Analysis of Operating Results

During the fiscal year ended March 31, 2016, net sales of NIPPON PAINT HOLDINGS CO., LTD. (the “Company”) and its group companies (collectively, the “Group”) increased by 105.6% from the corresponding period of the previous year (the “previous year”), to ¥ 535,746 million, due to the acquisition of equity of joint venture companies in the Asian region (making them into subsidiaries) in the previous year. Operating income increased by 111.4% from the previous year, to ¥71,352 million, as a result of the effects of acquiring equity in the joint venture companies and the recording of related amortization expenses for goodwill and intangible assets in selling and administrative expenses. Ordinary income increased by 51.4% from the previous year, to ¥74,606 million. Profit attributable to owners of parent decreased by 83.5% from the previous year, to ¥30,020 million partly due to posting of gain on step acquisitions of ¥148.8 billion as extraordinary income during the previous year, following the conversion of the aforementioned companies into subsidiaries.

Results by business segment are as follows. Overseas group companies, with the exception of some companies, adopt a December fiscal year-end, and a corresponding period for the period ended March 31, 2016 is from January to December 2015.

Japan
In this region, as a result of efforts to expand market share amid the decreasing number of automobiles manufactured, net sales of automotive coatings remained at the same level as the previous year. As for industrial coatings, in line with a decline in market conditions, decreased sales of coatings for construction materials and construction machinery and other factors led to lower net sales compared to the previous year.

With respect to trade-use paints, while performance has been weak in the overall market, owing to efforts in sales promotion activities including new products, net sales increased compared to the previous year.

As a result of these factors, net sales for the Japan segment decreased by 6.9% from the previous year, to ¥174,280 million. Operating income increased by 67.3% from the previous year, to ¥57,287 million due to the transition to a holding company that occurred on October 1, 2014 leading to the recording of dividend income from overseas group companies (recording ¥28,127 million for the fiscal year ended March 31, 2016), and continued activities to reduce costs. All of this dividend income is eliminated as an internal transaction under “Inter-segment transaction eliminations and other adjustments.”

Asia
In this region, net sales and operating income increased substantially due to the acquisition of equity of joint venture companies in the Asian region (making them into subsidiaries) during the previous year. Particularly, in China, the core region of the Asia segment, net sales were robust for trade-use paints such as paints for housing interiors. However, due to making the companies into subsidiaries, share of profit of entities accounted for using equity method decreased.

As a result of these factors, net sales for the Asia segment increased by 623.5% from the previous year, to ¥317,396 million, operating income increased by 733.3% from the previous year, to ¥37,748 million, and share of profit of entities accounted for using equity method decreased by 91.5% from the previous year, to ¥1,203 million.
In this region, net sales increased due to an increase in the number of automobiles manufactured. Furthermore, in addition to reduced expenses for the import of raw materials from Japan due to a strong dollar (a weaker yen), continued activities to reduce costs led to a significant improvement in profitability.

As a result, net sales for the Americas segment increased by 28.5% from the previous year, to ¥33,156 million, and operating income increased by 92.8% from the previous year, to ¥5,177 million.

Net sales for this geographic segment increased by 193.3% from the previous year, to ¥10,912 million due to the consolidation of a German paint manufacturer, Bollig & Kemper GmbH & Co. KG (B&K), and operating income or loss amounted to a loss of ¥897 million (income of ¥69 million in the previous year) partly due to an increase in amortization of goodwill.

Outlook for FY2016 (as of September 30, 2016)
Since the Company plans to change its fiscal year-end in the next period (period ending December 31, 2016), consolidated performance outlook for the next period is for the nine-month period from April to December for the Company and subsidiaries with fiscal year ending March 31 and is for twelve-month period from January to December for subsidiaries with fiscal year ending December 31.

Domestically, although a moderate economic recovery is expected, the future remains uncertain. Under such circumstances, for automotive coatings, amid forecasts for automotive production to increase slightly, the Company will aim to increase market share and enter new markets for parts manufacturers. We will continue efforts to increase our trade-use paints market share in the next fiscal year by moving forward with the introduction of new products to the market that match customer needs, and aim to establish a reputation in important markets through measures such as introducing new products to the market for residential materials coatings in industrial coatings.

Additionally, while price fluctuations in crude oil and naphtha are unpredictable, the three low-price strategies the Group has been pursuing (design / procurement / production) will continue to be implemented, ensuring profits by working toward the continued reduction of costs.

In Asia, deceleration is forecast to continue in emerging markets, mainly in China. Under such circumstances, the Company will work to share business strategies with the NIPSEA Group (*), which is operated together with Singapore’s Wuthelam Group, our joint venture partner for 50 years, and by executing business operation as a unified group, aim to further increase added-value for products and services in the region. Additionally, in China, which serves as the core market, the Company will continue with efforts to reduce raw materials costs under the Chinese Survival Challenge (Lean for Growth), achieving cost competitiveness and creating and rousing demand against a backdrop of high brand strength.

In the Americas, which is centered on automotive coatings, it is forecast that automotive unit production will continue to trend favorably, and the Company will aim to maintain and expand net sales and profits. In other regions, it is forecast that automotive unit production will trend strongly in Europe, and through B&K newly consolidated in April 2015, the Company will aim to expand market share and improve profitability.

As a result of the above factors, our outlook for next fiscal year’s consolidated business performance is ¥500.0 billion in net sales, ¥71.0 billion in operating income, ¥74.0 billion in ordinary income, and ¥34.0 billion in profit attributable to owners of parent.

* Abbreviation for Nippon Paint South East Asia, which manages our businesses in Asia.