Management Philosophy

Mission
The leading brand bringing colors & joy to everyday life through innovative coating solutions

* This "Mission" of our Group also represents the reason why we exist in society and will never change over time. The expression may vary with the times but the core is always same.

Vision
To be the industry leader driven by passionate people using our strong business foundations to create value & inspire all stakeholders

* This "Vision" shows the direction of the Group and is linked with the immediate targets as well as the state we would like to be in 2030 as specified in the management plan.

Value
Mutual prosperity
To achieve long-term growth and mutual prosperity with all of our stakeholders through unmatched performance and constant improvement

A pioneering spirit
To sustain the pioneering spirit that led us to become a leader in the global paint industry and constantly pursue innovation and excellence

Perseverance
To achieve our mission with unwavering perseverance, dynamism and initiative

* This "Value" is always shared by all employees to realize the Mission and the Vision. They should keep it in mind when taking an action.

Established in January 2018

In addition to the above, we specify "Way," the action guidelines that should be followed by employees to realize the Mission and the Vision, which are published in our website: (https://www.nipponpaint-holdings.com/company/vision/)

Editorial Policy
With this report, we aim to properly inform shareholders, investors, and other stakeholders of the management philosophy of the Nippon Paint Holdings Group, as well as its business strategy and initiatives to improve our corporate value, and show the way to become the leading company committed to continuously creating new values, which is the state that we would like to be in the future.

The period covered and scope of the report
This report covers the fiscal year ending December 31, 2017 (January 1 to December 31, 2017). However, some information from before and after the period is also included in the report as necessary. Unless specifically mentioned, the scope for compiling data is the same as the scope of consolidation.

Name: Nippon Paint Holdings Co., Ltd.
Head Office: 2-1-2 Oyodo-Kitamoto, Kita-ku, Osaka 531-8511 Japan
Tel: (+81) 6-6456-1111
Founded: March 14, 1881
Capital: 78,862 million yen
Number of Employees: 230 (Consolidated: 20,257)
(as of December 31, 2017)
Representative: Tetsuhisa Tado, President & CEO
Business contents: (Nippon Paint Holdings)
Establishment of group strategies and management of group companies
Operating companies
Manufacturing and sales of paints and fine chemicals

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CSR Management
History and Development of Eco-Friendly Products
For the Global Environment and Safety
Promotion of Responsible Care Activities / Prevention of Global Warming /
Value Reduction and Zero Waste / Comprehensive Management of Chemical Substances /
Occupational Health and Safety
Living with Society
Maintenance and Improvement of Product Quality /
Supply Chain Management / Employee Engagement /
Contributions to Local Communities and International Society
Corporate Governance

Background of the establishment of the new management philosophy
We transitioned to a holding company system in 2014 and consolidated the joint ventures in Asia. While a major structural change was made, this transition also increased the percentage of non-Japanese employees, which now account for 85% of about 20,000 employees in total. In this situation, we redefined our management philosophy in a way that it serves as the compass showing a direction for the company. The dissemination of the philosophy is also significant for group governance and compliance. The state that the Group would like to be in 2030 and the state that the Group should become in 2020 are based on the management philosophy.
Management Philosophy

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**Value**
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  To achieve long-term growth and mutual prosperity with all of our stakeholders through unmatched performance and constant improvement
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  To sustain the pioneering spirit that led us to become a leader in the global paint industry and constantly pursue innovation and excellence
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Business Activities

Nippon Paint Holdings Group operates a paint business and a fine chemicals business. We are a comprehensive paint manufacturer that offers a broad variety of products and services, ranging from high-quality and high-functionality paints, including eco-friendly types, to pre-treatment agents for painting treatment agents that provide functionality to thin films, and systems proposals to improve the efficiency of the painting process.

Paint Business

Trade-use paints and house paints

We provide paints widely used at various construction sites such as houses, buildings, and bridges. In addition to eco-friendly paints, we are also a major supplier of paints used for structural purposes.

Automotive coatings

Our product lineup includes paints with high quality and performance for all steps of the car body coating process, ranging from undercoating to middle-coating and top-coating, and supply them to global car manufacturers.

Fine Chemicals Business

Acquisition of Dunn-Edward Corporation, a US paint manufacturer, as a wholly owned subsidiary

While we continued to operate a paint business in the United States, we have acquired the company as a base to develop a construction paint business in the country.

Acquisition of CRF, a Chinese paint manufacturer, as a consolidated subsidiary

We have entered the business of paints for coating wooden furniture at factories in response to the growth of the market.

Our original color “Kuro” was adopted for “DPFNERO,” a new model of taxi. We developed this deep blue color with a concept of a symbol of the city and the future of life in Japan that also symbolizes the country. For this product, we received Project Commendation Chief Engineer (O2) Special Award from Toyota Motor.

Surface treatments

Surface treatments are required in a wide range of industrial sectors. We develop advanced products, such as surface treatments with an affinity for paints and functional thin-film paints that satisfy various customer needs.

Fine products

We work to offer paint products that meet social needs and help solve problems from a global perspective. We develop advanced products such as UV-curable coating materials and ultrathin organic particles.

Industrial coatings

We provide pre-coat and post-coat paints, as well as eco-friendly paints including powder paints containing no solvent, to a wide range of industries such as construction machinery, agricultural machinery, exterior building materials, office equipment, and home electronic products. We will also continue to expand our business activities in Asia.

Marine coatings

We develop and market advanced paints that achieve both environmentally friendliness and cost reduction, such as ultra-low fuel consumption antifouling paints that comply with global environmental regulations in the shipbuilding and marine industry.

Auto refinish paints

Applying cutting-edge technologies cultivated for coating new cars, we have developed proprietary paints appropriate for refueling. These paints help reduce environmental impact and improve the efficiency of the refueling process.

Fine Chemicals Business

Surface treatments

We launched new products of Surface AP1, a degreasing and antifouling treatment with a self-clearing function, and Sunchemical® 1954D, a hydrophilic and hydrophobing treatment with a property to let water drip down.

“CO2DFR” to add a new function that is the first of its kind in order to help customers improve their productivity and develop human resources.

The lineup of our next-generation water-based paints “Yafu-CURE-VBF” now includes primary colors dedicated to painting for sophisticated designs such as Soul Red Crystal Metallic for Mazda. We have also updated our computer-based color mixing system.

Marine coatings

In response to the tightening of environmental regulations, such as the start of regulation on sulfur compounds in 2020, we have adopted a product strategy that considers the environment.

High-speed 4ZI series of rail-rod antifouling paints for ship bottoms have a water-topping function based on a biomimetic technology developed with an inspiration from the skins of tuna and dolphins to reduce CO2. We will introduce this technology into products in the volume zone to further reduce environmental impact.

Auto refinish paints

Applying cutting-edge technologies cultivated for coating new cars, we have developed proprietary paints appropriate for refueling. These paints help reduce environmental impact and improve the efficiency of the refueling process.

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Industrial coatings

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Nippon Paint Holdings Group has developed its business activities throughout Asia in partnership with Singapore’s Wuthelam Group for more than 50 years. This unique management model drives the growth of our Group and also generates synergy with our operating companies in Japan to enhance the value of the Group as a whole. Our Group aims to introduce the model to create values based on the synergy of domestic businesses with the NIPSEA* business globally in order to achieve the medium-term management plan and our "Mission."

* NIPSEA: Abbreviation for Nippon Paint South East Asia, which manages businesses in Asia

Priority Issues to Maximize Shareholders’ Value

In our approach, we identify the state that the Group would like to be in 2030, as well as the state that the Group should become in the near future as a stage to achieve the goal, examine what we must do to realize them in a strategic manner, and aim to surely implement the activities. We consider that our Group should solve four major challenges to achieve its "Mission" amid dramatic changes in the paint industry as well as the environment surrounding the industry. In particular, while environmental regulations have been tightened on a global scale in recent years, it is essential for the Group to respond to environmental regulations and expand and disseminate eco-friendly products as a paint manufacturer. We also consider that the dissemination of products that help conserve the environment will provide new values to society and enhance the value of the Group.

Nippon Paint Holdings Group has expanded its organization globally since 2015. We will enhance the value of the Group through the implementation of management at a higher speed and governance on a global scale at the same time and through the promotion of the establishment of a system that supports the diversity of human resources and work style reforms.

Strengths of the Nippon Paint Holdings Group

The strengths of the Group in the paint industry are a strong presence established in the regions and businesses with high growth potential from a global perspective, along with stable earnings bases. More specifically, we have developed solid bases with a strong brand and sales network in Asia, especially China, which has a large market and high growth potential. The building paint business in China, in which we have established a strong presence, has the largest market size and high growth potential and will continue to drive our growth as an earnings base.

With respect to our businesses in Japan, although dramatic growth cannot be expected, they serve as stable earning bases to support the Group as a whole. We secure stable earnings in the mature market especially through quality assurance and cost reduction at each of the product design, material procurement, and product production stages.

Unique management model

We recognize that our growth in the Asian business, which is the backbone of our Group, is driven by our unique management model called "NN model," which came from the initials of Nippon Paint Holdings and the NIPSEA Group. While continuously improving the components of this model, we will introduce it into other regions where the Group operates its business other than Asia, i.e., on a global scale, in the future. Attaching importance to regional management based on the proper governance of regional headquarters by the global headquarters, we aim to ensure that the "region x business" matrix management is achieved in a healthy and autonomous manner in each region. We believe that this will build a strong collaboration system, enable optimal allocation of management resources worldwide, and speed up the implementation of management in each region.
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Medium-term Management Plan "N-20"

Nissan Paint Holdings Group announced a new medium-term management plan "N-20" for the years 2018 to 2020 in May 2018. The plan sets the goal of promoting the growth of the Group and solidifying its outstanding performance in Asia. N-20 presented the Group's medium/long-term management policy. The plan sets the "leading company committed to continuously creating new values" as the goal that the Group would like to achieve in 30 years and requires the Group to become the top leader in all business domains and regions. The plan includes the following initiatives:

1. Accelerate overseas expansion
2. Improve earnings capacity
3. Enhance the structure of "Global One Team"

Business Plan for FY2018

We aim to continuously work to grow mainly through the expansion of the trade-use paint business and the automotive paint business. The trade-use paint business is an area for further growth in the market of paints for housing interior sectors in China, which is our core region where we have the largest share, through the use of our strong brand and nationwide sales network to create and stimulate the demand. We will also work to further increase demand in Southeast Asia, in which our Group has a large share, and other Asian countries. In the Americas, we will expand our business through the platform of Dunn-Edwards Corporation, a US construction paint manufacturer, which was converted into a wholly-owned subsidiary in March 2017.

In the automotive paint business, we will actively approach both Japanese and non-Japanese manufacturers. We will promote the expansion of our share and the creation and stimulation of demand in China and other Asian countries to enhance our presence in these markets. In the Americas and Europe, in which car production volume is forecast to grow steadily, we will focus our efforts on increasing our share in the automotive paint market.

Other regions will be focused on achieving the following goals:

1. Accelerate overseas expansion
2. Improve earnings capacity
3. Enhance the structure of "Global One Team"

Key Initiatives

- 1. Strengthen the businesses in existing segments
- 2. Accelerate expansion of the portfolio
- 3. Improve earning capacity
- 4. Enhance the structure of "Global One Team"

Tasks and Measures for the Future

- **Optimization of global governance**
  - Establish a more effective global corporate governance framework for the Nissan Paint Holdings Group, involving the eight joint venture companies in Asia converted into consolidated subsidiaries in 2014.
  - Collaboate with functional departments globally
  - Deploy the GNI model on a global scale

- **Strengthening of the businesses in existing segments**
  - Accelerate growth in each business segment

**TOPICS**

- We set up M&A Committee
  - In 2018, chaired by the Chairperson of the Board of Directors, M&A Committee was established and started to be operated with President & CEO and two outside directors as the members. As an advisory body that submits suggestions to the Board of Directors, the committee examines and discusses all of the individual M&A cases for the Group in terms of the details, possibility of generating synergy, and PMI. With an expert in M&A-related corporate laws and an expert who has handled many cross-border M&A cases included in the members. M&A Committee conducts active discussions while giving priority to cases in China and other Asian countries. The committee also examines the cases in other regions that help maximize shareholders’ value or fit our business strategy in a proactive manner.

- **Continue to grow mainly through the expansion of the trade-use paint business**
  - (unit: 100 million yen)
  - **FY2017**
    - Paint Business
      - 1,484
    - Fine Chemicals Business
      - 189
    - Total
      - 1,673
  - **FY2018**
    - Paint Business
      - 1,553
    - Fine Chemicals Business
      - 209
    - Total
      - 1,762

- **Continue to grow especially in Asia**
  - (unit: 100 million yen)
  - **FY2017**
    - Japan
      - 1,759
    - Asia
      - 3,470
    - America
      - 682
    - Others
      - 141
    - Total
      - 6,052
  - **FY2018**
    - Japan
      - 1,775
    - Asia
      - 3,600
    - America
      - 780
    - Others
      - 145
    - Total
      - 6,602

**Notes**

- *Operating income* includes M&A and realignment income (excluding dividends from overseas group companies).
Medium-term Management Plan "N-20"

Nippon Paint Holdings Group announced a new medium-term management plan "N-20" for the years 2018 to 2020 in May 2018. Designed to promote the global growth of the Group and solidify its outstanding presence in Asia, N-20 presented the Group's medium-long-term management policy. The plan sets "the leading company committed to continuously creating new values" as the state that we would like to be in 2030 and requires the Group to "become the top leader in all business domains and regions" as the state that it should be in 2020 as a step to realize the ultimate goal based on the "Future Pull" approach. To this end, we will (1) strengthen the businesses in existing segments, (2) accelerate expansion of the portfolio, (3) improve earnings capacity, and (4) enhance the structure of "Global One Team," as the four key initiatives in accordance with the conditions of each business domain/region. We will also maximize the values provided to all stakeholders in all business domains and regions. Through the steady implementation of this plan, we aim to achieve net sales of 750 billion yen and an operating margin of 14% in fiscal 2020.

Group Medium/Long-term Management Policy

The state that we would like to be in 2030
The Leading company committed to continuously create new value
Moving towards the goal
Future Pull

The state that we should be in 2020 according to the medium-term management plan for 2018
Become the top leader in all business domains and regions
Net sales target of 750 billion yen in 2020
Maximization of value provided to all stakeholders ➔ Maximization of shareholders' value

Consolidated Earnings Plan for 2018-20

Business Plan and Expansion Measures for FY2018

Business Plan
We will continuously work to grow mainly through the expansion of the trade-use paint business and the automotive paint business. In the trade-use paint business, we aim for further growth in the market of paints for housing interior sectors in China, which is our core region where we have the largest share, through the use of our strong brand and nationwide sales network to create and stimulate the demand. We will also work to further increase demand in Southeast Asia, in which our Group has a large share, and other Asian countries. In the Americas, we will expand our business through the platform of Dunn-Edwards Corporation, a US construction paint manufacturer, which was converted into a wholly-owned subsidiary in March 2017. In the automotive paint business, we will actively approach both Japanese and non-Japanese manufacturers. We will promote the expansion of our share and the creation and stimulation of demand in China and other Asian countries to enhance our presence in those markets. In the Americas and Europe, in which car production volume is forecast to grow slowly, we will focus our efforts on increasing our share in the automotive paint market.

On the other hand, it is anticipated that the prices of raw materials will remain challenging and we will continue our efforts to reduce costs and sales management expenses in order to secure profits.

As a result of the above factors, our outlook for consolidated business performance in fiscal 2018 is net sales of 650 billion yen and operating income of 78 billion yen. In the meantime, we will promote the optimization of global governance and the maintenance of balance between different regions and business segments, which underlie our activities to pursue the plan, from a medium/long-term perspective.

Continue to grow mainly through the expansion of the trade-use paint business

Continue to grow especially in Asia

Key Initiatives

Implement the following key initiatives 1 to 3 by operating the "Global One Team"

1. Strengthen the businesses in existing segments
   - Increase share
   - Enhance strengths
   - Accelerate growth in each business segment

2. Accelerate expansion of the portfolio
   - Generate growth momentum
   - Achieve synergistic effects early
   - Implement M&A and accelerate PMI

3. Improve earning capacity
   - Increase operating income
   - Efficiently use management resources
   - Achieve an operating margin of 14% after growth investment

4. Enhance the structure of "Global One Team"
   - Reinforce regional management with "Region x Business"
   - Collaborate with functional departments globally
   - Deploy the GNI model on a global scale

Tasks and Measures for the Future

Optimization of global governance

Establish a more effective global corporate governance framework

For the Nippon Paint Holdings Group, involving the eight joint venture companies in Asia converted into consolidated subsidiaries in 2014.

Measures: In consideration of the increasing complexity of the situation, we have divided our relationships between regional governance systems and business-based global management systems, we have begun to review the authority and responsibility for governance and management on regional and business bases.

We will continue to promote M&A, develop products that satisfy environmental regulations, and enhance our supply chain for differentiation from competitors.

Strengthening of the businesses in existing segments

Accelerate growth in each business segment

We aim to further increase our market shares in the trade-use paint business in China and other Asian countries, in which we already have large shares, by spending up the dissemination of our brand and improving our one-stop services.

In addition, we will promote M&A, develop products that satisfy environmental regulations, and enhance our supply chain for differentiation from competitors.

TOPICS

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In 2018, chaired by the Chairman of the Board of Directors, M&A Committee was established and started to be operated with President & CEO and two outside directors as the members. As an advisory body that submits suggestions to the Board of Directors, the committee examines and discusses all of the individual M&A cases for the Group in terms of the details, possibility of generating synergy, and PMI. With an expert in M&A-related corporate laws and an expert who has handled many cross-border M&A cases included in the members, M&A Committee conducts active discussions while giving priority to cases in China and other Asian countries. The committee also examines the cases in other regions that help maximise shareholders’ value or fit our business strategy in a proactive manner.

Nippon Paint Holdings Integrated Report 2018 08
We aim to become a real global company as a "Global Paint Major"

Completion of the Mid-term Management Plan “Survival Challenge III”
Nippon Paint Holdings Group announced its new management philosophy in January 2018. In consideration of the current situation where overseas employees represent more than 85% in the Group, we updated the management philosophy without losing our DNA in the previous philosophy with an aim to share common awareness among all Group employees not only in Japan but also worldwide through the new philosophy.

As to our mid-term management plan “Survival Challenge,” we have completed the stage III-1 for the years 2015 to 2017. Following the six years of Stages 1 and 2, in which we worked to establish a sustainable profitable structure, the three years from 2015 to 2017 was positioned as the first part of Stage III, targeting net sales of 700 billion yen and an operating margin of 15% or more in fiscal 2017. As a result, we almost reached the target net sales when the influence of exchange rates was excluded but failed to meet the target operating margin in fiscal 2017 with the impact of soaring prices of raw materials due to environmental regulations in China and other reasons although the target was met in fiscal 2016.

In the meantime, we have established a strong regional portfolio based on Asia, which is a growing market, as a result of the consolidation of joint ventures that we have developed in Asia as well as commitment to the expansion of our business through M&A and other measures mainly in China. In America, we set up a business portfolio with focus on construction paints, which have high profitability and growth potential, as a result of the acquisition of Dunn-Edwards Corporation as a consolidated subsidiary. We increased our market share in the strategic business regions and areas and promoted the establishment of growth bases in the new structure after the consolidation of our Asia businesses while sowing seeds for growth, such as M&A activities, which are expected to increase our profit in the future. Thus, we proudly consider that we made significant achievements during these three years.

To become a leading company committed to continuously creating new values
The demand for paints in the world is currently estimated to be worth 15 to 16 trillion yen and expected to nearly double to around 30 trillion yen by 2030. This growth is led by Asia, especially China. It is obvious that China is important with the largest market and highest growth potential. To exploit the increasing demand for paints and survive the competition, we have to adapt to any changes. Nippon Paint Holdings Group aims to become a “leading company committed to continuously creating new values” as the state we would like to be in 2030 and launched the medium-term management plan “N-20” to meet the target of establishing a position that is high enough to compete with global top companies by 2020 as a step to achieve the goal.

In the medium-term management plan “N-20,” we position the period from 2018 to 2020 as “3 years for growth acceleration” and strive to establish an overwhelming position in Japan and other Asian countries, our home region, as a global paint major from Asia to accelerate our growth worldwide. We aim to achieve net sales of 750 billion yen and an operating margin of 14% (based only on existing businesses and excluding new acquisitions, etc.) in 2020, the final fiscal year for the plan. The reorganization of the global paint industry, as well as oligopoly controlled by the top manufacturers, is making steady progress and the speed of such market reorganization toward oligopoly is expected to become faster than ever. In any case, we have to establish a system and position to compete globally by 2020 in order to reach the goal in 2030 while the market is further expanding. Under such circumstances, Nippon Paint Holdings Group aims to establish an overwhelming position through the comprehensive strengthening of its existing businesses in Asia, in which we have conventionally operated and expanded our businesses, under the current medium-term management plan.

Meanwhile, in the regions outside Asia, we will work to enhance the earnings bases of our existing businesses. In addition, in Europe and the United States, we will seek the establishment of a regional headquarters (RHQ) system and stabilization of its operations in order to further enhance the system in the geographical segments.

Key Initiatives of the medium-term management plan “N-20”
1. Strengthen the businesses in existing segments
2. Accelerate expansion of the portfolio
3. Improve earning capacity
4. Enhance the structure of “Global One Team”

Strengthening of the existing segments to thoroughly achieve the medium-term management plan starting in 2018
We have identified the key initiatives to thoroughly achieve the medium-term management plan “N-20.” Especially to "strengthen the businesses in existing segments," we will further enhance and expand our core businesses in China and other Asian countries, in which we already have a large share. For example, we will take measures to further disseminate the Nippon Paint China brand in China and the Nippon Paint brand in other Asian countries. As exemplified by the woodworking paint business for coating furniture at factories in China, which was consolidated in 2017, we will flexibly respond to market and demand changes such as lifestyle changes. We assume that the tightening of environmental regulations in China will give the Nippon Paint Holdings Group a unique opportunity to create an overwhelming competitive advantage. Since the Group owns high technological capacity for water-based paints, which are representative of eco-friendly products, we believe that we can solidify our leading position through the strengthening and acceleration of the development of new products and differentiation from competitors. We will also pay attention to regions other than Asia, in which we will enhance earnings bases of automotive paint and other existing businesses. With respect to the three main businesses, we will enhance the promotion of the automotive paint business not only with Japanese customers but also with non-Japanese customers more aggressively. Through this initiative, we continuously try to increase our share in order to become a global supplier for non-Japanese customers including European, US, and Chinese manufacturers while gaining the largest share on a global scale for Japanese customers. For industrial-use paints, we will work to increase our share with coils and transportation equipment as the core business segments and also aim to establish an overwhelming position in the powder coatings business, which has high demand. We will also introduce our unique management model (NN model), which drives our growth in Asia, globally so that we can establish a solid cooperative system and implement the management at a higher speed in each region and each business and optimize the resource allocation.
We aim to become a real global company as a "Global Paint Major"

The State That the "Global Paint Major" Aims To Be

Completion of the Mid-term Management Plan “Survival Challenge III”

Nippon Paint Holdings Group announced its new management philosophy in January 2018. In consideration of the current situation where overseas employees represent more than 85% in the Group, we updated the management philosophy without losing our DNA in the previous philosophy with an aim to share common awareness among all Group employees not only in Japan but also worldwide through the new philosophy. As to our mid-term management plan “Survival Challenge,” we have completed the stage III-1 for the years 2015 to 2017. Following the six years of Stages I and II, in which we worked to establish a sustainable profitable structure, the three years from 2015 to 2017 was positioned as the first part of Stage III, targeting net sales of 700 billion yen and an operating margin of 15% or more in fiscal 2017. As a result, we almost reached the target net sales when the influence of exchange rates was excluded but failed to meet the target operating margin in fiscal 2017 with the impact of soaring prices of raw materials due to environmental regulations in China and other reasons although the target was met in fiscal 2016. In the meantime, we have established a strong regional portfolio based on Asia, which is a growing market, as a result of the consolidation of joint ventures that we developed in Asia as well as commitment to the expansion of our business through M&A and other measures mainly in China. In America, we set up an business portfolio with focus on construction paints, which have high profitability and growth potential, as a result of the acquisition of Dunn-Edwards Corporation as a consolidated subsidiary.

We increased our market share in the strategic businesses and regions and also promoted the establishment of growth bases in the new structure after the consolidation of our Asia businesses while sowing seeds for growth, such as M&As that are expected to increase our profit in the future. Thus, we proudly consider that we made significant achievements during these three years.

To become a leading company committed to continuously creating new values

The demand for paints in the world is currently estimated to be worth 15 to 16 trillion yen and expected to nearly double to around 30 trillion yen by 2030. This growth is led by Asia, especially China. It is obvious that China is important with the largest market and highest growth potential. To exploit the increasing demand for paints and survive the competition, we have to adapt to any changes. Nippon Paint Holdings Group aims to become a “leading company committed to continuously creating new values” as the state we would like to be in 2030 and launched the medium-term management plan “N-20” to meet the target of establishing a position that is high enough to compete with global top companies by 2020 as a step to achieve the goal.

In the medium-term management plan “N-20,” we position the period from 2018 to 2020 as “3 years for growth acceleration” and drive to establish an overwhelming position in Japan and other Asian countries, our home region, as a global paint major from Asia to accelerate our growth worldwide. We aim to achieve net sales of 750 billion yen and an operating margin of 14% (based only on existing businesses and excluding new acquisitions, etc.) in 2020, the final fiscal year for the plan. The reorganization of the global paint industry, as well as oligopoly controlled by the top manufacturers, is making steady progress and the speed of such market reorganization toward oligopoly is expected to become faster than ever. In any case, we have to establish a system and position to compete globally by 2020 in order to reach the goal in 2030 while the market is further expanding. Under such circumstances, Nippon Paint Holdings Group aims to establish an overwhelming position through the comprehensive strengthening of its existing businesses in Asia, in which we have conventionally operated and expanded our businesses, under the current medium-term management plan.

Meanwhile, in the regions outside Asia, we will work to enhance the earnings bases of our existing businesses. In addition, in Europe and the United States, we will seek the establishment of a regional headquarters (RHQ) system and stabilization of its operation in order to further enhance the system in the geographical segments.

Strengthening of the existing segments to thoroughly achieve the medium-term management plan starting in 2018

We have identified the key initiatives to thoroughly achieve the medium-term management plan “N-20.” Especially to “strenthen the businesses in existing segments,” we will further enhance and expand our core businesses in China and other Asian countries, in which we already have a large share.

For example, we will take measures to further disseminate the Nippon Paint China brand in China and the Nippon Paint brand in other Asian countries. As exemplified by the woodworking paint business for coating furniture at factories in China, which was consolidated in 2017, we will flexibly respond to market and demand changes such as lifestyle changes. We assume that the tightening of environmental regulations in China will give the Nippon Paint Holdings Group a unique opportunity to create an overwhelming competitive advantage. Since the Group owns high technological capacity for water-based paints, which are representative of eco-friendly products, we believe that we can solidify our leading position through the strengthening and acceleration of the development of new products and differentiation from competitors. We will also pay attention to regions other than Asia, in which we will enhance earnings bases of automotive paint and other existing businesses. With respect to the three main businesses, we will enhance the promotion of the automotive paint business not only with Japanese customers but also with non-Japanese customers more aggressively. Through this initiative, we continuously try to increase our share in order to become a global supplier for non-Japanese customers including European, US, and Chinese manufacturers while winning the largest share on a global scale for Japanese customers. For industrial-use paints, we will work to increase our share with coils and transportation equipment as the core business segments and also aim to establish an overwhelming position in the powder coatings business, which has high demand.

We will also introduce our unique management model (NN model), which drives our growth in Asia, globally so that we can establish a solid cooperative system and implement the management at a higher speed in each region and each business and optimize the resource allocation.

Tetsushi Tado
President & CEO
Nippon Paint Holdings Co., Ltd.

Top Message
Future challenges and targets for ESG management

To achieve the state we would like to be in 2030, we have set targets from the perspective of ESG for the realization of a sustainable society along with the sustainable development of the Nippon Paint Holdings Group. These targets are set as priority management issues and incorporated into the strategy of the current medium-term management plan “N-20.” We will implement the initiatives to meet the targets steadily to help expand the businesses and profits as well.

Firstly, on the “E” (environmental) aspect, since paints are used in every scene of our life, we will work to create and disseminate products that address environmental problems in the areas related to all businesses handled by our Group including automotive, construction, industrial, and marine coatings and surface treatments. We will also help reduce the use of energy and substances of concern both in the paint production process of our Group and in the coating process at the plants of our customers.

Work style reforms to achieve the medium-term management plan

Nippon Paint Holdings promotes the development of culture, system, and mechanism to ensure that each employee takes responsibility for their own growth and can independently select their work styles to carry out their jobs, as well as the establishment of a cycle where the growth of employees leads to the growth of the company. To seriously move the company forward, while changing our organization, we also set up 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 “peretration of management philosophy,” “promotion of CSR/ESG management,” and “work style reforms and improvement of labor productivity.”

Work style reforms and the improvement of labor productivity are inseparable. It is not enough to build a system only, but it is important to achieve the expected results within certain working hours. We expect each employee to be actively committed to work style reforms, work efficiently to create surplus time, and use it for self-development to thereby enhance their individual abilities and value. The organization can also improve its functions by encouraging employees to work in a flexible manner and taking stock of the duties. We hope to achieve such a virtuous cycle where the improvement of the abilities of individuals leads to the growth of the organization through work style reforms.

We are now promoting the establishment of programs that allow employees to select from among diverse work styles to ensure that each employee can independently develop a sense of professionalism and make achievements. They include a program to take holidays for one full week (one-week holiday program) and the flexible working system, which have already been operated in Japan. We have also introduced a system for employees to take annual paid holidays by the hour and implemented the teleworking system on a trial basis. I believe that the company and individuals have to enhance their respective value and spare time to do it and the synergy will consequently reform the culture.

In conclusion, the Nippon Paint Holdings Group aims to provide a bigger fruit, or value, to stakeholders based on the nutrients, or fund, from the shareholders. In general, a company gives value to stakeholders based on various contractual relationships. I recognize that the maximization of the value returned to shareholders is our mission.

Our Group strives to become a “leading company committed to continuously creating new values” through all business activities. It means that we are always aware of the maximization of shareholders’ value when making management decisions or executing the management strategy. Based on it, the Group will strive to achieve the medium-term management plan with an aim to become a real global company that wins global competition.

I ask for your continued support.

Tatsumi Takao
President & CEO

Nippon Paint Holdings Integrated Report 2018
Future challenges and targets for ESG management

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To seriously move the company forward, while changing our organization, we also set up 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.”

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I ask for your continued support.
Financial Highlights for FY2017

Net sales

¥605.3 bn

Operating income

¥75.0 bn

Ordinary income

¥76.8 bn

Net income 1

¥37.1 bn

ROE

7.6%

Net income per share

¥116

Consolidated financial results by year

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016 (Jan-Dec)</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥6,053 bn</td>
<td>¥5,141 bn</td>
<td>¥5,357</td>
<td>¥2,606</td>
<td>¥2,606</td>
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<tr>
<td>Operating income</td>
<td>¥750</td>
<td>¥800</td>
<td>¥714</td>
<td>¥338</td>
<td>¥334</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>¥788</td>
<td>¥828</td>
<td>¥746</td>
<td>¥493</td>
<td>¥468</td>
</tr>
<tr>
<td>Net income 1</td>
<td>¥371</td>
<td>¥360</td>
<td>¥300</td>
<td>¥1,815</td>
<td>¥322</td>
</tr>
<tr>
<td>ROE (%)</td>
<td>7.6%</td>
<td>7.4%</td>
<td>6.3%</td>
<td>6.3%</td>
<td>18.1%</td>
</tr>
</tbody>
</table>

1. Profit attributable to owners of parent
2. Due to the booking of an extraordinary profit of ¥14.8 billion (gain on step acquisitions) in the third quarter of fiscal 2014 because of the consolidation of equity method affiliates in the Asian region
3. ROE is 0.7% when the extraordinary profit mentioned above (2) is subtracted from net income.

Consolidated sales by region

- Japan
  - Net sales: ¥1,799 bn
  - Operating income: ¥306
- Asia
  - Net sales: ¥3,470 bn
  - Operating income: ¥408
- Americas
  - Net sales: ¥828
  - Operating income: ¥322
- Others
  - Net sales: ¥141
  - Operating income: ¥126

* Excluding dividends from overseas Group companies

Consolidated sales by business segment

- Automotive coatings: ¥1,484 bn
- Paint Business: ¥3,088 bn
- Fine Chemicals Business: ¥189 bn

Investments and other expenses by year

- Capex: ¥248
- Depreciation: ¥178
- R&D expenses: ¥148

Consolidated cash flow by year

- Cash flow from operating activities: ¥793
- Cash flow from investing activities: ¥-1,007
- Cash flow from financing activities: ¥-114

* Disclosed results (period: Apr.-Dec. for Japan; Jan.-Dec. for overseas)
Financial Highlights for FY2017

### Net sales

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales (100 million yen)</td>
<td>¥605.3bn</td>
<td>¥569.4bn</td>
<td>¥530.5bn</td>
<td>¥504.4bn</td>
<td>¥482.1bn</td>
</tr>
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</table>

### Operating income

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income (100 million yen)</td>
<td>¥75.0bn</td>
<td>¥71.4bn</td>
<td>¥68.1bn</td>
<td>¥65.1bn</td>
<td>¥62.1bn</td>
</tr>
</tbody>
</table>

### Ordinary income

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary income (100 million yen)</td>
<td>¥76.8bn</td>
<td>¥74.8bn</td>
<td>¥72.3bn</td>
<td>¥69.5bn</td>
<td>¥66.8bn</td>
</tr>
</tbody>
</table>

### Net income

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income (100 million yen)</td>
<td>¥37.1bn</td>
<td>¥36.0bn</td>
<td>¥33.8bn</td>
<td>¥31.9bn</td>
<td>¥30.2bn</td>
</tr>
</tbody>
</table>

### ROE

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE (%)</td>
<td>7.6%</td>
<td>7.4%</td>
<td>7.0%</td>
<td>6.9%</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

### Investments and other expenses by year

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capex (100 million yen)</td>
<td>¥248bn</td>
<td>¥210bn</td>
<td>¥190bn</td>
<td>¥190bn</td>
<td>¥190bn</td>
</tr>
<tr>
<td>Depreciation (100 million yen)</td>
<td>¥178bn</td>
<td>¥135bn</td>
<td>¥162bn</td>
<td>¥162bn</td>
<td>¥162bn</td>
</tr>
<tr>
<td>R&amp;D expenses (100 million yen)</td>
<td>¥148bn</td>
<td>¥120bn</td>
<td>¥152bn</td>
<td>¥152bn</td>
<td>¥152bn</td>
</tr>
</tbody>
</table>

### Consolidated sales by region

<table>
<thead>
<tr>
<th>Region</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>¥1,799bn</td>
<td>¥1,716bn</td>
<td>¥1,743bn</td>
<td>¥1,872bn</td>
<td>¥1,875bn</td>
</tr>
<tr>
<td>Asia</td>
<td>¥3,470bn</td>
<td>¥2,978bn</td>
<td>¥3,174bn</td>
<td>¥439bn</td>
<td>¥457bn</td>
</tr>
<tr>
<td>Americas</td>
<td>¥682bn</td>
<td>¥322bn</td>
<td>¥332bn</td>
<td>¥258bn</td>
<td>¥236bn</td>
</tr>
<tr>
<td>Others</td>
<td>¥141bn</td>
<td>¥126bn</td>
<td>¥109bn</td>
<td>¥37bn</td>
<td>¥38bn</td>
</tr>
</tbody>
</table>

### Consolidated cash flow by year

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow from operating activities (100 million yen)</td>
<td>¥793bn</td>
<td>¥779bn</td>
<td>¥631bn</td>
<td>¥344bn</td>
<td>¥269bn</td>
</tr>
<tr>
<td>Cash flow from investing activities (100 million yen)</td>
<td>-¥1,007bn</td>
<td>-¥427bn</td>
<td>-¥53bn</td>
<td>-¥870bn</td>
<td>-¥72bn</td>
</tr>
<tr>
<td>Cash flow from financing activities (100 million yen)</td>
<td>-¥114bn</td>
<td>-¥86bn</td>
<td>-¥247bn</td>
<td>¥853bn</td>
<td>-¥210bn</td>
</tr>
</tbody>
</table>

* Excluding dividends from overseas Group companies
Initiatives to Support Our Corporate Values

CSR Management

History and Development of Eco-friendly Products

Environmental

For the Global Environment and Safety
P19 Promotion of Responsible Care Activities
P21 Prevention of Global Warming
Waste Reduction and Zero Emissions
P22 Comprehensive Management of Chemical Substances
P23 Air and Water Conservation
P24 Occupational Health and Safety

Social

Living with Society
P25 Maintenance and Improvement of Product Quality
P26 Supply Chain Management
P27 Employee Engagement
P31 Contributions to Local Communities and International Society

Governance

P35 Corporate Governance

CSR Management

Nippon Paint Holdings Group considers that ESG management is to supply new values to stakeholders through the practice of “mutual prosperity,” which is mentioned in the Group’s management philosophy.

In fiscal 2017, our Group selected materialities (crucial issues) for the realization of a sustainable society and the sustainable growth of Nippon Paint Holdings and set CSR targets based on the materialities.

Materiality (crucial issue) selection process

1. Identified the expectations of main stakeholders on our company as social demand.
2. Analyzed medium- and long-term management issues for our company and grasped crucial issues for the businesses.
3. Analyzed and classified 1. and 2. according to GRI Guidelines (G4) and grasped the crucial issues to be addressed by our Group in response to social demand.

- Evaluated the crucial issues grasped in STEP 1 comprehensively from the two aspects of “importance for stakeholders” and “importance for our Group” and prioritized them.

- Sorted out the results of STEP 2 and selected the crucial issues that our Group should preferentially tackle (materialities).

- Deliberated at Operating Committee of Nippon Paint Holdings, confirmed the adequacy of the materialities, and set CSR targets to be achieved by 2020.

Materiality matrix in Nippon Paint Holdings

<table>
<thead>
<tr>
<th>Importance for stakeholders</th>
<th>More important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importance for NPFHD</td>
<td></td>
</tr>
</tbody>
</table>

Identified materialities

- Governance
  - Alignment of environmental impact with products and services
  - Health and safety of customers (effort and design)
  - Labeling, Compliance (environment)
  - Diversity and equal opportunity
- Environment
  - Employment
  - Training and education
  - Occupational health and safety

Setting of CSR targets

We re-classified the identified materialities into three fields of governance, environment, and diversity and set the state that we would like to be in 2020 (targets) for each of the three fields.

<table>
<thead>
<tr>
<th>Aspect</th>
<th>State that we would like to be</th>
<th>Target for fiscal 2020 (State where they are achieved)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>- Share the new management philosophy</td>
<td>In global</td>
</tr>
<tr>
<td></td>
<td>- Establish RMQ management system</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Deploy the wisdom of global governance</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>In global</td>
</tr>
<tr>
<td>Environment</td>
<td>- Create and spread eco-friendly products</td>
<td>In global</td>
</tr>
<tr>
<td></td>
<td>- Proper management of chemical substances</td>
<td></td>
</tr>
<tr>
<td>Diversity</td>
<td>- &quot;Diversified knowledge&quot; by gathering diverse personnel</td>
<td>In global</td>
</tr>
<tr>
<td></td>
<td>- Collaboration among diverse personnel</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Decision-making should be done by diverse personnel</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Safe and secured workplace</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
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<td></td>
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Materiality (crucial issue) selection process

1. Identification and arrangement of crucial issues
   - Identified the expectations of main stakeholders on our company as social demand.
   - Analyzed medium- and long-term management issues for our company and grasped crucial issues for the business.
   - Analyzed and classified 1) and 2) according to GRI Guidelines (G4) and grasped the crucial issues to be addressed by our Group in response to social demand.
   - Evaluated the crucial issues grasped in STEP 1 comparatively from the two aspects of “importance for stakeholders” and “importance for our Group” and prioritized them.

2. Prioritization
   - Sorted out the results of STEP 2 and selected the crucial issues that our Group should preferentially tackle (materialities).
   - Deliberated at Operating Committee of Nippon Paint Holdings, confirmed the adequacy of the materialities, and set CSR targets to be achieved by 2020.

3. Selection of materialities Setting of CSR targets

Materiality matrix in Nippon Paint Holdings

| Importance for stakeholders | More important | Importance for NPHD |

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<table>
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<tr>
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<th>Issue</th>
<th>Target for Fiscal 2020 (State where they are achieved)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>Governance system capable enough to compete globally</td>
<td>In global</td>
</tr>
<tr>
<td></td>
<td>• Share the new management philosophy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Establish NHD management system (America, Europe, Asia)</td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td>Create value by dealing with environmental and expand businesses and earnings</td>
<td>In global</td>
</tr>
<tr>
<td></td>
<td>• Create and spread eco-friendly products</td>
<td></td>
</tr>
<tr>
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<td></td>
<td>• Decision-making should be done by diverse personnel</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Safe and secured workplace</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Secure personnel that are active to work in a worldwide level</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Zero serious accidents</td>
<td></td>
</tr>
</tbody>
</table>
History and Development of Eco-friendly Products

Initiatives to Disseminate Eco-friendly Products

Nippon Paint Holdings Group has selected “mitigation of environmental impact with products and services” as a materiality (crucial issue) in CSR management and set the promotion of development and dissemination of eco-friendly products as a CSR target to be achieved by 2020.

Key Initiatives for Environmentally Friendly Products

- **Reduction of hazardous materials**
- **Development of environmentally friendly products that also meet customer demand**
- **Energy saving**

**Reduction of hazardous materials**

The origin of the Nippon Paint Holdings Group dates back to the year 1878 when we successfully produced zinc oxide as a pigment for the first time in Japan to replace the hazardous lead white in face powder and reduce the impact on human bodies. When a paint business became more and more important, we also used to maintain the best appearance of ships, buildings, vehicles, etc. and protect the materials. Our Group recognized the importance of environmental protection early and has been actively committed to the reduction of the environmental impact of our business activities as well as the diffusion of environmentally friendly products based on technological innovations.

We announced "Global Environment Declaration" as our Basic Policy for Responsible Care in 1993 and joined the Japan Responsible Care Council (URCO) as a founder in 1995. Thus, we have worked to develop and disseminate environmentally friendly products with focus on the reduction of hazardous materials, energy saving, and other aspects for many years.

**Development of environmentally friendly products that also meet customer demand**

While environmental regulations have been tightened worldwide in recent years, regulations on chemical substances contained in paints have been also enhanced. Our Group considers that development of new environmentally friendly products and painting processes in response to such regulations will strengthen our operations.

In our automotive and industrial-use paint businesses, we develop water-based paints and powder paints that reduce VOC emissions from the painting process of customers, as well as painting processes that help reduce CO2 emissions, to meet customer demand and consider the environment at the same time.

In addition, we develop and market environmentally friendly products in a wide range of fields including thermal insulation paints for houses and road surfaces and hazardous material-free self-grinding fuel-saving antimuffling coatings for ship bottoms.

Nippon Paint Holdings Group will continuously contribute to environmental protection from various aspects through its paint business and enhance its competitiveness through such environmental activities.

**Energy saving**

**Aiming to Expand Businesses and Profits by Creating Values through Environmental Preservation Activities**

**Reduction of hazardous materials**

**Deployment of products in compliance with global standards**

Our China business is so important that we generate about 80% of the Group’s consolidated net sales in the country. Among the China businesses, the housing interior paint business, which is growing at an especially high rate, is the most focused business domain in China.

Since its advance to China in 1992, the Nippon Paint Holding Group has continuously increased its share in the business domain, taking advantage of its brand and sales network. A factor that supports the brand is the deployment of environmentally friendly products. In particular, housing interior paints are required to be safe and high-quality because they are used in the environment where people live.

Our Group deploys water-based paints containing less VOCs and formaldehyde so that customers can use them in various places including child’s room with a sense of security. The products are popular among the customers who seek safety and quality.

In the meantime, there have been growing calls to tighten environmental regulations, including those on control of dangerous substances and air pollution, in China in recent years. It is therefore likely that the demand for environmentally friendly products keeps growing.

Nippon Paint Holdings Group will continue to deploy products that customers can use with a sense of security.

**Energy saving**

**Commercialization of energy-saving paints for automobiles**

Nippon Paint Holdings Group conducts an automotive coating business worldwide including Japan, Asia, the American, and Europe.

In car production, coating is a process that occupies a large proportion of energy use and production time. Car manufacturers have therefore been committed to process saving and energy saving in the coating process in consideration of the environment.

Our Group also commercialized a 3-step coating system of solvent-based paints and started to supply it to car manufacturers in 2002. The 3-step coating system can reduce VOC emissions and energy consumption in the coating process because this coating system requires a baking step to dry the coating only once while conventional coating systems require the step twice.

We have also commercialized a 3-step coating system with water-based paints that can more significantly reduce VOC emissions, which has been adopted by car manufacturers that promote advanced environmental activities.

In comparison with solvent-based paints, the water-based 3-step coating evaporates more slowly and is susceptible to humidity and temperature, which can affect the appearance. Accordingly, the coating system is extremely difficult to handle and also requires sophisticated skills in the design.

The car industry, which is a key sector, is required to address environmental issues around the world. Demand for energy saving in the coating process is therefore expected to grow in a steady and continuous manner.

To achieve environmentally friendly technologies including those for the coating process and beautiful appearance at the same time, Nippon Paint Holdings is committed to the improvement of techniques for chip-free, scratch recovery, and other functions. We also work to develop products that play a key role in the future car industry including low-temperature curing paints for plastic.

In the automotive coating business, in addition to the water-based 3-step coating system, our Group makes efforts to develop technologies that play a key role in the future car industry including low-temperature curing paints for plastic, which reduces energy use, and environmentally friendly technologies including those for the coating process.
History and Development of Eco-friendly Products

Initiatives to Disseminate Eco-friendly Products

Nippon Paint Holdings Group has selected “mitigation of environmental impact with products and services” as a materiality (crucial issue) in CSR management and set the promotion of development and dissemination of eco-friendly products as a CSR target to be achieved by 2020.

Key Initiatives for Environmentally Friendly Products

- **Reduction of hazardous materials**
- **Energy saving**

**Development of environmentally friendly products that also meet customer demand**

While environmental regulations have been tightened worldwide in recent years, regulations on chemical substances contained in paints have also been enhanced. Our Group considers that development of new environmentally friendly products and production processes in response to such regulations will strengthen our operations. In our automotive and industrial-coating paint businesses, we develop water-based paints and powder paints that reduce VOC emissions from the production process of customers, as well as painting processes that help reduce CO₂ emissions, to meet customer demand and consider the environment at the same time. In addition, we develop and market environmentally friendly products in a wide range of fields, including thermal insulation paints for houses and road surfaces and hazardous material-free self-grinding fuel-saving anti-fouling coatings for ship bottoms. Nippon Paint Holdings Group will continuously contribute to environmental preservation from various aspects through its paint business and enhance its competitiveness through such environmental activities.

**Aiming to Expand Businesses and Profits by Creating Values through Environmental Preservation Activities**

**Deployment of products in compliance with global standards**

Our China businesses are so important that we generate about 80% of the Group’s consolidated net sales in the country. Among the China businesses, the housing exterior paint business, which is growing at an especially high rate, is the most focused business domain in China. Since its advance to China in 1992, the Nippon Paint Holding Group has continuously increased its share in the business domain, taking advantage of its brand and sales network. A factor that supports the brand is the deployment of environmentally friendly products. In particular, housing interior paints are required to be safe and high quality because they are used in the environment where people live. Our Group deploys water-based paints containing less VOCs and formaldehyde so that customers can use them in various places including child’s rooms with a sense of security. The products are popular among the customers who seek safety and quality. In the meantime, there have been growing calls to tighten environmental regulations, including those on control of dangerous substances and air pollution, in China in recent years. It is therefore likely that the demand for environmentally friendly products keeps growing.

Nippon Paint Holdings Group will continue to deploy products that customers can use with a sense of security.

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In car production, coating is a process that occupies a large proportion of energy use and production time. Car manufacturers have therefore been committed to process savings and energy saving in the coating process in consideration of the environment. Our Group also commercialized a 3-wet coating system of solvent-based paints and started to supply 6 to car manufacturers in 2002. The 3-wet coating system can reduce VOC emissions and energy consumption in the coating process because this coating system requires a baking step to dry the coating only once while conventional coating systems require the step twice. We have also commercialized a 3-wet coating system with water-based paints that can more significantly reduce VOC emissions, which has been adopted by car manufacturers that promote advanced environmental activities.

In comparison with solvent-based paints, the water-based 3-wet coating evaporates more slowly and is susceptible to humidity and temperature, which can affect the appearance. Accordingly, the coating system is extremely difficult to handle and also requires sophisticated skill in the design. The car industry, which is a key sector, is required to address environmental issues around the world. Demand for energy saving in the coating process is therefore expected to grow in a steady and continuous manner.

To achieve environmentally friendly technologies including those for the coating process and beautiful appearance at the same time, Nippon Paint Holdings is committed to the improvement of techniques for chirp prevention, scratch recovery, and other functions. We also work to develop products that play a key role in the future car industry including low-temperature curing paints for plastic. In the automotive coating business, in addition to the water-based 3-wet coating system, our Group makes efforts to develop technologies that play a key role in the future car industry including low-temperature curing paints for plastic, which reduces energy use, and environmentally friendly technologies including those for the coating process.
Promotion of Responsible Care Activities*

Under a Responsible Care management system based on our Basic Policy for Responsible Care, we implement a plan-do-check-act cycle (PDCA) for continuous improvement.

* Responsible Care activities are voluntary management activities of business operators that handle chemical substances. Measures related to the environment, safety, and health, such as environmental protection, waste and chlorine prevention, occupational health, and safety, chemical safety, and risks for improvement of all stages of the lifecycle from development to disposal. Nippon Paint Holdings Group has implemented the measures as part of the Responsible Care initiative in the Japan Responsible Care Council (JRC) to promote the implementation of the protocol in Japan, and has participated in Coating Care Initiatives, which are Responsible Care activities for coatings.

For the Global Environment and Safety

Responsible Care Organizational Structure

Considering that the understanding and management of the environmental impact and safety of chemical substances is an important duty for paint manufacturers, we have re-established a management system to expand the scope to include occupational health and safety and chemical and product safety, in addition to the environment, and conducted Responsible Care (RC) activities since fiscal 2010. We will encourage employees to act in an autonomous and independent manner in the activities oriented to their primary duties for efficient operation of the system while also continuously improving the system through the PDCA cycle.

RC Organizational Structure (2017)

<table>
<thead>
<tr>
<th>Setting of RC objectives/Targets</th>
<th>Design, implementation, and operation of a RC management program</th>
<th>Inspection and corrective/preventive actions</th>
<th>Management review</th>
</tr>
</thead>
<tbody>
<tr>
<td>PLAN</td>
<td>Action</td>
<td>Action</td>
<td>Action</td>
</tr>
</tbody>
</table>

Nippon Paint Holdings Group (in Japan)
- Nippon Paint Holdings (NPH)
- Nippon Paint Automotive Coatings (NPAC)
- Nippon Paint Industrial Coatings (NPIC)
- Nippon Paint (NP)
- Nippon Paint Surf Chemicals (NPSC)
- Nippon Paint Marine Coatings (NPAM)
- Nippon Trading (NT)

External review
- Internal RC audit

RC Committee

Company-wide results and their analysis

<table>
<thead>
<tr>
<th>Priority subjects</th>
<th>Targets</th>
<th>Company-wide results and their analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal management of RC activities</td>
<td>Implementation of activities by each company according to the RC manual as specified by the overall plan throughout a year</td>
<td>The target was achieved as the companies basically operated the activities as planned without major problems.</td>
</tr>
<tr>
<td>Environmental conservation</td>
<td>Reduction of CO2 emissions and energy consumption. The basic KPH is per unit reduction by 1%.</td>
<td>While some companies achieved improvement through the installation of new equipment and other measures, per unit results slightly increased overall.</td>
</tr>
<tr>
<td>Reduction of RC risks</td>
<td>Setting targets for reducing major risks based on the risk assessment of each company. The basic KPH is the achievement of zero disasters.</td>
<td>The companies promoted safety activities and worked to prevent accidents in response to intrinsic risks. As a result, a total of 14 accidents occurred in the Group in fiscal 2017, while 12 accidents, including one accident resulting in lost time, occurred in the previous fiscal year, which consisted of no accident resulting in lost time and 13 accidents without lost time. Although relatively minor accidents slightly increased, we managed to prevent major accidents.</td>
</tr>
<tr>
<td>Development of RC-related products and promotion of their use</td>
<td>Promotion of the development of process-shortening products, environmentally friendly products, and low VOC paints</td>
<td>The development of process-shortening products was advanced mostly as planned. The replacement of lead-containing paints and chromatization treatment products that are targeted for reduction with non-containing products was advanced steadily.</td>
</tr>
</tbody>
</table>

Environmental and Work Safety Management

Acquisition of ISO 14001 certification

Nippon Paint Holdings Group (in Japan) received ISO 14001 multi-certification for the seven companies in the Responsible Care structure and their subsidiaries. In November 2016, we underwent a renewal inspection in a revised version by an outside inspection body and received the certification with no non-compliance identified. We also received surveillance last year and obtained the certification. For the opportunities for improvement identified through the surveillance, we immediately took and completed measures and have confirmed that there is no problem in the operation after that.

Overseas management

Our Group provides active support to overseas companies for their health and safety activities. In Asia and China, action bodies on environmental and safety issues have been set up in the respective countries together with the regional headquarters and are supported by the Group to enable Group companies to establish improvement activities based on mutual assessment or self-assessment. While the safety and environmental levels on the sites have been steadily improved in comparison with last year, we are working to enhance mutual communication and share information to help solve the problems to the maximum extent.

In Europe and the Americas as well, we conduct environment-related audits and provide support for corrective actions on an as-needed basis in cooperation with domestic operating companies.
Promotion of Responsible Care Activities*

Under a Responsible Care management system based on our Basic Policy for Responsible Care, we implement a plan-do-check-act cycle (PDCA) for continuous improvement.

(Basic Policy for Responsible Care)
Based on the principle of actively contributing to Responsible Care activities*1 including environmental beautification and preservation through the creation of color and landscape and the protection of materials and resources in the business activities, the Nippon Paint Holdings Group is committed to the activities through the coordination of all organizations in the Group, including all employees, with awareness of the respective missions and responsibilities, aiming to contribute to the establishment of relationships based on mutual trust with the global community, local communities, and customers.

To this end, all of our business activities are required to follow the rules below:
1) We will endeavor to preserve the global environment and protect the ecosystem while striving to conserve energy and other resources in the course of all business activities.
2) We will promote the development of products with less environmental impact and technologies that help the products reduce such impact and will consider the impact of our products on the environment, safety, and health at all stages of their lifecycle from development to disposal.
3) We will work to reduce the environmental impact of our operations and ensure security and disaster prevention while striving to ensure the health and safety of local residents and employees.

Responsible Care Organizational Structure
Considering that the understanding and management of the environmental impact and safety of chemical substances is an important duty for paint manufacturers, we have re-established a management system to expand the scope to include occupational health and safety and chemical and product safety, in addition to the environment, and conducted Responsible Care (RC) activities since fiscal 2010. We will encourage employees to act in an autonomous and independent manner in the activities oriented to their primary duties for efficient operation of the system while also continuously improving the system through the PDCA cycle.

RC Organizational Structure (2017)

Setting of RC objectives/Targets

Inspect and corrective/preventive actions

Action

Analysis

Do

Plan

Management review

CSR Committee (Chaired by President)

Nippon Paint Holdings Group (in Japan)

- Nippon Paint Holdings (NPH)
- Nippon Paint Automotive Coatings (NAPAC)
- Nippon Paint Industrial Coatings (NIPIC)
- Nippon Paint (NPI)
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External review

Internal RC audit

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In Europe and the Americas as well, we conduct environment-related audits and provide support for corrective actions on an-as-needed basis in cooperation with domestic operating companies.
Prevention of Climate Change

Reduction of CO₂ emissions

The initiatives of the Nippon Paint Holdings Group (in Japan) to prevent global warming mainly aim to reduce energy use. We reduce energy use through meticulous daily efforts to reduce energy use, including the optimal use of various equipment and devices that consume power or gas, modification of the operating conditions of compressors, boilers, chillers, and other equipment on the production sites using large equipment, and strict temperature control of air conditioners and efforts to turn off the power of unused office equipment in the offices for indirect jobs. While CO₂ emissions increased in fiscal 2017, per unit emissions decreased and we consider that the initiatives mentioned above had a positive impact. We will continue to work to reduce CO₂ emissions.

Data on the emissions of greenhouse gases other than CO₂ are not disclosed because they are negligible.

* Scope of data collection: Former Nippon Paint Co., Ltd. before the spin-off for the data of FY2015, Nippon Paint Thai Co., Ltd., and Nippon Paint (Indonesia) for the data in FY2016 and FY2017
* Data collection period: April to December (three months only for FY2016)

Waste Reduction and Zero Emissions

Initiatives in FY2017

Using an electronic manifest system, which was also used in the previous fiscal year, the Nippon Paint Holdings Group (in Japan) made Group-wide efforts to reduce waste production and proper disposal of waste including effective use. In fiscal 2017, although our recycling activities covered all waste, the amount of waste generated increased year-on-year.

Breakdown of waste (FY2017)

<table>
<thead>
<tr>
<th>Category</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incinerator ash, dust</td>
<td>5.4</td>
<td>5.4</td>
<td>5.4</td>
<td>5.4</td>
<td>5.4</td>
<td>5.4</td>
</tr>
<tr>
<td>Incinerator ash, dust</td>
<td>1.417</td>
<td>1.417</td>
<td>1.417</td>
<td>1.417</td>
<td>1.417</td>
<td>1.417</td>
</tr>
<tr>
<td>Waste and sludge</td>
<td>316.2</td>
<td>316.2</td>
<td>316.2</td>
<td>316.2</td>
<td>316.2</td>
<td>316.2</td>
</tr>
<tr>
<td>Other waste from process</td>
<td>2,435.2</td>
<td>2,435.2</td>
<td>2,435.2</td>
<td>2,435.2</td>
<td>2,435.2</td>
<td>2,435.2</td>
</tr>
<tr>
<td>Total</td>
<td>2,705.6</td>
<td>2,705.6</td>
<td>2,705.6</td>
<td>2,705.6</td>
<td>2,705.6</td>
<td>2,705.6</td>
</tr>
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Comprehensive Management of Chemical Substances

Basic Approach

Paints contain various chemical substances originating from the raw materials and some of them can be harmful to the environment. Laws and regulations concerning chemical substances have become increasingly stringent globally in recent years. For the management of chemical substances, our Group Product Safety Committee, which is set up under the Responsible Care (RCI) Committee, makes discussions with Group companies and prepares management standards to standardize the handling of chemical substances and prevent incorrect operation.

Measures to Comply with Laws

We properly responded to legal changes made during fiscal 2017, including the revision of the Industrial Safety and Health Act, partial revision of the Cabinet Order for the Designation of Poisonous and Deteriorative Substances, and revision of the Chemical Substance Control Law. For our products containing the substances newly specified in the Ordinance on Prevention of Hazards Due to Specified Chemical Substances, we took additional measures such as modification of labelling and the issuance of Safety Data Sheets. We also take necessary measures to comply with the Poisonous and Deteriorative Substances Control Law because our products include 2-tert-butylyphenol and drug products containing the substance. We have not been required to take corrective actions by the competent ministry or authority as to this issue. The existing regulations on law volume or production volume new chemical substances in the Chemical Substance Control Law have been promulgated and we have notified it in the Group to get prepared for the enforcement in fiscal 2019.

Initiatives in FY2017

In fiscal 2017, as we did in the previous fiscal year, we obtained information via various channels to ensure that we can respond to legal changes on chemical substances on a global scale and also worked to improve the mechanism. We addressed notification and planning for the TSCA Inventory Reise, for which the deadline is the next fiscal year, and responded to the request made by the European Automobile Manufacturers’ Association (ACEA) to companies in the world for disclosure on the substances of very high concern of European Chemical Agency because the CAS number is not mentioned or is lacking for some of them.

We also made lists on regulatory movements on dangerous chemical products in China, draft revisions of government ordinances on chemical product management in Vietnam, and the outline of registry management of new chemical substances of other Asian countries including the Philippines, South Korea, and Taiwan.

In Japan, we gave support for hazardous material management, SDSs, and GHS label management in the operation of a new management system in response to the expansion of the backbone system in Group companies.

Use of lead compounds by year

PRTR Survey (total amounts for the Nippon Paint Holdings Group in Japan)
Environmental  For the Global Environment and Safety

Prevention of Climate Change

Reduction of CO₂ emissions

The initiatives of the Nippon Paint Holdings Group (in Japan) to prevent global warming mainly aim to reduce energy use. We reduce energy use through meticulous daily efforts to reduce energy use, including the optimal use of various equipment and devices that consume power or gas, modification of the operating conditions of compressors, boilers, chillers, and other equipment on the production sites using large equipment, and strict temperature control of air conditioners and efforts to turn off the power of unused office equipment in the offices for indirect jobs. While CO₂ emissions increased in fiscal 2017, per unit emissions decreased, and we consider that the initiatives mentioned above have had a positive impact. We will continue to work to reduce CO₂ emissions.

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<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tons</td>
<td>Tons</td>
<td>Tons</td>
<td>Tons</td>
<td>Tons</td>
<td>Tons</td>
</tr>
<tr>
<td>Total</td>
<td>7,205.6</td>
<td>8,645.1</td>
<td>8,412.4</td>
<td>7,781.9</td>
<td>7,504.8</td>
<td>7,205.6</td>
</tr>
<tr>
<td>Incinerator ash, dust</td>
<td>0.40</td>
<td>0.20</td>
<td>0.10</td>
<td>0.00</td>
<td>0.10</td>
<td>0.00</td>
</tr>
<tr>
<td>Waste oil and sludge</td>
<td>1,471.2</td>
<td>3,740.1</td>
<td>3,412.4</td>
<td>2,781.9</td>
<td>2,504.8</td>
<td>2,205.6</td>
</tr>
<tr>
<td>Sludge</td>
<td>2,435.2</td>
<td>5,804.8</td>
<td>5,604.8</td>
<td>5,004.8</td>
<td>4,804.8</td>
<td>4,604.8</td>
</tr>
<tr>
<td>Other</td>
<td>316.2</td>
<td>1,189.3</td>
<td>1,189.3</td>
<td>1,189.3</td>
<td>1,189.3</td>
<td>1,189.3</td>
</tr>
</tbody>
</table>

Comprehensive Management of Chemical Substances

Basic Approach

Pints contain various chemical substances originating from the raw materials and some of them can be harmful to the environment. Laws and regulations concerning chemical substances have become increasingly stringent globally in recent years. For the management of chemical substances, our Group Product Safety Committee, which is set up under the Responsible Care (RC) Committee, holds discussions with Group companies and prepares management standards to standardize the handling of chemical substances and prevent incorrect operation.

Measures to Comply with Laws

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Initiatives in FY2017

In fiscal 2017, as we did in the previous fiscal year, we obtained information via various channels to ensure that we can respond to legal changes on chemical substances on a global scale and also worked to improve the mechanisms. We addressed notification and planning for the TSCA Inventory Revisit, for which the deadline is the next fiscal year, and responded to the request made by the European Automobile Manufacturers’ Association (ACEA) to companies in the world for disclosure on the substances of very high concern of European Chemical Agency because the CAI number is not mentioned or is lacking for some of them.

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In Japan, we gave support for hazardous material management, SDSs, and GHS label management in the operation of a new management system in response to the expansion of the backbone system in Group companies.

Use of lead compounds by year

<table>
<thead>
<tr>
<th>Year</th>
<th>Lead compounds (kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>158,397</td>
</tr>
<tr>
<td>2013</td>
<td>125,236</td>
</tr>
<tr>
<td>2014</td>
<td>77,398</td>
</tr>
<tr>
<td>2015</td>
<td>72,320</td>
</tr>
<tr>
<td>2016</td>
<td>39,480</td>
</tr>
<tr>
<td>2017</td>
<td>6,115</td>
</tr>
</tbody>
</table>

PRTR Survey (total amounts for the Nippon Paint Holdings Group in Japan)

<table>
<thead>
<tr>
<th>Component</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atmo. emissions</td>
<td>5.01E+5</td>
<td>5.01E+5</td>
<td>5.01E+5</td>
<td>5.01E+5</td>
<td>5.01E+5</td>
<td>5.01E+5</td>
</tr>
<tr>
<td>Decontamination processing</td>
<td>5.01E+5</td>
<td>5.01E+5</td>
<td>5.01E+5</td>
<td>5.01E+5</td>
<td>5.01E+5</td>
<td>5.01E+5</td>
</tr>
<tr>
<td>Products</td>
<td>5.01E+5</td>
<td>5.01E+5</td>
<td>5.01E+5</td>
<td>5.01E+5</td>
<td>5.01E+5</td>
<td>5.01E+5</td>
</tr>
</tbody>
</table>

Handling total

<table>
<thead>
<tr>
<th>Component</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Release into water bodies</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Sewage</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Waste</td>
<td>1,189.3</td>
<td>1,189.3</td>
<td>1,189.3</td>
<td>1,189.3</td>
<td>1,189.3</td>
<td>1,189.3</td>
</tr>
<tr>
<td>Recycling</td>
<td>3,635.2</td>
<td>3,635.2</td>
<td>3,635.2</td>
<td>3,635.2</td>
<td>3,635.2</td>
<td>3,635.2</td>
</tr>
</tbody>
</table>

Note:
- Reduction of CO₂ emissions
  - Scope of data collection: Former Nippon Paint Co., Ltd. before the spin-off for the data from FY1992 to FY2017.
  - NPL: Nippon Paint, NPLU, and NPFU for the data in FY2015.
  - NPLU: Nippon Paint and NPFU for the data in FY2016 and FY2017
- Data collection period: April to December (three months only) for FY2016

Note:
- Waste generation, recycled waste, and landfilled waste by year
  - Scope of data collection: Former Nippon Paint Co., Ltd. before the spin-off for the data from FY1992 to FY2017.
  - NPL: Nippon Paint, NPLU, and NPFU for the data in FY2015.
  - NPLU: Nippon Paint and NPFU for the data in FY2016 and FY2017
- Data collection period: April to December (three months only) for FY2016
Air and Water Conservation

**Prevention of Air Pollution**

Nippon Paint Holdings Group (in Japan) complies with regulations pertaining to air pollution through the setting of voluntary reference values and other measures. In FY2017, as well, none of our plants exceeded statutory limits. We reduced the generation of NOx and SOx emissions from the previous fiscal year.

- **NOx and SOx emissions by year**
  - NOx emissions
  - SOx emissions

- **Effective Use of Water Resources**
  Nippon Paint Holdings Group (in Japan) strives to use water resources more efficiently through the effective use of water in the cleaning process and the recycling of cleaning water on the production sites. However, the use of industrial water increased in fiscal 2017.

- **Water use by year**
  - Use for water treatment
  - Use for industrial use

- **Wastewater discharge and COD, total phosphorus, and total nitrogen emissions by year**
  - Chemical oxygen demand (COD)
  - Total phosphorus
  - Total nitrogen emissions

**Prevention of Water Pollution**

Nippon Paint Holdings Group (in Japan) complies with regulations pertaining to water pollution through the setting of voluntary reference values and other measures. Wastewater discharge increased year-on-year in fiscal 2017.

**OCCUPATIONAL HEALTH AND SAFETY**

**Initiatives in FY2017**

**Health and Safety Activities in Japan**

In fiscal 2017, we worked to improve health and safety activities and solve relevant problems through the RC Committee, as well as Group safety and environment meetings and product safety meetings, involving Nippon Paint Holdings Group companies in Japan. In those efforts, we shared information on the accidents that occurred in the Group and the cases of accidents in different business sectors and introduced countermeasures against such accidents throughout the Group to prevent recurrence.

We also held health and safety committee meetings on an area or site basis to execute the decisions made in the committee meetings, etc. and identified the safety and environmental issues in each area, involving all employees in the efforts to improve the problems. Risk assessment is actively conducted in each area to prevent accidents. In addition, events to help employees improve their health are designed and organized in cooperation with the labor union.

As a result of these health and safety activities, while the total number of accidents in the Group increased by two year-on-year in fiscal 2017, the frequency of accidents declined from the previous fiscal year. There was no casualty due to occupational accidents, either. We will make continuous efforts to reduce occupational accidents.

**Support for Overseas Group Companies in Safety Control**

We provide active and continuous support for the safety and environmental activities of our Group companies.

As we did in the previous fiscal year, we worked to enhance field management in each region or area and develop activity leaders through NIPSEA Safety Council (NSC).

We also conducted a safety assessment in each area together with NSC members to prevent serious accidents. In the assessment, we used an assessment list prepared to identify and rectify serious risks that might result in a plant shutdown, such as fire and explosions. In addition to the safety assessment, we have introduced safety activities into overseas production sites, such as a drill that simulates fire and other disasters, initiatives to reduce fire, and experience-based training to enhance the understanding of the danger of static electricity.

**Number of occupational accidents in Japan**

- **Number of occupational accidents**
- **Number of casualties due to occupational accidents**
  - Number of deaths

**Number of accidents overseas**

- **Number of accidents overseas**
- **Number of casualties due to overseas accidents**
  - Number of deaths
  - Number of injuries
### Air and Water Conservation

**Prevention of Air Pollution**

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- **NOx and SOx emissions by year**

<table>
<thead>
<tr>
<th>Year</th>
<th>NOx emissions</th>
<th>SOx emissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>8.67</td>
<td>16.07</td>
</tr>
<tr>
<td>2013</td>
<td>2.19</td>
<td>5.55</td>
</tr>
<tr>
<td>2014</td>
<td>1.62</td>
<td>5.2</td>
</tr>
<tr>
<td>2015</td>
<td>1.30</td>
<td>5.1</td>
</tr>
<tr>
<td>2016</td>
<td>1.29</td>
<td>5.09</td>
</tr>
<tr>
<td>2017</td>
<td>0.73</td>
<td>4.88</td>
</tr>
</tbody>
</table>

* Source of data collection:
  Formed Nippon Paint Co., Ltd. before the spin-off for the data in FY2017 and later.
  NPI/J, NIPU, NIPUL and NIPU for the data in FY2015.
  NPI/J, NIPU, NIPUL and NIPU for the data in FY2016 and FY2017.

**Effective Use of Water Resources**

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- **Water use by year**

<table>
<thead>
<tr>
<th>Year</th>
<th>Fresh water</th>
<th>Mixed water</th>
<th>Industrial water</th>
<th>Total water</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>368.80</td>
<td>242.44</td>
<td>124.8</td>
<td>736.06</td>
</tr>
<tr>
<td>2013</td>
<td>351.10</td>
<td>256.45</td>
<td>125.2</td>
<td>732.76</td>
</tr>
<tr>
<td>2014</td>
<td>360.95</td>
<td>258.35</td>
<td>127.2</td>
<td>746.51</td>
</tr>
<tr>
<td>2015</td>
<td>392.51</td>
<td>262.71</td>
<td>127.2</td>
<td>782.43</td>
</tr>
<tr>
<td>2016</td>
<td>154.32</td>
<td>260.45</td>
<td>127.2</td>
<td>542.02</td>
</tr>
<tr>
<td>2017</td>
<td>160.19</td>
<td>264.55</td>
<td>127.2</td>
<td>552.99</td>
</tr>
</tbody>
</table>

* Source of data collection:
  Formed Nippon Paint Co., Ltd. before the spin-off for the data in FY2017 and later.
  NPI/J, NIPU, NIPUL and NIPU for the data in FY2015.
  NPI/J, NIPU, NIPUL and NIPU for the data in FY2016 and FY2017.

**Prevention of Water Pollution**

Nippon Paint Holdings Group (in Japan) complies with regulations pertaining to water pollution through the setting of voluntary reference values and other measures. Wastewater discharge increased year-on-year in FY2017.

- **Wastewater discharge and COD, total phosphorus, and total nitrogen emissions by year**

<table>
<thead>
<tr>
<th>Year</th>
<th>COD emissions</th>
<th>Total nitrogen emissions</th>
<th>Total phosphorus emissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2.95</td>
<td>167.26</td>
<td>4.26</td>
</tr>
<tr>
<td>2013</td>
<td>2.96</td>
<td>167.26</td>
<td>4.26</td>
</tr>
<tr>
<td>2014</td>
<td>2.95</td>
<td>167.26</td>
<td>4.26</td>
</tr>
<tr>
<td>2015</td>
<td>2.95</td>
<td>167.26</td>
<td>4.26</td>
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<tr>
<td>2016</td>
<td>2.95</td>
<td>167.26</td>
<td>4.26</td>
</tr>
<tr>
<td>2017</td>
<td>2.95</td>
<td>167.26</td>
<td>4.26</td>
</tr>
</tbody>
</table>

* Source of data collection:
  Formed Nippon Paint Co., Ltd. before the spin-off for the data in FY2017 and later.
  NPI/J, NIPU, NIPUL and NIPU for the data in FY2015.
  NPI/J, NIPU, NIPUL and NIPU for the data in FY2016 and FY2017.

**Environmental Health and Safety**

**Initiatives in FY2017**

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In addition to the safety assessment, we have introduced safety activities into overseas production sites, such as a drill that simulates fire and other disasters, initiatives to reduce fire, and experience-based training to enhance the understanding of the danger of static electricity.
Social
Living with Society

Maintenance and Improvement of Product Quality

Nippon Paint Holdings Co., Ltd. seeks quality assurance and productivity improvement in the actual production sites involved in manufacturing.

Group Quality Assurance System

Nippon Paint Holdings strives to promote quality assurance activities of the Group companies based on the policy in its internal rules to “maintain and improve the quality of products in a steady and continuous manner with an aim to enhance customer satisfaction with the products of the Group.”

Group companies in Japan pay attention to safety and environmentally friendliness of their products at the product design stage and take measures to secure the functions of the products. In addition to strict design audits, as well as examinations before the transition to the production stage, quality checks at different stages including inspections of raw materials used, manufacturing process inspections, and final inspections of products are conducted to sort good items. We also make efforts to maintain and improve the Group’s quality assurance system, including process management to reduce quality variations in the manufacturing process and logistics management to deliver the products of our Group to customers safely by the deadline.

Organization of a Global Quality Conference (GQC)

Nippon Paint Holdings Group held a Global Quality Conference (GQC) to provide a forum for reporting on team activities to improve quality assurance and productivity at actual production sites in September 2017. The 12th conference gathered about 50 interested parties at our head office and was also transmitted via a video conferencing system. The conference is used to share the attitude towards manufacturing in various countries, new discoveries in the production field, and efficient management methods.

Promotion of Quality Assurance Activities in Nippon Paint Automotive Coatings (NPAU)

In addition to conventional quality assurance, NPAU has set up a design audit system with a gate at six stages from the theme setting stage to the mass production stage in order to incorporate the concept of the reduction of environmental impact in the lifecycle of automobiles into product development. Its unique quality assurance rules are in place to audit the status of product development from various perspectives with the involvement of relevant departments including sales, production, procurement, IP product safety, and quality assurance, along with development and engineering departments. The company is also promoting the active introduction of ISO 14001 and ISO 9001 management systems and the development of original rules on chemical management.

NPAU received FY2017 Overseas Contribution Award for Excellent Supplier from Suzuki Motor Corporation

In January 2018, Suzuki Motor Corporation presented FY2017 Overseas Contribution Award for Excellent Supplier to NPAU at a New Year’s gathering. This award was granted for the recognition of the contribution of Berger Nippon Paint Automotive Coatings Private Limited (BNPAI) in India to cost reduction, quality improvement, stable procurement, etc. in Suzuki Motor Gujarat Private Limited.

Supply Chain Management

Raw materials, equipment, and various other items and services supplied by suppliers are essential for the businesses of the Nippon Paint Holdings Group. Our Group strives to conduct fair and sincere procurement activities based on mutual trust with our suppliers.

Approach to Procurement of Raw Materials

The businesses of the Nippon Paint Holdings Group depend on raw materials, equipment, and various items supplied by our suppliers. Cooperation of suppliers is indispensable for the sustainable growth of the businesses of our Group. To further strengthen our cooperative relationships with the suppliers, we are committed to open, fair, and sincere procurement activities based on mutual trust with them. In addition, in response to the global expansion of our businesses, we have formulated common rules for the approach and commitment of all Group companies to procurement activities, as well as Group Procurement Policy to ensure that procurement activities are developed in a controlled manner, and work to disseminate them. We would like our suppliers to agree to the policy and promote the establishment of mutually healthy partnerships together.

Initiatives in Line with the Procurement Policy

Since paints are composed of various chemical substances, information on the chemical substances used as their raw materials is important. We group necessary material information on all raw materials we purchase, as well as their conformance to domestic and international regulations, through cooperation with the suppliers. Based on the information, we provide product safety information to customers and properly respond to the applicable regulations in the destinations of the exports. Nippon Paint Holdings also participates in an initiative of Japan Chemical Industry Association to promote the development of a mechanism to share relevant information on risk assessment of chemical substances in the supply chain and supplies information at the request of customers. In addition, we strive for quick response to any change in regulations through the identification of the latest trends in domestic and international laws and regulations as well as sharing of information on voluntary regulations with suppliers. We survey conflict minerals, as well as raw materials involving abuse of human rights such as child labor, while also covering the upstream of the supply chain, to prohibit the purchase of such materials.

When selecting suppliers, we make rational judgments based on compliance with human rights, laws, and social norms, commitment to business continuity planning (BCP), commitment to environmental conservation and resource protection, commitment to health and safety, soundness of business management, technical capabilities, and other issues, in addition to quality and prices. We plan to survey and evaluate the status of such efforts of suppliers and set it as an indicator for procurement activities.

For fair transactions with suppliers, we organize workshops on the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors (“Subcontracting Act”) for our employees engaged with subcontractors to help them understand the act. We also develop an initiative to deploy persons in charge of the Subcontracting Act in the operating companies to monitor their transactions with subcontractors and ensure legal compliance. We conduct initiatives for BCP at the procurement stage, such as the integration of raw materials, purchase from multiple companies, and the evaluation of alternative products, and also ask suppliers to work for BCP to reduce risks.

To understand the impact on the supply chain in case of severe natural disasters and accidents and take responsive actions promptly when necessary, we have in place and operate a system to make simultaneous inquiries to suppliers to survey their situation. In 2017, the system was used for the first response to four earthquakes including Kumamoto Earthquakes, flood in Texas, and other natural disasters, as well as three accidents in suppliers.
Social

Living with Society

Maintenance and Improvement of Product Quality

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Procurement Policy

In accordance with the management philosophy of the Nippon Paint Holdings Group, Procurement Department complex with and promotes the following policy in its procurement activities with the suppliers, which are our precious partners:

1. Legal compliance and respect for human rights: Nippon Paint Holdings Group will conduct procurement in compliance with laws and international rules, with respect for human rights, and without any abuse of human rights including discrimination or unfair labor practices.

2. Fair transactions: Nippon Paint Holdings Group will conduct fair and equitable procurement based on fair competition and make efforts to eliminate personal interests from the selection of suppliers.

3. Evaluation of suppliers: Nippon Paint Holdings Group will select suppliers in a rational manner based on business conditions, CSR, promotion of environmental conservation and resource protection, continuous commitment to the control of safety and health risks, etc. in addition to quality, price competitiveness, stable supply, technical capabilities.

4. Establishment of relationship with suppliers: Nippon Paint Holdings Group will place emphasis on dialogues with suppliers, work to establish a trust relationship, and promote sustainable procurement together. We will also promote the reduction of risks in procurement activities in cooperation with suppliers.
Employee Engagement (Engagement)
To become a global paint major, Nippon Paint Holdings Group strives to create a work environment where each and every employee can work vividly.

Basic approach to employees
• We will value the trust relationship between management and employees and develop an energetic corporate culture.
• We will achieve job satisfaction and improve performance through teamwork.
• We will operate our business based on human abilities by ensuring that employees can perform at their full potential.
• We will focus on individual responsibility in human resource development because a willingness to grow and self-reliant efforts are essential for people’s growth.

Diversity & Inclusion
System to promote diversity
We continuously develop activities to promote diversity at the initiative of the Diversity Promotion Unit and the Diversity Promotion Committee. The committee deliberates and makes decisions on measures to promote the creation of a culture and organization that can leverage diversity in the whole Group.

Diversity promotion policy
We will develop a corporate culture that takes advantage of the diversity of the employees and create an environment where knowledge of individuals, including experience, abilities, and ideas, is diversified and all employees can feel rewarded for the job regardless of gender, age, nationality, or other attributes to ensure that everyone can perform to the best of their ability.

To see the diversity as a source of the competitive advantage of our Group, we work to establish the states we should be as “common practices” and promote diversity through four key initiatives.

Change in the Mindset and Development of a Culture
Change in the mindset of management - Diversity Management Workshop
In fiscal 2017, we held Diversity Management Workshop for all management personnel under the theme of “team reform” 1.2 times. We worked to disseminate the understanding of the objective and necessity of promoting diversity and help take specific measures for diversity management that leverage the potential of individuals in each organization. As a result, voluntary activities on a team basis at the initiative of management personnel are also ongoing in various areas. Acceptance and effective use of differences between diverse employees helps improve the performance of teams and organizations, which also leads to the cultivation of a diversity culture throughout the company.

Sates that the Group should be
• It is common to recruit diverse human resources.
• The positions and missions are clarified and the right people are placed in the right jobs.
• It is common that human resources are self-reliant.
• All employees around the world act independently and produce results in their respective positions based on a globally shared vision.

Key initiatives to promote diversity

Raising of awareness of diversity among all employees – Forum to create the “work” of the future
We constantly hold a lecture to raise awareness of diversity among all employees of our Group companies in Japan from fiscal 2016. In fiscal 2017, the lectures were organized under the themes of “different cultures and globalization,” “work style reforms,” “team development to generate innovation,” and “career design.” Through the lectures, we continuously give the employees an opportunity to think about the jobs of themselves and their team, job satisfaction, future career, etc. in a self-motivated manner so that the company becomes full of self-reliant workers.

Expansion of the Field Where Women Can Work Actively
Participation in an international women’s conference
Women are working actively in increasingly diverse fields. For example, our employees were invited to the Global Summit of Women (CSW), an international women’s conference to discuss global issues, such as the economic challenges in different countries and the acceleration of the involvement of women in market opportunities, with the participation of more than 1,300 world-class female leaders including business leaders and ministers from 62 countries.

Cross-industrial exchange meeting (organized by J-Win*, an NPO)
As an initiative to encourage women to work actively, our candidates for key positions attend cross-industrial exchange meetings with participants from other companies every year. This initiative aims to establish a network through interactions with business women from different industries and business categories and also encourage the participants to grow independently through self-development. We strive to develop human resources through active participation in such activities and establish an environment where diverse individuals can display their abilities and play active roles.

* Japan Women’s Innovative Network, a specified nonprofit corporation

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio of women in key positions (in Japan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1.6</td>
</tr>
<tr>
<td>2016</td>
<td>2.5</td>
</tr>
<tr>
<td>2017</td>
<td>3.3</td>
</tr>
<tr>
<td>2018</td>
<td>4.1</td>
</tr>
<tr>
<td>2025</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Target
Employee Engagement (Engagement)

To become a global paint major, Nippon Paint Holdings Group strives to create a work environment where each and every employee can work vividly.

**Basic approach to employees**
- We will value the trust relationship between management and employees and develop an energetic corporate culture.
- We will achieve job satisfaction and improve performance through teamwork.
- We will operate our business based on human abilities by ensuring that employees can perform at their full potential.
- We will focus on individual responsibility in human resource development because a willingness to grow and self-reliant efforts are essential for people’s growth.

**Diversity & Inclusion**

**System to promote diversity**
We continuously develop activities to promote diversity at the initiative of the Diversity Promotion Unit and the Diversity Promotion Committee. The committee deliberates and makes decisions on measures to promote the creation of a culture and organization that can leverage diversity in the whole Group.

**Diversity promotion policy**
We will develop a corporate culture that takes advantage of the diversity of the employees and create an environment where knowledge of individuals, including experience, abilities, and ideas, is diversified and all employees can feel rewarded for the job regardless of gender, age, nationality, or other attributes to ensure that everyone can perform to the best of their ability.

To see the diversity as a source of the competitive advantage of our Group, we work to establish the states we should be as “common practices” and promote diversity through four key initiatives.

**Change in the Mindset and Development of a Culture**

**Change in the mindset of management - Diversity Management Workshop**
In fiscal 2017, we held Diversity Management Workshop for all management personnel under the theme of “team reform.” Two times. We worked to disseminate the understanding of the subjective and necessity of promoting diversity and help take specific measures for diversity management that leverage the potential of individuals in each organization. As a result, voluntary activities on a team basis at the initiative of management personnel are also ongoing in various areas. Acceptance and effective use of differences between diverse employees help improve the performance of teams and organization, which also leads to the cultivation of a diversity culture throughout the company.

**Sates that the Group should be**
- It is common to recruit diverse human resources.
  - The positions and missions are clarified and the right people are placed in the right jobs.
- It is common that human resources are self-reliant.
  - All employees around the world act independently and produce results in their respective positions based on a globally shared vision.
- It is common to create innovation.
  - The power of the organization is developed in a way to accept differences and leverage them as a strength.

**Key initiatives to promote diversity**
- Change in the mindset and development of a culture
- Systems to leverage diversity
- Global & Diversity
- Work style reforms
- Appointment and development of diverse human resources

**Raising of awareness of diversity among all employees – Forum to create the “work” of the future**
We constantly hold a lecture to raise awareness of diversity among all employees of our Group companies in Japan from fiscal 2016. In fiscal 2017, the lectures were organized under the theme of “different cultures and globalization,” “work style reforms,” “team development to generate innovation,” and “career design.” Through these lectures, we continuously give the employees an opportunity to think about the jobs of themselves and their team, job satisfaction, future career, etc. in a self-motivated manner so that the company becomes full of self-reliant workers.

**Expansion of the Field Where Women Can Work Actively**

**Participation in an international women’s conference**
Women are working actively in increasingly diverse fields. For example, our employees were invited to the Global Summit of Women (CSW), an international women’s conference to discuss global issues, such as the economic challenges in different countries and the acceleration of the involvement of women in market opportunities, with the participation of more than 1,300 world-class female leaders including business leaders and ministers from 62 countries.

**Cross-industrial exchange meeting (organized by J-Win*, an NPO)**
As an initiative to encourage women to work actively, our candidates for key positions attend cross-industrial exchange meetings with participants from other companies every year. This initiative aims to establish a network through interactions with business women from different industries and business categories and also encourage the participants to grow independently through self-development. We strive to develop human resources through active participation in such activities and establish an environment where diverse individuals can display their abilities and play active roles.

* Japan Women’s Innovative Network, a specified nonprofit corporation

**Ratio of women in key positions (in Japan)**

![Graph showing the ratio of women in key positions from 2015 to 2025.]
Creation of a Fulfilling Work Environment

With an aim to establish an organization with diverse human resources who can respond to changes, we actively seek to create workplaces where employees from various backgrounds can work comfortably. Nippon Paint Holdings Group works to provide stable employment and an environment where employees can work with a sense of security not only to give benefit to employees but also to contribute widely to society.

Our childcare leave and nursing care leave systems are used increasingly more frequently and have been firmly established as options for employees. Our Group has also introduced a one-week holiday system to allow employees to take five consecutive days off as a measure to create an environment where employees can take holidays in a planned manner with teamwork to cover for each other. We also regard learning in the workplace as a crucial challenge and take measures to prevent it, such as workshops for all employees including management staff and instructions to superiors. In addition, we endeavor to prevent mental illness by understanding the workplace conditions through stress check and to monitor the awareness and satisfaction level of employees to motivate them and ensure that they can perform to the best of their abilities.

To address the problems identified through our diversity promotion activities, we also work to develop a work environment where employees with various values can feel rewarded. To this end, we have expanded the scope of application of the flex system, conducted interviews on career during childcare or nursing care leave, and implemented the teleworking system and a program to allow employees to take paid holidays by the hour on a trial basis. Work style reforms are essential to make diversity one of the competitive advantages of our Group. We will continuously strive to create a corporate culture and system/mechanism that ensure that all employees are responsible for their own growth and can independently select their own work style to carry out their duties and will establish a virtuous circle in which the growth of our employees leads to the growth of the company.

Training

Training system

To accelerate our progress towards becoming a global paint major, we have enhanced human resource development with focus on the cultivation of management personnel and pipeline management of the successors.

With “global” and “leadership” as the keywords, we have developed position-based leadership programs to improve our leadership training. The programs for upper positions, in which employees of our overseas Group companies also participate, aim at friendly competition within the Group and Group-wide collaboration and strengthening of ties for human resource development in Japan and overseas. In addition to the leadership programs, we have prepared internal programs to supplement the abilities and skills required in each generation. We also plan to establish a mechanism to develop management personnel for the next term early by giving the candidates opportunities to build their career in a challenging environment and thereby accelerate their growth. Through these initiatives, we will constantly produce human resources that can contribute to the company.

Generous support for those who aim to grow with self-responsibility

Nippon Paint Holdings Group seeks to strengthen human resources based on the following policy:

- Provision of human resources that keep growing
- Improvement of expertise and market value
- Continuous achievement of performance in each site
- OJT (growth through job) Supervisors and senior
- QR(7) Human Resources Headquarters, Each workplace
- Willingness to grow (self-development)

Approach to human resource development (cultivation policy)

People cannot grow without an underlying willingness to grow and self-help efforts. Therefore, we set self-responsibility as the basis of human resource development.

Training policy

- The basis of training and cultivation is on-the-job training (OJT) in the workplace.
- We provide off-the-job training (QJT) to supplement the OJT.
- The training is classified into an equal opportunity type and a selection-based type to clarify the objective of the cultivation.

Acceptance of long-term trainees from overseas (training in the mobility program)

We accept employees from overseas affiliates as long-term trainees and provide them with training in Japan. In addition to human resource development, the program aims to promote globalization of our Group in Japan and strengthen the ties with the companies that dispatch the trainees. The cultivation of a culture that can address globalization has almost been completed in Japan. We have enhanced readiness for diversity through initiatives such as the installation of prayer space in the accepting companies out of consideration for the religion of the trainees.

In fiscal 2017, we invited personnel who will support our future production from overseas affiliates and provided them with training on subjects including quality control and process management of parts in the production held in Japan for about six months. After the completion of the training, the trainees who received long-term training in Japan returned home to play a pivotal role in the horizontal development of production held improvement and other activities in the overseas affiliates. The performance of the trainees who had returned home was also checked to see follow-up actions.

We strive to promote the improvement of safety, quality assurance system, and quality control in the whole Group in cooperation with overseas affiliates.

Human Resources Forum

A human resources forum is held once a year to gather the human resources managers of overseas Group companies. In this forum, the personnel issues of the companies are mutually presented to design plans to implement solutions and develop follow-up actions, and the status of achievement is shared to seek best practices. The forum offers significant opportunities to solve personnel issues on a local, regional, or global level. In fiscal 2017, in addition to the introduction of cases in various countries, active discussions were made to consider subjects including specific cooperative measures for the next fiscal year.

Ceremony to welcome new employees for fiscal 2017

Female leader development training

We promote the establishment of a talent pipeline to enhance diversity in the decision making process. As part of it, we provide female leader development training to female candidates for management positions. This program aims to encourage them to have a desire to move up, as well as the way of thinking as a leader, and develop their career while setting their goal.

Acceptance of trainees in China

Female leader development training

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Recruitment

When hiring new graduates, we promote recruitment of candidates for management staff of the next generation who can lead the market regardless of nationality. We try to secure human resources with great abilities from the perspectives of “experience in leadership” and “challenge in the global environment” based on the requirements for human resources linked to management and business demand. In addition, we proactively hire mid-career employees and gain knowledge from external sources to diversify our knowledge.

Training

Training system

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Female leader development training: Aiming
**Contributions to Local Communities and International Society**

### Social Contributions through Sports Activities

**Nippon Paint Holdings Women’s Table Tennis Club**

- **Contributions to local communities through table tennis classes**
  - Nippon Paint Holdings founded a women’s table tennis club in 2017. Since then, they have established interactions with local communities through table tennis.
  - In June 2017, they participated in a table tennis class of the children’s association of Osaka Municipal Oyo-ko Kindergarten, which is located next to Osaka Elementary School, in a table tennis class in March 2018. Our activities are not limited to the area around the club’s training base. Nippon Paint Holdings and Nippon Paint Marine Coatings, Co., Ltd., one of the Group companies based in Oosumichi City, Hiroshima, co-sponsored a table tennis class organized by the municipal board of education in January 2018. We also participated in a table tennis event organized by 3K Sports Club Yoto, which develops community-based activities in the city in June 2018.

- **Support for activities to promote the widespread use of table-tennis tables for children**
  - The social contribution activities of Nippon Paint Holdings through table tennis are not limited to coaching.
  - Endorsing the activities of Table Tennis Junior Support, a table tennis project. Nippon Paint Holdings, which was also the manager of the table tennis club, presented the table to Mr. Junichi Takahashi, principal of front of 68 children. The children got excited and enjoyed their first experience of the sport.

- **Presentation of a table-tennis table**
  - For the children, the representative of Table Tennis Junior Support Japan and the former head coach of the Japanese women’s national table tennis team, with particular consideration to the safety of the children, was present at the event. To help many children grow up healthy while enjoying playing table tennis, we will continue to sponsor the activities to promote the widespread use of the specially produced table-tennis tables.

### Social Contributions through Business Activities

**Activities through ROOMBLOOM, Our Brand of Paints for House Interior**

- **Support for an “unoccupied house project” to revitalize a local community**
  - Kanto Gakuin University (KGU) has implemented a project to repair unoccupied houses and make effective use of them with the participation of student volunteers in Yokosuka City, Kanagawa, in which the problem of unoccupied houses due to depopulation has come to the surface. With the largest extent of out-migrants among all municipalities in Japan according to a survey in 2013, Yokosuka City faces a serious challenge of depopulation, and the problem of unoccupied houses is also a major issue across the local community.
  - Agreeing to the purpose of the KGU unoccupied house project, which works to revitalize local communities through interactions with neighboring people, Nippon Paint Holdings proposed collaboration between it and the Happy Wall Project, which has been developed by ROOMBLOOM. Then, we supported the repair of local community facilities and the construction of shared houses for students together with the members of the KGU unoccupied house project twice on May 31 and July 2, 2017. Nippon Paint Holdings Group will continue to make unique contributions to local communities that can be offered only by a paint manufacturer.

### Volunteer Cleanup and Paint Activities in Various Areas

- **Paint activities in FY2017**
  - As a volunteer initiative linked to local communities, we carry out volunteer cleanup activities and volunteer paint activities in various areas every year. These community-based social contribution activities help maintain the beauty of our neighborhood areas.

- **Cleanup activities in FY2017**
  - Osaka: Ikarashi Gymnasium in Ushio-ku.
  - Tokyo: Around the branch
  - Okinawa: Around the industrial park in the neighborhood.
  - Hiroshima: Around the paint plant.

- **Number of participants**

<table>
<thead>
<tr>
<th>Area</th>
<th>Place</th>
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<th>Number of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Osaka</td>
<td>Ikarashi Gymnasium in</td>
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<tr>
<td></td>
<td>Shagagaka Kindergarten</td>
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<tr>
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</table>

**Table tennis event held in Kasaaki Gymnasium, Ushio-ku City**

**Mr. Hidaka, Head Coach (right) and Ms. Amasa, a member of our Table Tennis Club (left), coaching children of Naka-ko Kindergarten**

**Mr. Takahashi, principal of the kindergarten, attended the ceremony to receive the table.**

**Presentation of a table-tennis table in a table tennis class in Ushio-ku City.**

**From left:** Manager of Nippon Paint Sales Office of Nippon Paint Marine Coatings, Co., Ltd., Kazuo Shashiki, President of the Table Tennis Development Department of Nippon Paint Holdings, Mr. Moritani, former head coach of the Japanese women’s national table tennis team, with particular consideration to the safety of the children, was present at the event.

**Mr. Hidaka, Head Coach (right) and Ms. Amasa, a member of our Table Tennis Club (left), coaching children of Naka-ko Kindergarten**

**Volunteer Cleanup and Paint Activities in Various Areas**

As a volunteer initiative linked to local communities, we carry out volunteer cleanup activities and volunteer paint activities in various areas every year. These community-based social contribution activities help maintain the beauty of our neighborhood areas.

**Paint activities in FY2017**

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Contributions to Local Communities and International Society

Social Contributions through Sports Activities

Nippon Paint Holdings Women’s Table Tennis Club

- Contributions to local communities through table tennis classes

Nippon Paint Holdings founded a women’s table tennis club in 2017. Since then, we have provided interactions with local communities through table tennis.

- Support for activities to promote the widespread use of table-tennis tables for children

The social contribution activities of Nippon Paint Holdings through table-tennis tables are not limited to coaching. Endorsing the activities of Table Tennis Junior Support Japan to promote the widespread use of table-tennis tables specially produced for children and thereby familiarize many children with table tennis at an early age, we have donated a table-tennis table set for children each to Onomichi Municipal Mukaihigashi Kindergarten and Osakamachi Municipal Nakaoyado Kindergarten.

The ceremony to present the set to Mukaihigashi Kindergarten was held when the table tennis class was organized in Onomichi City as mentioned above. Ms. Yuka Hiraoka, Mayor of Onomichi City, and Ms. Yamaguchi, principal of the kindergarten, attended the ceremony to receive the table.

In Nakaoyado Kindergarten, Akira Fushimi, General Manager of CSR Development Department of Nippon Paint Holdings who also serves as the manager of the table tennis club, presented the table to Mr. Junichi Tanaka, the principal, in front of 68 children in kindergarten children. After the presentation, Ms. Saki Teshiro and Ms. Shiko Matsumura, who are members of the table tennis club, along with Mr. Takahiro Miura, Head Coach, gave a table tennis lesson and most of the children got excited and enjoyed their first experience of the sport.

The table-tennis table specially produced for children was designed by Mr. Yutaka Morikami, the representative of Table Tennis Junior Support Japan and the former head coach of the Japanese women’s national table tennis team, with particular consideration to safety. To help many children grow up healthy while enjoying table tennis, we will continue to sponsor the activities to promote the widespread use of the specially produced table-tennis tables.

Social Contributions through Business Activities

Activities through ROOMBLOOM, Our Brand of Paint for House Interior

We have created ROOMBLOOM, a brand of paints for house interior, out of a wish to make people’s life richer with paintings. Using this brand, we make social contributions through business activities while also working to raise the awareness of our interior paint business.

- Support for an “unoccupied house project” to revitalize a local community

Kanto Gakuen University (KGU) has implemented a project to repair unoccupied houses and make effective use of them with the participation of student volunteers in Yokosuka City, Kanagawa, in which the problem of unoccupied houses due to depopulation has come to the surface. With the largest excess of out-migrants over in-migrants among all municipalities in Japan according to a survey in 2013, Yokosuka City faces a serious challenge of depopulation, and the problem of unoccupied houses is also a major issue across the local community.

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Volunteer Cleanup and Paint Activities in Various Areas

As a volunteer initiative linked to local communities, we carry out volunteer cleanup activities and volunteer paint activities in various areas every year. These community-based social contribution activities help maintain the beauty of our neighborhood areas.

- Cleanup activities in FY2017

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<th>Place</th>
<th>Date of activity</th>
<th>Total number of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Osaka</td>
<td>Boardwalk of Fudō River (participation in cleanup on the occasion of Fudō River Festival)</td>
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<tr>
<td>Tokyo</td>
<td>Area around the branch</td>
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<td>775</td>
</tr>
<tr>
<td>Aichi</td>
<td>Paint supply and cleanup</td>
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<tr>
<td>Osaka</td>
<td>Area in the industrial complex and roads in the neighborhood</td>
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<tr>
<td>Hiroshima</td>
<td>Roads around the plant</td>
<td>1</td>
<td>70</td>
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Social Living with Society

In the Asia region, the NIPSEA Group conducts various activities effectively using its technologies and features to energize local communities of the countries in which the Group operates its business. The NIPSEA Group designs those activities in a way to ensure that they use seeds for the Group’s future business.

With focus on the improvement of people’s lives, the NIPSEA Group currently develops CSR activities to achieve sustainable development goals from the four aspects of education, employment, economy, and the environment. The initiatives of the Group in various parts of Asia are introduced below.

Initiatives in Asia (Malaysia)

Art Venture Camp 2017 Regional Volunteer Program

Outline of the camp
A two-day camp was organized in Miri, Sarawak, Malaysia for 100 children going to schools in the village. The program was designed with an aim to help the children have confidence by knowing that each of them is one and only, accept differences, and learn various values including the meaning of teamwork and love. Sentiment education using drawing, group singing, games, etc., was developed in the program to make the camp vibrant.

Features of the camp
The camp was not only for those children. Our Group employees who participated in the camp and cooperated with colleagues away from their daily duties were also reminded of the strength of Nippon Paint Holdings as well as the values created in our business. We also anticipate that such special experience of contributing to the local community in a unique environment will generate a new driving force for our Group employees to operate businesses.

Impact on Children
1. Development of resilience and positive thinking
   We encouraged children to have resilience and persistence in difficult situations and hardships, which are necessary for success.
2. Awareness and expression of emotions
   The program was designed to allow children to express their hidden emotions through play and art. We tried to elicit the feelings of children and encouraged them to actively participate and make comments.

Impact on employees
1. Improvement of the sense of unity and enhancement of diversity
2. Promotion of teamwork between employees in each region
3. Encouragement of employees to be aware of their own capacity and growth to become more confident
4. Creation of a corporate culture in which employees acknowledge the strengths of each other and help each other

Financial Education Program for Employees
Many developing countries face a reality that people have a low income and many of them cannot manage their money properly. Nippon Paint Holdings Group gives advice to employees to enable them to manage their income properly and build assets for their children and other family members. We also help them make effective use of their assets for the future.

This program has achieved a good reputation since the first time and we continuously receive requests from employees to maintain it because it is very useful.

Advantages to our business
- Employees can concentrate on duties without being disturbed by mental burdens related to their family’s debt problem.
- The concern over support of family members can be solved.
- Alternatives to debts and other financial problems are available.

Social effects
- People acquire abilities to make proper financial judgments.
- Low-income employees are protected from abuse by crime organizations and vicious moneylenders.
- People can save money for a rainy day.

Initiatives in Asia (China)

Receipt of Four Awards
In fiscal 2017, Nippon Paint China received multiple awards related to CSR.

- For the “Color, Way of Love” project, the company received "CSR Campaign of the Year" and "Media Relations Campaign of the Year" in Ragan Awards.
- The activities of Nippon Paint China were also commended as excellent philanthropy in China Marketing Awards 2016-2017, jointly organized by Economic Observer, an economic paper in China, and the Hong Kong Management Association, an NPO.
- The CSR report of Nippon Paint China for fiscal 2016 was selected as an excellent CSR report in Ragan Awards.

“Color, Way of Love” Project
Nippon Paint China develops the “Color, Way of Love” project, which offers repainting and recovery in school buildings for free in China.

On December 12, 2017, a school in Pengjiang County, Hainan, China held a ceremony to appreciate Guangzhou SUPE Chemical Coating and Nippon Paint China for repairing its building in the project. SUPE and Nippon Paint China are jointly involved in a charitable program again, in which the jobs of Nippon Paint China include waterproofing of roofs and repainting of interior and exterior walls.

Diagram 1: Unique and organized methodology applied through volunteer training for more depth and understanding the purpose of why we do what we do.
In the Asia region, the NipSEA Group conducts various activities effectively using its technologies and features to energize local communities of the countries in which the Group operates its business. The NipSEA Group designs those activities in a way to ensure that they sow seeds for the Group’s future business.

With focus on the improvement of people’s lives, the NipSEA Group currently develops CSR activities to achieve sustainable development goals from the four aspects of education, employment, economy, and the environment. The initiatives of the Group in various parts of Asia are introduced below.

**Art Venture Camp 2017 Regional Volunteer Program**

**Outline of the camp**

A two-day camp was organized in Miri, Sarawak, Malaysia for 100 children going to schools in the village. The program was designed with an aim to help the children have confidence by knowing that each of them is one and only, accept differences, and learn various values including the meaning of teamwork and love. Sentiment education using drawing, group singing, games, etc., was developed in the program to make the art camp vibrant.

**Features of the camp**

The camp was not only for those children. Our Group employees who participated in the camp and cooperated with colleagues away from their daily duties were also reminded of the strength of Nippon Paint Holdings as well as the values created in our business. We also anticipate that such special experience of contributing to the local community in a unique environment will generate a new driving force for our Group employees to operate businesses.

**Impact on Children**

1. Development of resilience and positive thinking
   - We encouraged children to have resilience and persistence in difficult situations and hardships, which are necessary for success.
2. Awareness and expression of strengths
   - The program was designed to allow children to express their hidden emotions through play and art. We tried to elicit the feelings of children and encouraged them to actively participate and make comments.

**Impact on employees**

1. Improvement of the sense of unity and enhancement of diversity
2. Promotion of teamwork between employees in each region
3. Encouragement of employees to be aware of their own capacity and growth to become more confident
4. Creation of a corporate culture in which employees acknowledge the strengths of each other and help each other

Diagram 1: Unique and organized methodology applied through volunteer training for more depth and understanding

**Initiatives in Asia (China)**

**Receipt of Four Awards**

In fiscal 2017, Nippon Paint China received multiple awards related to CSR.

- For the “Color, Way of Love” project, the company received “CSR Campaign of the Year” and “Media Relations Campaign of the Year” in Ragan Awards.
- The activities of Nippon Paint China were also commended as excellent philanthropy in China Marketing Awards 2016-2017, jointly organized by Economic Observer, an economic paper in China, and the Hong Kong Management Association, an NPO.
- The CSR report of Nippon Paint China for fiscal 2016 was selected as an excellent CSR report in Ragan Awards.

**“Color, Way of Love” Project**

Nippon Paint China develops the “Color, Way of Love” project, which offers repent and recovery in school buildings for free in China.

On December 12, 2017, a school in Pinggu County, Huan, China held a ceremony to appreciate Guanghua SUPE Chemical Coating and Nippon Paint China for repairing its building in the project. SUPE and Nippon Paint China are jointly involved in a charitable program again, in which the jobs of Nippon Paint China include waterproofing of roofs and repainting of interior and exterior walls.
### Governance

#### Director of the Board (as of March 28, 2018)

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hup Jin Goh</td>
<td>Chairman of the Board</td>
</tr>
<tr>
<td>Tetsush Tada</td>
<td>President, Representative Director of the Board</td>
</tr>
<tr>
<td>Manabu Minami</td>
<td>Vice President, Representative Director of the Board</td>
</tr>
<tr>
<td>Seiichiro Shirahata</td>
<td>President, Representative Director of the Board</td>
</tr>
<tr>
<td>Atsushi Nagaoka</td>
<td>Senior Executive Officer, Director of the Board</td>
</tr>
<tr>
<td>Hisashi Hara</td>
<td>Independent Director of the Board</td>
</tr>
<tr>
<td>Takashi Tatsui</td>
<td>Independent Director of the Board</td>
</tr>
<tr>
<td>Toshio Morohoshi</td>
<td>Independent Director of the Board</td>
</tr>
<tr>
<td>Yu Okawara</td>
<td>Independent Audit &amp; Supervisory Board Member</td>
</tr>
</tbody>
</table>

#### Audit & Supervisory Board Member (as of March 28, 2018)

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toya Kawabe</td>
<td>Audit &amp; Supervisory Board Member</td>
</tr>
<tr>
<td>Hiroshi Miwa</td>
<td>Audit &amp; Supervisory Board Member</td>
</tr>
<tr>
<td>Toshikazu Oikuma</td>
<td>Independent Audit &amp; Supervisory Board Member</td>
</tr>
<tr>
<td>Ichiro Wakata</td>
<td>Independent Audit &amp; Supervisory Board Member</td>
</tr>
</tbody>
</table>

#### Executive Officer (as of March 28, 2018)

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitsuo Yamada</td>
<td>Senior Vice President (President, Representative Director of the Board of Nippon Paint Automotive Coatings Co., Ltd.)</td>
</tr>
<tr>
<td>Shingo Aida</td>
<td>Vice President</td>
</tr>
<tr>
<td>Tetsuro Fujita</td>
<td>Senior Executive Officer (ICOO of Nippon Paint USA Inc.)</td>
</tr>
<tr>
<td>Yasuyuki Matsumoto</td>
<td>Senior Executive Officer (General Manager of Corporate Planning &amp; Development, in charge of management strategy)</td>
</tr>
<tr>
<td>Takeshi Shiotani</td>
<td>Senior Executive Officer (Representative Director and President of Nippon Paint Industrial Coatings Co., Ltd.)</td>
</tr>
</tbody>
</table>

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Hup Jin Goh  
Chairman of the Board

At the representative of the joint ventures partner in Asia, Goh became the Chairman of Nippon Paint Asia Pacific (M) Sdn Bhd, which was established in Malaysia in 2008. He became a director of Nippon Paint Holdings in December 2014 and contributed to the revitalization of Board activities. Goh became the Chairman in March 2018.

Tetsushi Tado  
President, Representative Director of the Board

Tado is the first president of Nippon Paint Holdings who is a Group Country Manager in the United States. He was also a board member of the Nippon Paint Group. In April 2015, he realized the expansion of his overseas business through the acquisition of a US construction paint company as a subsidiary, and other initiatives. Tado is leading the promotion of the medium-term management plan.

Manabu Minami  
Vice President, Representative Director of the Board

Since he joined the company, Minami has consistently worked in the field. He has also been a chair of IT, procurement, administrative engineering, and other areas in recent years to promote the improvement of management efficiency from a comprehensive perspective. Minami is leading the development of IRS, which is scheduled in 2019.

Seiichiro Shirahata  
Vice President, Representative Director of the Board

Shirahata was originally an engineer and subsequently became president of the Engineering Company of Nippon Paint Holdings in April 2011. In April 2015, he realized the expansion of his overseas business through the acquisition of a US construction paint company as a subsidiary, and other initiatives. Shirahata is leading the promotion of the medium-term management plan.

Audit & Supervisory Board Member (as of March 28, 2018)

Toshihiko Onuma  
Independent Audit & Supervisory Board Member

Onuma is a lawyer and patent attorney and also adopted to practice before the Patent and Trademark Office of the United States. He served as a visiting professor at a graduate school as an expert of intellectual property law and is familiar with engineering fields as well.

Ichiro Wakita  
Independent Audit & Supervisory Board Member

As a certified public accountant working for several audit firms, he has been involved in various financial statements and internal control of listed companies and also been engaged in human resource development. He also has work experience in a car manufacturer.

Executive Officer (as of March 28, 2018)

Mitsuo Yamada  
Senior Vice President  
(President, Representative Director of the Board of Nippon Paint Automotive Coatings Co., Ltd.)

Masakazu Wada  
Executive Officer  
(General Manager of Human Resources)

Shingo Aida  
Vice President  
(Representative Director and President of Nippon Paint Co., Ltd.)

Satoshi Nishimura  
Executive Officer  
(Representative Director and President of Nippon Paint Surf Chemicals Co., Ltd.)

Tetsuro Fujita  
Senior Executive Officer  
(IOO of Nippon Paint USA Inc.)

Yasukazu Kobata  
Executive Officer  
(General Manager of the MDG)

Masaaki Doi  
Executive Officer  
(General Manager of Corporate Planning & Development, in charge of management strategy)

Takeo Ishiyama  
Senior Executive Officer  
(Representative Director and President of Nippon Paint Industrial Coatings Co., Ltd.)

Yasuyuki Matsumoto  
Senior Executive Officer  
(General Manager of Corporate Planning & Development, in charge of management strategy)
Basic Approach to Corporate Governance

Nippon Paint Holdings is continuously committed to improving and enhancing corporate governance for the establishment of a management mechanism that can respond to changes in the business environment in a prompt and proper manner, as well as for the implementation of transparent management, in order to achieve the sustainable growth of the Nippon Paint Holdings Group and medium- and long-term increases in its corporate value through the practice of the management philosophy. Our basic approach to corporate governance, its framework, and the administrative guidelines are outlined as the “Corporate Governance Policy” in the following page of our website:

http://www.nipponpaint-holdings.com/company/cg/

Corporate Governance Structure

Nippon Paint Holdings has adopted a “Company with Audit & Supervisory Board” system and introduced an “Executive Officer” system. The corporate governance structure is illustrated in the Corporate Governance Organizational Chart below.

Board of Directors

The Articles of Incorporation stipulate that the Company shall have no more than 10 directors. Our Board of Directors is composed of executive directors, independent directors, and non-executive directors, who are selected from among people from both Japan and overseas and from both inside and outside the Group. The current Board of Directors comprises 10 members in total, five of which are independent directors. The Board of Directors oversees business execution by directors and meets once a month, in principle, to deliberate and make decisions on matters prescribed in the Companies Act, as well as other important management issues, chaired by the Chairman of the Board, who is a non-executive director.

Policy and Procedures for the Designation of Directors and Audit & Supervisory Board Members

In our policy, the Board of Directors will designate candidates for directors and audit & supervisory board members from among those who can contribute to the sustainable growth of the Nippon Paint Holdings Group and the medium- and long-term increases in its corporate value and have diverse experience, deep insight, advanced expertise, and other features that are suitable to serve as a director/audit & supervisory board member. The candidates are selected from among people from both Japan and overseas and from both inside and outside the Group. Furthermore, to strengthen the supervisory function of the Board of Directors and enhance the deliberations at the Board meetings from professional and diversified perspectives, more than one independent director who satisfies the Independence Criteria for Qualifications of Independent Directors of the Board stipulated by our Board of Directors will be designated.

Corporate Governance Organizational Chart

Method of Determining the Remuneration of Directors and Audit & Supervisory Board Members

The remuneration of our directors (excluding independent directors) is composed of job-based salary, performance-based salary, and long-term incentive salary. Fixed job-based salary is paid for each position based on the role and responsibility. The base amount of the performance-based salary is set to be 45% to 50% of the total remuneration according to the position, and the actual amount of the performance-based salary annually varies from 0% to 200% of the base amount depending on the consolidated performance and the performance of the department concerned of the operating company. Long-term incentive salary is granted as a share remuneration-type stock option based on the value set for each position. The composition of the remuneration, etc. of directors and executive officers and the level of the annual amount of remuneration used as the basis are determined by the Board of Directors based on advice given by the Compensation Advisory Committee through the deliberations made in advance in consideration of social conditions, remuneration level in other companies, market situations, and other factors.

The Compensation Advisory Committee is chaired by an independent director. At least half of the members are independent directors to make the deliberations fairer and clearer in our policy. The remuneration of independent directors, as well as that of audit & supervisory board members including independent audit & supervisory board members, is composed of job-based salary only in consideration of their job content. No performance-based salary or long-term incentive salary is introduced for those positions.

Audit & Supervisory Board Members’ Audits and Accounting Audits

Audit & supervisory board members attend the Board of Directors and other important meetings to fulfill their functions to audit the legality of business execution by directors, the effectiveness of the established internal control system, the soundness of the process to prepare financial information, etc. and also meet the Representative Director of the Board in a regular manner to confirm the management policy and exchange opinions on the issues to be addressed by the company, risks involving the company, important matters on audits, and other subjects. The Audit & Supervisory Board currently consists of five members, including three independent audit & supervisory board members with no special interest in Nippon Paint Holdings. Specifically, a lawyer and a certified public accountant who can conduct audits from a professional viewpoint, as well as a person with broad international experiences and administrative experiences, have been designated as the independent audit & supervisory board members.

The independent audit & supervisory board members attend the Board of Directors meetings to fulfill their functions to audit the legality of business execution by directors while conducting business audits on an as-needed basis. They also receive reports on the implementation of audits of departments and affiliates in the Audit & Supervisory Board meetings and give opinions on the reports. To ensure smooth execution of the audit & supervisory board members’ audits, more than one person is deployed as dedicated staff.

Remuneration of Officers

The remuneration of directors and audit & supervisory board members of Nippon Paint Holdings for fiscal year 2017 is as shown below.

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Governance Corporate Governance

Basic Approach to Corporate Governance
Nippon Paint Holdings is continuously committed to improving and enhancing corporate governance for the establishment of a management mechanism that can respond to changes in the business environment in a prompt and proper manner, as well as for the implementation of transparent management, in order to achieve the sustainable growth of the Nippon Paint Holdings Group and medium- and long-term increases in its corporate value through the practice of the management philosophy. Our basic approach to corporate governance, its framework, and the administrative guidelines are outlined in the "Corporate Governance Policy" in the following page of our website:
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Board of Directors
The Articles of Incorporation stipulate that the Company shall have no more than 10 directors. Our Board of Directors is composed of executive directors, independent directors, and non-executive directors, who are selected from among people from both Japan and overseas and from both inside and outside the Group. The current Board of Directors comprises 10 members in total, five of which are independent directors. The Board of Directors oversees business execution by directors and meets once a month, in principle, to deliberate and make decisions on matters prescribed in the Companies Act, as well as other important management issues, chaired by the Chairman of the Board, who is a non-executive director. As advisory bodies to the President, a Group Top Management Committee and an Executive Management Committee have been set up to deliberate on the matters to be submitted to the Board of Directors for decisions on business execution in advance. Directors or executive officers or other persons presumed to be interested in Nippon Paint Holdings are not to be key affiliates in Japan and overseas as directors to ensure compliance with our management policy.

Policy and Procedures for the Designation of Directors and Audit & Supervisory Board Members
In our policy, the Board of Directors will designate candidates for directors and audit & supervisory board members from among those who can contribute to the sustainable growth of the Nippon Paint Holdings Group and the medium- and long-term increases in its corporate value and have diverse experience, deep insight, advanced expertise, and other features that are suitable to serve as a director/audit & supervisory board member. The candidates are selected from among people from both Japan and overseas and from both inside and outside the Group. Furthermore, to strengthen the supervisory function of the Board of Directors and enhance the deliberations at the Board meetings from professional and diversified perspectives, more than one independent director who satisfies the Independence Criteria for Qualifications of Independent Directors of the Board stipulated by our Board of Directors will be designated.

Corporate Governance Organizational Chart

According to the policy above, at a Board of Directors meeting attended by independent directors and independent audit & supervisory board members, deliberations to select directors and audit & supervisory board members are made based on advice from the Designation Advisory Committee. The Designation Advisory Committee is chaired by an independent director. At least half of the members are independent directors to make the deliberations fairer and clearer in our policy. The "Criteria for Judging Independence of Independent Officers" are published in "Notice of Convocation of Annual General Meeting" and "Corporate Governance Policy" on our website:
http://www.nipponpaint-holdings.com/library/source/
Corporate Governance Policy
http://www.nipponpaint-holdings.com/library/source/
The composition of the Designation Advisory Committee and the Compensation Advisory Committee is as shown below.

Composition of the Designation Advisory Committee and the Compensation Advisory Committee

<table>
<thead>
<tr>
<th>Position</th>
<th>Designation Advisory Committee</th>
<th>Compensation Advisory Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Director</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Independent director</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Independent director</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

Method of Determining the Remuneration of Directors and Audit & Supervisory Board Members
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The remuneration of independent directors, as well as that of audit & supervisory board members including independent audit & supervisory board members, is composed of job-based salary only in consideration of their job content. No performance-based salary or long-term incentive salary is introduced for those positions.

Audit & Supervisory Board Members’ Audits and Accounting Audits
Audit & supervisory board members attend the Board of Directors and other important meetings to fulfill their functions to audit the legality of business execution by directors, the effectiveness of the established internal control system, the soundness of the process to prepare financial information, etc. and also meet the Representative Director of the Board in a regular manner to confirm the management policy and exchange opinions on the issues to be addressed by the company, risks involving the company, important matters on audits, and other subjects. The Audit & Supervisory Board currently consists of five members, including three independent audit & supervisory board members with no special interest in Nippon Paint Holdings. Specifically, a lawyer and a certified public accountant who can conduct audits from a professional viewpoint, as well as a person with broad international experience and administrative experience, have been designated as the independent audit & supervisory board members. The independent audit & supervisory board members attend the Board of Directors meetings to fulfill their functions to audit the legality of business execution by directors while conducting business audits on an as-needed basis. They also receive reports on the implementation of audits of departments and affiliates in the Audit & Supervisory Board meetings and give opinions on the reports. To ensure smooth execution of the audit & supervisory board members’ audits, more than one person is deployed as dedicated staff.

Remuneration of Officers
The remuneration of directors and audit & supervisory board members of Nippon Paint Holdings for fiscal 2017 is as shown below.

<table>
<thead>
<tr>
<th>Category of officers</th>
<th>Total amount of remuneration (yen)</th>
<th>Job-based salary</th>
<th>Performance-based salary</th>
<th>Stock options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors</td>
<td>360</td>
<td>120</td>
<td>120</td>
<td>25</td>
</tr>
<tr>
<td>Audit &amp; Supervisory</td>
<td>72</td>
<td>72</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Board Members</td>
<td>150</td>
<td>150</td>
<td>75</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>582</td>
<td>308</td>
<td>260</td>
<td>35</td>
</tr>
</tbody>
</table>

Note 1: The data include officers and supervisory board members whose total remuneration is 180 yen or more.
Note 2: The amount of the remuneration of this fiscal year is set to be no more than 1 billion yen excluding the annual amount of remuneration for the previous fiscal year.
Note 3: The amount of the remuneration of this fiscal year is set to be no more than 120 million yen.
Promotion of Global Governance

Nippon Paint Holdings started to review the authority and responsibility for governance and management on a regional and business bases in 2017. Based on the review, we designed a new regional headquarters system (RHQ system) with Nippon Paint Holdings serving as the global headquarters (GHQ) and launched a project to establish the Americas RHQ system in February 2018.

The Americas RHQ system aims to enhance the financial, risk management, and business planning functions that now cover the Americas as a whole. With this initiative, we seek to enhance proper governance based on local laws, business customs, etc. and achieve the prompt and accurate identification of growth opportunities and risks in each region, the acceleration of the decision-making process, and the streamlining and concentration of resources from the perspective of overall optimization in the region.

We are continuously considering the introduction of the restructuring of the RHQ system, as currently promoted in the Americas, into other regions in sequence.

We also recognize that the collaboration system with Singapore’s Wathen Group, which has been developed in Asia for more than 50 years, drives the growth of our Group as a whole and represents our unique business model. To further improve the cooperative management model as “NN model” (cooperative model between Nippon Paint and NIPSEI), we set up the NN Model Promotion Supervisory Department to initiate activities to deepen it as a flagship model of Nippon Paint Holdings in January 2018.

In the regions other than Asia as well, we aim to ensure that the "region x business matrix management" with focus on regional management based on the NN model is achieved in a healthy and autonomous manner in each region. We believe that the realization of this global NN model will build a strong collaboration system and enable optimal distribution of management resources on a global scale, which will realize global governance with prompt judgments for regional management and flexible business operations.

We will continue to develop global governance systems to improve the transparency and efficiency of business activities as measures that underlie our sustainable growth on a global scale.

Global governance system in the future

<table>
<thead>
<tr>
<th>Nippon Paint Holdings (NHQ)</th>
<th>Board of Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td></td>
</tr>
<tr>
<td>NIPSEI companies</td>
<td></td>
</tr>
<tr>
<td>NPHD functional departments and operating companies</td>
<td></td>
</tr>
<tr>
<td>Nippon Paint (Europe)</td>
<td></td>
</tr>
<tr>
<td>Nippon Paint (Europe)</td>
<td></td>
</tr>
<tr>
<td>Americas segment companies</td>
<td></td>
</tr>
<tr>
<td>Americas</td>
<td></td>
</tr>
<tr>
<td>NPHD Management Company</td>
<td></td>
</tr>
<tr>
<td>NHQ functional departments and operating companies</td>
<td></td>
</tr>
<tr>
<td>Nippon Paint (Europe)</td>
<td></td>
</tr>
<tr>
<td>Nippon Paint (USA)</td>
<td></td>
</tr>
<tr>
<td>Nippon Paint (Europe)</td>
<td></td>
</tr>
<tr>
<td>Global Governance Organizational Chart</td>
<td></td>
</tr>
</tbody>
</table>

Establishment of an Internal Audit Department

We have set up the Corporate Audit Department in charge of internal audits, which reports directly to the President, with 16 members (who also serve in other positions). The Corporate Audit Department conducts internal audits to improve and enhance the internal control of Nippon Paint Holdings and Group companies and reports the results to the President, officers in charge of management, heads of the audited departments and audit & supervisory board members. In case of any problem in the results of an internal audit, the department seeks to solve it in consultation with the head of the department in charge through follow-up actions for the relevant department.

Promotion of Global Audits

Nippon Paint Holdings Group has grown to be a corporate body with many Group companies in Japan and overseas. While the Corporate Audit Department is responsible for internal audits in our Group, it is not realistic for the department to have all necessary skills for global audits alone. Such audits also require a full understanding of laws, regulations, business practices, and languages in the respective regions. Accordingly, we consider that coordination with regional headquarters and domestic operating companies is indispensable and conduct audits with an auditing system established based on the global governance system.

More specifically, the Corporate Audit Department supports the audits conducted by regional headquarters in Asia and the Americas, as well as the audits conducted by domestic operating companies in Europe. In other regions, the department directly conducts audits in key sites (companies).

Global Audit System

Asia and the Americas

Audit

Regional headquarters

Audit and support

Support

Europe

Audit

Domestic operating companies

Audit and support

Support

Corporate Audit Department

Safety and environment

Quality

Production

Internal reporting

Nippon Paint Holdings has established internal contacts and external contacts (law firms and specialist companies) for internal reporting that guarantee anonymity, as well as a system to allow direct reporting to audit & supervisory board members, to have in place a system that enables officers and employees of the Nippon Paint Holdings Group to report any non-compliance, including violation of anti-corruption laws, or its possibility within the Group without suffering any disadvantage.

We also make it a rule to report the status of operation of the contacts for internal reporting to the Board of Directors on an as-needed basis.

In fiscal 2017, we also issued a compliance guidebook that explains the appropriate acts for the employees of the Nippon Paint Holdings Group, along with the use of the internal reporting system and the prevention of bribery, in Japanese and English versions and conducted a test to determine the level of understanding of the guidebook among Group employees.
Promotion of Global Governance

Nippon Paint Holdings started to review the authority and responsibility for governance and management on regional and business bases in 2017. Based on the review, we designed a new regional headquarters system (RHQ system) with Nippon Paint Holdings serving as the global headquarters (GHQ) and launched a project to establish the Americas RHQ system in February 2018. The Americas RHQ system aims to enhance the financial risk management, and business planning functions that now cover the Americas as a whole. With this initiative, we seek to enhance proper governance based on local laws, business customs, etc. and achieve the prompt and accurate identification of growth opportunities and risks in each region, the acceleration of the decision-making process, and the streamlining and concentration of resources from the perspective of overall optimization in the region. We are continuously considering the introduction of the restructuring of the RHQ system, as currently promoted in the Americas, into other regions in sequence. We also recognize that the collaboration system with Singapore’s Wathem Group, which has been developed in Asia for more than 50 years, drives the growth of our Group as a whole and represents our unique business model. To further improve the cooperative management model in the “NN model” (cooperative model between Nippon Paint and NPSEA), we set up the NN Model Promotion Department to initiate activities to deepen it as a flagship model of Nippon Paint Holdings in January 2018. In the regions other than Asia as well, we aim to ensure that the “region x business matrix management” with focus on regional management based on the NN model is achieved in a healthy and autonomous manner in each region. We believe that the realization of this global NN model will build a strong collaboration system and enable optimal distribution of management resources on a global scale, which will realize global governance with prompt judgments for regional management and flexible business operations.

Establishment of an Internal Audit Department

We have set up the Corporate Audit Department in charge of internal audits, which reports directly to the President, with 16 members (who also serve in other positions). The Corporate Audit Department conducts internal audits to improve and enhance the internal control of Nippon Paint Holdings and Group companies and reports the results to the President, officers in charge of management, heads of the audited departments and audit & supervisory board members. In case of any problem in the results of an internal audit, the department seeks to solve it in consultation with the head of the department in charge through follow-up actions for the relevant department.

Promotion of Global Audits

Nippon Paint Holdings Group has grown to be a corporate body with many Group companies in Japan and overseas. While the Corporate Audit Department is responsible for internal audits in our Group, it is not realistic for the department to have all necessary skills for global audits alone. Such audits also require a full understanding of laws, regulations, business practices, and languages in the respective regions. Accordingly, we consider that coordination with regional headquarters and domestic operating companies is indispensable and conduct audits with an auditing system established based on the global governance system. More specifically, the Corporate Audit Department supports the audits conducted by regional headquarters in Asia and the Americas, as well as the audits conducted by domestic operating companies in Europe. In either region, the department directly conducts audits in key sites (companies).

Global Governance Organizational Chart

The Global Governance Organizational Chart illustrates the structure of the Global Governance system. The chart shows the Board of Directors of Nippon Paint Holdings (NPHD) and its subsidiaries. It is divided into Asia, Japan, Europe, and Americas regions. Each region is managed by a Regional headquarters, with various functional departments and operating companies responsible for specific tasks and responsibilities. The chart highlights the involvement of decision-making through EXCCO (Executive Committee).