

Message from CEO

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

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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paint manufacturer, proposed the acquisition of the world's third largest, AkzoNobel, but the offer was eventually withdrawn.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.

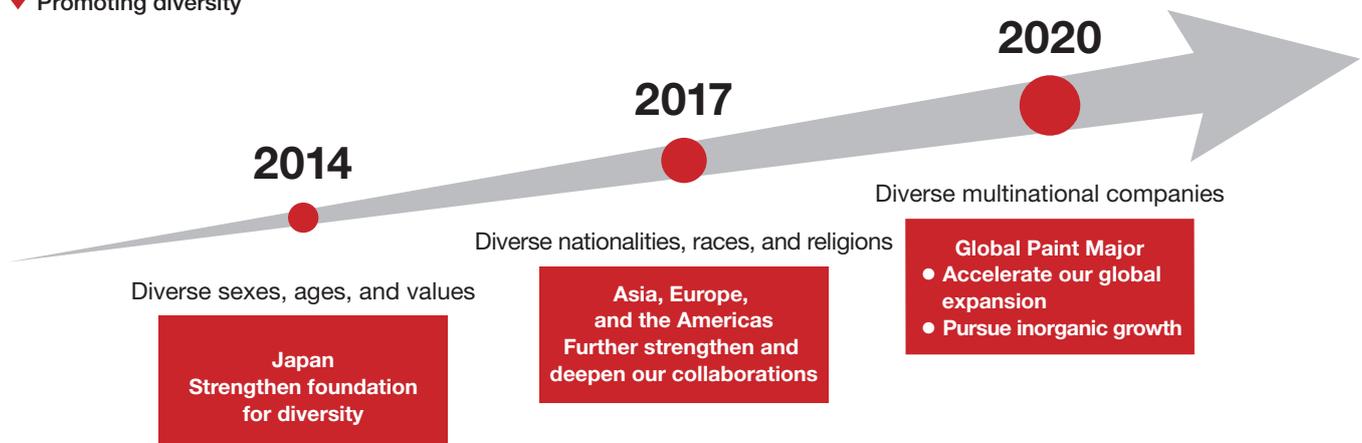
It is no easy feat to transform the disposition of Japanese people to make them more globally oriented, as Japanese

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.