

Consolidated Financial Results
for the Three Months Ended March 31, 2019
[IFRS]



May 15, 2019

Company name: NIPPON PAINT HOLDINGS CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4612

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

Representative: Tetsushi Tado, President & CEO, Representative Director of the Board

Contact: Yukiko Mochida, Manager of Investor Relations Office

Phone: +81-6-6455-9140

Scheduled date of filing the quarterly securities report: May 15, 2019

Scheduled date of commencing dividend payments: -

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 Three Months Ended March 31, 2019 (January 1, 2019 to March 31, 2019)

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

	Revenue		Operating profit		Profit before tax		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended								
March 31, 2019	147,359	(1.2)	20,129	(8.2)	20,378	(6.8)	15,079	(6.3)
March 31, 2018	149,170	—	21,926	—	21,853	—	16,096	—

	Profit attributable to owners of parent		Comprehensive income	
	Million yen	%	Million yen	%
Three months ended				
March 31, 2019	10,648	(8.8)	21,101	—
March 31, 2018	11,679	—	(7,264)	—

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended				
March 31, 2019	33.20		33.20	
March 31, 2018	36.42		36.41	

The Group has adopted IFRS starting from the fiscal year ended December 31, 2018. Accordingly, changes from the previous corresponding period for the three months ended March 31, 2018 have not been provided.

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Equity attributable to owners of parent to total assets
	Million yen	Million yen	Million yen	%
As of March 31, 2019	991,932	662,297	527,185	53.1
As of December 31, 2018	953,988	647,618	520,047	54.5

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended December 31, 2018	Yen —	Yen 22.00	Yen —	Yen 23.00	Yen 45.00
Fiscal year ending December 31, 2019	—				
Fiscal year ending December 31, 2019 (Forecast)		22.00	—	23.00	45.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	310,000	—	39,500	—	40,000	—	20,000	—	62.36
Full year	640,000	2.0	77,000	(11.0)	78,000	(12.4)	39,000	(14.0)	121.60

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

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: No
- (2) Changes in accounting policies and changes in accounting estimates
 - 1) Changes in accounting policies required by IFRS: Yes
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
- (3) Total number of issued shares (common shares)
 - 1) Total number of issued shares at the end of the period (including treasury shares):
March 31, 2019: 325,402,443 shares
December 31, 2018: 325,402,443 shares
 - 2) Total number of treasury shares at the end of the period:
March 31, 2019: 4,690,077 shares
December 31, 2018: 4,689,703 shares
 - 3) Average number of shares during the period:
Three months ended March 31, 2019: 320,712,604 shares
Three months ended March 31, 2018: 320,701,961 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.

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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 three months ended March 31, 2019 is the three months from January to March 2019.

During the three months ended March 31, 2019, consolidated revenue of the Company and its group companies (collectively, the “Group”) decreased by 1.2% from the corresponding period of the previous year (the “previous year”) to ¥147,359 million. Consolidated operating profit decreased by 8.2% from the previous year to ¥20,129 million due to a decrease in the subsidy income related to the removal of factories resulting from an environmental regulation in China compared to the previous year. Consolidated profit before tax decreased by 6.8% from the previous year to ¥20,378 million, and profit attributable to owners of parent decreased by 8.8% from the previous year to ¥10,648 million.

Results by business segment are as follows.

Japan

In this region, in an environment where the number of automobiles manufactured was slightly higher than the previous year, net sales for automotive coatings were higher than the previous year due to factors such as favorable shipments of premium design and high value-added coatings. As for industrial coatings, net sales were higher than the previous year due to factors such as a higher number of new housing starts than the previous year and increased demand in line with restoration works following the natural disasters that occurred in the previous year. As for trade-use paints, under solid market conditions, net sales were higher than the previous year due to factors such as efforts to expand sales in the retail sector.

As a result of these factors, consolidated revenue for the Japan segment increased by 2.1% from the previous year to ¥43,843 million. Consolidated operating profit decreased by 20.7% from the previous year to ¥9,623 million. ¥1,558 million of dividend income from overseas group companies (¥3,390 million in the previous year) is included in consolidated operating profit. All of this dividend income is eliminated as an internal transaction under “intersegment eliminations and other adjustments.”

Asia

In this region, the market for automotive coatings was sluggish due to factors including a decrease in the number of automobiles manufactured in China from the previous year, and a fall in product unit prices resulting from a change in the product mix in Thailand, despite an increase in the number of automobiles manufactured in Thailand from the previous year. As a result, net sales for automotive coatings were lower than the previous year. As for trade-use paints, which account for the highest ratio of business, net sales were lower than the previous year due to stagnant market conditions in Singapore and Malaysia and the effects of exchange rate, although sales of mainstay interior residential paints and decorative paints for exterior were favorable in spite of lackluster housing-related market conditions caused by the strengthening of regulations in China.

As a result of these factors, consolidated revenue for the Asia segment decreased by 2.3% from the previous year to ¥82,484 million. Consolidated operating profit decreased by 4.8% from the previous year to ¥11,494 million.

Americas

In this region, net sales for automotive coatings decreased from the previous year due to factors such as the sluggish production of automobiles in the United States, a core region. In trade-use paints, net sales decreased from the previous year mainly due to the effects of bad weather.

As a result of these factors, consolidated revenue for the Americas segment decreased by 2.3% from the previous year to ¥17,514 million. Consolidated operating profit decreased by 32.3% from the previous year to ¥629 million.

Other

In this segment, regarding automotive coatings, consolidated revenue decreased by 9.2% from the previous year to ¥3,517 million due to the effects of exchange rate in addition to the sluggish production of automobiles in the region, and consolidated operating loss was ¥92 million, compared to an operating profit of ¥132 million in the previous year.

(2) Explanation of Financial Position

Total assets at the end of the first quarter of the fiscal year under review increased by ¥37,943 million from the end of the previous fiscal year to ¥991,932 million. Current assets increased by ¥7,824 million from the end of the previous fiscal year mainly due to factors such as an increase in trade and other receivables, despite a decrease in cash and cash equivalents. Additionally, non-current assets increased by ¥30,119 million from the end of the previous fiscal year. The increase was primarily attributable to factors such as an increase in property, plant and equipment in line with the application of IFRS 16.

Liabilities increased by ¥23,264 million from the end of the previous fiscal year to ¥329,635 million mainly due to factors such as an increase in other financial liabilities in line with the application of IFRS 16.

Equity increased by ¥14,678 million from the end of the previous fiscal year to ¥662,297 million. This was mainly attributable to factors such as an increase in foreign currency translation adjustment and an increase in retained earnings due to the recording of profit attributable to owners of parent.

As a result, equity attributable to owners of parent to total assets fell from 54.5% at the end of the previous fiscal year to 53.1%.

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

There are no revisions from consolidated financial results forecast for the six months ending June 30, 2019 and for the full year ending December 31, 2019 announced on February 13, 2019.

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

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

Condensed Quarterly Consolidated Statement of Profit or Loss

Three Months Ended March 31, 2019

(Million yen)

	For the three months ended March 31, 2018	For the three months ended March 31, 2019
Revenue	149,170	147,359
Cost of sales	(90,610)	(89,460)
Gross profit	58,559	57,898
Selling, general and administrative expenses	(40,593)	(40,007)
Other income	4,467	2,588
Other expenses	(505)	(350)
Operating profit	21,926	20,129
Finance income	614	946
Finance costs	(934)	(976)
Share of profit of investments accounted for using equity method	246	278
Profit before tax	21,853	20,378
Income taxes	(5,757)	(5,298)
Profit	16,096	15,079
Profit attributable to		
Owners of parent	11,679	10,648
Non-controlling interests	4,416	4,430
Profit	16,096	15,079
Earnings per share		
Basic earnings per share (yen)	36.42	33.20
Diluted earnings per share (yen)	36.41	33.20

Condensed Quarterly Consolidated Statement of Comprehensive Income
Three Months Ended March 31, 2019

(Million yen)

	For the three months ended March 31, 2018	For the three months ended March 31, 2019
Profit	16,096	15,079
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Financial assets measured at fair value through other comprehensive income	(1,656)	491
Remeasurements of defined benefit plans	9	3
Total of items that will not be reclassified subsequently to profit or loss	(1,646)	495
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(21,018)	5,516
Share of other comprehensive income of entities accounted for using equity method	(695)	9
Total of items that may be reclassified subsequently to profit or loss	(21,714)	5,526
Total other comprehensive income	(23,360)	6,022
Comprehensive income	(7,264)	21,101
Comprehensive income attributable to		
Owners of parent	(8,080)	14,507
Non-controlling interests	816	6,594
Comprehensive income	(7,264)	21,101

(2) Condensed Quarterly Consolidated Statement of Financial Position

(Million yen)

	As of December 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and cash equivalents	129,633	120,220
Inventories	65,807	66,382
Trade and other receivables	179,269	192,192
Other financial assets	59,775	64,852
Other current assets	9,456	8,119
Subtotal	443,941	451,766
Assets held for sale	272	271
Total current assets	444,214	452,038
Non-current assets		
Property, plant and equipment	140,550	178,608
Goodwill	203,722	205,020
Other intangible assets	95,496	94,774
Investments accounted for using equity method	11,612	11,182
Other financial assets	40,942	45,336
Other non-current assets	14,374	1,891
Deferred tax assets	3,075	3,080
Total non-current assets	509,774	539,893
Total assets	953,988	991,932

(Million yen)

	As of December 31, 2018	As of March 31, 2019
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	121,999	119,778
Bonds and borrowings	51,583	57,663
Other financial liabilities	5,050	8,816
Income taxes payable	4,735	6,338
Provisions	992	1,043
Other current liabilities	31,415	34,572
Total current liabilities	215,776	228,213
Non-current liabilities		
Bonds and borrowings	37,881	30,828
Other financial liabilities	5,558	23,985
Retirement benefit liability	19,572	19,339
Provisions	385	419
Other non-current liabilities	1,209	1,316
Deferred tax liabilities	25,986	25,533
Total non-current liabilities	90,593	101,421
Total liabilities	306,370	329,635
Equity		
Share capital	78,862	78,862
Capital surplus	63,247	63,247
Treasury shares	(6,444)	(6,446)
Retained earnings	390,287	393,562
Other components of equity	(5,905)	(2,040)
Total equity attributable to owners of parent	520,047	527,185
Non-controlling interests	127,570	135,112
Total equity	647,618	662,297
Total liabilities and equity	953,988	991,932

(3) Condensed Quarterly Consolidated Statement of Changes in Equity
For the Three Months Ended March 31, 2018 (From January 1, 2018 to March 31, 2018)

(Million yen)

	Equity attributable to owners of parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total		
Balance as of January 1, 2018	78,862	63,262	(6,454)	360,249	15,471	511,392	125,549	636,941
Profit	—	—	—	11,679	—	11,679	4,416	16,096
Other comprehensive income	—	—	—	—	(19,760)	(19,760)	(3,600)	(23,360)
Comprehensive income	—	—	—	11,679	(19,760)	(8,080)	816	(7,264)
Purchase of treasury shares	—	—	(1)	—	—	(1)	—	(1)
Dividends	—	—	—	(7,055)	—	(7,055)	(2,445)	(9,501)
Share-based payment transactions	—	—	—	—	17	17	—	17
Transfer from other components of equity to retained earnings	—	—	—	4	(4)	—	—	—
Capital increase of subsidiaries	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	(151)	(151)
Total transactions with owners	—	—	(1)	(7,050)	12	(7,039)	(2,597)	(9,636)
Balance as of March 31, 2018	78,862	63,262	(6,455)	364,878	(4,275)	496,272	123,768	620,040

For the Three Months Ended March 31, 2019 (From January 1, 2019 to March 31, 2019)

(Million yen)

	Equity attributable to owners of parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total		
Balance as of January 1, 2019	78,862	63,247	(6,444)	390,287	(5,905)	520,047	127,570	647,618
Profit	—	—	—	10,648	—	10,648	4,430	15,079
Other comprehensive income	—	—	—	—	3,858	3,858	2,164	6,022
Comprehensive income	—	—	—	10,648	3,858	14,507	6,594	21,101
Purchase of treasury shares	—	—	(1)	—	—	(1)	—	(1)
Dividends	—	—	—	(7,376)	—	(7,376)	(661)	(8,038)
Share-based payment transactions	—	—	—	—	8	8	—	8
Transfer from other components of equity to retained earnings	—	—	—	1	(1)	—	—	—
Capital increase of subsidiaries	—	—	—	—	—	—	1,600	1,600
Other	—	—	—	—	—	—	9	9
Total transactions with owners	—	—	(1)	(7,374)	6	(7,369)	947	(6,422)
Balance as of March 31, 2019	78,862	63,247	(6,446)	393,562	(2,040)	527,185	135,112	662,297

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Million yen)

	For the three months ended March 31, 2018	For the three months ended March 31, 2019
Cash flows from operating activities		
Profit before tax	21,853	20,378
Depreciation and amortization	4,808	5,644
Interest and dividend income	(306)	(643)
Interest expenses	287	837
Share of loss (profit) of investments accounted for using equity method	(246)	(278)
Loss (gain) on sale and retirement of property, plant and equipment, and intangible assets	(2,198)	49
Decrease (increase) in inventories	(1,928)	(137)
Decrease (increase) in trade and other receivables	(12,145)	(11,813)
Increase (decrease) in trade and other payables	435	(1,732)
Increase (decrease) in retirement benefit liability	117	(226)
Increase (decrease) in provisions	(1,918)	83
Other	1,329	5,169
Subtotal	10,089	17,329
Interest received	222	619
Dividends received	72	84
Interest paid	(327)	(601)
Income taxes paid	(4,950)	(4,025)
Net cash provided by operating activities	5,105	13,406
Cash flows from investing activities		
Net decrease (increase) in short-term investment securities	5,644	(569)
Purchase of property, plant and equipment	(4,585)	(5,258)
Proceeds from sale of property, plant and equipment	1,776	67
Purchase of intangible assets	(456)	(426)
Purchase of investment securities	(219)	(47)
Payments for sale of investments in subsidiaries	—	(57)
Payments for loans receivable	(215)	(5,779)
Other	(477)	(2,014)
Net cash provided by (used in) investing activities	1,466	(14,086)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(415)	9,536
Repayments of long-term borrowings	(7,027)	(11,471)
Proceeds from issuance of shares	—	1,600
Dividends paid	(7,055)	(7,376)
Dividends paid to non-controlling interests	(298)	(448)
Other	(156)	(1,351)
Net cash used in financing activities	(14,953)	(9,511)
Effect of exchange rate changes on cash and cash equivalents	(1,790)	778
Net decrease in cash and cash equivalents	(10,171)	(9,413)
Cash and cash equivalents at beginning of period	101,876	129,633
Cash and cash equivalents at end of period	91,704	120,220

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Segment information)

(1) Summary of reportable segments

The reportable segments of the Group categorize the business composition of the Group for which separate financial information is available and are subject to periodical evaluation by the Board of Directors, which is highest decision-making body, 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, North America, 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."

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

(2) Performance by reportable segment

For the Three Months Ended March 31, 2018 (From January 1, 2018 to March 31, 2018)

	Reportable segment				Other	Total	Adjustment (Note)	(Million yen)
	Japan	Asia	Americas	Subtotal				Condensed quarterly consolidated financial statements
Revenue								
Revenue from external customers	42,954	84,409	17,932	145,296	3,873	149,170	—	149,170
Intersegment revenue	8,892	640	49	9,582	181	9,764	(9,764)	—
Total	51,847	85,049	17,982	154,879	4,054	158,934	(9,764)	149,170
Segment profit	12,132	12,079	930	25,142	132	25,274	(3,347)	21,926
Finance income								614
Finance costs								(934)
Share of profit of investments accounted for using equity method								246
Profit before tax								21,853

Note: Adjustments to "intersegment revenue" and "segment profit" are primarily due to intersegment eliminations.

For the Three Months Ended March 31, 2019 (From January 1, 2019 to March 31, 2019)

	Reportable segment				Other	Total	Adjustment (Note)	(Million yen)
	Japan	Asia	Americas	Subtotal				Condensed quarterly consolidated financial statements
Revenue								
Revenue from external customers	43,843	82,484	17,514	143,842	3,517	147,359	—	147,359
Intersegment revenue	6,218	859	45	7,123	207	7,330	(7,330)	—
Total	50,061	83,343	17,560	150,965	3,725	154,690	(7,330)	147,359
Segment profit	9,623	11,494	629	21,747	(92)	21,654	(1,524)	20,129
Finance income								946
Finance costs								(976)
Share of profit of investments accounted for using equity method								278
Profit before tax								20,378

Note: Adjustments to “intersegment revenue” and “segment profit” are primarily due to intersegment eliminations.

(3) Information on products and services

For the Three Months Ended March 31, 2018 (From January 1, 2018 to March 31, 2018)

	(Million yen)				
	Japan	Asia	Americas	Other	Total
Paint business	40,755	82,821	17,202	3,641	144,420
Automotive paint	11,533	18,487	7,151	3,561	40,733
Trade-use paint	10,557	54,610	10,017	—	75,184
Industrial paint	9,521	6,449	—	78	16,050
Other paint	9,142	3,274	34	0	12,451
Fine chemical business	2,199	1,587	729	231	4,749
Total	42,954	84,409	17,932	3,873	149,170

For the Three Months Ended March 31, 2019 (From January 1, 2019 to March 31, 2019)

	(Million yen)				
	Japan	Asia	Americas	Other	Total
Paint business	41,679	81,018	16,721	3,354	142,774
Automotive paint	11,933	16,490	6,741	3,249	38,414
Trade-use paint	10,966	54,286	9,942	—	75,195
Industrial paint	9,990	6,509	—	101	16,601
Other paint	8,788	3,733	36	4	12,563
Fine chemical business	2,163	1,465	793	162	4,585
Total	43,843	82,484	17,514	3,517	147,359

(Significant subsequent events)

Based on a resolution of the board of directors, the Company has decided on April 17, 2019 to acquire 100% of the outstanding shares of DuluxGroup Limited (hereinafter referred to as “Dulux”) listed on the Australian Securities Exchange (hereinafter referred to as the “Share Acquisition”), which is a leading marketer and manufacturer of premium branded paint & coating and home improvement products mainly in Australia and New Zealand (hereinafter referred to as “ANZ”), and to commence the procedures for acquisition of ownership of Dulux. On the same date, the Company entered into a scheme implementation deed (hereinafter referred to as “SID”) with Dulux that sets forth the content of the agreement regarding the Share Acquisition.

(1) Overview of the acquiree

Name	DuluxGroup Limited
Description of business	Marketer and manufacturer of premium branded paint & coatings and home improvement products
Total assets	AUD 1,325 million (Fiscal year ended September 30, 2018)
Sales revenue	AUD 1,844 million (Fiscal year ended September 30, 2018)
Income	AUD 149 million (Fiscal year ended September 30, 2018)

(2) Reason for the Share Acquisition

Although the ANZ paints market is an attractive market that continues to grow steadily even in developed countries, Dulux has the largest share of the ANZ paints market. Dulux is a leading company in ANZ with a wealth of iconic brands especially in the decorative paint segment and continues to expand its market share ahead of the No. 2 ranking player. Therefore, it is expected that the Share Acquisition will further strengthen the business foundation of the Company, since the Share Acquisition enables the Company to secure a strong position in the decorative paint business, which has a great demand for paints in the world and high potential for growth, and to balance the Company’s portfolio in both fast-growing regions and stable-growth expected regions, and will greatly contribute to the progress of the medium-term management plan of the Company. Therefore, the Company decided to conduct the Share Acquisition.

(3) Schedule of the Share Acquisition

Mid-August 2019 (estimated)

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

Shares acquired	389,250,252 shares
Acquisition price	JPY 300,501 million (AUD 3,756 million)
Shareholding percentage	100%

The acquisition price is the total amount expected to be paid by the Company in cash (AUD 9.65 per share of ordinary shares) out of the expected amount to be paid to Dulux shareholders as consideration for the Share Acquisition in the SID entered into on April 17, 2019. Apart from such acquisition price to be paid by the Company to Dulux shareholders, Dulux is planning to pay AUD 0.15 per share as an interim dividend for the fiscal year ending September 30, 2019 by the implementation date; therefore, Dulux shareholders will be receiving AUD 9.80 in total as consideration for the Share Acquisition. In addition, Dulux had planned to pay special dividends up to AUD 0.26 per share by the implementation date, but on May 15, 2019, Dulux announced that it would pay AUD 0.28 per share. If an interim dividend of more than AUD 0.15 per share or a special dividend is paid, such amount will be deducted from the acquisition price of AUD 9.65 payable by the Company to Dulux shareholders as consideration for the Share Acquisition. The acquisition price of Dulux ordinary shares is calculated by converting the amount of money in consideration of the Dulux ordinary shares into JPY 80/ AUD.

(5) Funding and payment methods

Funding method	Borrowings (planned)
Payment method	Cash