

NOTICE: For the convenience of capital market participants, NIPPON PAINT HOLDINGS CO., LTD. makes efforts to provide English translations of the information disclosed in Japanese, provided that the original Japanese version prevails over its English translation version in the case of any discrepancy found between the original and translation.

Consolidated Financial Results for the Six Months Ended June 30, 2018 [Japanese GAAP]



August 8, 2018

Company name: NIPPON PAINT HOLDINGS CO., LTD.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 4612
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 Scheduled date filing quarterly securities report: August 10, 2018
 Scheduled date of commencing dividend payments: September 6, 2018
 Availability of supplementary briefing material on quarterly financial results: Yes
 Schedule of quarterly financial results briefing session: Yes

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

1. Consolidated Financial Results for the Six Months Ended June 30, 2018 (January 1, 2018 to June 30, 2018)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended June 30, 2018	310,996	6.6	34,597	(2.5)	38,151	4.4	18,357	18.9
June 30, 2017	291,748	-	35,493	-	36,557	-	15,445	-

Note: Comprehensive income: Six months ended June 30, 2018: ¥8,770 million [(39.0) %]
 Six months ended June 30, 2017: ¥14,383 million [- %]

	Basic earnings per share		Diluted earnings per share	
	Yen	Yen	Yen	Yen
Six months ended June 30, 2018	57.24	57.23	57.23	57.23
June 30, 2017	48.16	48.15	48.15	48.15

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 corresponding period are not presented, since the consolidation period for the six months ended June 30, 2017 (January 1, 2017 to June 30, 2017) and for the corresponding period for the six months ended September 30, 2016 (April 1, 2016 to September 30, 2016) differ from each other.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2018	902,556	618,444	55.5
As of December 31, 2017	920,591	629,408	54.8

Reference: Equity: As of June 30, 2018: ¥501,114 million
 As of December 31, 2017: ¥504,336 million

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, 2017	-	20.00	-	22.00	42.00
Fiscal year ending December 31, 2018	-	22.00			
Fiscal year ending December 31, 2018 (Forecast)			-	23.00	45.00

Note: Revision to the forecast for dividends announced most recently: No

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
Full year	650,000	7.4	78,000	4.1	82,000	6.7	35,500	(4.4)	110.69

Note: Revision to the financial results forecast announced most recently: No

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: No
- (2) Accounting treatments adopted specially for the preparation of quarterly consolidated financial statements: Yes
- (3) 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
- (4) Total number of issued shares (common shares)
 - 1) Total number of issued shares at the end of the period (including treasury shares):
June 30, 2018: 325,402,443 shares
December 31, 2017: 325,402,443 shares
 - 2) Total number of treasury shares at the end of the period:
June 30, 2018: 4,701,116 shares
December 31, 2017: 4,700,301 shares
 - 3) Average number of shares during the period:
Six months ended June 30, 2018: 320,701,749 shares
Six months ended June 30, 2017: 320,703,476 shares

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

*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. Qualitative Information on Quarterly Financial Results for the Period under Review (3) Explanation of Consolidated Financial Results Forecast and Other Forward-Looking Information” on page 4 of the Attachment.

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

(1) Explanation of Operating Results

The period of consolidation for the six months ended June 30, 2018 is the six months from January to June 2018.

During the six months ended June 30, 2018, consolidated net sales of the Company and its group companies (collectively, the “Group”) increased by 6.6% from the corresponding period of the previous year (the “previous year”), to ¥310,996 million. Consolidated operating income decreased by 2.5% from the previous year, to ¥34,597 million due to the effects of an increase in raw material prices, and consolidated ordinary income increased by 4.4% from the previous year, to ¥38,151 million mainly due to the subsidy income related to the removal of a factories resulting from an environmental regulation in China. Profit attributable to owners of parent increased by 18.9% from the previous year, to ¥18,357 million due to the extraordinary profit posted for the sale of land following the closure of Neyagawa office.

Results by business segment are as follows.

Japan

In this region, although the number of automobiles manufactured was at the same level as the previous year, 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 our market share. As for industrial coatings, due to weak shipments of coatings for construction materials affected by unfavorable market, net sales were lower than the previous year. As for trade-use paints, despite of the sluggish market conditions, net sales were slightly higher than the previous year due to factors such as efforts to expand our market share in the retail sector by introducing new products. As for other coatings, net sales were lower than the previous year due to factors such as the sluggish market conditions of marine coatings and the recording of sales of a large-scale coating facility construction in the previous year.

As a result of these factors, consolidated net sales for the Japan segment decreased by 0.5% from the previous year, to ¥86,657 million. Consolidated operating income decreased by 0.8% from the previous year, to ¥27,601 million due to the effects of an increase in raw material prices and an increase in selling, general and administrative expenses. ¥13,523 million of dividend income from overseas group companies (¥12,353 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 this region, net sales for automotive coatings in China, a core region, were higher than the previous year due to factors such as an increase in the number of automobiles manufactured from the previous year, the expansion of business to Chinese manufacturers and the expansion of sales of coatings for automotive parts. As for trade-use paints, net sales were higher than the previous year, due to factors such as an increase of sales to major customers in sectors focusing on decorative paints, despite of the sluggish real estate market conditions in sectors focusing on interior residential paints. In industrial coatings, net sales were lower than the previous year, owing primarily to weak shipments of coatings for construction materials affected by unfavorable market.

In the Asia region excluding China, net sales for automotive coatings were higher than the previous year due to an increase in number of automobiles manufactured in Thailand and India by Japanese manufacturers. Additionally, net sales of trade-use paints were strong in Singapore, Vietnam and Malaysia.

As a result of these factors, consolidated net sales for the Asia segment increased by 8.1% from the previous year, to ¥179,299 million. Consolidated operating income increased by 4.3% from the previous year, to ¥18,331 million due to factors such as the control of selling, general and administrative expenses, despite 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 the effects of exchange rate in addition to a decline in the number of automobiles manufactured in the United States, a core region, from the previous year, despite the efforts to expand sales of coatings for automotive parts. In trade-use paints, consolidated net sales increased year on year with the results of DUNN-EDWARDS CORPORATION, a decorative paints manufacturer, which was consolidated in March 2017, contributing to the sales for the full six months compared to four months in the previous year.

As a result of these factors, consolidated net sales for the Americas segment increased by 19.3% from the previous year, to ¥37,733 million. Consolidated operating income was ¥2,086 million, an increase of 8.8% from the previous year. Consolidated operating income of the six months ended June 30, 2017 included expenses related to the acquisition of stock of DUNN-EDWARDS CORPORATION.

Other

In this geographic segment, regarding automotive coatings, with number of automobiles manufactured in the EU region increased from the previous year, consolidated net sales were ¥7,307 million, an increase of 1.8% from the previous year mainly due to favorable shipments to French manufacturers and consolidated operating income was ¥21 million, a decrease of 95.4% from the previous year mainly due to the effects of an increase in raw material prices and the aggravating effects of product mix.

(2) Explanation of Financial Position

Total assets at the end of the second quarter of the fiscal year under review decreased by ¥18,034 million from the end of the previous fiscal year to ¥902,556 million. Current assets increased by ¥5,262 million, mainly due to a decrease in cash and deposits and securities, offset by an increase in accounts receivable - trade. Additionally, non-current assets decreased by ¥23,297 million from the end of the previous fiscal year, primarily caused by factors such as decreases in trademark rights and goodwill in line with their amortization and a decrease in investment securities resulting from the fall in share prices.

Liabilities decreased by ¥7,070 million from the end of the previous year to ¥284,112 million. The decrease was mainly attributable to a decrease in loans payable and deferred tax liabilities.

Net assets decreased by ¥10,964 million from the end of the previous fiscal year to ¥618,444 million. This was mainly attributable to an increase in retained earnings due to the recording of profit attributable to owners of parent, offset by decreases in valuation difference on available-for-sale securities, foreign currency translation adjustment and non-controlling interests.

As a result, equity ratio increased from 54.8% at the end of the previous fiscal year to 55.5%.

(Status of Cash Flows)

During the six months ended June 30, 2018, operating activities resulted in an inflow of ¥23,321 million, investing activities resulted in an outflow of ¥8,309 million, and financing activities resulted in an outflow of ¥15,702 million, resulting in cash and cash equivalents (hereinafter “cash”) of ¥97,952 million, a decrease of ¥2,608 million compared to the end of the previous fiscal year.

(Cash flows from operating activities)

Net cash provided by operating activities for the six months ended June 30, 2018 was increased by ¥2,801 million from the previous year, to ¥23,321 million. Primary factors include a recording of a cash inflow (excluding increases and decreases in operating capital) of ¥49,025 million, reflecting mainly non-cash expenses such as depreciation and amortization non-profit before income taxes, a decrease in cash of ¥19,384 million owing to an increase in operating capital due to a significant increase in notes and accounts receivable – trade as of the end of the six months ended June 30, 2018, the result of early collections of notes and accounts receivable - trade as of the end of the fiscal year ended December 31, 2017 at a consolidated subsidiary in China, and income taxes paid of ¥6,319 million.

(Cash flows from investing activities)

Net cash used in investing activities for the six months ended June 30, 2018 was decreased by ¥75,361 million from the previous year, to ¥8,309 million. This was mainly attributable to an inflow of ¥2,056 million due to a decrease in securities, and an outflow of ¥9,985 million due to purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash used in financing activities for the six months ended June 30, 2018 was ¥15,702 million, inflow of ¥17,659 million in the previous year. Primary factors include an outflow of ¥7,567 million due to repayments of loans payable such as funds procured for the acquisition of DUNN-EDWARDS CORPORATION and cash dividends paid of ¥7,588 million.

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

There are no revisions from consolidated financial results forecast for the full year ending December 31, 2018 announced on February 14, 2018.

2. Quarterly Consolidated Financial Statements and Primary Notes
(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of December 31, 2017	As of June 30, 2018
Assets		
Current assets		
Cash and deposits	103,007	99,900
Notes and accounts receivable - trade	153,922	170,117
Electronically recorded monetary claims - operating	15,402	15,531
Securities	37,477	34,329
Inventories	68,406	66,192
Deferred tax assets	7,278	7,438
Other	20,800	19,291
Allowance for doubtful accounts	(4,394)	(5,639)
Total current assets	401,900	407,163
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	64,029	63,660
Other, net	78,850	76,890
Total property, plant and equipment	142,880	140,550
Intangible assets		
Goodwill	197,051	185,237
Trademark right	61,870	58,926
Other	54,295	51,800
Total intangible assets	313,216	295,964
Investments and other assets		
Investment securities	57,619	54,143
Deferred tax assets	1,143	1,106
Other	3,912	3,673
Allowance for doubtful accounts	(82)	(44)
Total investments and other assets	62,593	58,878
Total non-current assets	518,690	495,393
Total assets	920,591	902,556

(Million yen)

	As of December 31, 2017	As of June 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	79,940	80,428
Electronically recorded obligations - operating	22,380	21,175
Short-term loans payable	25,354	26,834
Income taxes payable	6,046	8,947
Provision for product compensation	2,340	322
Other	63,150	69,743
Total current liabilities	199,212	207,451
Non-current liabilities		
Long-term loans payable	31,741	21,656
Deferred tax liabilities	33,337	30,908
Provision for directors' retirement benefits	191	191
Provision for environmental measures	264	298
Net defined benefit liability	17,398	16,748
Other	9,037	6,857
Total non-current liabilities	91,970	76,660
Total liabilities	291,182	284,112
Net assets		
Shareholders' equity		
Capital stock	78,862	78,862
Capital surplus	63,262	63,228
Retained earnings	385,369	396,671
Treasury shares	(6,454)	(6,458)
Total shareholders' equity	521,040	532,305
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,068	10,289
Foreign currency translation adjustment	(25,387)	(38,577)
Remeasurements of defined benefit plans	(3,384)	(2,903)
Total accumulated other comprehensive income	(16,703)	(31,190)
Subscription rights to shares	136	154
Non-controlling interests	124,934	117,175
Total net assets	629,408	618,444
Total liabilities and net assets	920,591	902,556

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Six Months Ended June 30, 2018

(Million yen)

	For the six months ended June 30, 2017	For the six months ended June 30, 2018
Net sales	291,748	310,996
Cost of sales	172,155	188,614
Gross profit	119,592	122,382
Selling, general and administrative expenses	84,099	87,784
Operating income	35,493	34,597
Non-operating income		
Interest income	639	525
Dividend income	536	598
Share of profit of entities accounted for using equity method	421	583
Subsidy income	438	2,853
Other	1,507	1,164
Total non-operating income	3,542	5,725
Non-operating expenses		
Interest expenses	547	579
Foreign exchange losses	1,464	717
Other	467	873
Total non-operating expenses	2,478	2,170
Ordinary income	36,557	38,151
Extraordinary income		
Gain on sales of non-current assets	24	2,183
Other	4	100
Total extraordinary income	29	2,283
Extraordinary losses		
Loss on sales and retirement of non-current assets	250	423
Other	5	—
Total extraordinary losses	256	423
Profit before income taxes	36,330	40,011
Income taxes	11,732	12,173
Profit	24,597	27,837
Profit attributable to non-controlling interests	9,152	9,479
Profit attributable to owners of parent	15,445	18,357

Consolidated Statements of Comprehensive Income
Six Months Ended June 30, 2018

(Million yen)

	For the six months ended June 30, 2017	For the six months ended June 30, 2018
Profit	24,597	27,837
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,833)	(1,834)
Foreign currency translation adjustment	(9,860)	(16,852)
Remeasurements of defined benefit plans	1,403	486
Share of other comprehensive income of entities accounted for using equity method	76	(867)
Total other comprehensive income	(10,214)	(19,067)
Comprehensive income	14,383	8,770
Comprehensive income attributable to		
Owners of parent	7,278	3,870
Non-controlling interests	7,104	4,900

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended June 30, 2017	For the six months ended June 30, 2018
Cash flows from operating activities		
Profit before income taxes	36,330	40,011
Depreciation	8,502	9,408
Amortization of goodwill	5,618	5,946
Interest and dividend income	(1,176)	(1,123)
Interest expenses	547	579
Share of (profit) loss of entities accounted for using equity method	(421)	(583)
Loss (gain) on sales and retirement of property, plant and equipment	226	(1,759)
Decrease (increase) in notes and accounts receivable - trade	(21,220)	(19,985)
Decrease (increase) in inventories	(911)	367
Increase (decrease) in notes and accounts payable - trade	1,086	233
Increase (decrease) in net defined benefit liability	859	95
Other, net	(2,201)	(4,435)
Subtotal	27,239	28,755
Interest and dividend income received	1,671	1,519
Interest expenses paid	(436)	(632)
Income taxes paid	(12,076)	(6,589)
Income taxes refund	4,122	269
Net cash provided by (used in) operating activities	20,520	23,321
Cash flows from investing activities		
Net decrease (increase) in short-term investment securities	11,794	2,056
Purchase of property, plant and equipment	(9,944)	(9,985)
Proceeds from sales of property, plant and equipment	555	2,413
Purchase of investment securities	(6,294)	(42)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(79,606)	—
Other, net	(174)	(2,751)
Net cash provided by (used in) investing activities	(83,671)	(8,309)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(6,030)	(857)
Proceeds from long-term loans payable	32,000	327
Repayments of long-term loans payable	(872)	(7,037)
Repayments of lease obligations	(269)	(312)
Cash dividends paid	(6,414)	(7,055)
Dividends paid to non-controlling interests	(663)	(533)
Other, net	(91)	(234)
Net cash provided by (used in) financing activities	17,659	(15,702)
Effect of exchange rate change on cash and cash equivalents	(2,256)	(1,917)
Net increase (decrease) in cash and cash equivalents	(47,748)	(2,608)
Cash and cash equivalents at beginning of period	134,515	100,560
Cash and cash equivalents at end of period	86,767	97,952

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Notes in the case of significant changes in shareholders' equity)

There is no relevant information.

(Accounting treatments adopted specially for the preparation of quarterly consolidated financial statements)

Calculation of tax expenses

Tax expenses have been calculated by multiplying profit before income taxes by an effective tax rate, which is reasonably estimated after the application of tax effect accounting to profit before income taxes for the consolidated fiscal year including the second quarter of the fiscal year under review.

(Segment information, etc.)

[Segment information]

I. For the six months ended June 30, 2017

1. Information on net sales and income (loss) by reportable segment

(Million yen)

	Reportable segment				Other (Note)	Total
	Japan	Asia	Americas	Subtotal		
Net sales						
Net sales to outside customers	87,134	165,804	31,633	284,571	7,176	291,748
Inter-segment net sales or transfers	23,071	2,347	80	25,499	452	25,951
Total	110,205	168,151	31,714	310,070	7,628	317,699
Segment income	27,828	17,570	1,917	47,316	458	47,775

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

2. Difference between total reportable segment income (loss) and the amount recorded in the quarterly consolidated statements of income, and major details of such difference (matters related to adjustments of difference)

(Million yen)

Income	Amount
Total reportable segment income	47,316
Net income from "Other"	458
Inter-segment transaction eliminations and other adjustments	(12,282)
Operating income recorded in the quarterly consolidated statements of income	35,493

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

3. Information on products and services

(Million yen)

Net sales to outside customers	Amount	Change from the previous year (%)
Paint business	282,401	—
Automotive paint	73,035	—
Trade-use paint	145,508	—
Industrial paint	36,460	—
Other paint	27,396	—
Fine chemical business	9,347	—
Total	291,748	—

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 six months ended June 30, 2018 differs, and change from the previous year is not provided.

II. For the six months ended on June 30, 2018

1. Information on net sales and income (loss) by reportable segment

(Million yen)

	Reportable segment				Other (Note)	Total
	Japan	Asia	Americas	Subtotal		
Net sales						
Net sales to outside customers	86,657	179,299	37,733	303,689	7,307	310,996
Inter-segment net sales or transfers	24,435	1,784	106	26,326	382	26,708
Total	111,092	181,083	37,839	330,015	7,689	337,704
Segment income	27,601	18,331	2,086	48,019	21	48,040

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

2. Difference between total reportable segment income (loss) and the amount recorded in the quarterly consolidated statements of income, and major details of such difference (matters related to adjustments of difference)

(Million yen)

Income	Amount
Total reportable segment income	48,019
Net income from "Other"	21
Inter-segment transaction eliminations and other adjustments	(13,443)
Operating income recorded in the quarterly consolidated statements of income	34,597

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

3. Information on products and services

(Million yen)

Net sales to outside customers	Amount	Change from the previous fiscal year (%)
Paint business	301,276	6.7
Automotive paint	81,560	11.7
Trade-use paint	159,461	9.6
Industrial paint	33,721	(7.5)
Other paint	26,532	(3.2)
Fine chemical business	9,719	4.0
Total	310,996	6.6

Note: Consumption taxes are not included in these amounts.