

Consolidated Financial Results for the Nine Months Ended September 30, 2021 [IFRS]



November 12, 2021

Company name: NIPPON PAINT HOLDINGS CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4612

URL: <https://www.nipponpaint-holdings.com/>

Representative: Yuichiro Wakatsuki, Representative Executive Officer & Co-President

Wee Siew Kim, Representative Executive Officer & Co-President

Contact: Ryosuke Tanaka, General Manager of Investor Relations

Phone: +81-50-3131-7419

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Scheduled date of commencing dividend payments: —

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of consolidated financial results briefing session: Yes

(Amounts of less than one million yen are rounded down)

1. Consolidated Financial Results for the Nine Months Ended September 30, 2021 (January 1, 2021 to September 30, 2021)

(1) Consolidated Operating Results

(% indicates changes from the previous corresponding period)

	Revenue		Operating profit		Profit before tax		Profit	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2021	736,257	32.3	66,737	3.2	65,988	1.5	50,679	5.1
September 30, 2020	556,581	—	64,687	—	64,984	—	48,197	1.2

	Profit attributable to owners of parent		Comprehensive income	
Nine months ended	Million yen	%	Million yen	%
September 30, 2021	50,308	59.0	111,788	887.6
September 30, 2020	31,637	(3.0)	11,319	—

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2021	22.06	22.06
September 30, 2020	19.72	19.72

Note 1: NPHD issued new shares through a third-party allotment on January 25, 2021. As a result, the total number of shares issued increased by 148,700,000 to 474,102,443.

Note 2: NPHD implemented a stock split in which each share of common stock held by shareholders as of the record date of March 31, 2021 was split into five shares, with April 1, 2021 as the effective date. Basic earnings per share, profit, and diluted earnings per share are calculated assuming that the stock split was at the beginning of the fiscal year ended December 31, 2020.

Note 3: The Nippon Paint Group adopted a resolution at the Board of Directors meeting of NPHD on August 10, 2021 to dissolve and liquidate Nippon Paint (Europe) Ltd. (NPE), a consolidated subsidiary of NPHD. In addition, the Nippon Paint Group transferred to Isaac Newton Corporation (INC) the shares in Nippon Paint (India) Private Limited (NPI) held by NPHD, the shares in Nippon Paint Automotive Europe GmbH (NPAE) held by NPE, and the shares in Berger Nippon Paint Automotive Coatings Private Limited (BNPA) held by NPHD's consolidated subsidiary Nippon Paint Automotive Coatings Co., Ltd. (NPAC) on August 27, 2021. As a result, these businesses have been classified as discontinued operations. Revenue, operating profit, and profit before tax for third quarter of the fiscal year ended December 31, 2020 have been reclassified and restated to the amounts for continuing operations excluding the amounts for discontinued operations. Consequently, the year-on-year percentage changes in these items have not been provided. For more information about the discontinued operations, please see "2. Condensed Quarterly Consolidated Financial Statements and Primary Notes (5) Notes to Condensed Quarterly Consolidated Financial Statements (Discontinued Operations) on page 19 of the accompanying material.

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Equity attributable to owners of parent to total assets
	Million yen	Million yen	Million yen	%
As of September 30, 2021	1,915,880	931,037	923,011	48.2
As of December 31, 2020	1,615,384	699,805	568,398	35.2

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2020	—	22.00	—	23.00	45.00
Fiscal year ending December 31, 2021	—	5.00	—		
Fiscal year ending December 31, 2021 (Forecast)				5.00	10.00

Note 1: Revision of the most recent dividend forecast: No

Note 2: NPHD implemented a 5-for-1 stock split of its common stock, with March 31, 2021 as the record date and April 1, 2021 as the effective date. The dividends for the fiscal year ended December 31, 2020 are the dividends before the stock split.

Note 3: Composition of the dividend for the second quarter of the fiscal year ending December 31, 2021: ordinary dividend of ¥4.00; commemorative dividend of ¥1.00 for the 140th anniversary of the company's founding.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2021 (January 1, 2021 to December 31, 2021)

(% indicates changes from the previous corresponding period)

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	1,000,000	29.4	80,000	(9.6)	79,000	(12.5)	60,000	34.4	26.12

Note: Revision of the most recent financial results forecast: No

Revenue, operating profit, and profit before tax figures are for continuing operations. The year-on-year percentage changes are changes in these items for continuing operations from the previous year.

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: No
(Changes in specified subsidiaries resulting in changes in the scope of consolidation)

Newly consolidated	-	Excluded	-
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- (2) Changes in accounting policies and changes in accounting estimates

- 1) Changes in accounting policies required by IFRS: No
2) Changes in accounting policies other than 1) above: No
3) Changes in accounting estimates: No

- (3) Total number of issued shares (common shares)

- 1) Total number of issued shares at the end of the period (including treasury shares):

September 30, 2021: 2,370,512,215 shares

December 31, 2020: 1,627,012,215 shares

- 2) Total number of treasury shares at the end of the period:

September 30, 2021: 22,381,872 shares

December 31, 2020: 22,719,125 shares

- 3) Average number of shares during the period:

Nine months ended September 30, 2021: 2,280,136,216 shares

Nine months ended September 30, 2020: 1,603,994,884 shares

Note 1: NPHD issued new shares through a third-party allotment on January 25, 2021. As a result, the total number of issued shares increased by 148,700,000 to 474,102,443.

Note 2: NPHD implemented a stock split in which each share of common stock held by shareholders as of the record date of March 31, 2021 was split into five shares, with April 1, 2021 as the effective date. The total number of issued shares (common stock) was calculated assuming that the stock split was at the beginning of the fiscal year ended December 31, 2020.

*These consolidated financial results are outside the scope of audit by Certified Public Accountants or auditing corporations.

*Explanation of the use of financial results forecast and other notes

(Caution concerning forward-looking statements)

Earnings forecasts and other forward-looking statements are based on information currently available and contain risks and uncertainties. Actual results and other aspects of performance may differ greatly from the forecast depending on various factors.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

The Nippon Paint Group adopted a resolution at the Board of Directors meeting of NPHD on August 10, 2021 to dissolve and liquidate NPE, and transferred shares of NPI, NPAA, and BNPA to INC on August 27, 2021. As a result, these businesses have been classified as discontinued operations for the purpose of preparing the condensed quarterly financial statements. Following this accounting treatment, revenue, operating profit, and profit before tax are reclassified and restated to the amounts for continuing operations excluding discontinued operations. The percentage changes from the corresponding period of the previous year (the “previous year”) are changes in these items for continuing operations from the previous year. For more information, please see “Condensed Quarterly Consolidated Financial Statements and Primary Notes (5) Notes to Condensed Quarterly Consolidated Financial Statements (Discontinued Operations).

During the nine months ended September 30, 2021, consolidated revenue of the Nippon Paint Group increased by 32.3% from the previous year to ¥736,257 million due to the acquisition of 100% ownership of the Asian JVs and the Indonesia business owned by the Wuthelam Group (Wuthelam and Mr. Goh Hup Jin collectively, “Wuthelam and Mr. Goh”; Wuthelam and Mr. Goh, Wuthelam’s subsidiaries, and companies substantively controlled by Wuthelam and Mr. Goh are collectively the “Wuthelam Group”), coupled with the strong performance of the decorative paints business in China, which is a key business of the Nippon Paint Group. Consolidated operating profit increased by 3.2% from the previous year to ¥66,737 million on higher revenue despite raw material price increases in many parts of the world. Consolidated profit before tax increased by 1.5% from the previous year to ¥65,988 million, and profit attributable to owners of parent increased by 59.0% to ¥50,308 million.

Results by business segment are as follows.

Japan

Revenue for automotive coatings increased from the previous year due to a higher number of automobiles manufactured despite the impact of semiconductor shortage. Industrial coatings revenue increased due to solid market conditions such as strong new housing starts and the recovery from the COVID-19 downturn in the construction machinery market. Decorative paints revenue increased due to factors such as the restart of delayed construction projects despite the impact of a resurgence of COVID-19.

As a result, consolidated revenue increased by 4.5% from the previous year to ¥122,526 million. Consolidated operating profit declined by 20.2% to ¥8,723 million. Beginning with the first quarter of the current fiscal year, headquarters expenses incurred by NPHD, which were previously allocated to the Japan segment, are classified as “Adjustments” that do not belong to any reportable segment in order to more accurately reflect the performance of each reportable segment.

Asia

Earnings of the Indonesia business have been included in the consolidated performance of the Nippon Paint Group since January 2021. Revenue for automotive coatings increased from the previous year, despite the ongoing impact of semiconductor shortage, due to the increase in the number of automobiles manufactured in China and Thailand during the nine months ended September 30, 2021. Revenue of decorative paints, a mainstay business in Asia, was higher than in the previous year as a result of contributions from the earnings of the Indonesia business, the continuing recovery in demand for repainting interiors of existing homes in China, and market share gains due to aggressive marketing activities in the major markets including China, Malaysia, and Indonesia.

As a result, consolidated revenue increased by 54.6% from the previous year to ¥390,335 million, and consolidated operating profit increased by 15.1% to ¥44,576 million.

Oceania

Revenue for decorative paints increased from the previous year due to the absence of the adverse effects of bushfires and floods in the previous year, coupled with robust demand for home renovations. Revenue for the paint related business increased due to strong demand for home renovations.

As a result, consolidated revenue increased by 19.3% from the previous year to ¥127,776 million, and consolidated operating profit increased by 19.8% to ¥16,432 million.

Americas

Revenue for automotive coatings increased from the previous year due to a higher number of automobile manufactured in the United States, a core region, despite the impact of the semiconductor shortage. Decorative paints revenue increased from the previous year due to factors such as stable housing demand and favorable weather.

As a result, consolidated revenue increased by 10.5% from the previous year to ¥57,640 million. Consolidated operating profit increased by 17.0% to ¥3,940 million.

Other

Revenue for decorative paints and paint related businesses increased due to the continuing brisk market conditions and successful marketing activities.

As a result, consolidated revenue increased by 37.5% from the previous year to ¥37,978 million, and consolidated operating profit increased by 5.1% to ¥4,141 million.

(2) Explanation of Financial Position

Total assets at the end of the third quarter increased by ¥300,496 million from the end of the previous fiscal year to ¥1,915,880 million.

Current assets decreased by ¥38,053 million from the end of the previous fiscal year. This was mainly attributable to a decrease in cash and cash equivalents. Non-current assets increased by ¥338,550 million. The increase was mainly attributable to an increase in goodwill as a result of the acquisition of the Indonesia business.

Liabilities increased by ¥69,265 million from the end of the previous fiscal year to ¥984,843 million mainly due to an increase in trade and other payables.

Equity increased by ¥231,231 million from the end of the previous fiscal year to ¥931,037 million. This was mainly attributable to an increase in share capital as a result of the issuance of new shares through a third-party allotment.

As a result, equity attributable to owners of the parent company to total assets increased from 35.2% at the end of the previous fiscal year to 48.2%.

(3) Explanation of Consolidated Earnings Forecast and Other Forward-Looking Information

There are no changes in the consolidated earnings forecast for the fiscal year ending December 31, 2021 provided in “Notice of Revision of Consolidated Earnings Forecast (IFRS) released on October 12, 2021.

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statements of Profit or Loss and Comprehensive Income

Condensed Quarterly Consolidated Statement of Profit or Loss

Nine Months Ended September 30

(Million yen)

	For the nine months ended September 30, 2020	For the nine months ended September 30, 2021
Continuing operations		
Revenue	556,581	736,257
Cost of sales	(324,824)	(455,288)
Gross profit	231,757	280,969
Selling, general and administrative expenses	(167,825)	(216,238)
Other income	2,762	4,481
Other expenses	(2,006)	(2,474)
Operating profit	64,687	66,737
Finance income	3,962	3,652
Finance costs	(4,467)	(4,250)
Share of profit (loss) of investments accounted for using equity method	800	1,450
Loss on step acquisitions	—	(1,601)
Profit before tax	64,984	65,988
Income taxes	(15,367)	(16,200)
Profit from continuing operations	49,616	49,788
Discontinued operations		
Profit (loss) from discontinued operations	(1,419)	890
Profit	48,197	50,679
Profit attributable to		
Owners of parent	31,637	50,308
Non-controlling interests	16,559	371
Profit	48,197	50,679
Earnings per share		
Basic earnings (loss) per share (yen)		
Continuing operations	20.52	21.63
Discontinued operations	(0.80)	0.43
Total	19.72	22.06
Diluted earnings (loss) per share (yen)		
Continuing operations	20.51	21.63
Discontinued operations	(0.80)	0.43
Total	19.72	22.06

Third Quarter Ended September 30

(Million yen)

	Third quarter ended September 30, 2020	Third quarter ended September 30, 2021
Continuing operations		
Revenue	214,390	254,470
Cost of sales	(124,535)	(161,892)
Gross profit	89,854	92,577
Selling, general and administrative expenses	(61,087)	(75,358)
Other income	904	1,056
Other expenses	(754)	(957)
Operating profit	28,916	17,318
Finance income	1,841	550
Finance costs	(1,402)	(1,379)
Share of profit (loss) of investments accounted for using equity method	490	680
Profit before tax	29,844	17,169
Income taxes	(7,688)	(2,096)
Profit from continuing operations	22,156	15,072
Discontinued operations		
Profit (loss) from discontinued operations	(270)	1,574
Profit	21,886	16,647
Profit attributable to		
Owners of parent	14,746	16,576
Non-controlling interests	7,139	70
Profit	21,886	16,647
Earnings per share		
Basic earnings (loss) per share (yen)		
Continuing operations	9.36	6.38
Discontinued operations	(0.16)	0.67
Total	9.19	7.06
Diluted earnings (loss) per share (yen)		
Continuing operations	9.35	6.38
Discontinued operations	(0.16)	0.67
Total	9.19	7.06

Condensed Quarterly Consolidated Statement of Comprehensive Income
 Nine Months Ended September 30

(Million yen)

	For the nine months ended September 30, 2020	For the nine months ended September 30, 2021
Profit	48,197	50,679
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Financial assets measured at fair value through other comprehensive income	(4,266)	2,769
Remeasurements of defined benefit plans	(30)	(74)
Total of items that will not be reclassified subsequently to profit or loss	(4,296)	2,695
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(31,969)	58,266
Cash flow hedges	(34)	73
Share of other comprehensive income of entities accounted for using equity method	(575)	73
Total of items that may be reclassified subsequently to profit or loss	(32,580)	58,413
Total other comprehensive income	(36,877)	61,109
Comprehensive income	11,319	111,788
Comprehensive income attributable to		
Owners of parent	(1,825)	111,038
Non-controlling interests	13,144	750
Comprehensive income	11,319	111,788

Third Quarter Ended September 30

(Million yen)

	Third quarter ended September 30, 2020	Third quarter ended September 30, 2021
Profit	21,886	16,647
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Financial assets measured at fair value through other comprehensive income	80	466
Remeasurements of defined benefit plans	5	(31)
Total of items that will not be reclassified subsequently to profit or loss	85	435
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(789)	(706)
Cash flow hedges	(51)	30
Share of other comprehensive income of entities accounted for using equity method	35	(158)
Total of items that may be reclassified subsequently to profit or loss	(805)	(834)
Total other comprehensive income	(719)	(399)
Comprehensive income	21,166	16,247
Comprehensive income attributable to		
Owners of parent	12,647	16,156
Non-controlling interests	8,519	91
Comprehensive income	21,166	16,247

(2) Condensed Quarterly Consolidated Statement of Financial Position

(Million yen)

	As of December 31, 2020	As of September 30, 2021
Assets		
Current assets		
Cash and cash equivalents	232,134	129,536
Inventories	94,055	126,592
Trade and other receivables	231,995	281,790
Other financial assets	66,915	47,149
Other current assets	17,468	18,481
Subtotal	642,569	603,550
Assets held for sale	927	1,892
Total current assets	643,496	605,442
Non-current assets		
Property, plant and equipment	248,302	286,119
Goodwill	424,168	638,110
Other intangible assets	230,099	288,993
Investments accounted for using equity method	13,174	29,522
Other financial assets	49,939	55,132
Other non-current assets	3,124	9,387
Deferred tax assets	3,078	3,181
Total non-current assets	971,887	1,310,438
Total assets	1,615,384	1,915,880

(Million yen)

	As of December 31, 2020	As of September 30, 2021
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	161,525	194,275
Bonds and borrowings	68,133	84,811
Other financial liabilities	25,534	25,337
Income taxes payable	8,796	13,132
Provisions	2,945	2,657
Other current liabilities	48,611	59,406
Total current liabilities	315,547	379,621
Non-current liabilities		
Bonds and borrowings	467,627	457,730
Other financial liabilities	46,917	46,477
Retirement benefit liability	20,763	21,654
Provisions	775	743
Other non-current liabilities	4,344	5,715
Deferred tax liabilities	59,602	72,901
Total non-current liabilities	600,030	605,222
Total liabilities	915,578	984,843
Equity		
Share capital	78,862	671,432
Capital surplus	63,320	—
Treasury shares	(6,268)	(6,179)
Retained earnings	444,639	216,813
Other components of equity	(12,156)	40,944
Total equity attributable to owners of parent	568,398	923,011
Non-controlling interests	131,407	8,026
Total equity	699,805	931,037
Total liabilities and equity	1,615,384	1,915,880

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

For the Nine Months Ended September 30, 2020 (From January 1, 2020 to September 30, 2020)

(Million yen)

	Equity attributable to owners of parent					Total	Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity			
Balance as of January 1, 2020	78,862	62,927	(6,378)	411,941	5,568	552,922	135,056	687,979
Profit	—	—	—	31,637	—	31,637	16,559	48,197
Other comprehensive income	—	—	—	—	(33,463)	(33,463)	(3,414)	(36,877)
Comprehensive income	—	—	—	31,637	(33,463)	(1,825)	13,144	11,319
Issuance of new shares	—	—	—	—	—	—	—	—
New share issuance expenses	—	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	(10)	—	—	(10)	—	(10)
Disposal of treasury shares	—	279	93	—	—	372	—	372
Dividends	—	—	—	(14,437)	—	(14,437)	(2,469)	(16,907)
Changes in ownership interest in subsidiaries	—	—	—	—	—	—	(552)	(552)
Transfer from retained earnings to capital surplus	—	—	—	—	—	—	—	—
Change in scope of consolidation	—	—	—	—	—	—	(82)	(82)
Transfer from other components of equity to retained earnings	—	—	—	(35)	35	—	—	—
Capital increase of subsidiaries	—	—	—	—	—	—	43	43
Other	—	—	—	—	—	—	46	46
Total transactions with owners	—	279	83	(14,472)	35	(14,074)	(3,014)	(17,089)
Balance as of September 30, 2020	78,862	63,207	(6,294)	429,106	(27,859)	537,022	145,186	682,208

For the Nine Months Ended September 30, 2021 (From January 1, 2021 to June 30, 2021)

(Million yen)

	Equity attributable to owners of parent					Total	Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity			
Balance as of January 1, 2021	78,862	63,320	(6,268)	444,639	(12,156)	568,398	131,407	699,805
Profit	—	—	—	50,308	—	50,308	371	50,679
Other comprehensive income	—	—	—	—	60,729	60,729	379	61,109
Comprehensive income	—	—	—	50,308	60,729	111,038	750	11,788
Issuance of new shares	592,569	592,569	—	—	—	1,185,139	—	1,185,139
New share issuance expenses	—	(3,619)	—	—	—	(3,619)	—	(3,619)
Purchase of treasury shares	—	—	(5)	—	—	(5)	—	(5)
Disposal of treasury shares	—	447	93	—	(4)	536	—	536
Dividends	—	—	—	(19,121)	—	(19,121)	(99)	(19,220)
Changes in ownership interest in subsidiaries	—	(912,321)	—	—	(7,033)	(919,354)	(123,774)	(1,043,129)
Transfer from retained earnings to capital surplus	—	259,603	—	(259,603)	—	—	—	—
Change in scope of consolidation	—	—	—	—	—	—	(245)	(245)
Transfer from other components of equity to retained earnings	—	—	—	590	(590)	—	—	—
Capital increase of subsidiaries	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	(12)	(12)
Total transactions with owners	592,569	(63,320)	88	(278,134)	(7,628)	243,574	(124,132)	119,442
Balance as of September 30, 2021	671,432	—	(6,179)	216,813	40,944	923,011	8,026	931,037

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Million yen)

	For the nine months ended September 30, 2020	For the nine months ended September 30, 2021
Cash flows from operating activities		
Profit before tax from continuing operations	64,984	65,988
Depreciation and amortization	21,554	25,203
Gain on bargain purchase	—	(1,528)
Loss on step acquisitions	—	1,601
Interest and dividend income	(2,738)	(2,521)
Interest expenses	4,290	4,110
Share of loss (profit) of investments accounted for using equity method	(800)	(1,450)
Decrease (increase) in inventories	(1,549)	(23,876)
Decrease (increase) in trade and other receivables	(39,776)	(34,848)
Increase (decrease) in trade and other payables	3,054	21,941
Increase (decrease) in other current liabilities	12,915	6,935
Other	5,115	(474)
Subtotal	67,047	61,079
Interest received	1,906	1,787
Dividends received	2,159	1,492
Interest paid	(4,682)	(4,515)
Income taxes paid	(16,700)	(15,600)
Net cash provided by operating activities from discontinued operations	(798)	(2,725)
Net cash provided by operating activities	48,932	41,518
Cash flows from investing activities		
Net decrease (increase) in time deposits	(4,596)	14,456
Net decrease (increase) in short-term investment securities	11,684	17,533
Purchase of property, plant and equipment	(17,672)	(24,267)
Proceeds from sale of property, plant and equipment	1,007	917
Purchase of intangible assets	(2,236)	(2,547)
Purchase of shares of subsidiaries	(1,937)	(98,791)
Payments for purchase of investment in shares accounted for using equity method	—	(20,093)
Payments for acquisition of businesses	(2,652)	(1,374)
Loan advances	(71)	(6,514)
Purchase of other financial assets	(1,538)	—
Other	186	(632)
Net cash used in investing activities from discontinued operations	(1,005)	13,809
Net cash used in investing activities	(18,834)	(107,503)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(335,919)	(246)
Proceeds from long-term borrowings	371,849	40,692
Repayments of long-term borrowings	(16,265)	(34,059)
Redemption of bonds	—	(3,329)
Repayments of lease obligations	(5,906)	(6,224)
Proceeds from issuance of shares	—	(5,214)
Dividends paid	(14,390)	(19,065)
Dividends paid to non-controlling interests	(2,091)	(1,963)
Dividends paid to former shareholders of newly consolidated subsidiaries	—	(10,011)
Other	(561)	(319)
Net cash used in financing activities from discontinued operations	(2,572)	(122)
Net cash used in financing activities	(5,859)	(39,864)
Effect of exchange rate changes on cash and cash equivalents	(6,346)	3,253
Net decrease in cash and cash equivalents	17,891	(102,597)
Cash and cash equivalents at beginning of period	123,300	232,134
Cash and cash equivalents at end of period	141,191	129,536

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Changes in presentation)

Profit or loss from businesses classified as discontinued operations is separately presented on the condensed quarterly consolidated statements of profit or loss, net of income taxes, under profit from continuing operations. The condensed quarterly consolidated statements of profit or loss, condensed quarterly consolidated statement of cash flows, and relevant notes to the condensed quarterly consolidated financial statements for the nine months ended September 30, 2020 and the third quarter ended September 30, 2020 have been partially reclassified for businesses classified as discontinued operations.

(Discontinued operations)

A discontinued operation is recognized if the operation includes a component of an entity that either has been disposed of or is classified as held for sale, represents a separate line of business of the Nippon Paint Group or geographic area of operations, and is part of a plan to dispose of a separate line of business of the Nippon Paint Group or geographical area of operations.

(Additional information)

(Configuration or customization costs in a cloud computing arrangement)

In April 2021, the IFRS Interpretations Committee published the agenda decision on “Configuration or customization costs in a cloud computing arrangement (IAS 38)” The agenda decision clarified the accounting treatment on upfront costs incurred by the customer to receive cloud computing services in a cloud computing arrangement. The Nippon Paint Group is currently examining the potential impact of the agenda decision. Therefore, we did not apply changes in the accounting policy following the agenda decision in the condensed quarterly consolidated financial statements for the third quarter of the current fiscal year and the nine months ended September 30, 2021. We plan to apply the changes in this accounting policy during the current fiscal year.

(Segment information)

(1) Summary of reportable segments

The reportable segments of the Group categorize the business composition of the Group for which separate financial information is available and are subject to periodical evaluation by the Board of Directors, which is the highest decision-making body, in order to make decisions regarding management resource allocation and performance assessment. The Group’s primary businesses are the paint and coating business which manufactures and sells automotive coatings, decorative paints, industrial coatings, fine chemicals, and other paints, and the paint related business which manufactures and sells paint-related products such as adhesives. NPHD and separate local companies are responsible for domestic activities, and overseas, separate local companies are responsible for the Asia, Oceania, Americas, and other regions. Each company is an individual management unit, and concerning which items to carry, comprehensive strategic proposals are made for each region to foster business growth.

As a result, the Group consists of segments divided by region with manufacture and sales structure as a base, and the four reportable segments are “Japan,” “Asia,” “Oceania,” and “Americas.”

“Other” contains business activities by overseas subsidiaries in Europe, etc. Those business activities are managed individually, but are not material enough to be disclosed separately as an independent segment of the Group.

The Group adopted a resolution at the Board of Directors on August 10, 2021 to dissolve and liquidate NPE and transferred the shares of NPI, NPAE, and BNPA to INC on August 27, 2021. As a result, these businesses have been classified as discontinued operations and excluded from the segment information. The segment information for the nine months ended September 30, 2020 represent amounts for continuing operations only, excluding amounts for discontinued operations.

(2) Matters regarding changes, etc. of reportable segments

From the first quarter of the current fiscal year, headquarters expenses incurred by Nippon Paint Holdings, which were previously allocated to the Japan segment, are classified as “Adjustments” that do not belong to any reportable segment in order to more accurately reflect the performance of each reportable segment. The segment information for the first quarter of the previous fiscal year has been revised for consistency with this change.

(3) Performance by reportable segment

For the Nine Months Ended September 30, 2020 (From January 1, 2020 to September 30, 2020)

	Reportable segment					Other	Total	Adjustments (Note)	(Million yen)
	Japan	Asia	Oceania	Americas	Subtotal				Condensed quarterly consolidated financial statements
Revenue									
Revenue from external customers	117,292	252,399	107,117	52,159	528,968	27,612	556,581	—	556,581
Intersegment revenue	10,292	2,922	97	51	13,364	—	13,364	(13,364)	—
Total	127,585	255,321	107,214	52,211	542,333	27,612	569,945	(13,364)	556,581
Segment profit (loss)	10,929	38,734	13,715	3,367	66,746	3,940	70,687	(5,999)	64,687
Financial income									3,962
Financial costs									(4,467)
Share of profit of investments accounted for using equity method									800
Profit before tax									64,984

Note: Adjustments for segment profit of ¥-5,999 million include headquarters expenses of ¥-10,754 million that do not belong to any reportable segment and intersegment eliminations of ¥4,755 million.

For the Nine Months Ended September 30, 2021 (From January 1, 2021 to September 30, 2021)

	Reportable segment					Other	Total	Adjustments (Note)	(Million yen)
	Japan	Asia	Oceania	Americas	Subtotal				Condensed quarterly consolidated financial statements
Revenue									
Revenue from external customers	122,526	390,335	127,776	57,640	698,279	37,978	736,257	—	736,257
Intersegment revenue	13,088	4,275	156	36	17,556	—	17,556	(17,556)	—
Total	135,614	394,610	127,932	57,677	715,835	37,978	753,814	(17,556)	736,257
Segment profit (loss)	8,723	44,576	16,432	3,940	73,672	4,141	77,813	(11,076)	66,737
Financial income									3,652
Financial costs									(4,250)
Share of profit of investments accounted for using equity method									1,450
Loss on step acquisitions									(1,601)
Profit before tax									65,988

Note: Adjustments for segment profit of ¥-11,076 million include headquarters expenses of ¥-16,322 million that do not belong to any reportable segment and intersegment eliminations of ¥5,246 million.

(4) Information on products and services

For the Nine Months Ended September 30, 2020 (From January 1, 2020 to September 30, 2020)

(Million yen)

	Japan	Asia	Oceania	Americas	Other	Total
Paint and coating business						
Automotive coatings	24,587	38,104	—	14,861	896	78,449
Decorative paints	31,956	181,799	55,994	35,221	16,140	321,113
Industrial coatings	25,906	17,619	4,145	—	2,529	50,201
Fine chemicals	5,474	3,728	—	1,941	—	11,144
Other paints	29,366	11,147	—	135	241	40,891
	117,292	252,399	60,140	52,159	19,807	501,799
Paint related business	—	—	46,976	—	7,804	54,781
Total	117,292	252,399	107,117	52,159	27,612	556,581

For the Nine Months Ended September 30, 2021 (From January 1, 2021 to September 30, 2021)

(Million yen)

	Japan	Asia	Oceania	Americas	Other	Total
Paint and coating business						
Automotive coatings	26,364	51,957	—	17,809	1,126	97,258
Decorative paints	33,248	291,213	65,136	38,955	20,861	449,415
Industrial coatings	28,161	25,569	5,386	—	3,662	62,779
Fine chemicals	6,633	4,833	—	875	—	12,342
Other paints	28,117	14,414	—	—	—	42,532
	122,526	387,987	70,523	57,640	25,650	664,328
Paint related business	—	2,348	57,253	—	12,327	71,929
Total	122,526	390,335	127,776	57,640	37,978	736,257

(Business combinations)

For the nine months ended September 30, 2020 (From January 1, 2020 to September 30, 2020)

There is no relevant information

For the nine months ended September 30, 2021 (From January 1, 2021 to September 30, 2021)

(Acquisition of the 100% ownership of the Asian JVs and the Indonesia business)

Main reasons for the business combinations

The many applications of paint include residential and commercial construction, transport applications such as cars and trains, and infrastructure such as bridges and roads, meaning that demand for paint increases in step with population growth and urbanization. Asia is becoming a key region for NPHD's sustainable growth in terms of both market size and growth rate. NPHD acquired approximately 100% ownership of the Asian JVs (the "Target JVs," collectively with the Indonesia business, the "Target Businesses") with the Wuthelam Group due to the outlook for increasing demand in Asia because of the projected demographic and economic growth in Asia. The Indonesia business operates in the growing Indonesian market and has a large share of the decorative paints market, which has significant growth potential due to its correspondence to population and per-capita GDP growth. Acquiring the Indonesia business gives the Company a dominant position with its "Asia x Construction" business model. Furthermore, by increasing its equity and enhancing its financial soundness by issuing new shares through a third-party allotment to NIPSEA International Limited and Fraser (HK) Limited, which are both members of the Wuthelam Group, the Company will be in an even better position to use M&A for the maximization of shareholder value. This is expected to further accelerate growth.

The acquisition of the Target Businesses will also enable the Company to fully capture in the non-controlling interests of the Asian JVs that previously belonged to the Wuthelam Group, as well as the profits of the Indonesia business, which will be consolidated into the Company's earnings. This is expected to increase basic earnings per share (EPS) and enable the Company to optimize the allocation of resources by reducing the outflow of profits. Furthermore, the consolidation of the Asian JVs and Indonesia business will allow shifting the industrial coatings business from a regional focus to a business focus and constructing a unified global system. This will enable faster decision-making and business execution and is expected to increase operating profit. Therefore, these acquisitions are expected to contribute to the maximization of shareholder value.

The transaction includes the following business combination and acquisition of non-controlling interests.

(1) Business combination

(i) Summary of business combination

(a) Name and description of businesses of companies acquired

Name of companies acquired: Neave Limited and its subsidiary PT NIPSEA Paint and Chemicals (the Indonesia business)

Business activities: Manufacture and sale of paint

(b) Date of acquisition

January 25, 2021

(c) Percentage of equity interests with voting rights acquired: 100%

(d) Method of acquisition of control: By acquisition of shares

(ii) Fair value of assets acquired and liabilities assumed at the date of business combination

	(Million yen)
	Fair value
Cash and cash equivalents	1,062
Property, plant and equipment	18,079
Intangible assets	48,010
Other assets	15,444
Fair value of liabilities assumed	(18,055)
Fair value of assets acquired and liabilities assumed, net	64,542

Trade and other receivables

	(Million yen)	
	Contractual amount due	Fair value
Trade and other receivables	7,249	6,980
Accounts receivable-other	97	93
Total	7,346	7,074
Best estimate of contractual cash flows not expected to be collected	(272)	—
Net total	7,074	7,074

Note 1: The acquisition price is allocated to assets and liabilities based on the fair value at the date of obtaining control. The allocation of the acquisition price was completed during the six months ended June 30, 2021. The details of adjustments from the initial provisional amounts are as follows.

Property, plant and equipment	¥11,277 million increase
Intangible assets	¥47,985 million increase
Other assets	¥1,329 million increase
Fair value of liabilities assumed	¥12,118 million increase
Non-controlling interests	¥48 million increase
Goodwill	¥48,424 million decrease

Note 2: Intangible assets comprise ¥43,570 million of trademark rights and ¥4,415 million of customer-related assets. Fair market value of trademark rights is determined using the royalty exemption method and customer-related assets using the excess earnings method in order to allocate the acquisition price.

(iii) Consideration transferred and goodwill

			(Million yen)
			Amount
Consideration transferred	(Cash)	A	100,000
	(Claim for payment of consideration)(Note 1)	B	135,490
Fair value of assets acquired and liabilities assumed, net		C	64,542
Non-controlling interests (Note 2)		D	64
Goodwill (Note 3) A+		A+B-(C-D)	171,012

Note 1: NPHD issued new shares through a third-party allotment in exchange for a contribution in kind.

Note 2: Non-controlling interests are measured as the ownership ratio of non-controlling shareholders of the fair value of identifiable net assets of the acquired company

Note 3: Goodwill primarily reflects the ability to generate excess earnings in the future and synergies with existing businesses. Goodwill does not include any amount which is expected to be deductible for tax purposes.

(iv) Acquisition-related expenses

Account item: Selling, general and administrative expenses

Amount: ¥385 million

(v) Effects on the condensed consolidated statement of profit or loss

Financial results of the acquired company on and after the date of acquisition recognized in the condensed consolidated statement of profit or loss

	(Million yen)
	For the nine months ended September 30, 2021
Revenue	28,215
Profit	5,734

(vi) Effects of business combination on cash flows

	(Million yen)
	Amount
Consideration paid for acquisition	100,000
Cash and cash equivalents	(1,062)
Purchase of shares of subsidiaries	98,937

(2) Acquisition of non-controlling interests

In the three months ended March 31, 2021, NPHD acquired additional shares of the following companies in order to establish a foundation for growth through the integration of the Group's Asian operations.

As a result, non-controlling interests declined by ¥124,174 million, capital surplus by ¥912,321 million, and other components of equity by ¥7,033 million. Due to these changes, capital surplus became negative, and ¥259,603 million was transferred from retained earnings to capital surplus to make capital surplus zero.

Company	Voting rights ownership ratio (indirect ownership)		
	Prior to acquisition	Additional acquisition	After acquisition
Nippon Paint (China) Company Limited (Note)	51%	49%	100%
	(—%)	(49%)	(49%)
Guangzhou Nippon Paint Co., Ltd. (Note)	51%	49%	100%
	(—%)	(49%)	(49%)
Nippon Paint (Chengdu) Co., Ltd. (Note)	51%	49%	100%
	(—%)	(49%)	(49%)
Nippon Paint (H.K.) Company Limited (Note)	51%	49%	100%
	(—%)	(49%)	(49%)
Nippon Paint Marine Coatings Co., Ltd. (Note)	60%	40%	100%
	(—%)	(40%)	(40%)
Nippon Paint Materials Co., Ltd. (Note)	60%	40%	100%
	(—%)	(40%)	(40%)
Nippon Paint Coatings (Taiwan) Co., Ltd.	51%	49%	100%
	(—%)	(—%)	(—%)
NIPSEA Chemical Co., Ltd.	51%	49%	100%
	(—%)	(—%)	(—%)
Nippon Paint (Malaysia) Sdn. Bhd.	51%	49%	100%
	(—%)	(—%)	(—%)
Paint Marketing Co. (M) Sdn. Bhd.	51%	49%	100%
	(—%)	(—%)	(—%)
Nippon Paint (Singapore) Company Private Limited	51%	49%	100%
	(—%)	(—%)	(—%)
NIPSEA Technologies Pte. Ltd.	51%	49%	100%
	(—%)	(—%)	(—%)
Nippon Paint (Thailand) Company Limited	51%	48.9%	99.9%
	(—%)	(—%)	(—%)

Note: Company owned indirectly through Nippon Paint Holdings SG Pte. Ltd.

NIPSEA Pte. Ltd. changed name to Nippon Paint Holdings SG. Pte. Ltd. on May 17, 2021.

(Loss of control of subsidiaries)

The Nippon Paint Group transferred shares of NPI, NPAE, and BNPA to INC during the nine months ended September 30, 2021. As a result, the Nippon Paint Group's ownership ratio of voting rights changed as follows. The Nippon Paint Group no longer has control of the following companies, and these companies have been excluded from the scope of consolidation.

Name	Voting rights ownership ratio	
	Before the share transfer	After the share transfer
Nippon Paint Automotive Europe GmbH (Note 1)	100%	0%
Nippon Paint (India) Private Limited (Note 2)	99.99%	0%
Berger Nippon Paint Automotive Coatings Private Limited	51%	0%

Note 1: Nippon Paint Automotive Europe GmbH holds shares in the following companies.

Name	Voting rights ownership ratio
Nippon Paint Automotive (France) SAS	100%
Nippon Paint Automotive Coatings (Czech) S.R.O.	100%
Nippon Paint Automotive (Slovakia) S.R.O.	100%
Nippon Paint Automotive (UK) Ltd.	100%
BK&NP Automotive Coatings (Shanghai) Co., Ltd.	40%

Note 2: Nippon Paint (India) Private Limited holds shares in the following companies.

Name	Voting rights ownership ratio
PCTS Specialty Chemicals (India) Pte. Ltd.	100%
Nippon Paint Middle East FZE	100%

The main assets and liabilities of the companies which ceased to be subsidiaries of NPHD due to the sale of shares as of the loss of control, consideration received, and proceeds from the sale of shares are as follows.

	(Million yen)
	Nine months ended September 30, 2021 (From January 1, 2021 to September 30, 2021)
Breakdown of assets at the loss of control	
Current assets	25,248
Non-current assets	7,333
Breakdown of liabilities at the loss of control	
Current liabilities	11,578
Non-current liabilities	1,355
	(Million yen)
	Nine months ended September 30, 2021 (From January 1, 2021 to September 30, 2021)
Consideration received in cash	18,607
Cash and cash equivalents of assets at the loss of control	(6,480)
Proceeds from sale of subsidiaries	12,126

(Discontinued operations)

The NPHD Board of Directors approved a resolution on August 10, 2021 to dissolve and liquidate NPE. In addition, the Nippon Paint Group transferred the shares of NPI, NPAE, and BNPA to INC. As a result, earnings and cash flows pertaining to these businesses for the nine months ended September 30, 2021 have been reclassified as discontinued operations. Earnings and cash flows from the discontinued operations for the previous year have been restated and presented separately.

(1) Reportable segments

Reportable segments of the discontinued operations are as follows.

Asia
Other

(2) Financial results of discontinued operations

	(Million yen)	
	Nine months ended September 30, 2020 (January 1, 2020 to September 30, 2020)	Nine months ended September 30, 2021 (January 1, 2021 to September 30, 2021)
Profit and loss from discontinued operations		
Income (Note)	5,918	21,504
Expenses (Note)	(7,329)	(20,668)
Profit (loss) before tax from discontinued operations	(1,411)	836
Income taxes	(7)	53
Profit (loss) from discontinued operations	(1,419)	890

Note: Gain on sale of ¥1,629 million and loss on sale of ¥823 million from sale of the Target Companies' businesses for the nine months ended September 30, 2021 are included.

(3) Cash flows from discontinued operations

	(Million yen)	
	Nine months ended September 30, 2020 (January 1, 2020 to September 30, 2020)	Nine months ended September 30, 2021 (January 1, 2021 to September 30, 2021)
Cash flows from discontinued operations		
Cash flows from operating activities	(798)	(2,725)
Cash flows from investing activities	(1,005)	13,809
Cash flows from financing activities	(2,572)	(122)
Total	(4,377)	10,961

(Significant subsequent events)

(Signing of a put option agreement regarding the acquisition of shares of Cromology Holding SAS)

The Board of Directors of NPHD decided on October 13, 2021 to entrust the decision about signing a put option agreement (with a draft share purchase agreement regarding the acquisition of Cromology Holding SAS (Cromology) attached) to the Representative Executive Officers and Co-Presidents. Cromology is a European company engaged in the manufacture and sale of decorative paints and other paint-related products. Since all required conditions have been satisfied, we have decided to formally conclude the put option agreement on October 20, 2021. DuluxGroup entered into the put option agreement with the main shareholders of Cromology, including notably the Wendel group on the same day.

We will acquire the shares of Cromology through DGL International (UK) Ltd, a UK-based company newly established by NPHD's consolidated subsidiary DuluxGroup Limited. The transaction will make Cromology an indirectly-owned subsidiary of NPHD. DuluxGroup entered into the put option agreement with the main shareholders of Cromology, including notably the Wendel group through its subsidiary Winvest International SCS FIAR. Due to this agreement, DuluxGroup is committed to acquire Cromology. Pursuant to laws and regulations in France, Cromology is required to hold discussions about this transaction with the relevant works council of the Cromology group. After these discussions are completed, DuluxGroup and the shareholders of Cromology plan to execute a share purchase agreement.

(1) Overview of the company to be transferred

Name: Cromology Holding SAS

Business activities: Manufacture and sale of paints and paint-related products

Total assets: EUR 899 mil (FY2020)

Revenue: EUR 628 mil (FY2020)

Profit: EUR 8 mil (FY2020)

(2) Reasons for the acquisition of shares

The European paint market is the world's second largest*¹ following the China market and has good prospects for stable growth. Cromology is the fourth largest architectural paint manufacturer in Europe. As a market leader in the architectural paint market, Cromology operates in broad markets in Europe with high market share, ranking among the top 3 in France, Italy, Spain and Portugal.

Under the Nippon Paint Group's ownership, combining the Group's investment capacity and capability in brand management, marketing and innovation, with the well-known local brands and strong trade and retail relationships of Cromology is expected to result in the growth of operations in France, Spain, Italy and Portugal as well as in other European markets, including eastern Europe. Cromology will provide the right level of scale, volume and manufacturing capability to form the entry point for building a decorative Paint and Coatings business in Europe, and provide the platform to bolt on other acquisitions. Cromology's integrated wholly owned network of 386 company operated stores across France, Portugal and Switzerland presents an opportunity to leverage DuluxGroup's operational capability in running trade centers. It also provides a strong platform to leverage DuluxGroup's capabilities in selling to DIY consumers in retail channels such as big box home improvement and independent hardware stores. This store network also presents an opportunity to launch new brands in the DuluxGroup's portfolio, including brands for woodcare and texture coatings and sealants, adhesives & fillers.

*1 Source: Global Market Analysis for the Paint & Coatings Industry (2019-2024) published by American Coatings Association:
<https://paint.org/market>

(3) Closing date of the acquisition

Scheduled for 1H 2022

(4) Number of shares to be acquired, acquisition price and percentage of shareholding after the share acquisition

Number of shares to be acquired: 52,594,858 shares

Acquisition price: JPY 150,970 mil (Converted from EUR 1,152 mil using the exchange rate of EUR 1.0 = JPY 131.05)

Percentage of shareholding: 100%

(5) Method of financing and payment for the transaction

Financing method: Borrowings from financial institutions (planned)

Payment method: Cash