Analysis of Operating Results for FY2020

The detailed analysis of operating results for FY2020.

Overview of consolidated financial results

During the fiscal year ended December 31, 2020, Nippon Paint Holdings (NPHD) and its group companies (collectively, the "Group") increased their profit by 12.9% from the previous fiscal year. The Group comprises NPHD and its group companies (collectively, the "Group") increased profit before tax by 11.6% to ¥8,715 million, and profit attributable to owners of parent increased by 21.6% to ¥44,648 million.

Revenue gap analysis

Operating profit gap analysis

Status of assets, liabilities and equity

Total assets as of December 31, 2020 increased by ¥136,737 million from the end of the previous fiscal year to ¥1,615,384 million. Current assets increased by ¥36,280 million mainly due to an increase in cash and cash equivalents, resulting from the acquisition of 100% ownership of the Brazilian JV DuluxGroup Limited, and an increase in retained earnings due to profit attributable to owners of parent.

Non-current assets increased by ¥457 million despite a decrease in other financial assets mainly due to an increase in property, plant and equipment. Liabilities increased by ¥124,911 million to ¥915,578 million mainly due to an increase in bonds and borrowings. Equity attributable to owners of parent increased by ¥11,826 million to ¥699,805 million. This was mainly attributable to a decrease in foreign currency translation adjustment and an increase in retained earnings due to profit attributable to owners of parent.

As a result, equity attributable to owners of parent to total assets decreased from 37.4% at the end of the previous fiscal year to 35.2%.

Status of cash flows

Cash flows from investing activities

Net cash used in investing activities decreased by ¥13,149 million from the previous fiscal year to ¥60,869 million. Primary factors include an inflow of ¥95,861 million due to an increase in borrowings, an outflow of ¥7,405 million due to repayments of lease liabilities.

Cash flows from operating activities

Net cash provided by operating activities decreased by ¥3,514 million from the previous fiscal year to ¥88,561 million. Primary factors include a decrease in funds of ¥16,025 million due to an increase in operating capital and income taxes paid of ¥26,682 million, despite a cash inflow (excluding increases and decreases in operating capital) of ¥131,249 million, reflecting mainly non-cash expenses such as depreciation and amortization on profit before tax.

Cash flows from financing activities

Net cash provided by financing activities decreased by ¥193,149 million from the previous fiscal year to ¥60,869 million. Primary factors include an inflow of ¥95,861 million due to an increase in borrowings, an outflow of ¥7,405 million due to repayments of lease liabilities.

Cash Flows

Opening balance of cash and cash equivalents ¥123,300 million

Ending balance of cash and cash equivalents ¥232,134 million

Effects of exchange rate fluctuations ¥228 million

Cash flows from investing activities

Cash flows from operating activities

Cash flows from financing activities

Cash and cash equivalents at the end of the fiscal year ¥232,134 million

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Sources of equity and liquidity of funds

The Group uses earnings from operating activities as the financial source for business activities and appropriates them for capital expenditure, R&D investment, operating capital, payment of dividends, and repayment of borrowings. To meet funding requirements necessary for strategic investment to achieve sustainable growth, we procure funds externally with consideration given to our earnings outlook, overall funding requirements, and repayment capacity, while maintaining financial discipline. During the fiscal year ended December 31, 2020, we obtained loans totaling ¥100 billion from financial institutions for the acquisition of 100% ownership of the Asian JVs and Indonesian business. As a result, the balance of loans and borrowings at the end of the fiscal year ended December 31, 2020, stood at ¥481,731 million for NPHD and ¥54,028 million for its consolidated subsidiaries. The Group had operating capital of ¥164,524 million at the end of the fiscal year ended December 31, 2020.

The status of each segment is as follows.

**Japan**

In this region, automotive coatings revenue was lower than in the previous fiscal year as a result of a decrease in automobile production due to COVID-19. Industrial coatings revenue was lower than in the previous fiscal year due to factors such as continued production cuts due to COVID-19 and weak market conditions accompanied by fewer new housing starts. Decorative paints revenue was lower than in the previous fiscal year due to COVID-19. As a result, consolidated revenue for the Japan segment decreased by 12.6% to ¥159,625 million. Consolidated operating profit decreased by 10.1% to ¥33,251 million. Consolidated operating profit included ¥26,079 million of dividend income from overseas group companies (¥12,585 million in the previous fiscal year). All of this dividend income is eliminated as an internal transaction under “intersegment eliminations and adjustments.”

**Asia**

In this region, automotive coatings revenue was lower than in the previous fiscal year because of decreased production of automobiles in the United States, a core region, due to the COVID-19 pandemic. Decorative paints revenue increased due to the brisk demand for housing accompanied by favorable weather. As a result, consolidated revenue for the Asia segment decreased by 0.7% to ¥356,609 million and consolidated operating profit increased by 8.2% to ¥54,957 million.

**Oceania**

In this region, the profit and/or loss of DuluxGroup Limited has been reflected in the Group’s consolidated financial results since September 2019. The performance in the decorative paints business remained strong, driven by consistently strong demand brought by enhanced home improvement activity resulting from the COVID-19 pandemic. Performance in the paint related business was robust due to strong home improvement demand. As a result, consolidated revenue in the Oceania segment increased by 21.1% to ¥148,290 million, and consolidated operating profit increased by 175.0% to ¥16,118 million.

**Americas**

In this region, there was a decline in automotive coatings revenue because of decreased production of automobiles in the United States, a core region, due to the COVID-19 pandemic. Decorative paints revenue increased due to the brisk demand for housing accompanied by favorable weather. As a result, consolidated revenue for the Americas segment decreased by 6.1% to ¥70,068 million and consolidated operating profit decreased by 10.0% to ¥4,507 million.

**Other**

In this segment, the profit and/or loss of Bettek Boya ve Kimya Sanayi Anonim Sirketi has been reflected in the Group’s consolidated financial results since July 2019. Automotive coatings revenue decreased from the previous fiscal year due to a sharp decrease in the production of automobiles in this region as a result of the COVID-19 pandemic. On the other hand, revenue for decorative paints and paint related businesses increased, driven by growth in housing starts and sales of existing houses in Turkey. As a result, consolidated revenue for the Other segment increased by 66.2% to ¥46,552 million and consolidated operating profit was ¥4,209 million (an operating loss of ¥6,972 million in the previous fiscal year).

Financial results by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>Revenue (Billion yen)</th>
<th>Operating profit (Billion yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>3,510</td>
<td>5.6</td>
</tr>
<tr>
<td>Asia</td>
<td>15,354</td>
<td>16.9</td>
</tr>
<tr>
<td>Oceania</td>
<td>3,826</td>
<td>6.8</td>
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<tr>
<td>Americas</td>
<td>2,581</td>
<td>5.5</td>
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<tr>
<td>Other</td>
<td>2,047</td>
<td>2.7</td>
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<tr>
<td>Total</td>
<td>356.6</td>
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</table>

Investment results by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>Number of employees (persons)</th>
<th>R&amp;D expenses (Billion yen)</th>
<th>Capital expenditure (Billion yen)</th>
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*1 Revenue excludes intersegment revenue.
*2 Revenue for the Japan segment for the fiscal year ended December 31, 2020, covers nine months from April 1 to December 31 due to a change in the accounting period.