Co-Presidents' Small Meeting with Sell-Side Analysts Q&A Summary(November 22, 2022)

◆ Questions by Takashi Enomoto, BofA Securities Japan Co., Ltd.

Q1	My question is about China. How to grow in China like the new home market declined 30% to 40% and some lockdown. I think China market is an extremely tough situation but how to show the growth in China? I would like to ask and hear your detailed strategy in China.
A1	**Wee Siew Kim** Well, as you all know China is a very important market to us. Just like you (analysts), we watch the market very closely. We also have our concerns. Our concerns stem from the fact that the country is still subscribing to a zero-COVID policy. Although in the last week, there were some signs of improvement and there is movement, we are holding our breath not to see big changes. So within ourselves, China being such an important market, we actually do not look at it from a very short-term basis, especially we have been there since 1992. So for us, we are in it for the long-term and patiently growing the market. To us, it continues to be a market that is very exciting, mainly because in the years that we have been in China, we actually see the Chinese market both in the decorative as well as industrial side as being very innovative. It is always pushing boundaries and the market is also seen as very welcoming and embracing new innovations. Even if you look at the entire Nippon Paint Group across the world, you will see that many of these innovations in fact first came from China. And we do a lot of these experimentation, the innovations in China, whether it's from the product side, whether it's from the innovation side, even on the digital side, and the marketing side. A lot of these advancements and innovations actually happen and start from China. I don't mean to talk bad of any market but compared to the Chinese market, the state of innovation, especially in the decorative architectural field, the Japanese market is actually not as rapid. You know that the Japanese are probably, and I will say that they are happy with what they have, which is a good thing and we can keep selling the same thing. But the fact is that if the market doesn't push it, the state of innovation doesn't really change. That is the difference between the China market and say the other markets. Why I say that is because innovations allow the more progressive and the more endowed players to actually come in and excel. Because in a static market, everything is the same, and no one wants to change. There are no opportunities. So for us actually, we see China as still a land of opportunities. Okay that maybe is the big picture where it's our feeling. Short-term wise, we do see that there are challenges. There are

	challenges mainly because the big headline says that the property market especially in the new build side is seeing a lot of difficulties and probably negative growth in the last 18 months. That is for all to see. Whether you look at the parameters of new housing sales, square meter sales, new land purchases by the property developers, everything is down. That actually has a knock-on effects on us in two ways. Of course, our new build business is down. Some of the customers that we used to do considerable business with has declined in volume because everybody is getting cautious. But on our side, we are also taking this as a breather to reassess the market. For the past four years, the market has been going gangbusters, growing 30%-40% a year. Every competitor is seeing that as a growth market and there has been a lot of irrational behavior as players don't want to miss out on the growth. Why I say that is a breather is because when there is this correction, people are now getting more rational and many are hurt. That is when I think rationality comes back. People are now saying that this is a business. We have to make money and we must be able to collect back our money. From that standpoint, taking a breather actually is not bad. Not that I am trying to paint a bad situation in a more positive light but there are actually good benefits. With this, I believe the stronger players will regroup and will move ahead. That's exactly what we are doing. Looking at who are the customers that potentially will survive and we are doing more with them. For the customers that are in difficulty, we are pulling back. We are enforcing more stringent collection policies. So that correction is happening. That is the property side. I don't have to say a lot because you read it all in the headlines. But where we see growth is actually on the DIY side which is our traditional strength. There, we are still growing. We have always said that we are actually quite dominant in the special, the first and second-tier cities. For the big metropolitans, Nippon Paint as a brand is actually pretty dominant. But where we are less dominant, where we see more competition, especially from local brands, is in the third to the sixth-tier cities, where we are now putting a lot of effort to grow. Actually, we started that process probably about two years ago and it takes time to build the channels, to build the stores, to bring up a new team to penetrate the smaller cities. I remember that last September I did a Zoom call where we said that this will be a key plank in our growth. That is actually coming from the standpoint of the continued impact of the zero-COVID policy. If you look at the zero-COVID policy of the recent say 12 months, a lot of the lockdowns are in the big cities. The big cities once they are locked down, definitely it affects retail sales, repainting will actually drop because people can't move and painters can't go around. But the smaller rural cities, the third to the sixth tier cities continue to thrive.

	So if you look at, if we segment our growth in the DIY from the big metros versus the 3, 4, 5, 6 we see huge differential in growth rates even in the DIY side. That is where it actually supports the entire DIY market because you definitely ask me if we are bluffing. The big cities are having a lot of trouble and why are we still growing? This is because we have started to invest ahead of time. Not that we are very smart, but we just got lucky. We invested ahead of time. Now we are actually getting some of that benefit in a market where we are very strong, and where the growth is slower. Where we are weaker but getting stronger, the growth is actually there. Overall in China, a drop in our property side, new build side, a growth in the DIY side actually compensates each other. So, from that standpoint on a short-term basis, China still looks okay for us. We did not have negative growth. So that is short term. But in the long term, I think you should look at Nippon Paint from a long-term perspective because we are going to be a long-term player in China. We continue to invest. We have not gone cold feet because of what's actually happening. If you look at the long-term basis as a market, it may be true there is a trade war, there is US-China quarrels, there is volatility there is currency issues and there is geopolitical tension. But abstracting from all this, China internally is a huge market. For us, we still have a lot of share to gain. So as long as the GDP grows and even this year with all this COVID situation, there is still GDP growth, maybe 3%. Whether you believe it or not, it's a separate thing. As long as there is continual urbanization, continual growth of the middle class, continual GDP growth in a market that per capita consumption of paint is only one-third of the rest of the developed world, that's where we see the head room. That head room probably comes with quite a few years to fulfill. An additional point is that China has gone through a big growth in the last 25 years. There is a lot of housing stock that's put in the market. Those housing stock is aging. That is where the repainting market, the resale market and the renovation market really kicks in. Just say 13 years ago when I looked at this market, we hardly see repainting because everybody was building new homes. But today, if you look at the resale market in most of the big cities, whether it's Beijing, Shanghai, Guangzhou, half the market transactions is now from the resale market. In a resale market, when people buy a new home, they repaint, they redecorate. The faster the velocity of this change, the better is for us. Overall, I feel that with our distribution strength in the big metros, with our growing distribution strength in the smaller cities as we penetrate further into the rural areas, with the general growth of the Chinese economy, and with our brand being very strong especially being an international brand, we believe we have a good basis. Don't look at us as one quarter to another quarter type of stock. You have to look long term.

Q2	You said that your paint demand in tier third to tier sixth cities are growing. Is this an actual demand growth in third to sixth tier cities or you are getting additional price increases?
A2	**Wee Siew Kim** Both. In fact, I think three things are happening. There is natural market growth because there is GDP growth. Secondly, in this environment where raw material prices are high, the input prices are high, when for many months in the last two years there is actually supply shortages in that there is more demand then supply. That could be because of supply chain disruptions, shortages, shut downs. But whatever it is, there is a shortage. In a shortage, the big players who are bigger buyers get the volume and the smaller players don't. Thirdly, when a bigger brand like Nippon Paint pays attention to the market, we do take share. If you look at smaller players who are just unable to sell or even disappear because they couldn't get supply or they couldn't get credit, with market growth we look at taking share. That's where the growth comes from.

◆ Questions by Atsushi Ikeda, Goldman Sachs Japan Co., Ltd.

Q1	We understand where your growth is mid to long term but post-COVID, one of your competitors commented that they continued to deliver robust growth in October and also as a competitor commenting about negatively stronger than expected demand compared to the third quarter. We witnessed Q2 and Q3 was broke down. Then why do you expect starting from fourth quarter the demand weakness or in supply chain issues? Do you see any issues related to your distribution network or actual demand weakness or a share decline? Could you explain?
A1	**Wee Siew Kim** If we compare ourselves in October of this year which has just passed, we saw an October that is lower than October last year. And, of course, we asked ourselves why is October this year much lower than October last year? October last year was the biggest October we ever had and that was because we had three price increases in the month of October alone last year. As our raw material prices are escalating, we put through price increases as fast as we can. You should see that not as a sign of desperation but rather as a sign of strength because only when you have pricing power are you able to put three price increases in the same month into the market. Because of that, our suppliers and our channels start to stock up because they can see the benefit of buying it today as compared to next year when it will be more expensive. So that resulted in us having a huge October last year. So when we compare this year October to last October, we saw that there is a drop off. But then if you look at this October, you do see that there are several big cities that actually suffered lockdown restrictions. There was also a big meeting in Beijing that actually caused severe logistic disruption

	a week or two prior to the meeting because they probably were limiting people movement which may exacerbate a potential COVID infection situation. So we saw that as an impact. There were a lot of other factors which resulted in a weaker October. Then, when we look ahead, Chinese New Year next year is actually earlier than most years. Chinese New Year next year is on the 22nd of January. So when we look ahead versus other years where Chinese New Year is mid-February, you have three more weeks of selling. For Chinese New Year that is very close and in January, what it means is that if 22nd is the national holiday, two or three weeks before that, sales taper off mainly because people are going home to celebrate. Painters and whoever that does decoration or refinish will be away preparing for the Chinese New Year holidays. So we forsee that maybe January 2023 will be a low month. Then we saw December is usually a low month for us. It's a seasonally low month. So we don't expect this year to be any different. Then we asked ourselves, we have a weaker October. We're going to have a very strong November we think, but we're going to have a very weak December seasonally. So we better not give too much encouragement to the market and come out to say we are not sure. We hope for the best but that is the situation we are at. I hope I answered your question. It is a statement of prudence mainly because of these factors we have just described. **Yuichiro Wakatsuki** I mean one more is the metropolitan area strength that we have versus our competitor who probably has a bigger share in the third to sixth tier cities. So I think the COVID disruption effect is probably more pronounced in key cities including Beijing where the National Congress meeting took place but also other cities like Shanghai. I think we probably got affected more on a relative basis. I don't know the detailed numbers, but as we say we are penetrating to the third to sixth cities, but that's on its way. We still have our own strength in the Metropolitan special and first tier cities. I think given that relativeness, again I can't give you all the numbers to explain why our competitor delivered 20% plus and why ours was negative but just to give you a bit of an idea.

Q2	So can you speak by tier one, tier two and also tier three, tier six cities because our competitor has just 1% exposure to big cities maybe because of the…
A2	**Yuichiro Wakatsuki** We're not going to disclose all the numbers but just the general tendencies. We are continuing to grow on the special and first but it got hit short term. We want to grow on third to sixth but I think I can still say the majority still comes from the special and the first. **Wee Siew Kim** Yes, we are growing there. We are building the channels. I would

	say that all signs are proving good. Much as I wish that all my engines are firing, first and second tier cities are firing, three to sixth are firing. But it just so happens that this half year that is not the case.

◆ Questions by Tomomi Fujita, Morgan Stanley MUFG Securities Co., Ltd.

Q1	As you mentioned, China has efficient factory, strong and stable existence and technology is best among them all. But it seems like you both have lots of regions doing lots of facility replacement and upgrading but its synergy is not materializing to us. For example, if you looking to Japan, its factory is very old and its efficiency seems to be very low compared with China efficient factory. But we are facing serious inflation situation. That's a historical turn point. How are you thinking about the long-term growth run and invest for Japan and for other region and changing dramatically its factory system. I am asking about this when do you think these kind of synergies between China's strong technology and other region to be materialized? In the three or five years or something?
A1	Well, if you listened very carefully to Wakatsuki-san, sometime in the second quarter last year, he actually talked about Asset Assembler model. As part of Asset Assembler model, it is the construct of having the partner companies. Today, the partner company groups are actually Japan where we actually have five operating partner companies. We have the NIPSEA group which is a partner company group. We have Dunn-Edwards in the US which is another partner company, and we have the Dulux Group of Australia. Today it's the Dulux Group mainly because in that partner company group it also not only has Australia, New Zealand Dulux, it also has Cromology and JUB which we acquired this year. As part of all these partner company groups, what we are saying is that we are an Asset Assembler. We will use the strength from a financial perspective, from a top level being able to see if it is possible that they can help each other. But that is not the main way we operate. The main way we operate is that each of the partner company groups will be autonomous and independent. Each of them have their own management. They will find their own destiny. And if it benefits them to work with each other, then they will extract the synergies. It's between the partner company groups and the leadership there to find that synergy. So why I take pains to say that is because I actually do not work very hard and say can China help Japan? Yes, if I find it, I will do so, but that is not a dominant way of our business model. We will look at Japan. Within Japan, can Japan look after itself and fix itself? I am not actually saying Japan is bad. Japan is actually operating in a very difficult environment. This very difficult environment has actually

	translated in a revenue that for some of our operating PCs in Japan, is lower than it was in 2019. When you look at the revenue of 2020, many of them were hit by COVID, 2021 was really a recovery year. We saw 2022 as a very hopeful year when we entered the year. But actually it is not as strong as we had hoped when we entered 2022. COVID impact was still there. The biggest impact on Japan this year is actually on our automotive sector mainly because Japan traditionally produces about 9 million cars. This year because of semi-conductor shortages, parts shortages, supply chain in China was locked down and they could not send, and factory lines in Japan were probably shut down for some weeks, all these impacted the usual run rate of 9 million. If I remember correctly, it is probably around 7.5-ish million. That is a big impact. Even our competitors are all hurt by these volume downturn from the automotive impact. Irrespective of that, there were also input challenges. In the last two years, raw materials prices have gone up. Oil prices have gone up. With supply shortages, most prices have gone up. We are trying to put price increases into the market which is actually quite atypical. Japan is not a fast price increase market unlike China. You try to do that three times in a month, your customer won't answer your phone call in Japan. But at least, in the last year, we have actually put price increases regularly into the market, which is even a change in mindset and acceptance level of the customers. But still, I don't think the price we put in the market completely offset the input price increases. As such, Japan is still in the recovery mode. Margins are still not as good as what it used to be three years ago. But still, there is a silver lining mainly because in the midst of all that, our people actually feel the pressure. They know that we are under pressure. We need to do better. If we don't change the way we approach how we do business, how we go about doing things, the good times may not come back. That is why we are actually very fortunate that we were able to bring our Japanese colleagues together last year. Everybody came together in a campaign where we actually want to build a new mindset and culture. We call it J-LFG, Japan Lean For Growth, which is the whole concept about lean-ness, about change mindset of hope, about how we go about doing work. Asking oneself if there is a better way to do things. It is a ground-up movement. It's not something top-down. Not a leadership says do this, they do. It is something which the leadership says we want this to happen. But tell us what can be done? It's a ground-up movement which started this year. Culture building takes time but we are actually seeing the positive feedback from the staff. All these things are changing. I am hopeful that 2023 will be a much better year from an operating cost perspective, from an employee motivation perspective, and even I think from a market perspective because even the last quarter, the automotive volume has also come

	back. So from that perspective, I'm not holding my breath for China to help Japan. **Yuichiro Wakatsuki** Okay, to Fujita-san's question, we kind of advertised that China has state-of-the art automated factory. But one has to take into account the batch size in China is totally different from what we need in Japan. It propably does not make sense to build that same factory in Japan. Japan's factory may be old and that's the perception. Actually Wee san recently went to the Tochigi factory. **Wee Siew Kim** Yes, the factory is 41 years old, which I just went. This is the first time I visited the Tochigi factory which is 41 years old. After an hour and a half of walking around, I sat down with the management and commended them that this doesn't feel like a 41-year-old plant. I told them well done and that to keep up the good work. Actually age is not a problem. **Yuichiro Wakatsuki** Even our board member Peter Kirby who used to be at ICI, who has always been a paint guy. He visited Takahama and said he was very impressed. So again we understand the perception but let's not lose sight of having and building a brand new factory. It may look nice but we need to consider all the cost and if we can afford the depreciation in our kind of slow growing market. And we make all those decisions. But on the other hand, is it all too bad or is it too old? Our assessment is maybe not. Of course, there are certain areas that we need to improve definitely and we will do that. **Wee Siew Kim** We are investing. You look at the Okayama new plant going to come into operation in December this year. We built that mainly because we see it is a plant that's situated on the Western part of Japan. We have a lot of capacity on the Eastern part of Japan for water based auto paints but less so in the West. We forsee that there will be growth there as the market transit from solvent base to water base to carbon-neutral products. We built ahead of time because we want to make sure that we have our logistics and supply base well figured out way ahead.

Q2	I think Japan business itself is not consolidated as other regions like India. For example, if we are looking at automotive area, the market is not consolidated. I mean the market share is, there is lots of small niche players here in Japan. For example, if you look at the automotive area, there are only two players here. But looking at other deco or other niche industrial player, there is some less fit, but these players are here. These are not making off because painting business. It itself is creating cash flow but they are not growing. These kind of business, niche small businesses, painting businesses, lot of here in Japan. How do you think about this market? For example, acquiring these small players and gaining total market

	share in Japan? Even if the market is not growing, you can increase the total pocket level or you don't think about these small-ish market? How do you think about that kind of?
A2	**Yuichiro Wakatsuki** I think there are two things. First, in the decorative space it is really us, and a few other competitors which are already very consolidated. For coil coating we are pretty dominant. Shinkansen we are dominant. I think we are in a pretty good spot in Japan. I understand - I go to the Japan Paint Manufacturing Association, the members have not changed for like ages. It means as you rightly said, they are not in trouble because it's a cash generating unit. You don't really need to invest too much. Then your question, if there is a chance, do I want to acquire? Yes, why not? But does it make sense again investing in a state-of-the-art factory, acquiring this business? What is the return? Do we have to take on a lot of baggage, all these things? There is no one answer. But, you know, the short answer is no one wants to sell because no one is in trouble. There is no reason for them to sell because it's all kind of, even in a small niche market, it's compartmentalized and they have their own niches and they are happy with where they are. I cannot influence them by saying you should not be happy in that area because if they are happy, that's fine. There is no boundaries for us saying no to anything. Even for Japan, if there is an opportunity and it makes sense valuation wise, the investment capital, the return, we will do it. But I don't want you all to kind of start saying that Nippon Paint is going to buy Japan all over the place and start stirring up because I think in reality a lot of people don't want to sell. They are happy with where they are. That's the Japan issue.

◆ Questions by Shigeki Okazaki, Nomura Securities Co., Ltd.

Q1	Do you see the solid demand of DIY not only long term, I know of course long term. But short term, do you see some demand in the short term?
A1	**Wee Siew Kim** Well, I did say that there is growth. I guess your question is that, is that growth going to disappear or is that growth going to continue to grow or even grow faster, right? Well, my sense is that the China GDP growth is not going to be high single digits off the past. Growth overall will be tempered. When growth is tempered I think consumer's sentiments to some extent will also adjust. As such, I would say that growth would not be what we are used to in previous years. But there will still be growth. It is also not only market growth. It is also the work of a manufacturer like ourselves to actually stimulate that growth. We stimulate that growth with innovations, with that ability to excite people to repaint, or to do something different, or to put out to market a product that they want. So I think it is going to be a mix of two factors. One, there is growth

	but probably not as fast as in the past. But we are putting a lot of innovations into the market. Hopefully that offsets, it continues to push growth up. As we succeed in doing our work in penetrating the markets where we have very little presence, that's where we are going to have additional growth. So while market may not grow as fast as we hope, we have to do a lot of other things to make sure that we grow faster than the market.

Q2	I have some word about next year's the demand via sales dropped. Don't you think so?
A2	**Yuichiro Wakatsuki** I think Kozaki-san's original question was when we saw our kind of guidance especially in China, is it really about, is it the demand or is it the supply or is it a competition, why we are so pessimistic? I think we have kind of explained that maybe the base, it comes to the first point. Is the base demand that weak? I guess your answer is not that weak. We were affected more by the other two which were the logistical mess due to COVID and the mix that we have more so on the special class cities against our competitors who probably have more on the rural areas. That's the short term.

Q3	How about project status in China? The project status is just terrible in fourth quarter. What's the main reason?
A3	**Wee Siew Kim** The customer is hurting. I mean the customer is actually not selling. In fact, if you even read just today, the government encourages the bank to say you must stabilize the market by responsible lending. Even you have to extend the loans, please extend the loans. So the government is now trying and making efforts to prop up the market. But many of the big customers of ours who are the big property developers has been hurting for quite a while. Ever since the government put in the three red lines, many of them are hurting.

Q4	From the project side, the main reason is from demand, not zero-COVID policy.
A4	**Wee Siew Kim** I think there are contributing factors that demand has dropped. A lot of projects have stopped because of the developer had cash flow issues. As cash comes back into the system, the liquidity, the projects restart, there will be hope. But actually I think the main hope is not when they restart projects, it us when the Chinese home buyer starts coming back to the market. That's when I think the whole market will lift up.

◆ Questions by Tomotaro Sano, JP Morgan Securities Co., Ltd.

Q1	You said the demand or the customer is actually hurt for their segment. But for the first three quarters this year, you were producing many sales with only like single digit decline. Why was your project sales for the first three quarters were not that impacted as much as the…?

A1	**Wee Siew Kim** I guess you are saying why did we do better than market decline? We will like to say we are good but I don't think you will believe me. Well, I would say that it is also the way we respond to a market downturn. For a long while, we saw the consolidation of the property developers in China. We saw that the top 30 developers were getting bigger and bigger. They were merging, buying out the smaller developers. The top 30 were growing bigger and bigger. Everybody wanted a share of the top 30. But as we saw the three red lines and the government enforced de-leveraging of the balance sheet taking root and hurting the bigger developers, actually by definition they are the ones that are more highly geared because they borrow to grow. We see that they are hurting and we started shifting our emphasis. We started to go to more regional property developers that are actually not in the top 30 with less leverage and still going about their business, and still developing. We started to build connections there. We also started to also go beyond just the property developers and to the main contractors, to the people who are also supplying and building those relationships. As part of that, we got to actually not only build a new outreach in terms of distribution, we also built a whole new product segment because their requirements are slightly different. That happened probably 15 months ago already. As that gained pace, that sort of offset the decline from the top 30. So somehow there is a balancing effect, but still not enough. We still have negative growth. But it's not as severe as what the whole market seems to be suffering.

Q2	You need more time of sales?
A2	**Wee Siew Kim** Yeah, I guess from our standpoint we do understand that the market has dropped. But when we go into a discussion with our sales team, we actually don't think that there is a good reason. I mean the market has dropped but we will find other opportunities, and that is the usual discussion. **Yuichiro Wakatsuki** Sorry, just so you know, again we were minus 5, minus 5, minus 7 or 6. Then you see minus 45, it's a bit shocking. This last number is a bit of back calculation that we kind of just for your reference. But again, there is a lot of baggage into the numbers. Maybe because of all the calculation, it might be a little bit misleading. But at least we wanted to send the signal that project is probably going to be a little bit worse. And also to the fact that I think last fourth quarter '21 was okay on project. Again that's why keep saying don't get bogged down to all that quarter to quarter, year on year, because there is a lot of noise here and there. And the general trend unfortunately is project is in decline and how do we compensate for that? Again, one answer is

	the DIY part which still consists the majority of our China deco business.

Q3	There are some fears about your kind of maintenance side because basically I think your company is very globalized in the sense that basically you have multinational operations in Japan, China and elsewhere. So how do you manage the company because you only have 24 hours a day? How do you approach regional leaders in this regard and how you kind of incentivize them to do best job?
A3	We always wish to think that we pay well. I think that always helps. But in reality, I want to go back to this Asset Assembler and the partner companies. The partner companies' leadership has actually been given a very strong assurance by the NPHD leadership that we actually commit to their respective autonomy and independence. When we do that, the onus is on the NPHD management to ensure we pick the right leaders for our partner companies. That's how our business model we think may be slightly different from the business model of other multinationals. Some other multinationals have been moving people around, giving them exposure. Some years they go to US, then they go to China. In our model, we actually try not to move people around too much. We actually go by the thought process that if I have a guy there who is doing very well and is making money for me. He is building the customer relationships and understanding the market very well, so why would I move him? I actually want to keep him incentivized to be there as long as possible, continue to make good money for me. Why would I risk and move him to somewhere he will spend the three years learning again before he starts making money. So our approach to talent management is slightly different from other companies, which actually also means that we have to have incentive system that keeps this guy there happy all the time. That he doesn't feel the itch to say I want to go and live in another country. Although I say in jest, we want to make sure we incentivize all these management very well which also has the knock on effect, and that means that the leaders we pick in the partner company groups will make sure they built the team and incentivitise their people to stay where there are and continue to make money as a team. But having said that, there will still be young people who says I joined a global company and I want global exposure. Yes, we will accommodate such aspirations. But I would say that that is not the main dominant HR philosophy. It is something you accommodate for special talents. But it is not something we want to do as a policy. **Yuichiro Wakatsuki** I think it is also important to note that the level of autonomy is given with accountability. They have to make money and they have to be beating the competition. So if they don't, it is our problem. Then, maybe we have to think about the changes. But so far, it's been working out very well. Our accountability coupled with the autonomy

	model has been working well because we believe we have chosen the right leaders.

◆ Questions by Atsushi Ikeda, Goldman Sachs Japan Co., Ltd.

Q1	In those margin side, in China in 2019 it's creating 15%, only 10% is margin. It is probably 12%, 11%. Do you expect any sequentially progress this year?
A1	**Wee Siew Kim** My job is to make the margin bigger. But I would actually caution that the standalone obsession with a single number of margin may not be a very instructive way to look at our business. You should look at our business as far as what is the composition of our business? As a growing business, we continue to invest in some new areas and those new areas probably will not have a fantastic margin at the front end but we are building the market for margins that we will enjoy in the later end. I would say that margins or at least the composition into that margin comes from several factors. One is where are the growth areas we are investing in, what are the raw material challenges we have. Some years we have good input prices. Some years we have low. And also, in particular years, some years we have also a product mix different. Some years because of market pressure, we are selling a lot more in the higher premium versus the economy grade or vice versa. A singular look in margin misses the point. But nonetheless, we also look at margin because it is a convenient way that we talk to our own operating people, why is this margin different from last year and for them to explain? The explanation will be along the factors that I have just described for you. At the end of the day what we want is continual EPS growth. That is the acid test not just the margin.

◆ Questions by Tomomi Fujita, Morgan Stanley MUFG Securities Co., Ltd.

Q1	Can I ask about the sentiment for all the China real estate space, Chinese real estate government policy. I heard lots of industries announced near-term outlook because government policy changes in the recent two weeks. They say that's some of the key changes. I'm actually not sure. We are Japanese, we do not really understand the sentiment. So for you, how do you think about these changes in material things or it's this kind of struggle situation to continue forward. How do you think about that? I think it's the bank attitude for lending for funds for property developer. Things like it's relaxing in the last one month but I'm actually not sure about that.
A1	**Wee Siew Kim** I think since the big party meeting in Beijing last month where President Xi got an additional term of leadership, the pronouncements that have come has been more positive for the property market. But I also told my board to not hold their breath.

	It usually takes a while for the new policies to come down to the ground for actual implementation. And even if it goes down to ground implementation, it could be implemented slightly differently. Different regional government or provincial government interpret the rules slightly differently. So for us, China is not one singular market. We have different people in different provinces. Each of them reacts to the different policies and we react accordingly. We don't see China as one market or one policy. We consider what is the provincial government talking about, what is the city government talking about and we react accordingly.

End