JSR Corporation

Translation

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Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending March 31, 2020 (under IFRS)

January 27, 2020

Company name: JSR Corporation
Listing: Tokyo Stock Exchange
Securities code: 4185
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Scheduled date to file quarterly securities report: February 7, 2020
Scheduled date to commence dividend payments: —
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results presentation meeting: Yes (for institutional investors and analysts)

(Millions of yen with fractional amounts rounded, unless otherwise noted)

1. Consolidated financial results for the first nine months of the fiscal year ending March 31, 2020 (from April 1, 2019 to December 31, 2019)

(1) Consolidated operating results (Cumulative) (Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2019	359,076	(4.6)	29,624	(21.9)	29,508	(23.8)	21,762	(25.9)
December 31, 2018	376,548	20.1	37,948	2.1	38,706	0.0	29,367	1.3

	Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
Nine months ended	Millions of yen	%	Millions of yen	%	Yen	Yen
December 31, 2019	18,946	(31.7)	21,579	(6.9)	87.27	87.10
December 31, 2018	27,719	0.2	23,168	(47.9)	125.13	124.80

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets	Equity attributable to owners of parent per share
As of	Millions of yen	Millions of yen	Millions of yen	%	Yen
December 31, 2019	700,548	439,142	397,516	56.7	1,851.36
March 31, 2019	691,435	440,360	401,998	58.1	1,823.69

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2019	–	30.00	–	30.00	60.00
Fiscal year ending March 31, 2020	–	30.00	–		
Fiscal year ending March 31, 2020 (Forecast)				30.00	60.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2020 (from April 1, 2019 to March 31, 2020)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2020	483,000	(2.8)	40,000	(7.0)	40,000	(9.5)	31,000	(7.7)	28,000	(10.0)	130.41

Note: Revisions to the earnings forecasts most recently announced: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Changes in accounting policies and changes in accounting estimates
   a. Changes in accounting policies required by IFRS: Yes
   b. Changes in accounting policies due to other reasons: None
   c. Changes in accounting estimates: None

(3) Number of issued shares (ordinary shares)
   a. Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2019	226,126,145 shares
As of March 31, 2019	226,126,145 shares

   b. Number of treasury shares at the end of the period

As of December 31, 2019	11,410,572 shares
As of March 31, 2019	5,694,949 shares

   c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

For the nine months ended December 31, 2019	217,093,579 shares
For the nine months ended December 31, 2018	221,530,015 shares

* Quarterly financial results reports are not required to be subjected to quarterly reviews.

* Proper use of earnings forecasts, and other special matters

Caution regarding forward-looking statements

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable by the Company. These statements do not purport that the Company pledges to realize such statements. Actual business and other results may differ substantially due to various factors.

How to obtain supplementary material on quarterly financial results

The material on quarterly financial results is available on the Company's website on Monday, January 27, 2020.

Table for Contents for the attachment

1. Qualitative Information on Quarterly Results ····· 2
(1) Explanation of Business Results ····· 2
(2) Explanation of Future Forecast Information, such as Forecast of Consolidated Business Results ··· 3
2. Condensed Quarterly Consolidated Financial Statements ····· 4
(1) Condensed Quarterly Consolidated Statement of Financial Position ····· 4
(2) Condensed Quarterly Consolidated Statement of Profit or Loss ····· 6
(3) Condensed Quarterly Consolidated Statement of Comprehensive Income ····· 7
(4) Condensed Quarterly Consolidated Statement of Changes in Equity ····· 8
(5) Notes on Condensed Quarterly Consolidated Financial Statements ····· 9
(Cautionary Notes regarding Assumptions of Going Concern) ····· 9
(Significant Accounting Policies) ····· 9
(Changes in Accounting Policy) ····· 9
(Segment Information) ····· 10
(Material Subsequent Events) ····· 12

1. Qualitative Information on Quarterly Results

(1) Explanation of Business Results

Overview of the First Nine Months of FY ending March 2020 (April 1, 2019 to December 31, 2019)

Tough conditions persisted in JSR Group's main customer industries, given the growing economic slowdown in East Asia countries as well as the U.S.-China trade conflict and other factors.

Under these circumstances, JSR Group has focused in the Elastomers Business on expanding global sales of products with advantages in technological competitiveness. In the Plastics Business, Techno-UMG Co., Ltd. — in its second year since its merger — has aimed to realize synergy benefits through business consolidations and continued with integration of sales, development, and manufacturing. In the Digital Solutions Business, the Group has promoted expanded sales of semiconductor material products applicable to cutting-edge technologies as well as greater sales of display materials in the Chinese market where strong growth is expected. In the Life Sciences Business, the Group has concentrated on enhancing consolidation of the structures undertaking end-to-end biomedical drug discovery, production process development, and contract manufacturing obtained through active business acquisitions, in addition to enlarged sales of highly functional products, a company strength.

In the first nine months of FY ending March 2020, the Company reported revenue of 359,076 million yen (down 4.6% year-on-year), operating profit of 29,624 million yen (down 21.9% year-on-year), and profit attributable to owners of parent of 18,946 million yen (down 31.7% year-on-year).

(Millions of yen)

Segment	3rd Quarter of FY ended March 2019 (Apr. 1 to Dec. 31, 2018)		3rd Quarter of FY ending March 2020 (Apr. 1 to Dec. 31, 2019)		Change	
	Amount	Component ratio	Amount	Amount	Component ratio	Amount
Revenue						
Elastomers	151,808	40.3%	136,468	38.0%	(15,340)	(10.1%)
Plastics	79,595	21.1%	72,644	20.2%	(6,952)	(8.7%)
Digital Solutions	109,105	29.0%	108,918	30.3%	(187)	(0.2%)
Life Sciences	32,336	8.6%	38,720	10.8%	6,385	19.7%
Other	3,704	1.0%	2,326	0.7%	(1,378)	(37.2%)
Adjustment	1	0.0%	0	0.0%	(1)	(92.2%)
Total	376,548	100.0%	359,076	100.0%	(17,472)	(4.6%)

Revenue in Japan	167,203	44.4%	152,223	42.4%	(14,980)	(9.0%)
Overseas revenue	209,345	55.6%	206,853	57.6%	(2,492)	(1.2%)

Segment	3rd Quarter of FY ended March 2019 (Apr. 1 to Dec. 31, 2018)		3rd Quarter of FY ending March 2020 (Apr. 1 to Dec. 31, 2019)		Change	
	Amount	Percentage to revenue	Amount	Percentage to revenue	Amount	Percentage
Operating profit	37,948	10.1%	29,624	8.2%	(8,325)	(21.9%)
Profit attributable to owners of parent	27,719	7.4%	18,946	5.3%	(8,773)	(31.7%)

(i) Elastomers Business Segment

Overall sales volume in the Elastomers Business segment decreased from the same period of the previous year and revenue was also down, despite satisfactory growth in SSBR sales volume. Operating profit dropped considerably, impacted by a contraction in price spreads due to lower sales prices caused primarily by lower raw material prices.

Consequently, the Elastomers Business segment posted an operating profit of 961 million yen (down 87.1% year-on-year) on revenue of 136,468 million yen (down 10.1% year-on-year) in the first nine months of FY ending March 2020.

(ii) Plastics Business Segment

Sales volume, especially sales to overseas destinations, in the Plastics Business segment slipped from the same period of the previous year and revenue also fell. Despite better price spreads supported by lower cost prices on declining raw material prices, operating profit declined due to the significant impact of the sales volume slump.

Consequently, the Plastics Business segment posted an operating profit of 5,356 million yen (down 20.6% year-on-year) on revenue of 72,644 million yen (down 8.7% year-on-year) in the first nine months of FY ending March 2020.

(iii) Digital Solutions Business Segment

Revenue in the Digital Solutions Business segment was down narrowly from the same period of the previous year due to a drop in display materials revenue, which surpassed the increased revenue in semiconductor materials and edge computing materials earned in spite of tough conditions in customer markets. The lower revenue prompted a decline in operating profit.

Consequently, the Digital Solutions Business segment posted an operating profit of 24,586 million yen (down 9.9% year-on-year) on revenue of 108,918 million yen (down 0.2% year-on-year) in the first nine months of FY ending March 2020.

(iv) Life Sciences Business Segment

The Life Sciences Business segment saw a sizable jump in revenue from the same period of the previous year, supported by expanded sales in biomedical drug discovery, production process development, and contract manufacturing as well as in diagnostic reagents. The segment’s operating profit increased due to a rise in profits concurrent with expanded revenue.

Consequently, the Life Sciences Business segment posted an operating profit of 3,948 million yen (up 194.8% year-on-year) on revenue of 38,720 million yen (up 19.7% year-on-year) in the first nine months of FY ending March 2020.

(2) Explanation of Future Forecast Information, such as Forecast of Consolidated Business Results

There are no changes in the forecast of consolidated business results for the full term of FY ending March 2020, as announced in the “Consolidated Business Results for the First Half of FY ending March 2020” on October 28, 2019.

2. Condensed Quarterly Consolidated Financial Statements

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	70,785	67,198
Trade and other receivables	135,280	128,766
Inventories	117,046	119,851
Other financial assets	5,002	3,147
Other current assets	10,870	9,187
Total current assets	338,983	328,149
Non-current assets		
Property, plant and equipment	183,457	211,867
Goodwill	59,066	58,463
Other intangible assets	14,205	15,206
Investments accounted for using equity method	24,269	22,481
Retirement benefit asset	1,503	1,602
Other financial assets	58,895	52,737
Other non-current assets	2,305	2,606
Deferred tax assets	8,751	7,436
Total non-current assets	352,452	372,400
Total assets	691,435	700,548

(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	118,053	116,298
Borrowings	33,519	29,979
Income taxes payable	5,598	5,713
Other financial liabilities	532	2,298
Other current liabilities	14,752	13,280
Total current liabilities	172,455	167,568
Non-current liabilities		
Borrowings	50,777	55,576
Retirement benefit liability	15,870	16,246
Other financial liabilities	1,675	14,786
Other non-current liabilities	2,733	3,443
Deferred tax liabilities	7,565	3,787
Total non-current liabilities	78,620	93,838
Total liabilities	251,075	261,406
Equity		
Equity attributable to owners of parent		
Share capital	23,370	23,370
Capital surplus	18,436	18,250
Retained earnings	351,476	364,618
Treasury shares	(10,042)	(19,566)
Other components of equity	18,758	10,843
Total equity attributable to owners of parent	401,998	397,516
Non-controlling interests	38,361	41,626
Total equity	440,360	439,142
Total liabilities and equity	691,435	700,548

(2) Condensed Quarterly Consolidated Statement of Profit or Loss

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Revenue	376,548	359,076
Cost of sales	(262,005)	(250,909)
Gross profit	114,543	108,167
Selling, general and administrative expenses	(76,604)	(77,583)
Other operating income	1,273	934
Other operating expenses	(1,630)	(2,092)
Share of profit of investments accounted for using equity method	366	197
Operating profit	37,948	29,624
Finance income	1,695	1,173
Finance costs	(937)	(1,288)
Profit before tax	38,706	29,508
Income taxes	(9,340)	(7,746)
Profit	29,367	21,762
Profit attributable to:		
Owners of parent	27,719	18,946
Non-controlling interests	1,648	2,817
Total	29,367	21,762
Earnings per share		
Basic earnings per share (Yen)	125.13	87.27
Diluted earnings per share (Yen)	124.80	87.10

(3) Condensed Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Profit	29,367	21,762
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net change in financial assets measured at fair value through other comprehensive income	(6,101)	2,277
Share of other comprehensive income of entities accounted for using equity method	(1)	2
Items that may be reclassified to profit or loss		
Net change in fair value of cash flow hedges	(19)	(76)
Exchange differences on translation of foreign operations	608	(738)
Share of other comprehensive income of entities accounted for using equity method	(685)	(1,649)
Total other comprehensive income, net of tax	(6,198)	(184)
Total comprehensive income	23,168	21,579
Comprehensive income attributable to:		
Owners of parent	21,777	18,283
Non-controlling interests	1,391	3,296
Total	23,168	21,579

(4) Condensed Quarterly Consolidated Statement of Changes in Equity

Nine months of FY ended March 2019 (April 1 to December 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, 2018	23,370	18,502	331,913	(5,358)	25,071	393,499	18,116	411,615
Profit			27,719			27,719	1,648	29,367
Other comprehensive income					(5,942)	(5,942)	(257)	(6,198)
Total comprehensive income	–	–	27,719	–	(5,942)	21,777	1,391	23,168
Share-based remuneration transactions		(142)		88	(33)	(87)		(87)
Dividends			(12,175)			(12,175)	(623)	(12,798)
Changes in treasury shares		1		(4,843)		(4,841)		(4,841)
Transfer from other components of equity to retained earnings			582		(582)	–		–
Increase by business combination		65	46		(239)	(128)	17,824	17,697
Other movements			(36)		1	(35)	718	683
Total transactions with owners, etc.	–	(75)	(11,583)	(4,755)	(853)	(17,265)	17,919	654
Balance at December 31, 2018	23,370	18,427	348,050	(10,112)	18,277	398,011	37,427	435,437

Nine months of FY ending March 2020 (April 1 to December 31, 2019)

(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, 2019	23,370	18,436	351,476	(10,042)	18,758	401,998	38,361	440,360
Effect of changes in accounting policies			133			133		133
Restated balance at April 1, 2019	23,370	18,436	351,609	(10,042)	18,758	402,131	38,361	440,493
Profit			18,946			18,946	2,817	21,762
Other comprehensive income					(663)	(663)	479	(184)
Total comprehensive income	–	–	18,946	–	(663)	18,283	3,296	21,579
Share-based remuneration transactions		(156)		292	(134)	2		2
Dividends			(13,054)			(13,054)	(1,453)	(14,507)
Changes in treasury shares		(30)		(9,816)		(9,846)		(9,846)
Transfer from other components of equity to retained earnings			7,118		(7,118)	–		–
Increase by business combination						–		–
Changes in equity due to capital increase of subsidiary						–	1,422	1,422
Other movements						–		–
Total transactions with owners, etc.	–	(186)	(5,936)	(9,524)	(7,252)	(22,898)	(31)	(22,930)
Balance at December 31, 2019	23,370	18,250	364,618	(19,566)	10,843	397,516	41,626	439,142

(5) Notes on Condensed Quarterly Consolidated Financial Statements

(Cautionary Notes regarding Assumptions of Going Concern)

Not applicable

(Significant Accounting Policies)

The significant accounting policies that apply to the Group's condensed quarterly consolidated financial statements are identical to the accounting policies applied to the consolidated financial statements pertaining to FY ended March 2019, apart from the matters stated below.

Income tax expenses in the first nine months of FY ending March 2020 have been calculated on the basis of the estimated annual effective tax rate.

The Group has applied the following standard since the First Quarter of FY ending March 2020.

IFRS	Summary of New / Revised Standard
IFRS 16 — Leases	Revises accounting related to lease contracts

(Changes in Accounting Policy)

The Group has applied IFRS 16 — *Leases* ("IFRS 16") from the First Quarter of FY ending March 2020. For the adoption of IFRS 16, the Group has employed a method recognizing the cumulative effect of the standard's application, deemed to be a transitional measure, as the balance of retained earnings at the beginning of the current period at the date of initial application, without presenting a restatement of comparative information (modified retrospective approach).

At inception of a contract, the Group assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date when a contract is assessed to be, or contain, a lease. The lease liability of a lease transaction is measured at the discounted present value of the total unpaid value of lease payments at the lease commencement date. The right-of-use asset is initially measured based on the initial measurement amount of the lease liability adjusted for any initial direct costs incurred or any lease payments made at or before the commencement date, plus any costs to restore the underlying asset or the site on which it is located and other related costs required in the lease contract. The right-of-use asset is periodically depreciated over the term of the lease. Lease payments are allocated to finance costs and an amortization component of the lease liability balance, in such a way as to apply a fixed interest rate to the lease liability balance. Finance costs are categorized and recorded as depreciation pertaining to the right-of-use asset on the Condensed Quarterly Consolidated Statement of Profit or Loss.

Whether a contract is a lease or whether a contract contains a lease is determined based on the substantive nature of the contract, even when the contract is not in the legal form of a lease. The lease payments associated with leases with a term concluding within 12 months and leases for which the underlying asset is of low value are recognized as an expense on a straight-line basis over the lease term.

As a result of the transition to IFRS 16, right-of-use assets of 13,810 million yen have been incrementally recognized in *Property, plant and equipment* and lease liabilities of 13,678 million yen have been incrementally recognized in *Other financial liabilities* under current liabilities and non-current liabilities on the current Condensed Quarterly Consolidated Statement of Financial Position at the date of initial application. The weighted average incremental borrowing rate applied to lease liabilities recognized at the date of initial application of IFRS 16 was 3.0%.

(Segment Information)
(1) Outline of Reportable Segments

JSR Group reportable segments are components of the Group for which separate financial information is available. The Board of Directors determines the basis of business segments 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 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 four 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; Digital Solutions Business, which conducts mainly the manufacture and sale of semiconductor materials, display materials, and products related to edge computing; and Life Sciences Business. The Digital Solutions 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.

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

Main Products in Each Business Segment

Business segment	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
Digital Solutions Business	<Semiconductor Materials> Lithography materials (photoresists, multilayer materials); CMP materials; mounting materials; etc. <Display Materials> Materials for color LCDs; functional coating materials; etc. <Edge Computing Materials> Heat-resistant transparent resins and functional films; high-functional UV curable resins; photo fabrication and photo molding systems; etc.
Life Sciences Business	Diagnostic and research reagents and similar materials; bio-process materials; contract bio-process development and manufacturing, etc.

(2) Reportable Segment Revenues, Profits and Losses

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

Cumulative nine months of the previous consolidated fiscal year (April 1, 2018 to December 31, 2018)

(Millions of yen)

	Reportable Segment							
	Elastomers	Plastics	Digital Solutions	Life Sciences	Other [Note 1]	Total	Adjustment [Note 2]	Amount Recorded in the Condensed Quarterly Consolidated Statement of Profit or Loss
Revenue from external customers	151,808	79,595	109,105	32,336	3,704	376,547	1	376,548
Operating profit or (loss)	7,436	6,741	27,283	1,339	(1,274)	41,525	(3,577)	37,948
Finance income								1,695
Finance costs								(937)
Quarterly profit before tax								38,706

Note 1: The Other segment is a business segment not contained in the reportable segments. It includes the lithium-ion capacitor and other businesses.

Note 2: The operating profit downward adjustment of 3,577 million yen contains company-wide profits and losses not allocated to the reportable segments.

Cumulative nine months of the current consolidated fiscal year (April 1, 2019 to December 31, 2019)

(Millions of yen)

	Reportable Segment							
	Elastomers	Plastics	Digital Solutions	Life Sciences	Other [Note 1]	Total	Adjustment [Note 2]	Amount Recorded in the Condensed Quarterly Consolidated Statement of Profit or Loss
Revenue from external customers	136,468	72,644	108,918	38,720	2,326	359,076	0	359,076
Operating profit or (loss)	961	5,356	24,586	3,948	(1,065)	33,785	(4,161)	29,624
Finance income								1,173
Finance costs								(1,288)
Quarterly profit before tax								29,508

Note 1: The Other segment is a business segment not contained in the reportable segments. It includes the lithium-ion capacitor and other businesses.

Note 2: The operating profit downward adjustment of 4,161 million yen contains company-wide profits and losses not allocated to the reportable segments.

(Material Subsequent Events)

As part of JSR's business portfolio management efforts, JSR gained approval at the Board of Directors meeting held on January 27, 2020, for the transfer of 80% of the shares of JM Energy Corporation (JM Energy), a consolidated subsidiary of JSR, to Musashi Seimitsu Industry Co., Ltd. (Musashi Seimitsu Industry), leading to agreement on the transfer with Musashi Seimitsu Industry. Upon completion of the share transfer, JSR will hold 20% of JM Energy's shares, and JM Energy will then become an equity-method affiliate of JSR. With the execution of the transfer, the lithium-ion capacitor business will be classified as a non-consolidated business from the Fourth Quarter of FY ending March 2020, and JM Energy is expected to be deconsolidated as a result of loss of control over the subsidiary in the First Quarter of FY ending March 2021. The impact on the consolidated financial results for the full year is expected to be minor.

Summary of the subsidiary involved in the share transfer
Name: JM Energy Corporation
Business domain: Development, manufacturing, and sales of lithium-ion capacitors
Capital: 300 million yen
Principal shareholders and ratio of shares held: JSR, 100%