Note)	Transfer from other compo- nents of equity to profit or loss as reclassification adjustments (Note)	Item of transfer to profit or loss as reclassification adjustments
Cash flow hedges			
Interest rate risk			
Interest rate swap	¥ 154	¥ 59	Financial costs

(Note) Before tax effect

	Thousands of U.S. dollars		
<b>Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)</b>	Hedging gains(losses) recog- nized as other comprehensive income (Note)	Transfer from other compo- nents of equity to profit or loss as reclassification adjustments (Note)	Item of transfer to profit or loss as reclassification adjustments
Cash flow hedges			
Interest rate risk			
Interest rate swap	\$ 1,454	\$ 558	Financial costs

(Note) Before tax effect

## (32) Subsidiaries

The number of consolidated subsidiaries as of March 31, 2018 is 48 (43 as of March 31, 2017).

Five companies have newly become the Group's consolidated subsidiaries due to acquisition or establishment in the fiscal year ended March 31, 2018. There are no consolidated subsidiaries which the Company recognizes significant non-controlling interests.

## (33) Related Parties

### 1) Transactions with Related Parties

*Fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017)*

Attribute	Name of company	Contents of transactions	Millions of yen	
			Transaction amount	Balance at the end of the current fiscal year
Associate	KRATON JSR	Manufacturing consignment of elastomer products	¥ 9,187	¥ 4,350
	ELASTOMERS K. K.	Supply of raw material gas	3,488	1,886

(Notes) 1. Related party transactions have been determined through price negotiations in light of market prices and others.  
2. Loss allowance has not been established for the receivables.

*Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)*

Attribute	Name of company	Contents of transactions	Millions of yen	
			Transaction amount	Balance at the end of the current fiscal year
Associate	KRATON JSR	Manufacturing consignment of elastomer products	<b>¥ 11,032</b>	<b>¥ 6,123</b>
	ELASTOMERS K. K.	Supply of raw material gas	<b>5,343</b>	<b>3,118</b>

(Notes) 1. Related party transactions have been determined through price negotiations in light of market prices and others.  
2. Loss allowance has not been established for the receivables.

*Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)*

Attribute	Name of company	Contents of transactions	Thousands of U.S. dollars	
			Transaction amount	Balance at the end of the current fiscal year
Associate	KRATON JSR	Manufacturing consignment of elastomer products	<b>\$ 103,837</b>	<b>\$ 57,635</b>
	ELASTOMERS K. K.	Supply of raw material gas	<b>50,290</b>	<b>29,352</b>

(Notes) 1. Related party transactions have been determined through price negotiations in light of market prices and others.  
2. Loss allowance has not been established for the receivables.

### 2) Key Management Personnel Compensation

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017)	<b>Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)</b>	<b>Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)</b>
Basic compensation	¥ 279	¥ 268	<b>\$ 2,521</b>
Bonuses	46	44	<b>412</b>
Share-based payment	34	37	<b>346</b>
Total	¥ 361	¥ 348	<b>\$ 3,279</b>

### (34) Commitments

Commitments related to expenditures taking place after the last day of the fiscal year are as follows:

	IFRS Transition Date As of April 1, 2016	Millions of yen		Thousands of U.S. dollars
		As of March 31, 2017	As of March 31, 2018	
Acquisition of property, plant and equipment	¥ 24,262	¥ 13,075	¥ 4,429	\$ 41,693
Acquisition of intangible assets	198	—	40	373

### (35) Subsequent Events

#### An Absorption-Type Split in Which the Company's Subsidiary Becomes the Successor Company

##### (1) Contents of the Business Combination

The Company resolved at its Board of Directors held on March 29, 2017 to conduct an absorption-type split in which UMG ABS, Ltd. ("UMG ABS," a 50/50 joint venture between Ube Industries, Ltd. ("Ube") and Mitsubishi Rayon Co., Ltd. ("MRC")) is the absorbed company, and Techno Polymer Co., Ltd. ("Techno-UMG"), a wholly-owned subsidiary of the Company (renamed Techno-UMG Co., Ltd. on April 1, 2018), is the successor company. The Company, Ube and MRC signed a shareholders agreement as of March 30, 2017 and upon approval from the regulatory authority, the absorption-type split was conducted as of April 1, 2018. Upon completing the absorption-type split, Techno-UMG issued new shares resulting in the Company holding a 51% equity interest in Techno-UMG. The Company has adopted provisions of IFRS 3 Business Combinations, however, detailed information regarding the accounting treatment is not provided since the initial accounting treatment for the business combination has not been completed at the present time.

- 1) Name of the Company Acquired  
UMG ABS, Ltd.
- 2) Business of the Company Acquired  
Manufacturing and sales of ABS resins
- 3) Date of Acquisition  
April 1, 2018
- 4) Method for the Acquiring Entity to Obtain Control over the Acquired Entity  
An absorption-type split with UMG ABS as the absorbed company and Techno-UMG as the successor company, with the issuance of 58,800 shares of common stock of Techno-UMG

##### (2) Major Reason of the Business Combination

The business conditions surrounding the ABS resin business are becoming increasingly challenging both in and outside of Japan. The purpose of the integration is to optimize operations, enhance manufacturing efficiencies, and secure cost competitiveness for the ABS resin business, in order to secure the stable supply of products in Japan and expand sales in global markets.

##### (3) Amounts of Fair Value of Assets and Liabilities and Amount of Goodwill on the Date of the Business Combination

Assets acquired and liabilities assumed have not been determined at the present time as their acquisition-date fair value is under calculation.

#### Acquisition of Crown Bioscience International

##### (1) Contents of the Business Combination

The Company has acquired all shares of Crown Bioscience International ("Crown," Registration: Cayman Islands, CEO: Jean-Pierre Wery, listed on the Taipei Exchange (TPEX) as 6554), which is a contract research organization (CRO) providing services for pharmaceuticals to support drug development in pre-clinical phases, making Crown a wholly-owned subsidiary of the Company.

While the provisions of IFRS 3 "Business Combinations" have been applied, detailed information on the accounting treatment for this business combination has not been provided because the accounting treatment at the time of business combination has not been completed at the present time.

- 1) Name of the Company Acquired  
Crown Bioscience International
- 2) Business of the Company Acquired  
Drug discovery and development services
- 3) Date of Acquisition  
May 31, 2018
- 4) Method of Acquisition  
Acquisition of shares in exchange for cash payment

##### (2) Major Reason of the Business Combination

The purpose of this business combination is to expand the Group's capabilities of the Life Sciences business by bringing in drug discovery and development services. This business combination enables the Group to provide values to the pharma industry by providing products and services in drug development processes ranging seamlessly from the discovery process to GMP manufacturing.

##### (3) Amounts of Fair Value of Assets and Liabilities and Amount of Goodwill on the Date of the Business Combination

Assets acquired and liabilities assumed have not been determined at the present time as their acquisition-date fair value is under calculation. The amount of consideration transferred is about ¥ 40.5 billion (\$ 382 million).



### (36) Disclosure on Transition to IFRS

This is the first consolidated financial statement the Group has prepared in accordance with IFRS.

The Significant Accounting Policies were applied in the preparation of the consolidated financial statements for the fiscal year ended March 2018 (April 1, 2017 to March 31, 2018) and the fiscal year ended March 2017 (April 1, 2016 to March 31, 2017) and the consolidated statement of financial position on the date of transition to IFRS (April 1, 2016).

#### 1) Exemptions of IFRS 1

The exemptions the Group adopted for the transition from Japanese GAAP to IFRS are as follows.

##### (i) Business Combinations

IFRS 3 can be applied retrospectively or prospectively. The Group has elected not to apply IFRS 3 retrospectively to business combinations executed prior to the date of transition to IFRS. As a result, business combinations executed prior to the date of transition to IFRS are not restated.

##### (ii) Exchange Differences on Translating Foreign Operations

Under IFRS 1, the Group can elect to deem the cumulative amount of exchange differences on translating foreign operations as zero as of the date of transition or to recalculate the exchange differences retrospectively to the time when the subsidiary, etc., was established or acquired. The Group has elected to deem the cumulative amount of exchange differences on translating foreign operations as zero as of the date of transition.

##### (iii) Recognition of Prior Designated Financial Instruments

Under IFRS 1, the Group can designate financial assets following IFRS 9 — *Financial Instruments* based on relevant facts and circumstances that existed at the date of transition to IFRS. The Group has designated equity instruments as equity instruments measured at fair value through other comprehensive income.

##### (iv) Share-Based Payments

IFRS 1 recommends, but does not require, the application of IFRS 2 — *Share-Based Payment* to share-based payments granted on and after November 7, 2002, and vested prior to the date of transition to IFRS. The Group has elected not to apply IFRS 2 to share-based payments vested prior to the date of transition to IFRS.

#### 2) Adjustments from Japanese GAAP to IFRS

In preparing the consolidated financial statements in accordance with IFRS, the Group has adjusted the amounts in the consolidated financial statements prepared in accordance with Japanese GAAP.

The effects of the transition from Japanese GAAP to IFRS are given in the following reconciliation tables.

The Reclassification column in the reconciliation tables presents items with no effects on retained earnings or comprehensive income, whereas the Differences in Recognition and Measurement column presents items with effects on retained earnings or comprehensive income.

## (i) Adjustments to Equity on Date of Transition (April 1, 2016)

Millions of yen							
Japanese GAAP Line Item	Japanese GAAP	Effect of Change in Reporting Date / Consolidation Range	Reclassification	Differences in Recognition and Measurement	IFRS	Note	IFRS Line Item
<b>Assets</b>							<b>Assets</b>
Current assets							Current assets
Cash and deposits	¥ 52,081	¥ 7,888	¥ 37,314	¥ —	¥ 97,283		Cash and cash equivalents
Notes and accounts receivable (net)	77,878	(879)	14,035	—	91,034		Trade and other receivables
Short-term investment securities	60,010	—	(60,010)	—			
Inventories	77,458	399	—	—	77,857		Inventories
		31	28,836	—	28,868		Other current financial assets
Others	33,104	63	(24,066)	—	9,101		Other current assets
Total current assets	300,532	7,501	(3,891)	—	304,142		Total current assets
Non-current assets							Non-current assets
Property, plant and equipment	112,694	6,067	—	1,851	120,612	A, B	Property, plant and equipment
Intangible assets							
Goodwill	9,788	(434)	—	—	9,354		Goodwill
Others	6,875	260	998	—	8,133		Other intangible assets
Investments and other assets							
Investment securities	67,878	(6,918)	(37,727)	(27)	23,206	D	Investments accounted for using equity method
Long-term loans receivable	5,894	6	40,460	824	47,185	H	Other current financial assets
Others	12,698	38	(6,917)	—	5,819		Other non-current assets
		18	7,077	386	7,481	D, E	Deferred tax assets
Total non-current assets	215,827	(963)	3,891	3,034	221,790		Total non-current assets
Total assets	¥ 516,360	¥ 6,539	¥ —	¥ 3,034	¥ 525,933		Total assets
<b>Liabilities and net assets</b>							<b>Liabilities and equities</b>
Current liabilities							Current liabilities
Notes and accounts payable	53,836	2,443	21,705	—	77,984		Trade and other payables
Current borrowings	20,840	(47)	—	—	20,793		Borrowings
		33	1,916	—	1,948		Income tax payable
		(20)	269	297	546	B	Other financial liabilities
Others	34,646	30	(25,513)	1,027	10,191	E	Other current liabilities
Total current liabilities	109,322	2,438	(1,623)	1,324	111,461		Total current liabilities
Non-current liabilities							Non-current liabilities
Non-current borrowings	22,249	(4)	—	—	22,245		Borrowings
Retirement benefit liabilities	15,180	—	—	—	15,180		Retirement benefit liabilities
		—	344	2,189	2,534	B, F	Other financial liabilities
Others	7,254	(18)	(4,788)	—	2,448		Other non-current liabilities
		—	6,067	156	6,223	A, D, H	Deferred tax liabilities
Total non-current liabilities	44,684	(21)	1,623	2,345	48,630		Total non-current liabilities
Total liabilities	154,006	2,417	—	3,668	160,091		Total liabilities
<b>Net assets</b>							<b>Equity</b>
Common stock	23,320	—	—	—	23,320		Share capital
Capital surplus	25,179	—	930	—	26,110		Capital surplus
Retained earnings	281,878	(411)	—	6,681	288,147	E, I, J	Retained earnings
Treasury shares	(957)	—	—	—	(957)		Treasury shares
Accumulated other comprehensive income	23,724	(922)	—	(7,233)	15,569	F, G, I	Other components of equity
	353,145	(1,334)	930	(552)	352,189		Total equity attributable to owners of parent
Subscription rights to shares	930	—	(930)	—			
Minority interests	8,279	5,456	—	(82)	13,653		Non-controlling interests
Total net assets	362,354	4,122	—	(634)	365,842		Total equity
Total liabilities and net assets	¥ 516,360	¥ 6,539	¥ —	¥ 3,034	¥ 525,933		Total liabilities and equities

## (ii) Adjustments to Equity in Fiscal Year ended March 2017 (March 31, 2017)

Millions of yen								
Japanese GAAP Line Item	Japanese GAAP	Effect of Change in Reporting Date / Consolidation Range	Reclassification	Differences in Recognition and Measurement	IFRS	Note	IFRS Line Item	
<b>Assets</b>							<b>Assets</b>	
Current assets							Current assets	
Cash and deposits	¥ 98,933	¥ —	¥ (1,517)	¥ —	¥ 97,416		Cash and cash equivalents	
Notes and accounts receivable (net)	90,695	—	20,435	—	111,130		Trade and other receivables	
Short-term investment securities	42,000	—	(42,000)	—				
Inventories	81,918	—	—	—	81,918		Inventories	
		—	44,970	—	44,970		Other current financial assets	
Others	34,667	—	(25,971)	—	8,695		Other current assets	
<b>Total current assets</b>	<b>348,212</b>	<b>—</b>	<b>(4,084)</b>	<b>—</b>	<b>344,128</b>		<b>Total current assets</b>	
Non-current assets							Non-current assets	
Property, plant and equipment	130,160	—	—	1,587	131,748	A, B	Property, plant and equipment	
Intangible assets								
Goodwill	8,817	—	—	513	9,331	C	Goodwill	
Others	8,369	—	822	(1)	9,190		Other intangible assets	
Investments and other assets								
Investment securities	61,684	—	(39,936)	(36)	21,712	D	Investments accounted for using equity method	
Retirement benefit assets	373	—	—	—	373		Assets for retirement benefits	
		—	46,555	(26)	46,529	H	Other current financial assets	
Others	18,401	—	(11,273)	—	7,129		Other non-current assets	
		—	7,914	429	8,343	D, E	Deferred tax assets	
<b>Total non-current assets</b>	<b>227,805</b>	<b>—</b>	<b>4,084</b>	<b>2,467</b>	<b>234,355</b>		<b>Total non-current assets</b>	
<b>Total assets</b>	<b>¥ 576,016</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ 2,467</b>	<b>¥ 578,484</b>		<b>Total assets</b>	
<b>Liabilities and net assets</b>							<b>Liabilities and equities</b>	
Current liabilities							Current liabilities	
Notes and accounts payable	75,026	—	20,011	—	95,037		Trade and other payables	
Current borrowings	23,740	—	—	—	23,740		Borrowings	
Income tax payable	8,360	—	—	—	8,360		Income tax payable	
		—	329	297	626	B	Other financial liabilities	
Others	32,536	—	(22,194)	1,015	11,357	E	Other current liabilities	
<b>Total current liabilities</b>	<b>139,663</b>	<b>—</b>	<b>(1,854)</b>	<b>1,312</b>	<b>139,120</b>		<b>Total current liabilities</b>	
Non-current liabilities							Non-current liabilities	
Non-current borrowings	38,381	—	—	—	38,381		Borrowings	
Retirement benefit liabilities	13,904	—	—	—	13,904		Retirement benefit liabilities	
		—	408	1,597	2,005	B, F	Other financial liabilities	
Others	7,354	—	(5,076)	—	2,278		Other non-current liabilities	
		—	6,522	(90)	6,432	A, D, H	Deferred tax liabilities	
<b>Total non-current liabilities</b>	<b>59,639</b>	<b>—</b>	<b>1,854</b>	<b>1,507</b>	<b>63,000</b>		<b>Total non-current liabilities</b>	
<b>Total liabilities</b>	<b>199,302</b>	<b>—</b>	<b>—</b>	<b>2,818</b>	<b>202,120</b>		<b>Total liabilities</b>	
<b>Net assets</b>							<b>Equity</b>	
Common stock	23,320	—	—	—	23,320		Share capital	
Capital surplus	17,469	—	912	60	18,441		Capital surplus	
Retained earnings	300,547	—	—	8,970	309,517	E, I, J	Retained earnings	
Treasury shares	(5,396)	—	—	—	(5,396)		Treasury shares	
Accumulated other comprehensive income	25,454	—	—	(9,448)	16,006	F, G, I	Other components of equity	
	361,394	—	912	(417)	361,889		Total equity attributable to owners of parent	
Subscription rights to shares	912	—	(912)	—				
Minority interests	14,409	—	—	66	14,475		Non-controlling interests	
<b>Total net assets</b>	<b>376,715</b>	<b>—</b>	<b>—</b>	<b>(351)</b>	<b>376,364</b>		<b>Total equity</b>	
<b>Total liabilities and net assets</b>	<b>¥ 576,016</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ 2,467</b>	<b>¥ 578,484</b>		<b>Total liabilities and equities</b>	

## (iii) Adjustments to Comprehensive Income in Fiscal Year ended March 2017 (April 1 to March 31, 2017)

Millions of yen							
Japanese GAAP Line Item	Japanese GAAP	Effect of Change in Reporting Date / Consolidation Range	Reclassification	Differences in Recognition and Measurement	IFRS	Note	IFRS Line Item
Net sales	¥ 390,599	¥ (2,143)	¥ —	¥ —	¥ 388,455		Revenue
Cost of sales	(274,614)	1,752	—	440	(272,422)	G	Cost of sales
Gross profit	115,985	(391)	—	440	116,034		Gross profit
Selling, general and administrative expense	(83,615)	619	—	1,237	(81,759)	A,C G,E	Selling, general and administrative expenses
		—	4,920	(14)	4,906		Other operating income
		—	(3,916)	—	(3,916)		Other operating expenses
		—	714	(36)	678	D	Share of profit of investments accounted for using equity method
Operating income	32,370	227	1,718	1,628	35,943		Operating profit
Non-operating income	6,400	—	(6,400)	—			
Non-operating expense	(2,506)	—	2,506	—			
Extraordinary gains	5,187	—	(5,187)	—			
Extraordinary losses	(3,124)	—	3,124	—			
		—	5,950	(2,905)	3,045	H	Finance income
		55	(1,711)	962	(694)	G,H	Finance costs
Profit before tax and other adjustments	38,327	282	—	(315)	38,294		Profit before tax
Corporate, inhabitant, and enterprise taxes	(9,938)	(26)	1,889	300	(7,776)	D	Income taxes
Income tax-deferred	1,901	(13)	(1,889)	—			
Profit	¥ 30,291	¥ 243	¥ —	¥ (16)	¥ 30,518		Profit
Other comprehensive income							Other comprehensive income
Unrealized gains on securities, net of taxes	2,058	—	—	723	2,781	H	Net change on financial assets measured at fair value through other comprehensive income
		—	—	295	295	F	Net change in fair value on cash flow hedges
Foreign currency translation adjustment	(730)	412	—	16	(303)	C	Exchange differences on translation of foreign operations
Remeasurements of defined benefit plans, net of tax	1,676	—	—	(758)	918	G	Remeasurements of defined benefit liabilities
Share of other comprehensive income of entities accounted for using equity method	(1,130)	—	—	2	(1,128)		Share of other comprehensive income of associates accounted for using equity method
Total other comprehensive income	1,874	412	—	278	2,564		Total other comprehensive income, net of tax
Comprehensive income	¥ 32,165	¥ 655	¥ —	¥ 262	¥ 33,082		Total comprehensive income

### 3) Notes on Adjustments to Equity and Adjustments to Comprehensive Income

#### (i) Notes on Change in Reporting Date and Change in Consolidation Range

Under Japanese GAAP, in cases where the reporting dates of subsidiaries or associates accounted for using the equity method differ from the Company's consolidated reporting date, consolidated financial statements are still prepared based on individual financial statements as of the reporting dates of the subsidiaries or associates accounted for using the equity method. Under IFRS, however, financial statements of subsidiaries or associates accounted for using the equity method are prepared with the Company's consolidated reporting date as the reporting date, either by aligning the reporting date with the Company's consolidated reporting date or by preparing provisional settlement of accounts as of the consolidated reporting date except when it is practically impossible. In cases where financial statements of subsidiaries or associates accounted for using the equity method are prepared on different dates from the Company's consolidated reporting date, adjustments are made for the effects of significant transactions or circumstances arisen between the individual reporting dates and the Company's consolidated reporting date.

Even under Japanese GAAP, at the end of the previous consolidated fiscal year, the Group prepared the financial statements regarding the Company's consolidated reporting date as the reporting date of its subsidiaries or associates accounted for using equity method, either by aligning the individual reporting dates with the Company's reporting date (except some subsidiaries and associates) or by preparing provisional settlement of accounts as of the consolidated reporting date.

Furthermore, under Japanese GAAP, subsidiaries of little material relevance are excluded from the consolidation range and assessed on a cost basis. Under IFRS, however, key subsidiaries of little material relevance are included in the consolidation range.

Since the first quarter of the fiscal year ended March 31, 2017 prepared under Japanese GAAP, the Group included in the consolidation range JSR MOL Synthetic Rubber Ltd., PT.ELASTOMIX INDONESIA, and Techno Europe N.V., which had been excluded from the consolidation range, because of an increase in their material relevance. This action has aligned the consolidation range under IFRS and the consolidation range under Japanese GAAP.

#### (ii) Notes on Reclassification

Short-term time deposits with deposit terms longer than three months presented as "Cash and deposits" under Japanese GAAP have been presented as "Other current financial assets" in current assets under IFRS.

Short-term investments with original maturity of three months or less presented as "Short-term investment securities" under Japanese GAAP have been presented as "Cash and cash equivalents" under IFRS.

All deferred tax assets and deferred tax liabilities that had been presented as current items have been reclassified to non-current items.

Amounts presented separately as "Subscription rights to shares" under Japanese GAAP have been included in "Capital surplus" under IFRS.

#### (iii) Notes on Differences in Recognition and Measurement

##### A. Government Grants

Under Japanese GAAP, government grants are recognized as revenue en bloc at the time of reception. Under IFRS, however, government grants are deferred by direct deduction of the carrying amount of the asset and recognized as decrease of the depreciation expense using the straight-line method over the useful life of the asset.

##### B. Leases

Transactions deemed substantially as finance leases are not recognized as assets under Japanese GAAP, but they are accounted for as "Property, plant and equipment" under IFRS. Liabilities resulting from capitalization of the substantial lease transactions are presented in "Other financial liabilities."

##### C. Goodwill

Under Japanese GAAP, goodwill is amortized, while it is not amortized under IFRS. Therefore the amount of amortization of goodwill accounted for under Japanese GAAP is reversed under IFRS.

##### D. Deferred Tax Assets and Deferred Tax Liabilities

Deferred tax assets were recognized under Japanese GAAP based on company classifications specified in Implementation Guidance to Corporate Accounting Standards No. 26 — *Implementation Guidance on the Recoverability of Deferred Tax Assets*. Under IFRS, however, unused tax losses and deductible temporary differences have been recognized as tax gains when management deemed it is probable that the unused tax losses and deductible temporary differences will be used against future taxable profits.

Under Japanese GAAP, tax effects associated with elimination of unrealized gains and losses are calculated using the effective tax rate of the selling entity, while under IFRS, such tax effects are calculated using the effective tax rate of the buying entity.

##### E. Levies

Non-current asset taxes levied by the government that are expensed over the fiscal year in which tax was paid under Japanese GAAP have been recognized as liabilities and expenses en bloc under IFRS at the time the obligation-triggering event occurs.

##### F. Derivative Transactions

Exemptions apply to interest rate swap contracts under Japanese GAAP on the condition that they meet exemption provisions. Under IFRS, however, interest rate swap contracts are assessed on fair value. Changes in fair value are presented as other comprehensive income in "Net change in fair value on cash flow hedges," and balances at the end of the reporting period are presented in "Other components of equity."

##### G. Liabilities Pertaining to Defined Benefits

Under Japanese GAAP, the portion of actuarial differences incurred in the reporting period but not expensed in the period are recognized in other comprehensive income. Under IFRS, however, such actuarial differences are immediately reclassified to "Retained earnings" through other comprehensive income.

The balance of all actuarial differences at the beginning of the reporting period that had been recognized in accumulated other comprehensive income under Japanese GAAP has been directly recognized in "Retained earnings" under IFRS.

Calculations of interest under Japanese GAAP use interest expenses calculated by multiplying post-employment benefit liabilities by the discount rate, and expected investment returns calculated by multiplying pension assets by the expected long-term investment return rate. Under IFRS, however, calculations of interest use the net of interest calculated by multiplying the present value of defined benefit plan obligations less the fair value of the plan assets by the discount rate.

#### H. Financial Assets Measured at Fair Value through Other Comprehensive Income

Under Japanese GAAP, gains and losses on the sales of shares and other equity instruments and impairment losses are recognized in profit or loss. Under IFRS, however, designated equity instruments

measured at fair value through other comprehensive income are not recognized in profit or loss, and accumulated other comprehensive income previously recognized is reclassified to retained earnings at the point of derecognition.

Privately held companies generally assessed on a cost basis with the moving average method under the Japanese GAAP have been assessed on fair value under IFRS, resulting in changes to other comprehensive income.

#### I. Amount of Exchange Differences on Translating Foreign Operations

Through application of the first-time-adoption exemption provisions of IFRS 1, the cumulative amount of exchange differences on translating foreign operations has been deemed to be nil as of the date of transition to IFRS.

#### J. Retained Earnings

The effects of IFRS application on retained earnings are as follows. The following amounts are the amounts after adjustment of associated tax effects and non-controlling interests.

	Millions of yen	
	Date of Transition (April 1, 2016)	Fiscal Year ended March 2017 (March 31, 2017)
Adjustments related to the change in reporting date / change in consolidation range (See (ii))	¥ (411)	¥ —
Adjustments related to government grants (See A)	(219)	(187)
Adjustments related to the amortization of goodwill (See C)	—	495
Adjustments related to deferred tax assets and deferred tax liabilities (See D)	43	68
Adjustments related to levies (See E)	(709)	(699)
Adjustments related to changes in immediate recognition and accounting methods for actuarial differences in defined benefit plans (See G)	(815)	913
Adjustments related to the amount of exchange differences on translating foreign operations (See I)	8,385	8,385
Others	(5)	(4)
Total retained earnings adjustment	¥ 6,270	¥ 8,970

#### 4) Material Adjustments to the Consolidated Statement of Cash Flows for the Fiscal Year ended March 2017 (April 1, 2016 to March 31, 2017)

There were no material differences between the disclosed consolidated statement of cash flows under IFRS and that of Japanese GAAP.





## **Independent Auditor's Report**

To the Board of Directors of JSR Corporation

We have audited the accompanying consolidated financial statements of JSR Corporation and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSR Corporation and its consolidated subsidiaries as at March 31, 2018, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 35 to the consolidated financial statements. The Company acquired all shares of Crown Bioscience International ("Crown") as of May 31, 2018, making Crown a wholly owned subsidiary of the Company.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

*KPMG AZSA LLC*

KPMG AZSA LLC

June 15, 2018

Tokyo, Japan

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