



Basic & New

**NIPPON PAINT HOLDINGS**

# **Integrated Report**

# 2017

Year Ended December 31, 2016

## Management Philosophy

The Nippon Paint Group is committed to contributing to the welfare of society as a whole through its business activities, working together for the mutual prosperity and benefit of everyone.

## Group Vision

We will deliver satisfaction and deep impression to our customers by providing excellent specialty chemicals products and services, centering coatings technology

We will grow globally based on respect for the cultures and values of entire world

We will pursue corporate culture that accumulates people with challenging spirits and enthusiasm





### Editorial Policy

We started issuing the "Integrated Report" in FY2016.

Our report shows initiatives to improve corporate value, management policy, business strategy, as well as directions to become a "Global Paint Major."

The Nippon Paint Group comprises Nippon Paint Holdings Co., Ltd., and Group companies in Japan and overseas.

### The period covered and scope of the report

This report covers the fiscal year ending December 31, 2016 (April 1 to December 31, 2016). However, some information from before and after December 31 is also included in the report as necessary. In addition, as FY2016 marks a change in the accounting period, many of the FY2016 figures have been adjusted to cover the period from January 1 to December 31, 2016, in order to facilitate comparison with earlier financial results. If no special mention is made, the scope for compiling data is the same as scope of consolidation.

### Corporate Profile

Name: Nippon Paint Holdings Co., Ltd.

Head Office: 2-1-2 Oyodo Kita, Kita-ku,  
Osaka 531-8511 Japan

Tel: (+81) 6-6458-1111

Founded: March 14, 1881

Capital: 78,862 million yen

Number of Employees : 224 (Consolidated: 16,872)  
(as of December 31, 2016)

Representative: Tetsushi Tado, President & CEO

Our Businesses: Establishment of group strategies,  
management of group companies  
(Nippon Paint Holdings)

Manufacturing and selling paints  
and fine chemicals  
(Each operating company)

## CONTENTS

### 03 Business and Markets

### 05 Business Strategy and Strengths

### 07 Business Plan and Expansion Measures for FY2017

### 09 Message from CEO

### 13 Eco-Friendly Products and Technologies -Changing the World through the Power of Paints-

### 15 Financial Highlights for FY2016

### 18 Initiatives to Support Our Corporate Values

#### Global Environment and Safety

Promoting Responsible Care/Preventing Climate Change/  
Waste Reduction and Zero Emissions/  
Comprehensive Management of Chemical Substances/  
Air and Water Conservation/Occupational Health and Safety

#### Living with Society

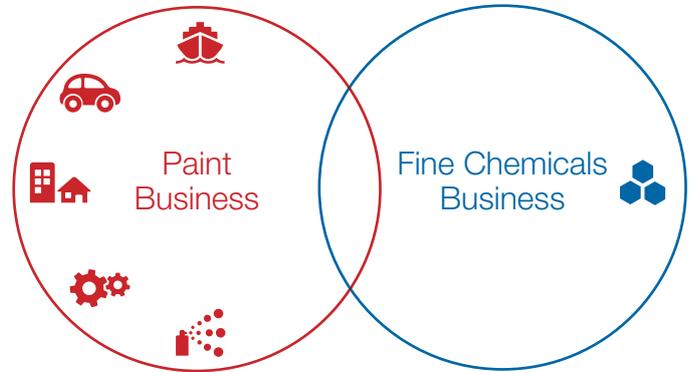
Maintaining and Improving Product Quality/  
Supply Chain Management/Employee Engagement/  
Contributions to Local Communities and International Society

#### Corporate Governance

# Business and Markets

Nippon Paint Group operates a paints business and a fine chemicals business.

Nippon Paint Group is a comprehensive paint manufacturer that offers a broad variety of products and services, ranging from high quality and high-functionality paints, surface treatment agents that provide functionality in materials in the pre-painting process, eco-friendly products, and systems proposals to improve paint process efficiency.



## Paint Business

**Sales Composition ratio\***  
**46%**

### Trade-use paints and house paints

● Major sales regions

We provide paints used at a wide variety of construction sites, including for detached houses, buildings and bridges. Of course, eco-friendly paints are part of our product line-up, as are paints that increase functionality, including paints that protect structures from corrosion.



**Sales Composition ratio\***  
**27%**

### Automotive coatings

● Major sales regions

We provide paints with high quality and performance to global automakers for all paint processes, ranging from electrodeposition paint to paint for middle-coating and top-coating.



**Sales Composition ratio\***  
**13%**

photo credit: East Japan Railway Company

### Industrial coatings

● Major sales regions

We provide highly functional paints for a broad range of industries, such as construction machinery, agricultural machinery, exterior building materials, office equipment and home electronic products with pre-coat and post-coat paints, as well as powder paints that do not include solvents. We continue to expand the market regions we target in Asia.

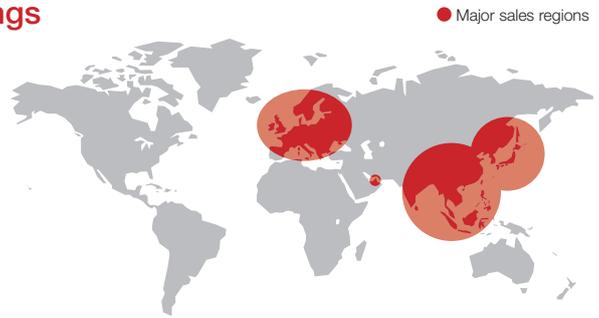


\* From FY2016, the end of the fiscal year was changed from March to December. To facilitate comparison with earlier financial results, this report uses the actual results for the twelve-month period from January 1 to December 31, 2016.



### Marine coatings

Developing and launching paints that are both eco-friendly and economical, including ultra fuel-saving antifouling paint offering superior fuel economy and compliance with global environmental regulations in the shipbuilding and marine industry.



### Auto refinish paint

Using cutting-edge technologies cultivated for new automotive OEM coatings, we developed proprietary automotive refinish paints appropriate for refinishing. These paints help reduce the burden on the environment and lead to a more efficient refinishing process.

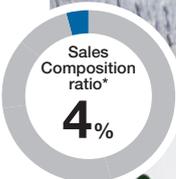
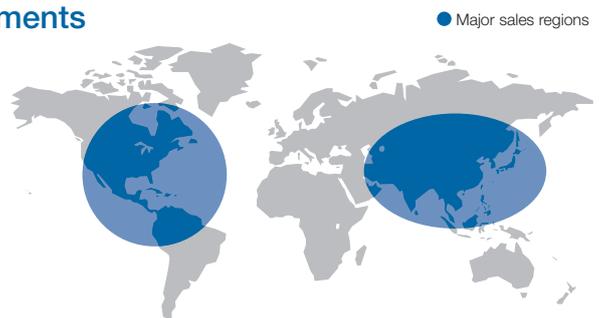


## Fine Chemicals Business



### Surface treatments

Surface treatments are required for a broad range of industrial applications. We develop advanced products, such as surface treatments with an affinity to paints and functional thin-film paints that serve the needs of various customers.



### Fine products

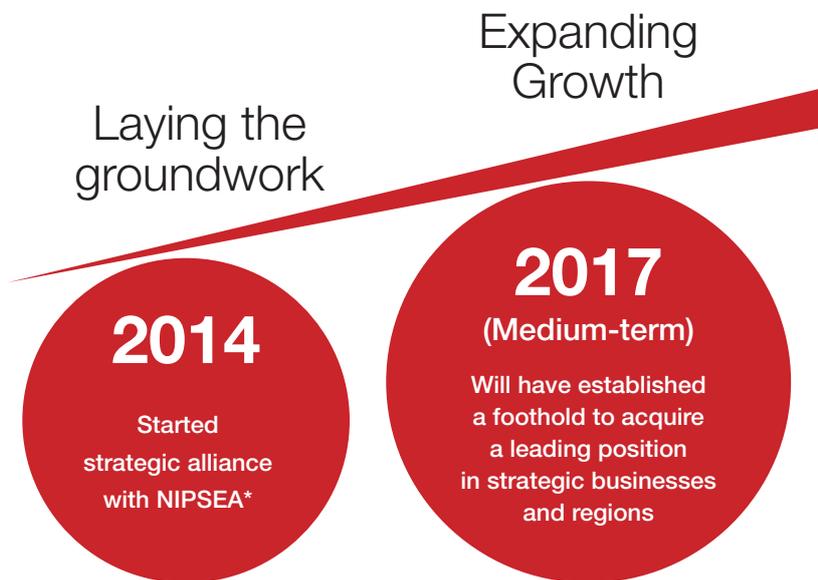
We develop paint products that contribute to society's needs and helps solve certain problems from a global perspective. We offer solutions such as UV-curable coating materials and ultrafine organic particles utilizing advanced technologies.



# Business Strategy and Strengths

Nippon Paint Group has outlined objectives that seek to realize a medium- to long-term vision for continuous growth as a global company. We have taken up the challenge of becoming a “Global Paint Major” that stands shoulder-to-shoulder with the world’s leading manufacturers. We are particularly focused on China, where we expect growth thanks to strong brand recognition and a nationwide sales network. We will be working to expand our business in China even further.

\* NIPSEA  
Abbreviation for Nippon Paint South East Asia, which operates businesses in Asia



# To be a Global

**We have positioned China as the most important market and will continue working to expand market share for our trade-use paint products.**

## Reasons for positioning China as the most important market

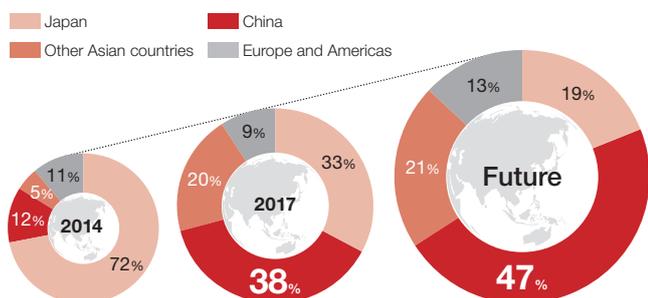
Asia accounts for roughly 45% by value of the global paint market. We believe the market has opportunities for further growth. In Asia, and particularly in China, while economic growth is said to be slowing, the paint market continues to experience strong growth.

We established a local Chinese subsidiary, Nippon Paint China in 1992, and it has been posting remarkable results. We expect this business to expand further and have positioned China as our most important market.

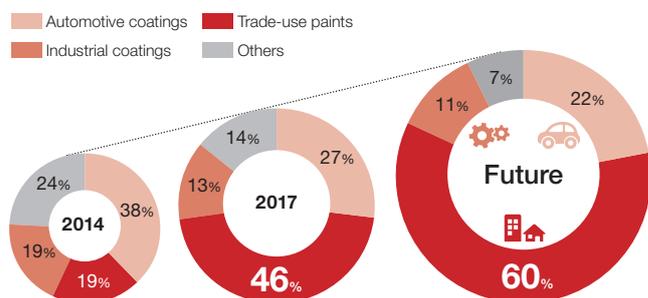
## Concentrate on trade-use paint business (mainly decorative paints)

Trade-use paint products occupy roughly 41% of the global paint market in terms of sales. They are highly profitable and the scale of the market in China—our most important market—is significant. It is also expected to expand further. Nippon Paint China has a large market share, particularly for trade-use paint products (31% share of DIY interior paints for consumers in 2016) and should continue to grow going forward.

Sales composition plan by region (consolidated)



Sales composition plan by business (consolidated)



Aim to be  
the global  
market leader

# Global Paint Major

From **2020**  
(Long-term)

Will have attained a leading  
position in strategic businesses  
and regions, and built  
a foundation for growth

Our coating and related businesses  
will have attained a leading position  
in each global region, and  
built a foundation for growth

## Management philosophy and vision

# Paint Major

### Strengths in trade-use paints in China

One of our strengths in China and other Asian markets is our partnership with Singapore's Wuthelam Group (hereafter "Wuthelam"). Since 1962 we have worked together to expand business operations throughout Asia, relying on the Nippon Paint Group's prowess in technical development and production, and Wuthelam's prowess in local management, sales, and marketing.

The Nippon Paint Group relies first and foremost on its brand strength. We began business in China in 1992, at a time when interior paints had yet to become common. By providing quality products and conducting aggressive advertising activities, we built strong brand recognition and an extremely high level of trust in "LiBang", our brand in China. In a brand reputation survey conducted annually by a British marketing company, LiBang has been the only brand selected five years in a row as a Big Six brand in the Super Brands China survey. It is also the only paint manufacturer to have been selected at all. Furthermore, according to a survey of our own, LiBang's Net Promoter Score (the ratio of buyers who recommend LiBang's service to a third party minus buyers who do not) improved from 65% in 2014 to 99% in 2016.

As the majority of sales in China are B2C (business to consumer), strong brand value is extremely important for expanding sales. To maintain and enhance brand value going forward, we will strive to improve our reputation for reliability even further by enhancing our range of eco-friendly products, which are of interest to consumers, aggressively conducting advertising activities, and deploying a variety of CSR activities.

Following brand value, our second strength is our sales network. We have been working to develop robust sales channels since we began doing business in China and now have more than 40,000 exclusive and

multi-brand stores throughout China. We already have a high degree of penetration in metropolitan areas and will be aiming to enhance our sales network further, chiefly in China's interior. Using our sales network, we will be striving to develop the repainting market and capture demand in that market. We are steadily expanding our repainting service to new areas and were in 90 cities as of 2016 (compared to 61 in 2015).

### Major initiatives—Investment and M&A

To further solidify our position in the Chinese market, we will continue to aggressively pursue capital investment in China. Of the ¥50 billion we have slated for capital investment under the current medium-term management plan (FY2015-FY2017), we expect to invest roughly ¥30 billion in China. This investment is primarily intended to increase production capacity and respond to environmental regulations. Specifically, we will establish nine new production sites for construction paints, starting with two large-scale plants. The purpose of these new plants is to respond to stricter environmental controls and increased demand for eco-friendly products.

Our M&A strategy is to study geographical and operational segments to locate companies that will complement and generate synergy with our existing businesses. We are prioritizing M&A opportunities in Asia, especially in China, and will consider any "complementary M&A" involving fields in which the Nippon Paint Group is not yet involved and coordination with manufacturers possessing notable strengths in certain fields.

At the same time, in order to avoid overemphasis on China and Asia in general, and with the aim of establishing second and third pillars in the Americas and Europe, we will actively evaluate M&A opportunities that can help us realize inorganic growth while giving consideration to a balance between regions and businesses.

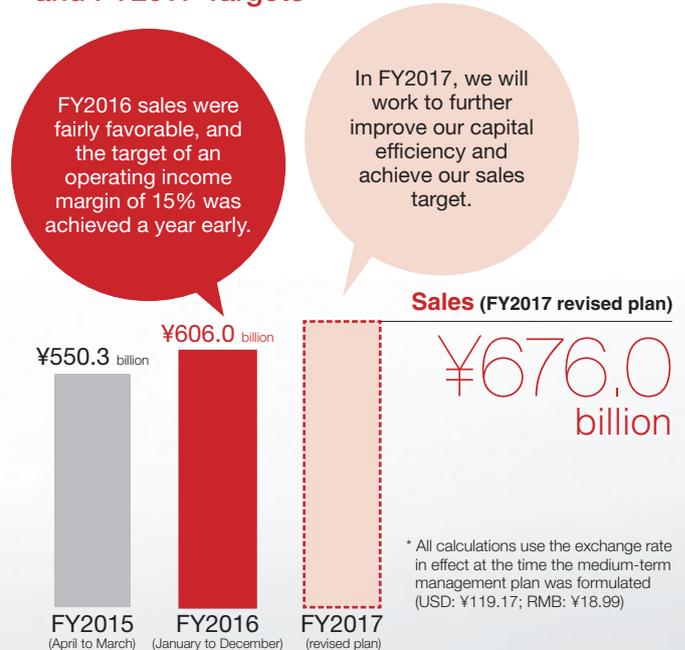
# Business Plan and Expansion Measures for FY2017

We started medium-term management plan “Survival Challenge” to tackle fundamental structural reforms after the global financial crisis in 2008. Following six years of “Survival Challenge” (Stages I and II), during which profit was steadily expanded, we positioned 2015 to 2017 as the first part of Stage III, targeting sales of ¥700 billion and operating income margin of 15% in FY2017.

“Future Pull” is one of the keys behind our efforts to achieve the targets in the management plan. First, we set an ambitious goal of becoming a Global Paint Major, then we implemented the course of action in reverse from our ideal state in a few years to what we must do today. Focusing on our business based on this approach resulted in higher net sales and operating income in FY2016 than in FY2015.

From FY2017, we will focus on expanding our existing businesses to maintain growth, particularly in Japan and Asia, and will aggressively invest in M&A and strategic partnerships to accelerate our growth in the global market.

## Medium-Term Management Plan Progress and FY2017 Targets



## Growth Strategy: Establishing a Business Structure with a Competitive Advantage

### Growth Strategy

- 1. Integrated management of the Nippon Paint Group**
- 2. Establish strong operating companies**  
Strike a balance between the delegation of authority and group governance.
- 3. Formulate and implement a Future Pull plan**  
Thoroughly discuss the “why” and “how” for achieving goals.
- 4. Deepen and expand strategic alliances**  
Share the vision with NIPSEA and implement a new alliance strategy.
- 5. Promote diversity management**  
Change the mindset and create a corporate culture that recognizes and accepts “difference.”

### FY2017 Project Themes

#### Steering committee for reformulating management philosophy

Establish a management philosophy that can be shared among group companies worldwide.

#### Steering committee for establishing group governance

Establish a model and goals for future group governance under a matrix structure based on operational and geographical segments.

#### Project to reorganize domestic production

Formulate a plan to handle issues with domestic production and verify its effectiveness.



## Ongoing growth led by expanded operations for automotive coatings and trade-use paint businesses

(unit: ¥bn)

		FY2016 <sup>*1</sup> (January to December)	FY2017 (revised plan)
Paint Business	Automotive coatings 	139.38	149.1
	Trade-use paints 	236.88	285.1
	Industrial coatings 	68.29	69.5
	Others	51.49	54.1
	<b>Total</b>	<b>496.04</b>	<b>557.8</b>
Fine Chemicals Business 	18.04	19.2	
<b>Total</b>	<b>514.08</b>	<b>577.0</b>	

## Sustaining Growth, particularly in Japan and Asia

(unit: ¥bn)

		FY2016 <sup>*1</sup> (January to December)	FY2017 (revised plan)
Japan	Net sales	171.61	181.0
	Operating income <sup>*2</sup>	32.16	32.8
Asia	Net sales	297.75	311.1
	Operating income	43.34	45.6
Americas	Net sales	32.17	71.4
	Operating income	5.15	5.9
Others	Net sales	12.55	13.5
	Operating income	-0.37	0.2

<sup>\*1</sup> From FY2016, the end of the fiscal year was changed from March to December. To facilitate comparison with earlier financial results, this report uses the actual results for the twelve-month period from January 1 to December 31, 2016.

<sup>\*2</sup> Excluding dividends from overseas group companies

### Tasks and Measures Going Forward

#### Optimization of global governance

**Tasks** Establish a more effective global corporate governance framework as the Nippon Paint Group, encompassing the eight joint venture companies in Asia made consolidated subsidiaries in 2014.

**Measures** In addition to geographical segment governance systems, we must conduct global business management for operational segments. In light of the increasing complexity of the situation, we have begun studying new definitions pertaining to governance and management for the various geographical and operational segments.

#### Balanced business development

**Tasks** Eliminate dependence on specific areas and review our portfolio

**Measures** In order to build a second pillar, we are considering the possibility of M&A and strategic partnerships, while keeping under consideration a balance between regions and businesses. In March 2017, we acquired the US paint manufacturer Dunn-Edwards Corporation. We will continue to explore other potential M&A.

## Message from CEO

# Completing current medium-term management plan in FY2017 and continuing growth to become a “Global Paint Major”

### Tetsushi Tado

President & CEO  
Nippon Paint Holdings Co., Ltd.



### The aim to become a Global Paint Major

Recently in the global paint industry, there have been an increasing number of acquisitions and alliances. In 2016, major U.S. paint manufacturer Sherwin-Williams agreed to acquire Valspar, also a U.S. manufacturer, and the transaction was completed in June 2017, resulting in the world's largest paint manufacturer. In March 2017, PPG Industries, the world's second largest paint manufacturer, proposed the acquisition of the world's third largest, AkzoNobel, but the offer was eventually withdrawn. In this manner, the industry is clearly in a period of active reorganization.

In order to survive in the paint industry, we at Nippon Paint Group believe it is imperative we cultivate an environment that gives us a competitive edge in terms of management efficiency, management strategy, corporate culture, organizational structure, and guidelines for employee conduct. Once that has been done, we must strive to achieve the targets of the medium-term management plan that is already under way.

Even beyond the current medium-term management plan, we will continue to aim higher, in the longer term targeting well over ¥1 trillion in sales to become a Global Paint Major that stands shoulder-to-shoulder with the industry's top manufacturers.

The Nippon Paint Group was founded 136 years ago. There are several thousand companies in Japan that were founded more than 100 years ago, but we wonder how many of these time-honored companies have made the commitment to expand globally. There is no guarantee they will be able to continue hereafter. To survive, they must maintain their competitive edge, increase their corporate value, and maximize their potential. In our own case, we believe our best option is to continue our expansion on the global stage.

In any case, the next step to becoming a Global Paint Major is to complete the current medium-term management plan in FY2017.

## Business expansion strategy

### Promotion of expansion measures in China, the world's largest market

From a global perspective, business development in various regions is steadily beginning to bear fruit.

In China, the world's largest market, the B2C trade-use paint (business to consumer for housing interior paint) business is responsible for the bulk of sales. We are proceeding with business expansion measures suited to conditions in both major metropolitan areas and regional urban areas. In the big cities primarily along the coast, repair-related demand is increasing. In order to capture as much of this demand as possible, we are steadily increasing the number of cities in which we offer our repainting service, going from 61 in 2015 to 90 cities in 2016. The one-stop service involves not just the selling of paint, but spatial design, paint selection assistance, painting, and follow-up service.

On the other hand, for the smaller regional cities in the interior, we seek to capture share from the competition by expanding our sales network and focusing on the low- to mid-price zone.

In the area of B2C housing interior paints, brand strength is extremely important for expanding sales. To increase our competitiveness, we have conducted significant advertising and have actively involved ourselves in philanthropic projects. As a result, LiBang, our brand in China, has been selected five years in a row as a Big Six brand in the Super Brands China brand perception survey, indicating that LiBang is a recognized and trusted brand.

In addition, in terms of complementary M&A, since there has been a rapid shift from B2C to B2B (business to business) accompanying a change in lifestyles, we acquired paint manufacturer Huizhou CRF, which is strong in factory-use paints, especially wood coatings for furniture.

Of course, a business structure heavily oriented to China poses certain risks. To achieve a strong business foundation, we are also interested in expanding our businesses in international monetary blocks that are not sensitive to fluctuations in the Renminbi.

### Establishing second and third pillars to become a Global Paint Major

In India, we deepened our cooperation with major paint manufacturer Berger Paints and integrated our respective automotive coatings businesses as a joint venture. In 2017, the joint venture company started shipping products to the new plant of a Japanese manufacturer, so the results of our cooperation are already becoming evident. Furthermore, working together with Berger Paints, we are also strengthening our approaches to Indian manufacturers.

In the Southwestern U.S. we acquired Dunn-Edwards Corporation, a manufacturer with a leading position in professional-use decorative paint. The population of the American Southwest is growing at a faster rate than any other region of the U.S., so it is likely that demand for decorative paint will show stable growth. Previously, business in the Americas centered on the automotive coatings business, but this acquisition gives us a foothold in the decorative paint business in North America. By deploying Nippon Paint Group's cost-reduction methods, we expect to improve profitability even further.

In order to realize a strong business foundation, we want to secure business worth ¥100 billion in the Americas and Europe and will therefore continue searching for partners who can help us realize synergies through collaboration.

In FY2016\*, on a consolidated basis we had sales of ¥514.1 billion and operating income of ¥80.0 billion. We were unable to absorb the negative impact of foreign exchange fluctuations, so sales were down year-on-year, but most regions had higher sales and income on a local currency basis. In addition, we were able to achieve an operating income margin of 15%, one of the targets of the current medium-term business plan, a year early. We will strive to maintain this income level in FY2017.

For several years starting in FY2018, we plan to reorganize our domestic production sites to create an environment in which, even in mature markets, we can maintain superior competitiveness and secure stable income.

\* From FY2016, the end of the fiscal year was changed from March to December. To facilitate comparison with earlier financial results, this report uses the actual results for the twelve-month period from January 1 to December 31, 2016.

# Message from CEO

## Management with an awareness of ESG

### Optimizing the global governance system

In the two years since I assumed the presidency, we have been working toward becoming the sort of company we want to be in the long run, and I believe our persistent efforts have produced a certain degree of results. FY2017 is the final year of our current medium-term management plan, and we will be planning carefully in order to achieve the goals of the plan.

We are beginning to see the effects of the division into operating companies and the consolidation of joint ventures in Asia. Discussion between the operating companies and overseas group companies has helped to deepen understanding on both sides, and this has had a positive impact on business. At the same time, we are beginning to see issues in the various regions more clearly.

The biggest issue is the need for further improvement to management and governance. In January 2016, the Business Management Control Policy was revised to clarify the authorities and responsibilities of each company, and business management has proceeded based on that policy. However, the governance

system for the conventional geographical segments (Japan, Asia, the Americas, and Others) overlap with the governance system for automotive coatings, trade-use paints, industrial coatings, and other operational segments, making governance very complicated.

In light of the circumstances, we have begun studying new definitions pertaining to governance and management authorities and responsibilities for the various geographical and operational segments. We will propose plans regarding the prompt and accurate tracking of growth opportunities and risks by region, accelerated decision making, and selection of regions for concentration of resources with a view to optimization. Our aim is to create a matrix structure with implementable geographical segment governance as the warp and global oversight of operational segments as the weave.

We will be working to create a system that facilitates reliable global management as a cross-function between geographical and operational segments. By ensuring that this system functions as it should and by working together as a group to expand operations, we believe we can move closer to our goal of becoming a Global Paint Major.

### Promoting eco-consciousness and diversity

We at Nippon Paint Group believe that promotion of eco-consciousness and diversity are indispensable to becoming a Global Paint Major. We are therefore working to promote both aspect in order to strengthen our corporate culture, establish a superior competitive position, and achieve sustainable growth.

In terms of eco-consciousness, China, the world's largest market, has recently been strengthening its environmental regulation in the face of social issues such as environmental pollution and the management of hazardous materials.

We have been pouring effort into the development and deployment of eco-friendly products in order to accelerate the shift from solvent-based paints to water-based paints and powder paints. For example, we have been diligently working to develop products that provide a thermal insulation function or fuel-saving function for marine use. Such products can lead to a reduced environmental burden. We believe the development



and deployment of such eco-friendly products can provide opportunities for business growth.

In addition, as we restructure our production sites, we are working to improve the eco-consciousness of our production facilities. In China, our integrated, local, and specialized plants are all part of our overall production supply chain, and we plan to increase our integrated plants from five to seven and specialized plants from 17 to 25 by 2018. Our aim is to have all production sites be both optimally functional and eco-conscious.

In terms of promoting diversity, in April 2016 we established a Diversity Promotion Unit to help us become a company where all employees can achieve their full potential. We promote both intellectual diversity and the creation of an environment in which employees can experience job satisfaction. Specifically, we will be addressing four areas: changing mindsets and engendering an appropriate corporate culture, training diverse human resources and helping them flourish, reforming work style, and ensuring a system for leveraging diversity.

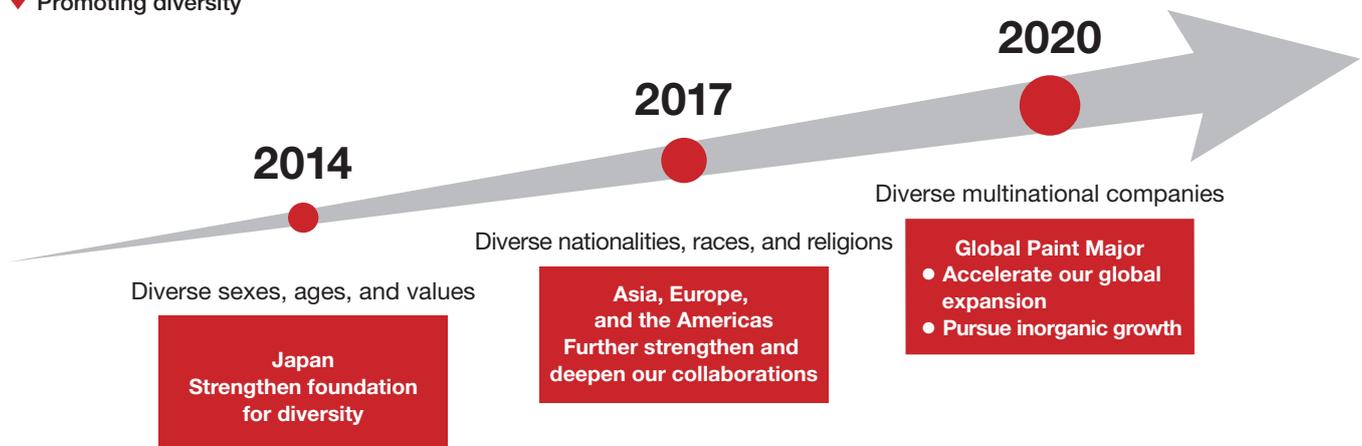
It is no easy feat to transform the disposition of Japanese people to make them more globally oriented, as Japanese

people are almost natural introverts and do not easily interact with different cultures. Nevertheless, we believe it is critical to break out of the prototypical group-think mindset, and to that end we are conducting study meetings, lectures, and training for each employee level. Although we have seen some results from initiatives undertaken in 2016, it is essential that we continue with reforms to improve diversity, which is the source of our competitiveness on the world stage. It is our desire that employees take responsibility for their own growth and independently select the work style that best suits them, that our corporate culture, systems, and arrangements allow them to execute their duties appropriately, and that we have a cycle in which employee growth is reflected in company growth and vice versa.

We are working as a unified group in striving to foster new growth and further enhance corporate value, and we hope to be able to meet the expectations of shareholders, investors, and all of our stakeholders.

We therefore ask for your continued consideration and support.

▼ Promoting diversity



Create diversity that is not observable (intellectual diversity) using diversity that is observable, such as age, sex and nationality.

# Eco-friendly Products and Technology

## –Changing the World with the Power of Paints–

### Mitigating the heat island phenomenon through the power of high-reflectance paint

#### Controlling rises in temperature with improved reflectance

Rises in temperature during the summer due to the heat island phenomenon are a serious social issue, especially in metropolitan areas, and recently a variety of countermeasures have been studied.

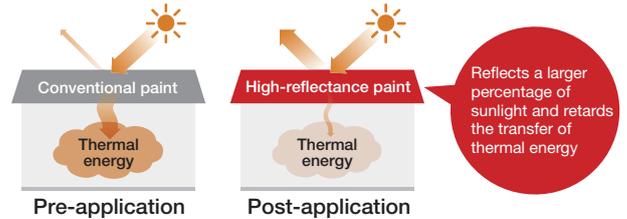
Sunlight, especially infrared radiation, contains thermal energy. Thermal energy is transferred to objects when they are exposed to infrared radiation, and this raises their temperature. This is one of the biggest factors behind the heat island phenomenon.

Nippon Paint Group has developed high reflectance paints that reflect sunlight extremely well. In 1999, the Nippon Paint Group was the first to sell what are now commonly called high-reflectance paints for use on the roofs of factories and warehouses.

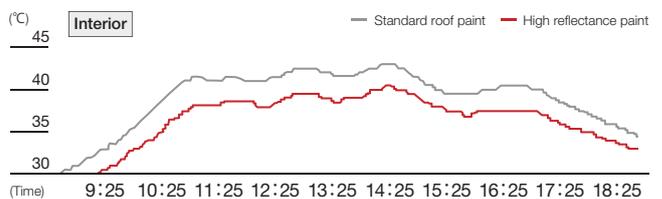
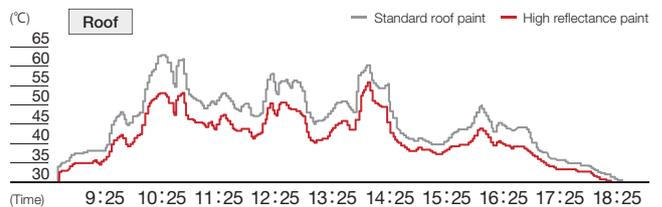
Since that time, we have launched a number of other products for use on road surfaces, marine vessels, and railway cars. In 2008, we repainted the entirety of the Takahama plant operated by what is now Nippon Paint Automotive Coatings Co., Ltd. (NPAU) with the first eco-friendly paint using high reflectance technology. Our strategy was to use the plant in presentations, and indeed it has contributed to raising awareness of high-reflectance paints and relieving the heat island phenomenon.

In recent years, we have included high-reflectance paints in our lineup for private residences and now produce a broad range of weather-resistant and stain-resistant high-reflectance paints.

#### Comparison between high-reflectance paint and standard roof paint



#### Temperature trends by paint type



\* Measurement environment: Prefab house at Takahama plant of NPAU (current name), using high-reflectance paint from Nippon Paint Group (July 18, 2009 / High of 31.7°C / Low of 23.9°C)

#### Launch of the world's first high-reflectance paint for automobiles

#### Displaying design sense, thermal barrier properties, weather resistance, and stain resistance

Using the high reflectance paint technology cultivated within the group since 1999, we have developed an auto body coating displaying design sense, thermal barrier properties, weather resistance, and stain resistance. The use of Nippon Paint Group high-reflectance paint on automobiles is the world first.



Toyota Prius "Thermo-Tect Lime Green"

#### Promoting high-reflectance paint for roadway use in time for the Tokyo Olympic Games

#### Reducing the rise in road surface temperatures and lightening the burden on athletes

Leading up to the 2020 Tokyo Olympics, we are promoting the use of high-reflectance paint on the roadways to be used for the marathon. The road surface in summer can reach 50°C, so using the paint to keep the temperature down would lighten the burden on participating athletes.



## Improving the fuel efficiency of marine vessels through the power of biomimetic coatings

### Reducing friction drag on the hull improves fuel efficiency

According to an announcement by the International Maritime Organization (IMO), international shipping emits some 800 million tonnes of CO<sub>2</sub>, or about 3% of total global emissions. This is roughly equivalent to all the emissions produced by Germany in one year.

Reducing CO<sub>2</sub> emissions is a global issue, and the IMO is requiring all vessels of 5,000 tonnes or more that travel internationally to report operational data including fuel consumption, traveled distance, and traveling time from 2019 onward.

The hulls of marine vessels tend to accumulate barnacles, algae, and other marine life that increase drag on the hull, causing the vessels' fuel efficiency to deteriorate.

Nippon Paint Group has been putting its energy into the development of hydrolysis-type marine vessel antifouling paint, which prevents marine life from adhering to the hull by hydrolyzing the coating film, and in particular has been proceeding with a shift to antifouling agents with less environmental impact. In 1990, we developed the world's first tin-free hydrolysis-type antifouling paint. In 2008, in addition to the antifouling function, taking hints from the skin of tuna and dolphins, we developed "LF-Sea," a low-fuel-consumption antifouling paint that which uses biomimetic technology to further



The Queen Elizabeth coated with A-LF-Sea

reduce drag on vessel hulls. In 2013, we developed "A-LF-Sea," which is even better at improving fuel efficiency.

By developing antifouling paints for marine vessels with an eye on both reducing environmental impact and improving fuel efficiency, Nippon Paint Group contributes to the reduction of global CO<sub>2</sub> emissions.

## World first! Biocide-free self-polishing antifouling paint AQUATERRAS

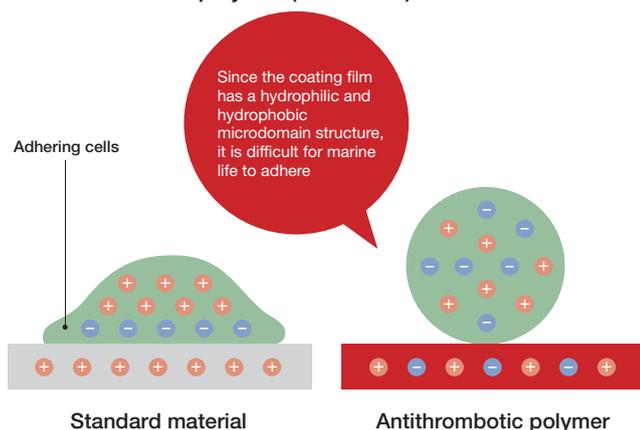
### Contributing to long-term antifouling and improved fuel efficiency for marine vessels

Leveraging hydrolyzing resin technology and R&D results accumulated within the group, we developed the world's first hydrolysis-type biocide-free antifouling paint for marine vessels. Using a hydrophilic and hydrophobic microdomain structure suggested by the function of antithrombotic polymer. It prevents marine life from adhering to the hulls of marine vessels and has long-term stain resistance due to the self-polishing effect of the

hydrolysis reaction on the surface of the coating film.

In addition, thanks to the complete absence of antifouling agents, the paint has a much smoother finish than conventional products, reducing friction and improving fuel efficiency. The further development of biocide-free antifouling paint AQUATERRAS, with its decreased burden on the marine environment, will also help to reduce CO<sub>2</sub> emissions.

#### ▼ Hydrophilic and hydrophobic microdomain structure of antithrombotic polymer (illustration)



Yugemaru, training vessel of the National Institute of Technology's Yuge College, after being painted with AQUATERRAS

# Financial Highlights for FY2016

(as of December 31, 2016)

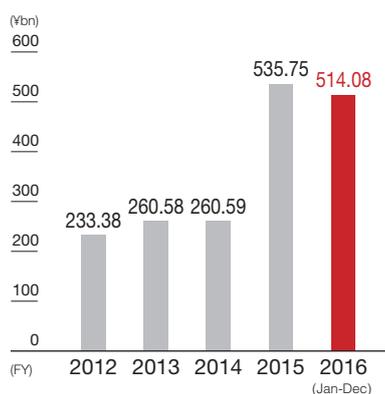
From FY2016, the end of the accounting period was changed from March 31 to December 31.

The period for disclosure of consolidated results in FY2016 is the nine-month period from April 1 to December 31, 2016, for the parent company and subsidiaries whose accounting period heretofore ended with March, but the twelve-month period from January 1 to December 31, 2016, for subsidiaries which already had an accounting period ending in December.

However, in regard to FY2016 earnings, in order to allow readers to better understand the earnings status and to facilitate comparison with earlier financial results, this report in most cases uses the actual results for the twelve-month period from January 1 to December 31, 2016. The displayed figures have been rounded off.

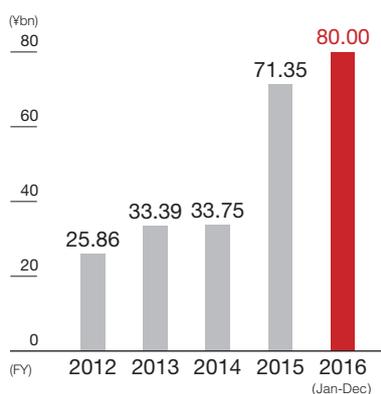
## Net sales

¥514.1<sub>bn</sub>



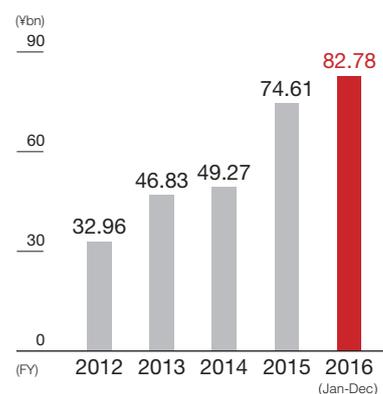
## Operating profit

¥80.0<sub>bn</sub>



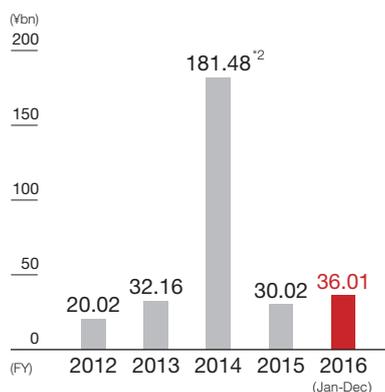
## Ordinary income

¥82.8<sub>bn</sub>



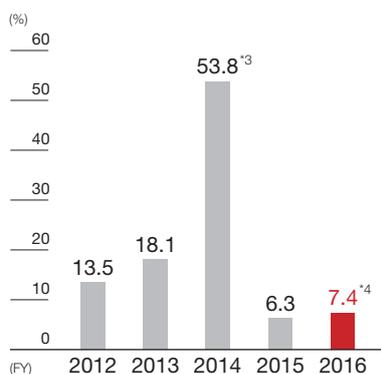
## Net income<sup>\*1</sup>

¥36.0<sub>bn</sub>



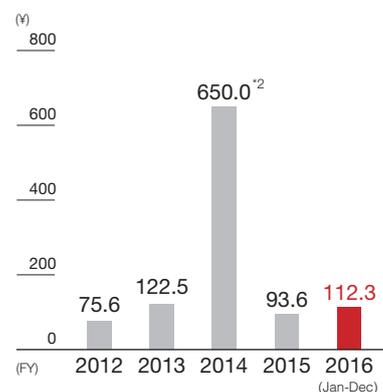
## ROE

7.4%<sup>\*4</sup>



## Net income per share

¥112.3



## Consolidated financial results for the past five years

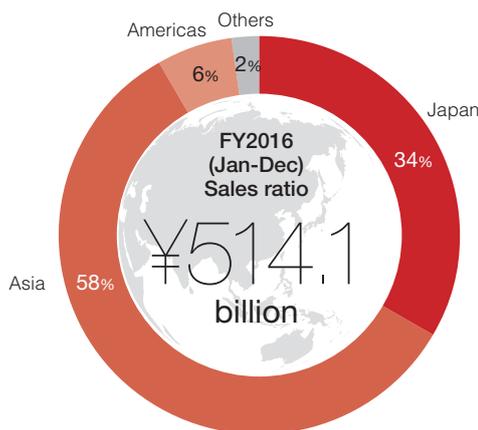
		2016 (Jan-Dec)	2015	2014	2013	2012
Net sales	(Billions of yen)	514.08	535.75	260.59	260.58	233.38
Operating profit	(Billions of yen)	80.00	71.35	33.75	33.39	25.86
Ordinary income	(Billions of yen)	82.78	74.61	49.27	46.83	32.96
Net income <sup>*1</sup>	(Billions of yen)	36.01	30.02	181.48 <sup>*2</sup>	32.16	20.02
ROE	(%)	7.4 <sup>*4</sup>	6.3	53.8 <sup>*3</sup>	18.1	13.5

\*1 Profit attributable to owners of parent

\*2 Due to the booking of an extraordinary profit of ¥148.8 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 9.7% when the extraordinary profit mentioned above is subtracted from net income. \*4 Disclosed results (relevant period: Apr-Dec for Japan; Jan-Dec for overseas)

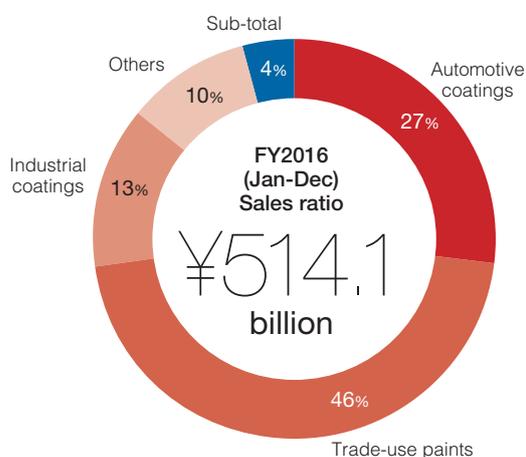
## Consolidated net sales by region



		(Billions of yen)				
		2016 (Jan-Dec)	2015	2014	2013	2012
Japan	Net sales	171.61	174.28	187.20	187.48	174.52
	Operating profit	32.16	29.16	26.41	27.02	22.44
Asia	Net sales	297.75	317.40	43.87	45.71	37.07
	Operating profit	43.34	37.75	4.53	4.26	2.45
Americas	Net sales	32.17	33.16	25.79	23.55	19.14
	Operating profit	5.15	5.18	2.69	1.98	0.92
Others	Net sales	12.55	10.91	3.72	3.84	2.65
	Operating profit	-0.37	-0.90	0.07	0.08	-0.08

\* Excluding dividends from overseas group companies

## Consolidated sales by business segment



		(Billions of yen)				
		2016 (Jan-Dec)	2015	2014	2013	2012
Paint Business	Automotive coatings	139.38	138.76	93.35	92.51	81.29
	Trade-use paints	236.88	253.35	45.79	50.06	43.77
	Industrial coatings	68.29	68.28	46.45	47.56	43.64
	Others	51.49	57.97	59.50	55.81	51.69
	Sub-total	496.04	518.36	245.09	245.94	220.39
Fine Chemicals	18.04	17.38	15.50	14.64	12.99	
<b>Total</b>	<b>514.08</b>	<b>535.75</b>	<b>260.59</b>	<b>260.58</b>	<b>233.38</b>	

## Investments and other expenses

		(Billions of yen)				
		2016*	2015	2014	2013	2012
Capex	21.02	19.03	5.13	5.98	5.11	
Depreciation	13.55	16.18	5.90	6.11	6.42	
R&D expenses	12.04	15.18	5.99	5.92	6.02	

\* Disclosed results (relevant period: Apr-Dec for Japan; Jan-Dec for overseas)

## Consolidated cash flow

		(Billions of yen)				
		2016*	2015	2014	2013	2012
Cash flow from operating activities	77.92	63.10	34.42	26.92	31.85	
Cash flow from investing activities	-42.70	-5.31	-86.97	-7.17	-6.92	
Cash flow from financing activities	-8.58	-24.70	85.30	-21.03	-18.74	

\* Disclosed results (relevant period: Apr-Dec for Japan; Jan-Dec for overseas)

# FY2016 Highlights

## Regarding FY2016 results and change of accounting period

Starting with FY2016, the end of the accounting period was changed from March 31 to December 31. The period for disclosure of consolidated results in FY2016 is the nine months from April 1 to December 31, 2016, for the parent company and subsidiaries whose accounting period previously ended with March, but the twelve months from January 1 to December 31, 2016, for subsidiaries which already had an accounting period ending in December. However, in regard to FY2016 earnings, in order to better explain the earnings status and to facilitate comparison with earlier financial results, this report uses the actual results for the twelve-month period from January 1 to December 31, 2016. The sales for each segment are compared against FY2015 (April 1, 2015, to March 31, 2016).

FY2016 consolidated net sales were ¥514.1 billion. In terms of income, the impact of foreign exchange fluctuations were absorbed thanks to ongoing sales promotions and activities to reduce costs, so consolidated operating income was ¥80.0 billion (margin of 15.6%), consolidated ordinary income was ¥82.8 billion (margin of 16.1%), and net income attributable to owners of parent was ¥36.0 billion (margin of 7.0%). Profitability has steadily increased.

## Regarding business trends and performance by region

In Japan, we worked to expand our share in the area of automotive coatings as automobile production numbers recovered from the impact of the 2016 Kumamoto earthquakes. In industrial coatings, we focused on capturing customers with differentiated products as the number of new housing starts remained favorable. In trade-use paints, while market conditions were sluggish due to

factors such as construction delays owing to weather, we conducted sales promotion activities to expand sales of new products. On the other hand, other coatings were heavily impacted by a downturn in market conditions for marine coatings. Due to these factors, consolidated net sales in the Japan segment were ¥171.6 billion, slightly down from the previous year. Operating income was ¥32.2 billion, exceeding the previous year's level when dividend income from overseas group companies is excluded.

In Asia, we worked to expand our share of the automotive coatings market in China through a partnership with local companies, even as automobile production numbers increased. In trade-use paints, we worked to energize paint resellers and the remodeling market within the paints for housing interiors sector in China. In other Asian countries as well, as a result of efforts to expand market share, net sales were strong on a local currency basis. On a yen basis after currency translation, consolidated net sales in the Asia segment were ¥297.8 billion, down from the previous year, but consolidated operating income was ¥43.3 billion due to ongoing activities to reduce costs. Profitability significantly improved.

In the Americas, a favorable trend in the number of automobiles manufactured in North America was seen, in addition to a higher ratio of large vehicles produced and a ramping up of operations in Latin America. Meanwhile, foreign exchange rates had a negative impact. Additionally, ongoing activities to reduce costs led to a significant improvement in profitability. As a result, consolidated net sales for the Americas segment were ¥32.2 billion, down from the previous year. Consolidated operating income was ¥5.2 billion. On a local currency basis, both sales and income were up.

In other regions, consolidated net sales were ¥12.6 billion, up from the previous year due to the consolidation of a German automotive coating manufacturer. Consolidated operating loss was ¥400 million due in part to amortization of goodwill.



# Initiatives to Support Our Corporate Values

## **E**nvironmental Global Environment and Safety

- 19 Promoting Responsible Care
- 21 Preventing Climate Change  
Waste Reduction and Zero Emissions
- 22 Comprehensive Management of  
Chemical Substances
- 23 Air and Water Conservation
- 24 Occupational Health and Safety

## **S**ocial Living with Society

- 25 Maintaining and Improving Product Quality  
Supply Chain Management
- 26 Employee Engagement
- 29 Contributions to Local Communities  
and International Society

## **G**overnance

- 31 Corporate Governance

### Promoting Responsible Care Activities\*

Guided by a Responsible Care management system that is based on our Basic Policy for Responsible Care, we perform a plan-do-check-act cycle (PDCA), which leads to continuous improvements.

\* Responsible Care Policy  
 Companies that handle chemicals conduct Responsible Care activities at all stages, from product development to disposal. Throughout a product's lifecycle, these companies implement self-management activities to enact and improve environment-, safety-, and health-related measures (environmental protection, anti-disaster safety measures, occupational health and safety, and chemical safety).  
 Nippon Paint Group has continuously practiced Responsible Care activities since becoming a member of the Japan Responsible Care Council in 1995, and has also participated in Coatings Care activities, which are coatings-oriented Responsible Care activities.



#### Basic Policy for Responsible Care

Nippon Paint Group is committed to the Responsible Care initiative\* and contributes to a sound, safe environment through our business activities of creating attractive colors and spaces while conserving materials and resources. The employees of all group organizations recognize this as our responsibility and cooperate to build relationships of trust with our customers and everyone in the global community.

The commitment requires the Group to implement the following measures throughout all of its businesses activities:

- 1) 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) Promote the development of products that lessen the impact on the environment and technologies that help these products reduce this impact. Also pay adequate attention to the environment, safety, and health impacts of our products at all stages of the product lifecycle, from development to disposal.
- 3) Work to ensure safety and prevent disasters and reduce the impact of our operations on the environment, and to ensure the safety and health of local residents and employees.

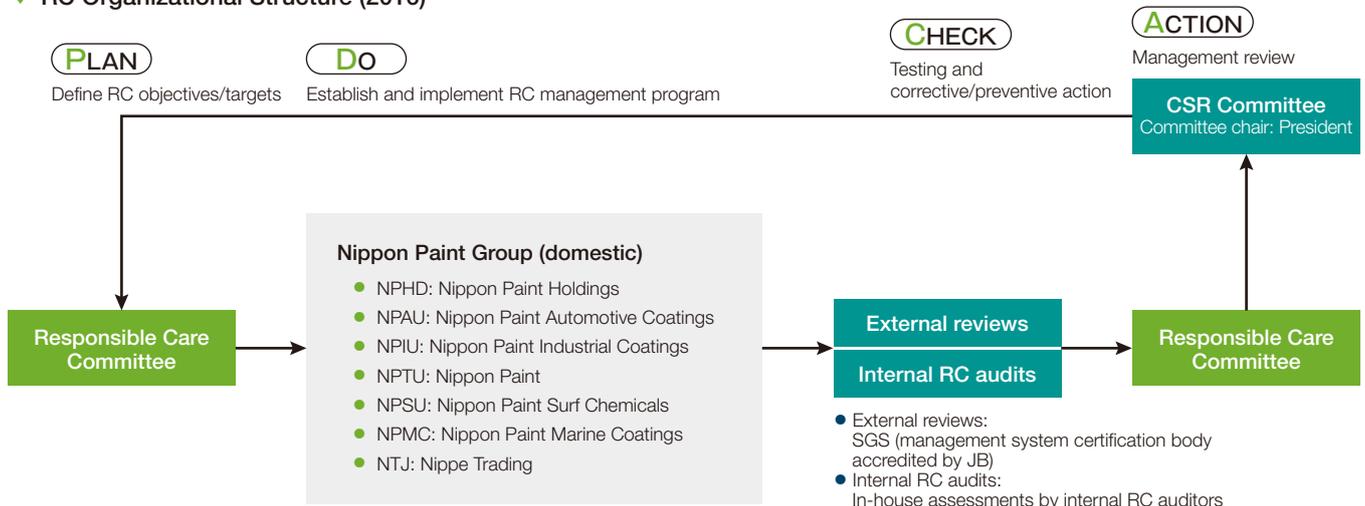
### Responsible Care Organization

Based on understanding the influence chemical substances have on the environment and safety, controlling those substances is one of our main responsibilities as a paint manufacturer. As such, we developed a management system that expanded the scope of the areas where we can have an impact in 2010 from only the environment to include occupational health and safety, chemical

and product safety, and have undertaken Responsible Care (RC) initiatives.

We promote the autonomy and independence of our employees through activities centered on their primary duties, and by conducting effective and efficient operations and an ongoing PDCA cycle, continue to constantly improve the system.

#### RC Organizational Structure (2016)



## Responsible Care Plan

The seven companies under the RC organizational structure set RC-focused targets at the beginning of each fiscal year. These targets are based on each company's internal and external issues and risks and opportunities selected from the needs and

desires of stakeholders. The targets are then included in the management system. The following table shows the results on RC-focused targets in FY2016.

### ▼ Results on RC-focused targets (FY2016)

Important themes	Overall group results
Self-regulation of RC activities	The various companies organized documentation, provided education, and developed internal information, achieving targets.
Environmental conservation (CO <sub>2</sub> reduction, resource protection)	Except for the following, the companies achieved targets related to energy-saving activities and reduction in industrial waste. In some instances, targets were not achieved because of increased inventory due to early errors when introducing products to market and failure to obtain orders.
Reduction of RC risks (elimination of repeated occupational accidents, property-related accidents, fire or smoke incidents, and distribution-related accidents)	Within the group, there was one occupational accident resulting in time off and ten not resulting in time off (total of 12 accidents in FY2015). Serious incidents and close calls were categorized by severity and information was shared throughout the group to prevent recurrences.
Product development and promotion of use to reduce the RC load	The development of eco-conscious products went according to plan, so development-related targets were achieved. Sales volume of such products did not achieve targets due to deterioration in market conditions. Targets have been set for discontinuation of paints with the highest lead content. The target for reduction in nickel was not achieved (development completed, but slow uptake by customers).
Statutory compliance	The companies conducted risk assessments for chemical substances and achieved the targets.

## Environment and Work Safety Management

### ISO 14001 certification

Nippon Paint Group (domestic) received ISO 14001 multi-certification for the seven companies in the RC organizational structure and their subsidiaries. Since ISO 14001 was revised in 2015, in November 2016 we underwent a renewal inspection by an outside inspection body. No non-compliance was identified, and we have received the renewed certification.

### Overseas management

We provide active, ongoing support to overseas group companies for their environmental and safety activities. In Asia, the regional supervision company and companies in key Asian countries (China, Thailand, Malaysia, the Philippines, India, Singapore, Vietnam, Taiwan) work together on environmental and safety issues, with the various companies providing mutual

assessments or support for improvements in the case of self-assessments. We also provide training to improve environmental and safety-related awareness, but plan to provide additional support for improvement at the various overseas group companies, since not only regulations but also corporate culture differs country to country. In China, the department in charge of occupational health and safety and environmental matters, which is part of head office functions at subsidiaries, conducts environmental and safety-related management, internal assessments for all sites, and follow-up assessments to confirm that improvements have been made. Sites in Europe and the Americas cooperate with the managing operating company in Japan on environment-related audits and the operating company provides timely support to correct issues.

### Preventing Climate Change

#### Reducing CO<sub>2</sub> Emissions

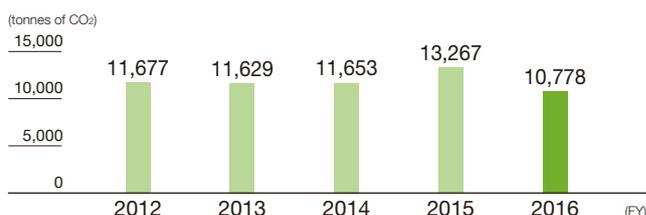
Nippon Paint Group (domestic) initiatives to prevent climate change involve activities primarily aimed at reducing energy usage.

Energy conservation activities involve meticulous everyday supervision to instill certain daily habits at our businesses and factories, including changing the operating conditions for compressors and boilers, strict supervision, upgrading to energy-saving equipment and fixtures, strict control of air conditioning temperature, monitoring demand, and turning off computers and lights.

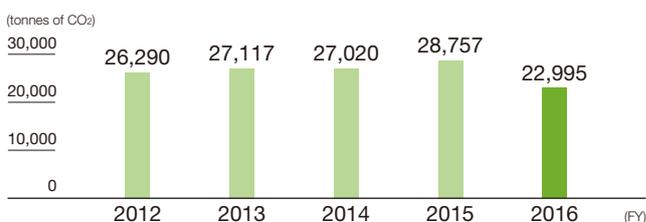
In FY2016 as well, the various group companies independently set CO<sub>2</sub> reduction targets and promoted ongoing energy conservation activities. For example, reduction targets were set for major plants that cause a comparatively large environmental burden. Day-to-day operational management and patrols to check implementation status were conducted.

As a result, fuel and electricity usage volume for FY2016 (revised data collection period) was as shown at right.

#### Fuel total



#### Electricity total



\* Scope of data: In FY2014 and earlier, data is for the pre-division Nippon Paint Co., Ltd. From FY2015 onward, data is for NPHD, NPAU, NPIU, NPTU, NPSU, and NPMC.  
 \* Data collection period: April to December (nine months) only for FY2016 (Applies to both Fuel total and Electricity total)

### Waste Reduction and Zero Emissions

#### Initiatives in FY2016

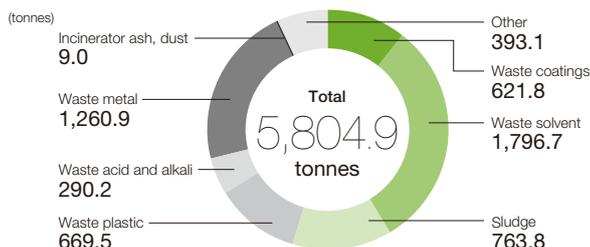
Using an electronic manifest system since FY2015, Nippon Paint Group (domestic) has worked to reduce and properly dispose of waste or to create activities that can effectively utilize waste materials.

In order to further strengthen our legal compliance mechanisms, we started introducing and operating a group-wide waste management system.

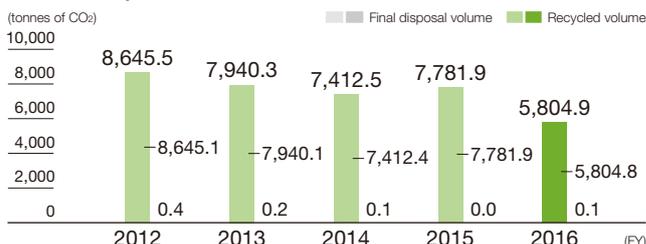
In FY2016, in order to reduce industrial waste, we reinforced recycling and reuse practices and worked to control dead stock. In regard to non-industrial waste as well, we continued efforts to reduce the volume of copy paper and paper trash.

As a result, waste volume for FY2016 (revised data collection period and scope), was as shown below.

#### Breakdown of waste (FY2016)



#### Volume of waste generated, recycled volume, final disposal volume



\* Scope of data: In FY2014 and earlier, data is for the Nippon Paint before split-up. In FY2015 data is for NPHD, NPAU, NPIU, NPTU, and NPSU. In FY2016 data is for NPHD, NPAU, NPIU, NPTU, NPSU, and NPMC.  
 \* Data collection period: April to December (nine months) only for FY2016

# Comprehensive Management of Chemical Substances

## Basic Policy

Various chemical substances originating from the raw materials are found in our paints and in some instances those substances can be harmful to the environment.

Regulations concerning chemical substances have become increasingly stringent globally in recent years, and amid such regulatory changes our Group will actively take appropriate measures to control chemical substances and reduce harmful agents.

## Measures to Comply with Regulations

Following 2009 amendments to the Chemical Substances Control Law, Nippon Paint Group started to submit notifications as appropriate regarding manufacturing and import volumes to facilitate the assessment of risk posed by general chemical substances.

On June 1, 2016, the revised Industrial Safety and Health Act and its enforcement ordinance and regulations took effect, expanding the scope of substances requiring labeling, but also dropping obligations regarding the labeling of ingredients. In addition, the threshold concentrations were changed for substances requiring labeling and substances requiring reporting by safety data sheets (SDS). Nippon Paint Group (domestic) conducted a bulk update for existing labels and SDSs to conform to the revised laws. In regard to chemical substance risk assessments also required by the Industrial Safety and Health Act, preparation was started several months ahead of time, and business offices and plants are conducting response.

## Initiatives in FY2016

Nippon Paint Group has created several information channels to enable it to obtain information to respond

appropriately to revisions to regulations around the world and has started to improve its business processes.

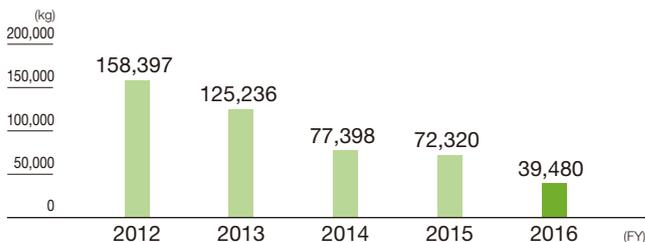
We recognize that while chemical substances offer many functional benefits, some substances present environmental risks. To assess these risks, Nippon Paint Group conducted and reported the results of a survey on 462 substances designated by the amended PRTR Law\*1 and 417 substances specified by the Japan Chemical Industry Association (JCIA). It started releasing data on newly specified substances from fiscal 2010.

In fiscal 2015, the number of PRTR\*2 designated substances handled by Nippon Paint Group (domestic) increased to 59 from 55 in the previous fiscal year, while the overall number\*3 of JCIA-specified substances was 79.

Since fiscal 2008, we have been using a new, proprietary automatic PRTR system that performs more realistic calculations. As for color PRTR surveys for color-mixing service stations, a PRTR survey support system was introduced from fiscal 2002 to assist in efficiently tallying substance usage data.

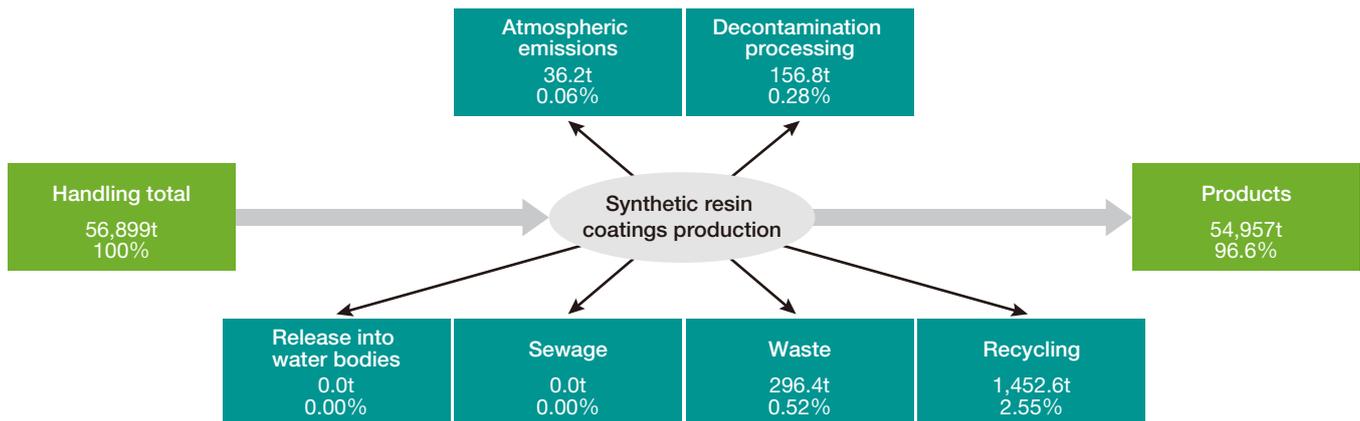
\*1 PRTR Law: Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof  
 \*2 PRTR (Pollutant Release and Transfer Register) system requires entities that handle chemicals to confirm and calculate the volume of those chemicals released to the environment and report the data to the government.  
 \*3 Overall Number: Substances targeted by both the PRTR Law and the JCIA.

### Lead compound volume



\* Data collection period: April to December (nine months) only for FY2016

### PRTR Survey (Nippon Paint Group domestic totals)

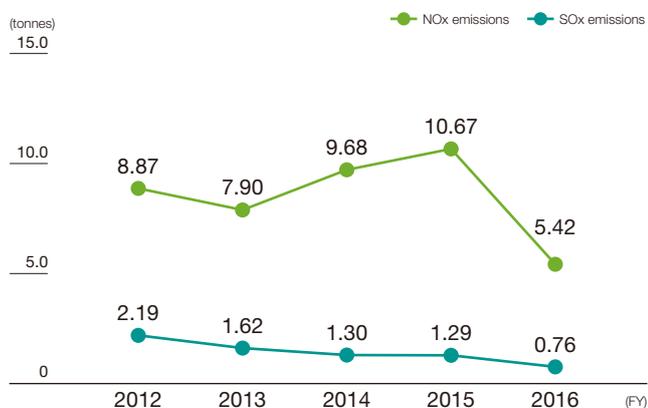


### Air and Water Conservation

#### Air Pollution Prevention

Nippon Paint Group (domestic) sets voluntary reference values and complies with regulations pertaining to air pollution. In FY2016 as well, none of our plants exceeded statutory limits.

##### NOx and SOx emissions

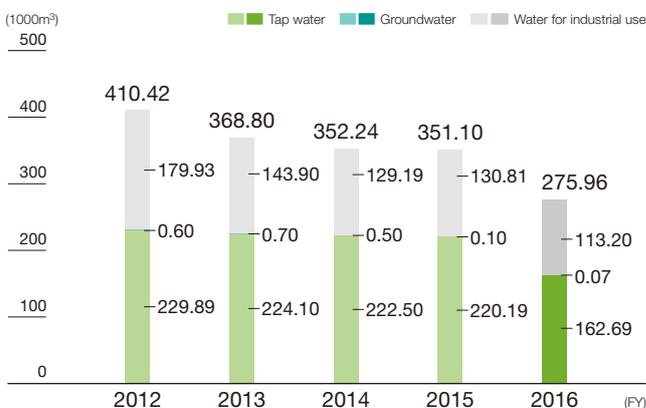


\* Scope of data: In FY2014 and earlier, data is for the pre-division Nippon Paint Co., Ltd.  
 In FY2015 data is for NPAU, NPIU, NPTU, and NPSU.  
 In FY2016 data is for NPAU, NPIU, NPTU, NPSU, and NPMC.  
 \* Data collection period: April to December (nine months) only for FY2016

#### Effective Use of Water Resources

Nippon Paint Group (domestic) strives to use water resources effectively.

##### Volume of water used

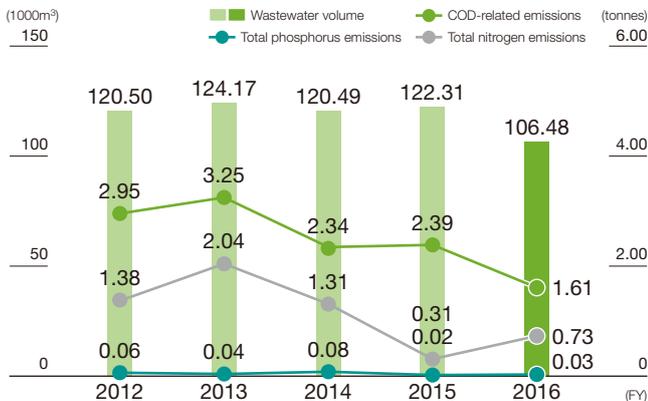


\* Scope of data: In FY2014 and earlier, data is for the pre-division Nippon Paint Co., Ltd.  
 In FY2015 data is for NPAU, NPIU, NPTU, and NPSU.  
 In FY2016 data is for NPAU, NPIU, NPTU, NPSU, and NPMC.  
 \* Data collection period: April to December (nine months) only for FY2016

#### Water Pollution Prevention

Nippon Paint Group (domestic) sets voluntary reference values and complies with regulations pertaining to water pollution. In FY2016 as well, none of our plants exceeded statutory limits.

##### Wastewater volume / COD, total phosphorus, total nitrogen



\* Scope of data: In FY2014 and earlier, data is for the pre-division Nippon Paint Co., Ltd.  
 In FY2015 data is for NPAU, NPIU, NPTU, and NPSU.  
 In FY2016 data is for NPAU, NPIU, NPTU, NPSU, and NPMC.  
 \* Data collection period: April to December (nine months) only for FY2016

# Occupational Health and Safety

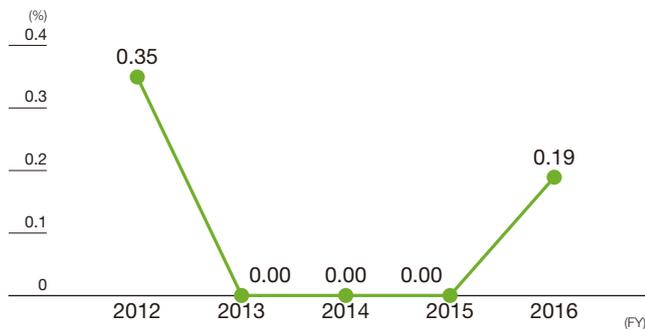
## Initiatives in FY2016

In FY2016, the various companies of Nippon Paint Group (domestic) conducted health and safety activities through their participation in the Responsible Care (RC) Committee and Safety and Disaster Prevention Meetings. For instance, they shared information about accidents that occurred within the group and together discussed measures to prevent recurrence.

The entire group conducts health and safety activities through the RC Committee and Health and Safety Committees at each business site. Unfortunately, in FY2016 there was one accident resulting in time off and ten accidents not resulting in time off. Many of the latter were the sort of accidents that had occurred previously, such as employees cutting themselves with box cutters or getting solvent in their eyes.

We will continue to conduct health and safety activities, including risk assessments, in an effort to eliminate accidents.

### ▼ Frequency of accidents resulting in time off



## Safety Measures for Overseas Group Companies

We provide overseas group companies with active and ongoing support for activities to ensure safe working environments.

In FY2016, we provided training for activity leaders in the various regions through the NIPSEA Safety Council (NSC), initiated in FY2015 to focus on safe environment activities within the NIPSEA Group.

In addition, we conducted safety assessments using assessment lists at key sites in Thailand, Malaysia, Singapore, Vietnam, India, the Philippines, and Taiwan together with NSC members, with the aim of identifying and rectifying serious risks such as fire or explosions that might result in plant shutdowns. We also began expanding these safety assessments to other NIPSEA sites. In China as well, we worked closely with the local safe environment management department and continued to participate in "safety first" diagnostic efforts.

In Europe and the Americas, we are conducting audits and support for remedial efforts at key sites in cooperation with the domestic operating companies in charge of those sites.



Health and safety activity conducted in cooperation with NIPSEA

## Maintaining and Improving Product Quality

### Initiatives in FY2016

In November 2016, we held a Global Quality Conference (GQC) to provide a forum for reporting on team activities targeting improved quality assurance and productivity at production plants. This was the 11th conference since the scope of participation was expanded to a global scale and the 45th conference since it was initiated, originally as a forum for reporting on domestic activities.

About 40 interested parties gathered at the company's head office the day of the conference, and the meeting was transmitted to all domestic business sites via a videoconferencing system.

Seven qualifying teams from Japan and another seven from Asia, Europe, and the Americas participated and shared with each other descriptions of their activities, but this was not merely a competition. The aim was to share improvement methods and deepen relations between group companies. We hope that, despite differences between regions and business areas, the stories about the drive to improve and the improvement activities by and for those actually involved in production will lead to big results at the various production sites.



Presentation at GQC



GQC participants

## Supply Chain Management

**Nippon Paint Group is able to conduct business precisely because of the services and the raw materials, equipment, and other commodities supplied by our business partners.**

**We strive to conduct fair and reliable procurement activities based on mutual trust with those business partners.**

### Our Thinking and Initiatives Regarding Procurement of Raw Materials

We have conducted a number of initiatives in terms of business continuity planning (BCP), including the integration of raw materials, securing of multiple suppliers, and assessment of substitutes.

We have also requested that our suppliers conduct BCP activities, and we are building a system to make simultaneous inquiries to suppliers to determine impact as a first response in the event a disaster or accident does occur.

In terms of complying with statutes and social norms, of course we comply with the laws and regulations of each country in which we operate, but we are also working to exclude any antisocial forces, and we prohibit the procurement of raw materials suspected of containing conflict minerals.

We investigate upstream in the supply chain to ensure there is no suspicion of human rights violations such as conflict minerals

and child labor associated with the raw materials we are procuring.

When selecting suppliers, we confirm not only that they can provide us with stable quality and competitive prices, but also that they respect human rights, comply with statutes and social norms, conduct BCP initiatives, conduct environmental protection and safety initiatives, and have sound management processes.

Nippon Paint Group (domestic) conducts initiatives to ascertain compliance with the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors ("Subcontracting Act"). We assign an individual to each operating company to be in charge of matters related to the Subcontracting Act. These individuals naturally confirm that there are no issues with payments, but also monitor the content of orders issued by plants. In addition, we conduct annual training for all employees involved with subcontractors to improve their understanding of the Subcontracting Act.

# Employee Engagement

We at Nippon Paint Group strive to create a lively work environment for all of our employees as we become a Global Paint Major.

## Basic views on employees

- Cultivate an active corporate culture, stressing mutual trust between management and employees.
- Achieve rewarding work and improve corporate performance through teamwork.
- Conduct manpower management that allows employees to demonstrate their individual capabilities to the fullest.
- Stress self-responsibility in personnel education, since individuals cannot develop without motivation to grow and personal effort.

## Promoting Diversity

We would like to develop a corporate culture in which our employees view diversity as a strength, and will create an atmosphere that rewards individual experience, ability, vision, and diverse forms of knowledge, irrespective of sex, age, or nationality. We are committed to becoming a company where every employee can perform to the best of their ability.

In order to make diversity the norm as a source of the group's competitiveness, we are advancing four pillars of diversity promotion.

### The company's thinking as to what should constitute "the norm"

**Appointment of diverse human resources should be the norm**

This will allow us to clarify positions and missions and get the right employee in the right place.

**Independent human resources should be the norm**

Independent actions by employees around the globe based on a shared vision are producing results.

**Innovation should be the norm**

It is important to accept differences that can be leveraged as strengths in developing organizational abilities.

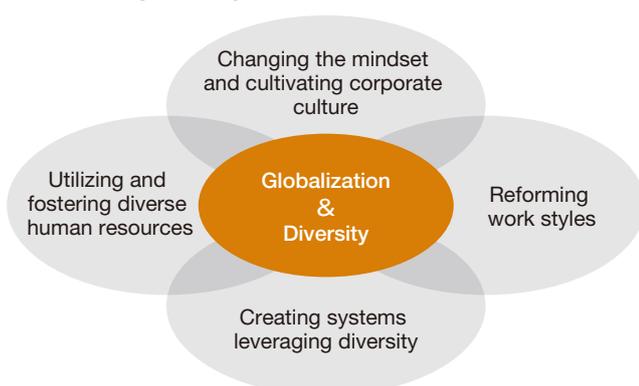
In April 2016, with the commitment of top management, we inaugurated a Diversity Promotion Unit and a Diversity Promotion Committee. The latter will deliberate and make decisions on measures to promote the creation of a corporate culture and organization that leverages diversity throughout the group.

### Change management mindset –Diversity management workshop–

We conducted workshops for department heads in FY2016 and from FY2017 are conducting them for all managers to convey the goals of and necessity for diversity promotion and to promote specific diversity management practices to leverage individuality within the company's various organizational structures.

By accepting the differences among diverse employees and leveraging those differences, we can improve the performance of organizations and teams, leading to the cultivation of a corporate culture that thrives on diversity.

### ▼ Promoting diversity



Diversity management workshop (for department heads)



Diversity management workshop (for persons in key positions)

**Instruction in diversity for all employees  
-Forum on the future of work-**

Nippon Paint Group (domestic) holds lectures four times a year to enlighten all employees about diversity.

The theme of each lecture is different, but the lectures always provide opportunities to think about the work they do with their teams, their work style, their motivation, and their careers going forward. The aim of the initiative is to fill the company to overflowing with independent employees.



Forum on the future of work

**Human Resource Development**

**Promoting the success of women in the workplace**

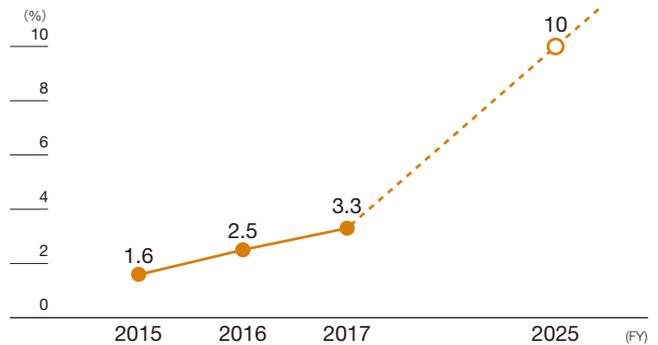
Since FY2015, we have conducted leadership training for women who are candidates for managerial positions. The program is intended to cultivate leadership and the desire for further improvement, encouraging participants to paint a picture of how they want to progress and build their careers.

Other initiatives include an issue resolution project led by a women's team and efforts to get more women into sales and leadership roles. At the same time, we are working to ensure the company has an environment promoting career service for both women and men.



Training for women leaders

**▼ Ratio of women in key positions**



**Training by level**

Conventional training focused on skilled suited to employees' years of service and the teaching of logical thinking, but after clarifying the sort of competencies needed for human resources with a global perspective, we are now working to revise our training system to suit specific growth levels.

Specifically, we aim to nurture human resources in terms of leadership and global perspective and select individuals who can strengthen our pool of management candidates.

**Global joint training**

We conduct leadership training each year by level with employees in the Asian region as one of our initiatives for fostering human resources who will be responsible for global growth in the future.

Although this initiative is only conducted for employees in the Asian region at present, hereafter we plan to select employees from group companies around the world and create opportunities for them to improve their basic abilities in "global leadership" and help each other grow. During training, participants even eat and sleep together, helping them to better understand each other's cultures and develop relationships of mutual trust. In order to become a Global Paint Major, we will strive to produce human resources who can confront the world together in a unified group.



Participants in global joint training

### Overseas posting of young employees

We select young employees with a strong desire to see action on the global stage and post them overseas for training. We have continued such postings since FY2014 as we continually aim to cultivate the next generation of globally minded human resources.

### Accepting long-term interns from overseas

We accept employees from overseas Group companies as long-term interns and provide them with training. The aim of this program is not just to foster human resources, but to support globalization within Japan and strengthen relationships with the interns' home companies. The program is helping us cultivate a globally minded corporate culture and increase acceptance of diversity.



Reception for interns at Tochigi plant

### Human Resources Forum

The Human Resources Forum is held once a year to bring together members of the Human Resources Department and persons in charge of human resources at group companies (overseas).

Participants share human resources issues encountered at the various companies, develop resolution plans, and discuss follow-up actions. They also share information on achievement status, which can lead to best practice. The forum provides an important opportunity for resolving human resources issues on a local, regional, and global level.



Human Resources Forum

### Hiring

In regard to hiring new graduates, we are strengthening activities from the perspective of producing the next generation of human resources for management positions.

We seek to hire human resources who have set goals for themselves and worked independently toward those goals, even if they have experienced failures and setbacks along the way, but we are also working to secure diverse human resources, including Japanese with experience studying abroad and foreigners who have studied in Japan.

In addition, we actively conduct mid-career hiring, seeking human resources with relevant outside experience to support our global expansion efforts as we strive to become a Global Paint Major.

### Creating a Rewarding Workplace

Aiming for an organization of diverse human resources who respond well to change, we actively seek to provide a workplace environment that is comfortable to employees from a wide variety of backgrounds.

It is not only the employees that benefit when we provide stable employment and a workplace where they can work with peace of mind. We believe it also contributes to society in a broader sense.

The frequency with which employees make use of our childcare and nursing care leave systems is increasing. We also have a One Week Holiday system by which employees may take five consecutive days of holiday, with team members covering the work that the person on holiday would normally be doing. This makes it easier for each employee to plan and take holidays.

We also take workplace harassment very seriously, providing training for all employees and instruction for superiors to prevent its occurrence. In addition, we conduct stress checks to track workplace status and try to prevent psychological or emotional issues, and we monitor employees' satisfaction levels to improve their motivation so they can perform to the best of their ability.

We are working to create new systems to counter issues discovered during diversity promotion activities. Work style reform is indispensable if we are to make diversity a source of Nippon Paint Group's competitiveness.

We will continue striving to create a corporate culture and systems that allow all employees to be responsible for their own growth, to select their own work style, and to carry out their duties effectively. We will also promote a virtuous circle in which the growth of our employees leads to growth of the company and vice versa.

## Contributions to Local Communities and International Society

Rooted in our management principles of working for the “mutual prosperity and benefit” of society, we engage in activities that focus on our ties with the community, and both domestically and overseas strive to conduct community activities that build closer relationships with regions.

### Domestic activities

#### Investing in the Society of the Future

##### –Children’s Chemical Experiment Show–

Nippon Paint Group participates in the Children’s Chemical Experiment Show sponsored by the Dream Chemistry 21 Committee (Chemical Society of Japan, Japan Chemical Industry Association, and others). The Experiment Show is held annually in Tokyo and Osaka, and Nippon Paint Group has included a display and experiment six years in a row in Tokyo (from 2011) and two years in a row in Osaka (from 2015).

The aims of the Experiment Show are to:

- 1) Increase elementary school children’s interest in chemistry through experiments and show them the critical role that chemical technology has in society and in their lives.
- 2) Make elementary school children and their parents aware of the potential and promise chemistry holds for the future in order to foster promising young human resources for the chemical industry.

We at Nippon Paint Group also support these aims and plan to continue our participation in this event. In 2016, Nippon Paint Group employees and prospective employees (at the time of the show) participated as volunteers (30 volunteers in Tokyo and 50 in Osaka).

In 2016, we supplied a simple experiment to demonstrate the electrodeposition coating method used widely in automotive and industrial applications. Participants used electrodeposition to apply paint to metal rulers. The average person imagines paints being applied with a roller or brush, so the participating children and their parents were quite intrigued by this special process and asked a lot of questions. The experiment was quite a success, in both Tokyo and Osaka.

We plan to continue with such activities in the future in the hope that we can encourage the next generation of human resources for the industry.



Booth where participants experienced a special paint application method

#### Recovery Support after Kumamoto Earthquakes

##### –Paint event at temporary housing–

On November 27, 2016, we joined Mitsubishi Jisho Residence Co., Ltd., in an interindustry collaboration to hold a painting event at temporary housing located by Iino Elementary School in Mashiki, Kumamoto. Residents of the temporary housing and children who attend Iino Elementary and their parents used Nippon Paint Group product ROOMBLOOM to paint the interior walls at “Minna no Ie,” the common room at the temporary housing. Participants drew a large tree, made handprints, and generally enjoyed painting images that were meaningful to them. They also used Igusa Paint, a newly developed type of paint that uses as an ingredient igusa rushes grown in Kumamoto.

Nippon Paint Group proposed this support activity for three reasons:

- 1) We wanted to encourage a new form of support for recovery through corporate collaboration.
- 2) We wanted to contribute to recovery in Kumamoto by creating value through a new paint using igusa rushes.
- 3) We wanted to enliven a community through paint.

We believe that we did indeed contribute to enlivening the Mashiki community, connecting people with paint as a communication tool and creating new value by uniting Kumamoto-grown igusa and paint.

Nippon Paint Group will continue working to contribute to communities through the medium of paint.



Putting handprints on the wall



Adults and children enjoying painting

## Initiatives in Asia

### Supporting Children's Dreams in Malaysia

From 2014 to 2028, Nippon Paint (Malaysia) is supporting the long-term project Art by Children for Children.

The aim of this project is to establish a trust fund in cooperation with Malaysian NGO Yayasan Generasi Gemilang, using funds collected via art exhibitions. Money from the trust fund is then used to provide education to children who have displayed outstanding aptitude to help them fulfill their dreams.

In the Art by Children for Children project, 181 children aged 4 to 16 who are living in child welfare institutions display their works of art. The children who have submitted works participate in a program to help them learn skills they will need to enter society, including IT, financial, English, and decision-making skills. In addition, in order to help them become independent when they leave the welfare institutions at the age of 18, they interact with businesspeople at the exhibitions, creating opportunities for their future endeavors.



Children who participated in Art by Children for Children

### Supporting Lifestyle Improvement and Community Recovery in China

Nippon Paint China held a charity walking event, in which more than 600 employees participated. The event raised funds of CNY15 million (about ¥247 million), which will contribute to improving the lifestyles of millions of children via a nongovernmental organization that supports children.

The company also produced art at thirteen schools and five towns, contributing to community promotion as more and more tourists visit to view the art. In producing the artworks, eighteen international artists created works using the company's paints. This effort is also expected to help the company develop new markets.

### Building a Strong Relationship with the Community through Tree-Planting in the Philippines

Nippon Paint Philippines provides regional support in the form of a tree-planting campaign.

A total of about 250 local employees have participated in the planting of soursops, a tree native to the Philippines that produces fruit relatively early, in just three to five years after planting. It is hoped that harvesting the fruit will prove helpful in building a livelihood for a community of about 7,000, including some 200 children.

Through this activity, Nippon Paint Philippines is not only building a good reputation in the community, but also realizing good relations with the Philippines Department of Education and school authorities.

## Topics

### Promotion of CSR Activities Together with the Community

In Tokyo office, regularly repaints playground equipment at the ward's elementary schools.

The ward's administrative policy is to "create 'our town with cooperation between the ward and the ward's (corporate) residents." This policy is promoted by the ward's CSR Promotion Council. Nippon Paint Group joined this council in 2009 because it seeks a symbiosis with the community, and now regularly conducts repainting activities as a member of the community.



### Basic Views of Corporate Governance Policies

Nippon Paint Holdings recognizes that effective corporate governance is an all-important management issue. Through the implementation of our “Management Philosophy” and the “Nippon Paint Group Vision,” we strive to develop a comprehensive and robust corporate governance system that will realize a management structure highly transparent and capable of responding quickly and appropriately to changes in the operating environment, enhancing mid- to long-term corporate value and sustaining growth. We have organized our basic thinking, framework, and management guidelines regarding corporate governance into the Corporate Governance Policy, which we have disclosed at the following webpage.  
<http://www.nipponpaint-holdings.com/en/company/cg/>

### Corporate Governance System

Nippon Paint Holdings has adopted a company with an Audit & Supervisory Board system and introduced a corporate officer system. The corporate governance system is as shown in the following “Organization Chart of Corporate Governance.”

### Regarding Board of Directors

According to the Articles of Association, our Board of Directors is to have no more than ten members and is composed of executive directors, independent outside directors, and non-executive directors designated from inside and outside Japan and inside and outside the group. The Board currently comprises seven directors, two of whom are outside directors to ensure that the Board considers various points of view when making decisions and to further strengthen supervisory functions.

In addition to supervising directors in the execution of their duties, the Board in principle convenes once a month as a

deliberating and decision-making body to evaluate matters stipulated by the Company Act and important matters relevant to management. The Chairman of the Board, who is a non-executive director, presides over the meetings.

With regard to the business execution of important matters and agenda items raised at Board of Directors meetings, to enable thoughtful decisions by examining issues from multiple perspectives, we have also established the Senior Executive Management Committee and the Executive Management Committee, which are mainly managed by an executive director.

In addition, our directors, corporate officers, or other individuals qualified to serve as directors are dispatched as needed to important affiliate companies to ensure that our management policies are properly implemented.

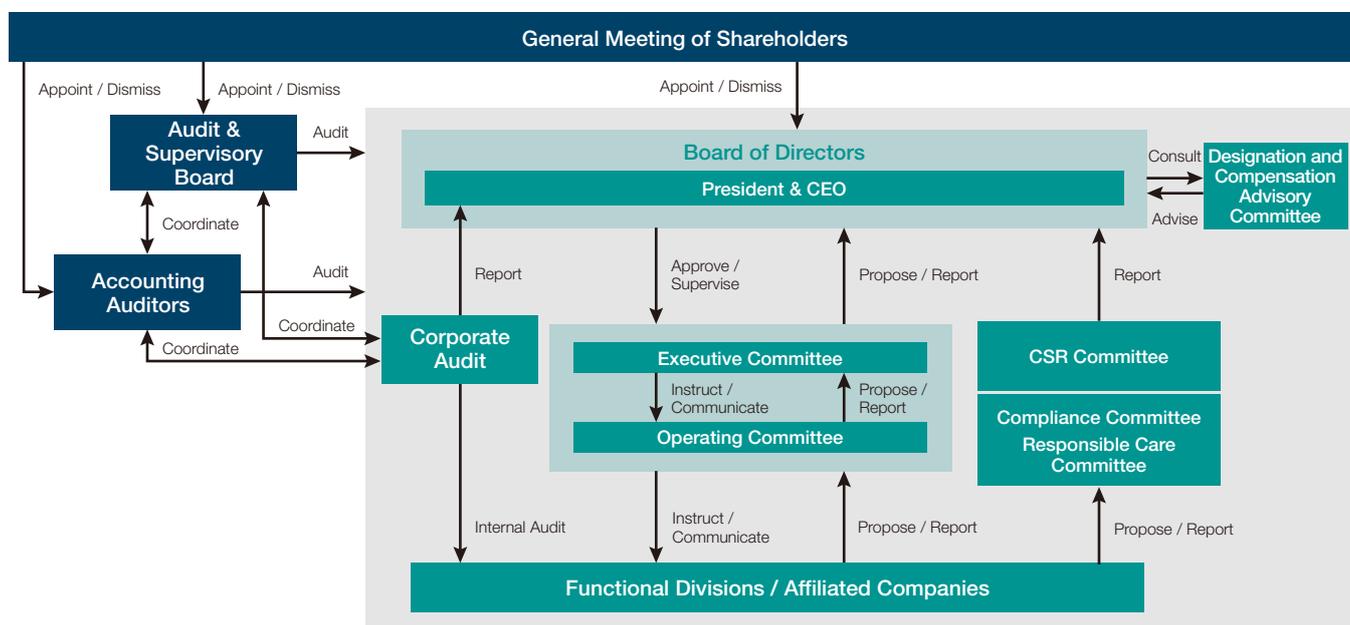
### Policy and Procedures for Designating Directors and Auditors

In designating candidates for director and auditor positions, it is the policy of the Board of Directors to designate those individuals from inside and outside Japan and inside and outside the company who will contribute to the sustainable growth of Nippon Paint Group and facilitate the improvement of its corporate value, and who possess diverse experience, good judgment, and significant expertise that make them particularly suited to serve as directors or auditors.

In addition, in order to strengthen the Board’s supervisory functions and enhance the specialized, multifaceted perspectives of its deliberations, the Board designates as independent outside directors and auditors several individuals who fulfill the Independence Criteria for Outside Directors/Corporate Auditors established by the Board.

Based on these policies, at a Board of Directors meeting

### ▼ Organization Chart of Corporate Governance



attended by independent outside directors and auditors, individuals are deliberated and designated based on reports from the Designation and Compensation Advisory Committee.

In January 2017, the structure of the Designation and Compensation Advisory Committee was modified to make the committee chair and at least half the members independent outside directors. This was done in order to ensure the appropriateness of the policy for determining remuneration and of remuneration levels and to make the process of designating director and auditor candidates more impartial and transparent. (The Independence Criteria for Outside Directors/Corporate Auditors are published in the Notice of Annual General Meeting of Shareholders and the Corporate Governance Policy on our website.)

**Notice of Annual General Meeting of Shareholders**

[http://www.nipponpaint-holdings.com/en/ir/news\\_release/](http://www.nipponpaint-holdings.com/en/ir/news_release/)

**Corporate Governance Policy**

<http://www.nipponpaint-holdings.com/en/company/cg/>

(The structure of the Designation and Compensation Advisory Committee is as follows.)

▼ **Structure of Designation and Compensation Advisory Committee**

	(Number of persons)
All members	4
Directors	4
Of which, outside directors	2
Chairperson	Outside director

**Method of Determining Remuneration for Directors and Auditors**

Remuneration of company directors (excluding outside directors) includes job-based remuneration, performance-linked remuneration, and long-term incentive remuneration. Job-based remuneration is a fixed amount determined in line with the roles and responsibilities of individual directors. Performance-linked remuneration is different for each director position and as a rule is 45% to 50% of total compensation. The base amount changes within a zero to 200% range every year depending on consolidated, department, and business company results.

Long-term incentive remuneration is granted as stock option-based compensation based on amounts determined by position.

Directors' and corporate officers' remuneration composition and standard annual remuneration amounts are determined by the Board of Directors based on conclusions stemming from deliberations at the Designation and Compensation Advisory Committee, taking into account social conditions, industry peers, and the market standard.

Remuneration for outside directors and auditors, including that for outside auditors, is limited to pay based on job

classification, with consideration for the specific duties of the position, and does not include performance-linked remuneration or long-term incentive remuneration.

**Status of Corporate Auditor's Audit and Accounting Audit**

Auditors shall attend Board of Directors meetings and other important meetings to perform auditory functions to confirm the legality of duties executed by directors, the effectiveness of internal control systems established by the Company, and the integrity of the financial information creating process. Auditors shall also hold regular meetings with the Representative of the Board of Directors, to confirm management policies and exchange views on major issues facing the company, business risks, and important auditing issues.

The Audit & Supervisory Board presently comprises five auditors. Of the five, three are outside auditors who are qualified as certified public accountants and lawyers with no special conflicts of interest with the company and who can fulfill supervisory roles from an expert perspective.

Outside auditors shall attend Board of Directors meetings to perform auditory functions to confirm the legality of duties executed by directors, obtain reports as needed for business audits and audit meetings, and express their views regarding the status of auditory operations at various departments and affiliated companies. Several personnel have been specifically assigned to ensure that auditors are able to conduct their work smoothly.

**Role of an Internal Auditing Department**

We have established a Corporate Auditing Unit under the direct control of the President that is responsible for performing internal audits from 2016. The unit is made up of 14 personnel who also serve other roles. The Corporate Auditing Unit performs internal audits to strengthen and improve the internal governance system of Nippon Paint Holdings as well as group companies. Audit results are reported to the President, management officers, head of the audited department and auditors. In the event of a problem with the findings of the Internal Audit Unit, the problem shall be resolved through discussions with the head of the relevant department by following up with the unit.

**Whistleblowing**

We have established whistleblower contact points both inside and outside the company (the latter is a law office) and maintain a system that allows reporting directly to corporate auditors. If an individual discovers that an executive or employee of Nippon Paint Group has or may have done something that constitutes a compliance violation, that individual may report the matter without suffering any disadvantage as a result.

In addition, a compliance committee with authority from the Board of Directors confirms the operational status of the whistleblower system and reports regularly to the Board.

### Promotion of Global Governance

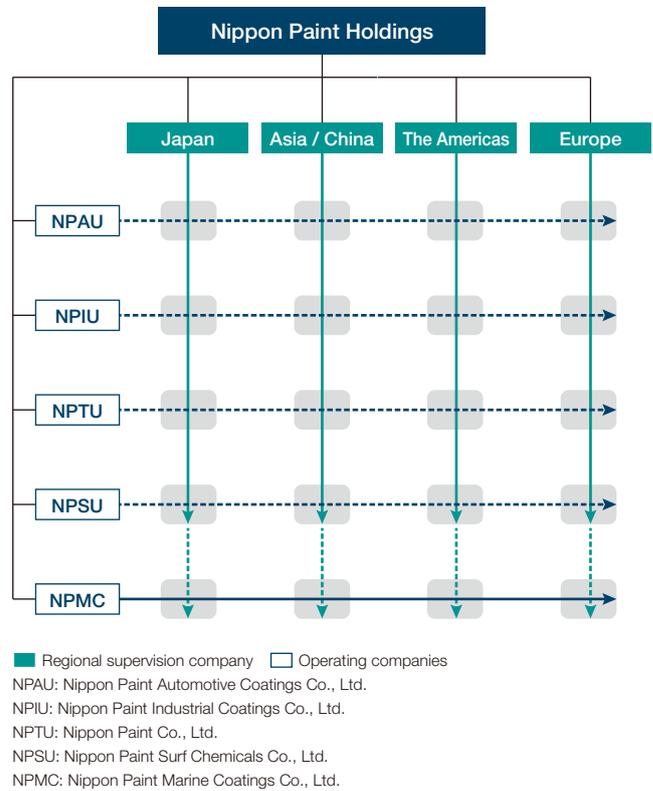
In 2014, we acquired a majority share of the joint ventures we developed in cooperation with Singapore's Wuthelam Group in a partnership that has extended more than 50 years. We used the consolidation as an opportunity to reorganize our global governance system.

In January 2016, after discussion and coordination with the NIPSEA\* companies, we established the Business Management Control Policy to clarify each company's authorities and responsibilities. This policy includes topics such as "submitting important matters to Nippon Paint Holdings' Board of Directors and providing thorough and transparent information regarding reporting channels" and "involvement of domestic operating companies in proposals by NIPSEA companies." The establishment of the new system also took into consideration the need for quick decision-making.

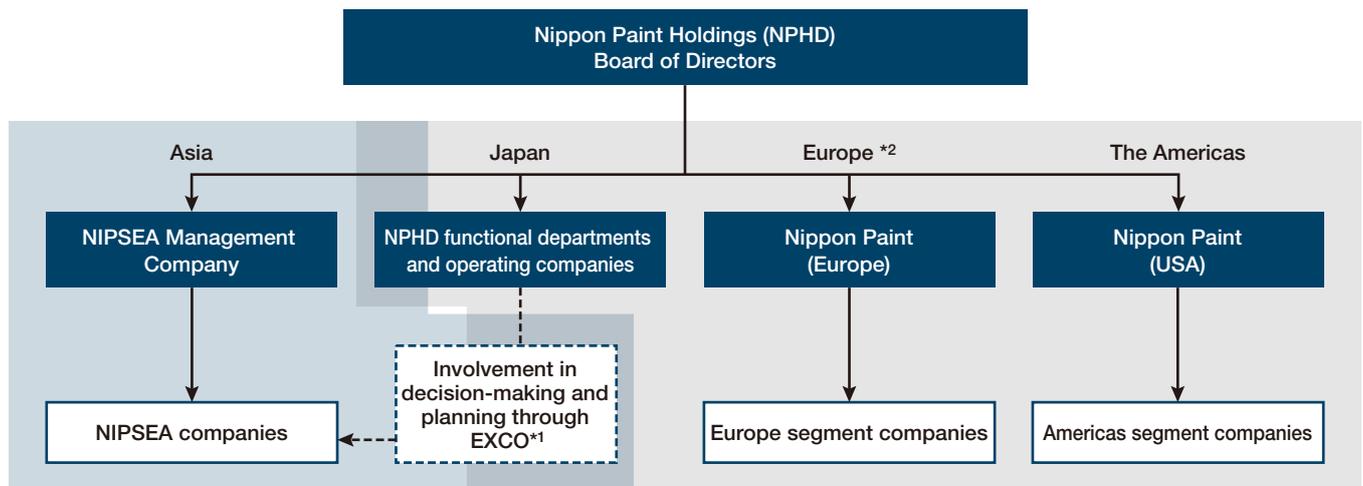
Since we became a holding company in October 2014 and reorganized our domestic businesses in April 2015, the governance system for the conventional geographical segments (Japan, Asia, the Americas, and Others) overlaps with the Global Business Management for operational segments. In consideration of the complexity of this situation, we have begun studying new definitions pertaining to governance and management authorities and responsibilities for the various geographical and operational segments.

We will be looking to expand the functions and authorities of the regional supervision company and operating companies in Japan, Asia/China, the Americas, and Europe and strengthen compliance suited to local ordinance and business practices.

### ▼ Global Governance Going Forward



### ▼ Global Governance System Overview



■ Organized according to the Business Management Control Policy

■ Reports and reporting routes have been reorganized

\*1 EXCO: Executive Committee. NIPSEA's decision-making body

\*2 Disclosed segments are included in "Others"

We have begun studying new definitions pertaining to governance and management authorities and responsibilities for the various geographical and operational segments. We will propose plans regarding the prompt and accurate tracking of growth opportunities and risks by region, accelerated decision making, and selection of regions for concentration of resources with a view to optimization. Our aim is to create a matrix structure with implementable geographical segment governance as the warp and global oversight of operational segments as the weave.

As we organize global governance, we will be working to improve management transparency and improve our strength as a group, creating a foundation for sustainable global growth.

\* NIPSEA: Nippon Paint South East Asia, which does business in the Asian region

## Promotion of Global Audits

The consolidation of Asian joint ventures into Nippon Paint Group has resulted in an enterprise with a large number of overseas

Group companies. The company's internal audit functions are handled by the Corporate Auditing Unit, but cooperation with the regional supervision company and domestic operating companies is indispensable for global audits, and we have established an audit system based on the global governance system.

In Asia, the Corporate Auditing Unit supports audits conducted by the regional supervision company, but for important sites the Corporate Auditing Unit conducts audits directly.

In the Americas and Europe, the Corporate Auditing Unit supports audits conducted by the domestic operating companies, but for important sites conducts audits directly, the same as in Asia.

The results of audits conducted by the Corporate Auditing Unit are shared with the regional supervision company and domestic operating companies in the hopes of achieving further improvement at the subject sites.

### ▼ Global Audit System Overview



## Topics

### Measures to Prevent Bribery and Corruption Overseas

Nippon Paint Group has conducted a number of initiatives to prevent bribery and corruption in light of the worldwide trend toward the strengthening of preventive regulations. In August 2016, we conducted training for parent company executives and officers of group companies and, in April 2017, we widened the scope of training to include employees involved in overseas business and those stationed overseas. We hold seminars with outside specialists.

In addition, we have conducted training using an e-learning course related to overseas bribery and corruption with the aims of reducing the global risk of bribery and corruption and improving compliance awareness. We are also working toward establishing a policy and rules on overseas bribery and corruption for Nippon Paint Group as a whole.



Basic & New

**NIPPON PAINT HOLDINGS**

**<http://www.nipponpaint-holdings.com>**

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