Consolidated Financial Results for the Fiscal Year Ended December 31, 2017 [Japanese GAAP]

February 14, 2018

Company name: NIPPON PAINT HOLDINGS CO., LTD.
Stock exchange listing: Tokyo Stock Exchange
Code number: 4612
URL: http://www.nipponpaint-holdings.com/
Representative: Tetsushi Tado, Representative Director and President
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Scheduled date of annual general meeting of shareholders: March 28, 2018
Scheduled date of commencing dividend payments: March 29, 2018
Scheduled date of filing the securities report: March 29, 2018
Availability of supplementary briefing material on consolidated 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 Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2017	605,252	-	74,957	-	76,820	-	37,123	-
December 31, 2016	470,161	-	72,489	-	77,143	-	34,788	-

Note: Comprehensive income: Fiscal year ended December 31, 2017: ¥ 66,970 million [- %]
Fiscal year ended December 31, 2016: ¥ 31,517 million [- %]

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Total assets Ordinary income ratio	Net sales Operating income ratio
Fiscal year ended	Yen	Yen	%	%	%
December 31, 2017	115.76	115.74	7.6	8.8	12.4
December 31, 2016	108.48	108.47	7.4	9.5	15.4

Reference: Equity in earnings (losses) of affiliates: Fiscal year ended December 31, 2017: ¥1,217 million
Fiscal year ended December 31, 2016: ¥1,315 million

The Company has changed its fiscal year-end from March 31 to December 31 from the fiscal year ended December 31, 2016. Accordingly, percentage changes from the previous consolidated fiscal year are not presented, since the consolidation periods for the fiscal year ended December 31, 2017 (January 1, 2017 to December 31, 2017) and for the previous fiscal year (April 1, 2016 to December 31, 2016) differ from each other.
For the Company and its consolidated subsidiaries with the previous fiscal year-end of March 31, and for its consolidated subsidiaries with the fiscal year-end of December 31, the consolidation periods were the nine months starting on April 1, 2016 and ending on December 31, 2016, and the twelve months starting on January 1, 2016 and ending on December 31, 2016, respectively.

((2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2017	920,591	629,408	54.8	1,572.60
As of December 31, 2016	827,996	585,757	57.2	1,475.93

Reference: Equity: As of December 31, 2017: ¥504,336 million
As of December 31, 2016: ¥473,337 million

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
December 31, 2017	79,265	(100,680)	(11,434)	100,560
December 31, 2016	77,916	(42,697)	(8,583)	134,515

2. Dividends

	Annual dividends					Total dividends paid (Total)	Dividend payout ratio (Consoli-dated)	Dividend /Net assets (Consoli-dated)
	1st quarter -end	2nd quarter -end	3rd quarter -end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended December 31, 2016	-	20.00	-	20.00	40.00	12,828	36.9	2.7
Fiscal year ended December 31, 2017	-	20.00	-	22.00	42.00	13,469	36.3	2.8
Fiscal year ending December 31, 2018 (Forecast)	-	22.00	-	23.00	45.00		40.7	

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2018 (January 1, 2018 to December 31, 2018)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	310,000	6.3	33,000	(7.0)	35,000	(4.3)	15,000	(2.9)	46.77
Full year	650,000	7.4	78,000	4.1	82,000	6.7	35,000	(4.4)	110.69

*** Notes:**

(1) Changes in significant subsidiaries during the period under review: No

(2) Changes in accounting policies, changes in accounting estimates and restatement
1) Changes in accounting policies due to the revision of accounting standards: No
2) Changes in accounting policies other than 1) above: No
3) Changes in accounting estimates: No
4) Restatement: No

(3) Total number of issued shares (common shares)
1) Total number of issued shares at the end of the period (including treasury shares):
December 31, 2017: 325,402,443 shares
December 31, 2016: 325,402,443 shares

2) Total number of treasury shares at the end of the period:
December 31, 2017: 4,700,301 shares
December 31, 2016: 4,698,228 shares

3) Average number of shares during the period:
Fiscal year ended December 31, 2017: 320,702,897 shares
Fiscal year ended December 31, 2016: 320,705,193 shares

*These consolidated financial results are outside the scope of audit.

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

(Caution concerning forward-looking statements)

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions that are judged to be reasonable, and the Company does not in any way guarantee the achievement of the projections. Actual results, etc. may differ greatly from the forecast figures depending on various factors. For the assumptions underlying the forecasts and precautions when using the forecasts, please refer to “1. Overview of Financial Results” on page 2 of the Attachment.

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1. Overview of Financial Results

(1) Overview of Financial Results for the Period under Review

The period of consolidation for the fiscal year ended December 31, 2017 is the twelve months from January to December 2017.

NIPPON PAINT HOLDINGS CO., LTD. (the “Company”) has changed its fiscal year-end from March 31 to December 31 from the fiscal year ended December 31, 2016, receiving approval of Partial Amendments of the Articles of Incorporation at the 191st Annual General Meeting of Shareholders held on June 28, 2016.

As a result, comparisons in each segment are compared with figures calculated with the twelve months from January to December 2016 as the “corresponding period of the previous year.”

During the fiscal year ended December 31, 2017, consolidated net sales of the Company and its group companies (collectively, the “Group”) increased by 17.7% from the corresponding period of the previous year (the “previous year”), to ¥605,252 million. Consolidated operating income decreased by 6.3% from the previous year, to ¥74,957 million partly due to recording expenses related to the acquisition of stock in DUNN-EDWARDS CORPORATION during the three months ended March 31, 2017, in addition to the effects of an increase in raw material prices, and consolidated ordinary income decreased by 7.2% from the previous year, to ¥76,820 million. Profit attributable to owners of parent increased by 3.1% from the previous year, to ¥37,123 million, partly due to changes in the U.S. tax system.

(Million yen)

	For the fiscal year ended December 31, 2016 (Reference)	For the fiscal year ended December 31, 2017	Change (%)
Net sales	514,078	605,252	17.7
Operating income	80,001	74,957	(6.3)
Ordinary income	82,783	76,820	(7.2)
Profit attributable to owners of parent	36,006	37,123	3.1

Results by business segment are as follows.

Japan

In this region, net sales of automotive coatings were higher than the previous year due to factors such as favorable shipments of premium design and high value-added coatings and efforts to expand sales of coatings for automotive parts. As for industrial coatings, due to favorable shipments of coatings for construction machinery and farming machinery and coatings for construction materials, net sales were higher than the previous year. As for trade-use paints, net sales decreased from the previous year due to factors such as sluggish market conditions in the retail sector, mainly in decorative paints. Regarding other coatings, net sales were higher than the previous year due to efforts to expand the product lineup and expand market share of marine coatings.

As a result of these factors, consolidated net sales for the Japan segment increased by 2.5% from the previous year, to ¥175,907 million. Consolidated operating income decreased by 6.2% from the previous year, to ¥43,172 million. ¥12,543 million of dividend income from overseas group companies (¥13,979 million in the previous year) is included in consolidated operating income. All of this dividend income is eliminated as an internal transaction under “Inter-segment transaction eliminations and other adjustments.”

Asia

In China, a core region, net sales for automotive coatings were higher than the previous year due to factors such as an increase in the number of automobiles manufactured in addition to advancing the expansion of sales to Chinese manufacturers. As for trade-use paints, net sales were significantly higher than in the previous year, owing to factors such as making a Chinese wood coatings manufacturer a subsidiary in January 2017, implementation of sales promotion campaigns and endeavors to expand recoating services in regions focusing on interior residential paints, and efforts to expand market share among developers in regions focusing on decorative paints. In industrial coatings, net sales were higher than the previous year owing primarily to strong shipments of coatings for construction machinery and construction materials.

In the Asia region excluding China, net sales increased for automotive coatings in India in line with an expansion in the partnership with BERGER PAINTS INDIA LIMITED. Additionally, net sales of trade-use paints were strong in Singapore and Vietnam, and net sales of marine coatings in South Korea also grew.

As a result of these factors, consolidated net sales for the Asia segment increased by 16.6% from the previous year, to ¥347,033 million. Consolidated operating income decreased by 5.8% from the previous year, to ¥40,826 million due to the effects of an increase in raw material prices.

Americas

In this region, net sales for automotive coatings decreased from the previous year, partly due to a decline in the number of automobiles manufactured in the United States, a core region. In construction paints, consolidated net sales increased year on year as DUNN-EDWARDS CORPORATION was consolidated in March 2017.

As a result of these factors, consolidated net sales for this geographic region increased by 112.1% from the previous year, to ¥68,229 million. Consolidated operating income was ¥3,170 million, a decrease of 38.4% from the previous year, owing to factors such as the recording of expenses related to the acquisition of stock for the consolidation of DUNN-EDWARDS CORPORATION during the three months ended March 31, 2017.

Other

In this geographic segment, regarding automotive coatings, production volumes by Japanese and European manufacturers were strong. Furthermore, consolidated net sales for this geographic segment were ¥14,082 million, an increase of 12.2% from the previous year due to efforts to expand market share, and consolidated operating income was ¥248 million, compared to an operating loss of ¥365 million during the previous year.

(2) Overview of Financial Position for the Period under Review

Total assets at the end of the fiscal year under review increased by ¥92.59 billion from the end of the previous fiscal year to ¥920,591 million. Current assets decreased by ¥11.02 billion, mainly due to an increase in accounts receivable – trade and inventories, offset by a decrease in cash and deposits and securities. Additionally, non-current assets increased by ¥103.61 billion from the end of the previous fiscal year, primarily caused by factors such as increases in goodwill and non-current assets in line with the acquisition of DUNN-EDWARDS CORPORATION.

Liabilities increased by ¥48.94 billion from the end of the previous year to ¥291,182 million. The increase was mainly attributable to an increase in loans payable and the recording of deferred tax liabilities in line with the acquisition of DUNN-EDWARDS CORPORATION.

Net assets increased by ¥43.65 billion from the end of the previous fiscal year to ¥629,408 million. This was mainly attributable to an increase in retained earnings due to the recording of profit attributable to owners of parent and an increase in non-controlling interests.

As a result, equity ratio fell from 57.2% at the end of the previous fiscal year to 54.8%.

(3) Overview of Cash Flows for the Period under Review

Business operations for the fiscal year ended December 31, 2017 resulted in an inflow of ¥79,265 million, investing activities resulted in an outflow of ¥100,680 million, and financing activities resulted in an outflow of ¥11,434 million, resulting in cash and cash equivalents (hereinafter "cash") of ¥100,560 million, a decrease of ¥33.96 billion compared to the end of the previous consolidated fiscal year.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥79,265 million. Primary factors include a decrease in cash of ¥12,954 million due to an increase in operating capital and income taxes paid of ¥20,046, despite a cash inflow (excluding increases and decreases in operating capital) of ¥112,267 million, reflecting mainly non-cash expenses such as depreciation and amortization on profit before income taxes.

(Cash flows from investing activities)

Net cash used in investing activities was ¥100,680 million. This was mainly attributable to an outflow of ¥111,727 million due partly to the purchase of property, plant and equipment and investment securities, and the acquisition of DUNN-EDWARDS CORPORATION, despite the inflow of ¥13,089 million due to a decrease in securities.

(Cash flows from financing activities)

Net cash used in financing activities was ¥11,434 million. Primary factors include an inflow of ¥18,677 million due to an increase in loans payable such as funds procured for the acquisition of DUNN-EDWARDS CORPORATION and cash dividends paid of ¥27,008 million.

(4) Future Outlook

For the next period (period ending December 31, 2018), the domestic economy is forecast to be robust, led by domestic demand. Under such circumstances, the Company will strive to expand its market share in each business sector, including automotive coatings, trade-use paints, industrial coatings, and marine coatings, and secure its presence in crucial markets. Additionally, we will work to ensure profits through cost reductions and cost control, including selling, general and administrative expenses, in the midst of severe market conditions for raw material prices, such as domestic naphtha and titanium oxide.

The business climate in Asia is forecast to remain robust overall. We will further increase added-value for products and services throughout Asia by engaging in business operation as a unified group with the NIPSEA Group (*), a joint venture in the region. Specifically, in the interior residential paint field in which we hold the top domestic market share in China, our core region, and which accounts for the majority of sales in our China business, we aim to further expand our market share by creating and rousing demand taking advantage of our high brand strength and a nationwide sales network. Similarly, in other countries in Asia, we are promoting the creation and rousing of demand for trade-use paints, automotive coatings and other products to raise our market presence. Meanwhile, market conditions for raw material prices are forecast to remain severe in the next period, and we will continue to reduce costs and control selling, general and administrative expenses in order to ensure profits.

In the Americas, we will endeavor to expand market share for automotive coatings amid predictions for steady growth in the number of automobiles manufactured in the region, including Mexico. Furthermore, the Company will continue to expand the construction paints business and broaden the business portfolio through the platform of DUNNS-EDWARDS CORPORATION, a USA-based construction paints manufacturer that became a wholly-owned subsidiary in March 2017.

In other regions, we will strive to expand market share for automotive coatings and improve profitability amid forecasts for an increase in the number of automobiles manufactured in Europe.

As a result of the above factors, our outlook for next fiscal year's consolidated business performance is ¥650.0 billion in net sales, ¥78.0 billion in operating income, ¥82.0 billion in ordinary income, and ¥35.5 billion in profit attributable to owners of parent.

Additionally, based on these financial results forecasts, we plan a record-high full-year dividend of ¥45.0 for the next fiscal year.

(*) Asian joint venture together with WUTHELAM HOLDINGS LTD., a collaborative partner based in Singapore

2. Management Policy

(1) Basic Corporate Management Policy

The Company has established "N-20" as the medium-term management plan (medium-term plan) from 2018 to 2020 and is positioning it as three years of growth acceleration.

With the commencement of this medium-term plan, we established a new management philosophy. The existing management philosophy was originally formulated in 1919 but today, almost 100 years later, our customers and business partners, as well as our group companies and employees, are located mainly in Asia and other areas throughout the world. The new management philosophy, which will resonate with these stakeholders across the world and carry on our DNA, is as follows.

[Mission(*)]

Enhance our strengths in paint and coatings technology to provide the world with color, warmth, and peace of mind.

[Vision(*)]

Continue to create new value through outstanding paint and specialty chemical products and services and be an industry leader, founded on a dynamic corporate culture and the efforts of passionate and committed professionals.

(*)Tentative Translation

(2) Medium-term Corporate Management Strategy

Under this new management philosophy, the Group has its sights set on the future and has determined that by 2030 we want to be a retailing company that continues to create new value (Global Paint Major). We have further determined that during the period of medium-term management until 2020, we should be a company with a corporate position that can take on the global market leaders as we work toward achieving this goal.

Specifically, we aim to:

- achieve net sales of ¥750,000 million in 2020 by "conquering" every business sector and region;
- ensure every employee takes up challenges and makes a contribution in their respective places of work to enable the company to transition to an entity that can take on the world.

Additionally, by undertaking ESG management, we aim to become a leading company that continues to create new value for all our stakeholders.

During the new medium-term management period, we will work on various measures such as "thoroughly strengthening existing segments," "accelerating the expansion of our portfolio," "improving profitability," and "strengthening management by one global team." In addition, we will take up the challenge of changing the corporate culture by pursuing the establishment of a global human resource system and reforming work style. We established a corporate reforming steering committee as a company-wide project to promote this, and further established working groups under the umbrella of the steering committee to work on issues such as the "penetration of management philosophy," "promotion of CSR/ESG management," and "work style reforms and improvement of labor productivity."

By promoting these initiatives, we will deepen our collaboration with our shareholders, customers, business partners, local communities, and our group employees, and will continue to focus our efforts on improving the corporate culture of the Group.

3. Basic Approach to Selection of Accounting Standards

In order to increase international comparability of financial statements, increase quality and efficiency of group management, and strengthen governance, preparations are being made with the goal of adopting IFRS (International Financial Regulation Standards) by the time of the fiscal year 2018 annual securities report.

4. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Million yen)

	As of December 31, 2016	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	136,778	103,007
Notes and accounts receivable - trade	135,139	153,922
Electronically recorded monetary claims - operating	13,713	15,402
Securities	50,787	37,477
Merchandise and finished goods	31,041	38,198
Work in process	3,639	4,032
Raw materials and supplies	20,912	26,174
Deferred tax assets	7,553	7,278
Other	17,052	20,800
Allowance for doubtful accounts	(3,698)	(4,394)
Total current assets	412,920	401,900
Non-current assets		
Property, plant and equipment		
Buildings and structures	106,220	123,589
Accumulated depreciation	(62,527)	(59,559)
Buildings and structures, net	43,692	64,029
Machinery, equipment and vehicles	95,032	106,609
Accumulated depreciation	(70,368)	(74,563)
Machinery, equipment and vehicles, net	24,664	32,045
Tools, furniture and fixtures	25,513	25,398
Accumulated depreciation	(21,522)	(20,139)
Tools, furniture and fixtures, net	3,991	5,259
Land	20,500	28,364
Leased assets	2,150	2,681
Accumulated depreciation	(977)	(1,153)
Leased assets, net	1,173	1,528
Construction in progress	13,646	11,652
Total property, plant and equipment	107,669	142,880
Intangible assets		
Goodwill	166,362	197,051
Trademark right	44,279	61,870
Other	47,055	54,295
Total intangible assets	257,696	313,216
Investments and other assets		
Investment securities	45,418	57,619
Deferred tax assets	1,210	1,143
Net defined benefit asset	154	77
Other	3,096	3,834
Allowance for doubtful accounts	(170)	(82)
Total investments and other assets	49,709	62,593
Total non-current assets	415,076	518,690
Total assets	827,996	920,591

(Million yen)

	As of December 31, 2016	As of December 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	70,732	79,940
Electronically recorded obligations - operating	21,512	22,380
Short-term loans payable	29,548	18,274
Current portion of long-term loans payable	947	7,080
Income taxes payable	7,866	6,046
Provision for product compensation	-	2,340
Other	57,325	63,150
Total current liabilities	187,932	199,212
Non-current liabilities		
Long-term loans payable	3,457	31,741
Lease obligations	883	846
Deferred tax liabilities	23,270	33,337
Provision for directors' retirement benefits	142	191
Provision for environmental measures	294	264
Net defined benefit liability	19,124	17,398
Other	7,133	8,190
Total non-current liabilities	54,306	91,970
Total liabilities	242,238	291,182
Net assets		
Shareholders' equity		
Capital stock	78,862	78,862
Capital surplus	63,451	63,262
Retained earnings	361,074	385,369
Treasury shares	(6,444)	(6,454)
Total shareholders' equity	496,944	521,040
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,120	12,068
Foreign currency translation adjustment	(28,512)	(25,387)
Remeasurements of defined benefit plans	(5,214)	(3,384)
Total accumulated other comprehensive income	(23,606)	(16,703)
Subscription rights to shares	85	136
Non-controlling interests	112,334	124,934
Total net assets	585,757	629,408
Total liabilities and net assets	827,996	920,591

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Million yen)

	For the fiscal year ended December 31, 2016	For the fiscal year ended December 31, 2017
Net sales	470,161	605,252
Cost of sales	265,286	360,055
Gross profit	204,875	245,196
Selling, general and administrative expenses	132,385	170,239
Operating profit	72,489	74,957
Non-operating income		
Interest income	1,061	1,147
Dividend income	773	965
Share of profit of entities accounted for using equity method	1,315	1,217
Gain on investment of securities	839	1,424
Subsidy income	1,123	983
Other	1,997	1,262
Total non-operating income	7,111	7,000
Non-operating expenses		
Interest expenses	495	1,081
Foreign exchange losses	656	1,381
Purchasing-related expense	-	750
Other	1,305	1,923
Total non-operating expenses	2,457	5,137
Ordinary income	77,143	76,820
Extraordinary income		
Gain on sales of non-current assets	144	223
Gain on sales of shares of subsidiaries and associates	-	899
Other	59	4
Total extraordinary income	204	1,127
Extraordinary losses		
Loss on sales and retirement of non-current assets	325	728
Product compensation expenses	-	2,340
Other	22	106
Total extraordinary losses	348	3,175
Profit before income taxes	76,999	74,771
Income taxes - current	21,041	22,210
Income taxes - deferred	(533)	(4,757)
Total income taxes	20,508	17,452
Profit	56,491	57,318
Profit attributable to non-controlling interests	21,702	20,195
Profit attributable to owners of parent	34,788	37,123

Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended December 31, 2016	For the fiscal year ended December 31, 2017
Profit	56,491	57,318
Other comprehensive income		
Valuation difference on available-for-sale securities	3,149	2,024
Deferred gains or losses on hedges	1	-
Foreign currency translation adjustment	(25,407)	5,140
Remeasurements of defined benefit plans, net of tax	(2,251)	1,843
Share of other comprehensive income of entities accounted for using equity method	(464)	644
Total other comprehensive income *	(24,973)	9,652
Comprehensive income	31,517	66,970
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	16,634	44,031
Comprehensive income attributable to non-controlling interests	14,883	22,939

(3) Consolidated Statements of Changes in Equity

For the Fiscal Year Ended December 31, 2016 (From April 1, 2016 to December 31, 2016)

(Million Yen)

	Shareholder's equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	78,862	63,451	339,113	(6,439)	474,989
Changes of items during period					
Dividends of surplus			(12,828)		(12,828)
Profit attributable to owners of parent			34,788		34,788
Purchase of treasury shares				(5)	(5)
Net changes of items other than shareholders' equity					
Total changes of items during period	―	―	21,960	(5)	21,955
Balance at end of current period	78,862	63,451	361,074	(6,444)	496,944

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	7,078	(0)	(9,533)	(3,000)	(5,455)	39	98,176	567,748
Changes of items during period								
Dividends of surplus								(12,828)
Profit attributable to owners of parent								34,788
Purchase of treasury shares								(5)
Net changes of items other than shareholders' equity	3,042	0	(18,979)	(2,214)	(18,150)	45	14,158	(3,946)
Total changes of items during period	3,042	0	(18,979)	(2,214)	(18,150)	45	14,158	18,008
Balance at end of current period	10,120	―	(28,512)	(5,214)	(23,606)	85	112,334	585,757

For the Fiscal Year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)

(Million Yen)

	Shareholder's equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	78,862	63,451	361,074	(6,444)	496,944
Changes of items during period					
Dividends of surplus			(12,828)		(12,828)
Profit attributable to owners of parent			37,123		37,123
Purchase of treasury shares				(10)	(10)
Disposal of treasury shares		0		0	1
Net changes of items other than shareholders' equity		(190)			(190)
Total changes of items during period	—	(189)	24,295	(9)	24,095
Balance at end of current period	78,862	63,262	385,369	(6,454)	521,040

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	10,120	—	(28,512)	(5,214)	(23,606)	85	112,334	585,757
Changes of items during period								
Dividends of surplus								(12,828)
Profit attributable to owners of parent								37,123
Purchase of treasury shares								(10)
Disposal of treasury shares								1
Net changes of items other than shareholders' equity	1,948	—	3,125	1,829	6,903	51	12,599	19,364
Total changes of items during period	1,948	—	3,125	1,829	6,903	51	12,599	43,650
Balance at end of current period	12,068	—	(25,387)	(3,384)	(16,703)	136	124,934	629,408

(4) Consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended December 31, 2016	For the fiscal year ended December 31, 2017
Cash flows from operating activities		
Profit before income taxes	76,999	74,771
Depreciation	13,545	17,831
Amortization of goodwill	9,347	11,616
Interest and dividend income	(1,835)	(2,112)
Interest expenses	495	1,081
Share of (profit) loss of entities accounted for using equity method	(1,315)	(1,217)
Loss (gain) on sales and retirement of property, plant and equipment	181	505
Decrease (increase) in notes and accounts receivable - trade	(14,073)	(13,655)
Decrease (increase) in inventories	(4,967)	(4,850)
Increase (decrease) in notes and accounts payable - trade	12,018	5,551
Increase (decrease) in net defined benefit liability	(469)	471
Other	8,933	7,395
Subtotal	98,858	97,388
Interest and dividend income received	2,456	3,017
Interest expenses paid	(395)	(1,094)
Income taxes paid	(27,609)	(24,168)
Income taxes refund	4,605	4,122
Net cash provided by (used in) operating activities	77,916	79,265
Cash flows from investing activities		
Net decrease (increase) in short-term investment securities	(21,653)	13,089
Purchase of property, plant and equipment	(15,623)	(20,727)
Proceeds from sales of property, plant and equipment	562	1,484
Purchase of investment securities	(772)	(8,394)
Payments for transfer of business	(3,096)	-
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(82,606)
Other	(2,113)	(3,526)
Net cash provided by (used in) investing activities	(42,697)	(100,680)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	11,649	(12,917)
Proceeds from long-term loans payable	2,993	35,360
Repayments of long-term loans payable	(888)	(3,764)
Repayments of lease obligations	(365)	(567)
Cash dividends paid	(12,828)	(12,828)
Dividends paid to non-controlling interests	(10,844)	(14,180)
Redemption of bonds	-	(2,558)
Proceeds from share issuance to non-controlling shareholders	1,670	-
Other	30	22
Net cash provided by (used in) financing activities	(8,583)	(11,434)
Effect of exchange rate change on cash and cash equivalents	(391)	(1,106)
Net increase (decrease) in cash and cash equivalents	26,243	(33,955)
Cash and cash equivalents at beginning of period	108,271	134,515
Cash and cash equivalents at end of period	134,515	100,560

(5) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Changes in methods of presentation)

(Consolidated Statements of Income)

"Compensation expenses," which was separately presented in "non-operating expenses" during the previous fiscal year, is no longer significant in value, and is included in "other" from the fiscal year ended December 31, 2017. To reflect this change, the consolidated financial statements for the previous fiscal year have been rearranged.

As a result, "Compensation expenses" of ¥318 million and "other" of ¥986 million, which were presented in "non-operating expenses" on the consolidated statements of income during the previous fiscal year, have been rearranged to "other" of ¥1,305 million.

"Gain on sales of investment securities," which was separately presented in "extraordinary income" during the previous fiscal year, is no longer significant in value, and is included in "other" from the fiscal year ended December 31, 2017. To reflect this change, the consolidated financial statements for the previous fiscal year have been rearranged.

As a result, "Gain on sales of investment securities" of ¥59 million, which was presented in "extraordinary income" on the consolidated statements of income during the previous fiscal year, has been rearranged to "other" of ¥59 million.

(Consolidated Statements of Cash Flows)

"Proceeds from sales of investment securities," which was separately presented in "cash flows from investing activities" during the previous fiscal year, is no longer significant in value, and is included in "other" from the fiscal year ended December 31, 2017. To reflect this change, the consolidated financial statements for the previous fiscal year have been rearranged.

As a result, "proceeds from sales of investment securities" of ¥134 million and "other" of ¥(2,247) million, which were presented in "cash flows from investing activities" on the consolidated statements of cash flows during the previous fiscal year, have been rearranged to "other" of ¥(2,113) million.

"Purchase of treasury shares," which was separately presented in "cash flows from financing activities" during the previous fiscal year, is no longer significant in value, and is included in "other" from the fiscal year ended December 31, 2017. To reflect this change, the consolidated financial statements for the previous fiscal year have been rearranged.

As a result, "purchase of treasury shares" of ¥(5) million and "other" of ¥35 million, which were presented in "cash flows from financing activities" on the consolidated statements of cash flows during the previous fiscal year, have been rearranged to "other" of ¥30 million.

(Business combinations, etc.)

(Business combination due to acquisition)

As of March 1, 2017, the Company made DE PARENT CORP. and a business company under its control, DUNN-EDWARDS CORPORATION, wholly-owned subsidiaries by acquiring all shares in DE PARENT CORP. through the method of merging a special purchase company established by NIPPON PAINT (USA) INC., a USA-based consolidated subsidiary of the Company, with DE PARENT CORP. and by DUNN-EDWARDS CORPORATION absorbing DE PARENT CORP. to remain as the surviving company.

(1) Outline of business combination

(a) Name and main line of business of the acquired company

DE PARENT CORP.

Name	DE PARENT CORP.	
Main line of business	Management of subsidiaries and related business	
Voting rights	Percentage of voting rights held before the business combination	0%
	Percentage of voting rights acquired on the day of the business combination	100%
	Percentage of voting rights after the business combination	100%

* The above mentioned DE PARENT CORP. has the following subsidiary.

DUNN-EDWARDS CORPORATION

Name	DUNN-EDWARDS CORPORATION	
Main line of business	Manufacture and distribution of paint for architecture and industry	
Voting rights	Percentage of voting rights held before the business combination	0%
	Percentage of voting rights acquired on the day of the business combination	100%
	Percentage of voting rights after the business combination	100%

* DUNN-EDWARDS CORPORATION became a subsidiary of the Company in accordance with the acquisition of shares of DE PARENT CORP. Mentioned above.

(b) Main reasons for the business combination

As a result of the transaction, the Company will have established a platform to significantly develop its architectural paint business in the United States, where it has previously focused on the automotive coatings business; and with the addition of DUNN-EDWARDS CORPORATION's retail network, the Company will be able to further expand and augment its existing business in the United States. The Company strongly believes that the transaction will contribute to accomplishing its goal to become a "Global Paint Major."

(c) Date of the business combination

March 1, 2017

(d) Legal form of the business combination

Acquisition of shares for cash consideration

(e) Name of company after the business combination

DUNN-EDWARDS CORPORATION

(f) Percentage of acquired voting rights

Refer to the above (a) Name and main line of business of the acquired company.

(g) Main reason for deciding on the acquired company

NIPPON PAINT (USA) INC., a consolidated subsidiary of the Company, acquired all shares of DE PARENT CORP. for cash consideration.

(2) Period of financial results of the acquired company included in the consolidated financial statements

From March 1, 2017 to December 31, 2017

(3) Cost of acquisition of the acquired company and breakdown of the type of consideration

Consideration for acquisition	Cash	US$624 million
Acquisition cost		US$624 million

(4) Description and amount of major acquisition-related expenses

Remuneration and commissions, etc. for advisory ¥1,717 million

(5) Amount of goodwill incurred, cause of occurrence, and method and period of amortization

(a) Amount of goodwill incurred

US$306 million (¥34,665 million)

(b) Cause of occurrence

Mainly excess profitability anticipated as a result of future business expansion

(c) Method and period of amortization

Straight-line method over 20 years

(6) Amount and main breakdown of assets and liabilities assumed on the date of the business combination

Current assets	¥10,286 million
Non-current assets	¥50,430 million
Total assets	¥60,716 million
Current liabilities	¥ 5,494 million
Non-current liabilities	¥19,241 million
Total liabilities	¥24,736 million

(7) Amounts allocated as intangible assets other than goodwill, breakdown by main type, and overall and main type of weighted average amortization period

Breakdown by type	Amount	Amortization period
Trademark right	¥19,416 million	Not amortized
Customer-related assets	¥5,390 million	25 years
Others	¥505 million	5-10 years
Total intangible assets	¥25,312 million	

(8) Estimated impact on the consolidated statements of income for the fiscal year under review and the method of calculation assuming the business combination was completed at the beginning of the consolidated fiscal year under review

Net sales	¥42,979 million
Operating income	¥(1,613) million
Ordinary income	¥(1,541) million
Profit before income taxes	¥(1,560) million
Profit attributable to owners of parent	¥3,334 million
Basic earnings per share	¥10.40

(Method of calculating estimated impact)

Based on net sales and profit and loss information in the consolidated statements of income from the commencement of the consolidated fiscal year for the acquired company to the date of the business combination assuming that the business combination was completed at the commencement of the consolidated fiscal year, the amount of amortization of goodwill and other intangible assets is the amount estimated as the impact of the goodwill, etc. recognized at the time of the business combination occurring at the commencement of the fiscal year under review. This note has not received audit certification.

(Segment information)

1. Summary of reportable segments

The reportable segments of the Company categorize the business composition of the Company for which separate financial information is available and are subject to periodical evaluation by the Board of Directors in order to make decisions regarding management resource allocation and performance assessment.

The Group's primary business is the manufacture and sale of paint for automotive, general, industrial, and other uses, and fine chemicals. The Company and separate local companies are responsible for domestic activities, and overseas, separate local companies are responsible for the Asia, 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 three reportable segments are "Japan," "Asia," and "Americas."

2. Calculation methods for net sales, profit and loss, assets, liabilities, and other items by reportable segment

Accounting treatment methods for reportable segments comply with the accounting principles and procedures adopted for preparing consolidated financial statements.

Profits for reportable segments are figures based on operating profit. Inter-segment net sales or transfers are based on actual market prices.

3. Information on net sales, income (loss), assets, liabilities, and other figures by reportable segment

Previous fiscal year (April 1, 2016 – December 31, 2016)

(Million yen)

	Reportable segment				Other (Note)	Total
	Japan	Asia	Americas	Subtotal		
Net sales						
Net sales to outside customers	127,920	297,517	32,169	457,606	12,554	470,161
Inter-segment net sales or transfers	17,745	3,362	191	21,298	896	22,195
Total	145,665	300,879	32,360	478,905	13,451	492,356
Segment income (loss)	26,579	43,304	5,147	75,032	(365)	74,666
Segment assets	506,152	528,391	32,900	1,067,444	10,745	1,078,189
Other items						
Depreciation	2,206	10,235	987	13,430	115	13,545
Increase in property, plant, and equipment and intangible assets	4,541	13,373	2,562	20,478	540	21,019

Note: "Other" represents business segments that are not included in the reportable segments, and contains business activities by overseas subsidiaries in Europe, etc.

Fiscal year ended December 31, 2017 (January 1, 2017 – December 31, 2017)

(Million yen)

	Reportable segment				Other (Note)	Total
	Japan	Asia	Americas	Subtotal		
Net sales						
Net sales to outside customers	175,907	347,033	68,229	591,170	14,082	605,252
Inter-segment net sales or transfers	33,617	4,665	162	38,446	934	39,381
Total	209,525	351,699	68,392	629,616	15,016	644,633
Segment income	43,172	40,826	3,170	87,169	248	87,417
Segment assets	588,591	537,363	123,222	1,249,177	15,285	1,264,462
Other items						
Depreciation	3,379	11,634	2,618	17,632	198	17,831
Increase in property, plant, and equipment and intangible assets	6,469	22,194	53,468	82,131	872	83,004

Note 1: "Other" represents business segments that are not included in the reportable segments, and contains business activities by overseas subsidiaries in Europe, etc.

Note 2: The increases in "segment assets" and "increase in property, plant, and equipment and intangible assets" in the "Americas" segment are primarily due to the consolidation of DUNN-EDWARDS CORPORATION.

4. Difference between total amount for reportable segment and the amount recorded in the consolidated financial statements, and major details of such difference (matters related to adjustments of difference)

(Million yen)

Net sales	For the fiscal year ended December 31, 2016	For the fiscal year ended December 31, 2017
Total reportable segment sales	478,905	629,616
Net sales from "Other"	13,451	15,016
Inter-segment transaction eliminations and other adjustments	(22,195)	(39,381)
Net sales recorded in the consolidated financial statements	470,161	605,252

Note: "Inter-segment transaction eliminations and other adjustments" includes inter-segment dividend income.

(Million yen)

Income	For the fiscal year ended December 31, 2016	For the fiscal year ended December 31, 2017
Total reportable segment income	75,032	87,169
Segment income (loss) from "Other"	(365)	248
Inter-segment transaction eliminations and other adjustments	(2,176)	(12,459)
Operating income recorded in the consolidated financial statements	72,489	74,957

Note: "Inter-segment transaction eliminations and other adjustments" includes inter-segment dividend income.

(Million yen)

Segment assets	As of December 31, 2016	As of December 31, 2017
Total reportable segment assets	1,067,444	1,249,177
Net assets from “Other”	10,745	15,285
Inter-segment transaction eliminations and other adjustments	(351,667)	(420,696)
Total company assets (Note)	101,474	76,825
Net assets recorded in the consolidated financial statements	827,996	920,591

Note: Total company assets consist of surplus operating funds (cash and deposits), long-term investment funds (investment securities), and deferred tax assets.

(Million yen)

Other items	Total of reportable segments		Other, net		Adjustment		Consolidated financial statements total	
	Previous consolidated fiscal year	Current consolidated fiscal year	Previous consolidated fiscal year	Current consolidated fiscal year	Previous consolidated fiscal year	Current consolidated fiscal year	Previous consolidated fiscal year	Current consolidated fiscal year
Depreciation	13,430	17,632	115	198	—	—	13,545	17,831
Increase in property, plant and equipment and intangible assets	20,478	82,131	540	872	—	—	21,019	83,004

(Omissions)

Regarding notes on lease transactions, transactions with related parties, tax effect accounting, financial instruments, available-for-sale securities, derivative transactions, retirement benefits, stock options, etc., asset retirement obligations, and rental and other real estate, these have been omitted as they are not considered to have a high necessity for disclosure.

(Per-share information)

	Previous consolidated fiscal year (From April 1, 2016 To December 31, 2016)	Current consolidated fiscal year (From January 1, 2017 To December 31, 2017
Net assets per share	¥1,475.93	¥1,572.60
Basic earnings per share	¥108.48	¥115.76
Diluted earnings per share	¥108.47	¥115.74

(Note) The basis of calculations of basic earnings per share and diluted earnings per share are as below.

	Previous consolidated fiscal year (From April 1, 2016 To December 31, 2016)	Current consolidated fiscal year (From January 1, 2017 To December 31, 2017
Basic earnings per share		
Profit attributable to owners of parent (million yen)	34,788	37,123
Amount not attributable to common shareholders (million yen)	—	—
Profit attributable to owners of parent relating to common shares (million yen)	34,788	37,123
Average number of shares during the period (thousands of shares)	320,705	320,702
Diluted earnings per share		
Adjusted profit attributable to owners of parent (million yen)	—	—
Increase in the number of shares of common stock (thousands of shares)	33	49
(Subscription rights to shares included in the above) (thousands of shares)	(33)	(49)
Descriptions of potential shares that were not included in the computation of diluted earnings per share because of their anti-dilutive effect	—	

(Significant subsequent events)

(Transfer of non-current assets)

The Company completed the transfer of the following non-current assets based on a resolution of the Board of Directors passed on October 23, 2015 and a sales agreement concluded on October 29, 2015.

1. Transferred asset

Location: 28-6 Ikeda Nakamachi, Neyagawa-shi,Osaka pref,Japan and one other lot

Land: 37,746.47 m^2

2. Transferee

Educational foundation: Josho Gakuen

3. Date of transfer

January 31, 2018

4. Reason for transfer

The Group is proceeding with the establishment of a system to achieve sustained improvements in corporate value as we work toward our goal of becoming a Global Paint Major. On this occasion, we transferred land owned in Neyagawa-shi with the objective of improving the technical capabilities of the Group as a whole and further strengthening the autonomous business operations of each business firm in the Group.

5. Impact on financial results

In line with the transfer of non-current assets, we plan to record a gain on sales of non-current assets of ¥2,164 million (estimate) in extraordinary income in the consolidated fiscal year ending December 31, 2018.

5. Other

(1) State of Sales Performance

(Million yen)

	Previous consolidated fiscal year (From April 1, 2016 To December 31, 2016)	Previous consolidated fiscal year (From January 1, 2017 To December 31, 2017)	Compared with previous fiscal year (%)
Paint business	454,512	586,373	—
Automotive paint	129,007	148,437	—
Trade-use paint	226,156	308,846	—
Industrial paint	58,416	73,045	—
Other paint	40,932	56,043	—
Fine chemical business	15,649	18,879	—
Total	470,161	605,252	—

Notes: 1. Consumption taxes are not included in these amounts.

2. During the previous fiscal year, the fiscal year-end was changed from March 31 to December 31. As a result, the period for comparison for the previous fiscal year differs from that of the current fiscal year, and change from the previous year is not provided.