

Consolidated Financial Results
for the Fiscal Year Ended December 31, 2019
[IFRS]



February 13, 2020

Company name: NIPPON PAINT HOLDINGS CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4612

URL: <https://www.nipponpaint-holdings.com/>

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Scheduled date of annual general meeting of shareholders: March 26, 2020

Scheduled date of commencing dividend payments: March 27, 2020

Scheduled date of filing the securities report: March 27, 2020

Availability of supplementary briefing material on consolidated financial results: Yes

Schedule of consolidated financial results briefing session: Yes

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2019 (January 1, 2019 to December 31, 2019)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2019	692,009	10.3	78,060	(9.8)	79,518	(10.7)	56,267	(15.2)
December 31, 2018	627,670	2.9	86,542	1.3	89,075	1.5	66,316	(5.4)

	Profit attributable to owners of parent		Comprehensive income	
Fiscal year ended	Million yen	%	Million yen	%
December 31, 2019	36,717	(19.0)	32,664	(9.5)
December 31, 2018	45,351	(8.0)	36,083	(54.1)

	Basic earnings per share	Diluted earnings per share	Return on equity	Profit before tax to total assets	Operating profit to revenue
Fiscal year ended	Yen	Yen	%	%	%
December 31, 2019	114.48	114.45	6.8	6.5	11.3
December 31, 2018	141.41	141.39	8.8	9.5	13.8

Reference: Share of profit of investments accounted for using equity method: Fiscal year ended December 31, 2019: ¥1,438 million
Fiscal year ended December 31, 2018: ¥1,235 million

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Equity attributable to owners of parent to total assets	Equity per share attributable to owners of parent
	Million yen	Million yen	Million yen	%	Yen
As of December 31, 2019	1,478,646	687,979	552,922	37.4	1,723.75
As of December 31, 2018	953,988	647,618	520,047	54.5	1,621.54

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
December 31, 2019	92,076	(352,769)	254,018	123,300
December 31, 2018	61,533	(37,439)	6,228	129,633

2. Dividends

	Annual dividends					Total dividends paid	Consolidated dividend payout ratio	Consolidated dividend on equity attributable to owners of parent
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
December 31, 2018	—	22.00	—	23.00	45.00	14,431	31.8	2.8
December 31, 2019	—	22.00	—	23.00	45.00	14,435	39.3	2.7

Note: The dividends forecast for the fiscal year ending December 31, 2020 is yet to be determined as the financial results forecast is being examined at this time.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2020 (January 1, 2020 to December 31, 2020)

The consolidated financial results forecast for the fiscal year ending December 31, 2020 is yet to be determined as the Company is monitoring the epidemic situation of the novel coronavirus and cannot determine the financial results forecast reasonably at this time. The financial results forecast will be disclosed promptly when it becomes possible to make a forecast.

*** Notes:**

(1) Changes in significant subsidiaries during the period under review: Yes

New: 4 companies DuluxGroup Limited
DuluxGroup (New Zealand) Pty Ltd
Alesco Corporation Pty Ltd
Betek Boya ve Kimya Sanayi Anonim Sirketi

(2) Changes in accounting policies and changes in accounting estimates

- 1) Changes in accounting policies required by IFRS: Yes
- 2) Changes in accounting policies other than 1) above: No
- 3) Changes in accounting estimates: No

(3) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

December 31, 2019: 325,402,443 shares

December 31, 2018: 325,402,443 shares

2) Total number of treasury shares at the end of the period:

December 31, 2019: 4,635,484 shares

December 31, 2018: 4,689,703 shares

3) Average number of shares during the period:

Fiscal year ended December 31, 2019: 320,732,869 shares

Fiscal year ended December 31, 2018: 320,704,276 shares

*These consolidated financial results are outside the scope of audit by Certified Public Accountants or auditing corporations.

*Explanation of the proper use of financial results forecast and other notes

(Caution concerning forward-looking statements)

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions that are judged to be reasonable, and the Company does not in any way guarantee the achievement of the projections. Actual results, etc. may differ greatly from the forecast figures depending on various factors.

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1. Overview of Operating Results

(1) Overview of Operating Results for the Period under Review

During the fiscal year ended December 31, 2019, consolidated revenue of the Company and its group companies (collectively, the “Group”) increased by 10.3% from the corresponding period of the previous year (the “previous year”) to ¥692,009 million due to the favorable decorative paint business in China and the acquisition of ownership of Australian paint manufacturer DuluxGroup Limited and Turkish paint manufacturer Betek Boya ve Kimya Sanayi Anonim Sirketi, despite the effects of yen appreciation. Consolidated operating profit decreased by 9.8% from the previous year to ¥78,060 million due to the recording of an impairment loss on the Europe Automotive Business Group and an Indian automotive business company, despite low raw material prices and the subsidy income related to the removal of factories resulting from an environmental regulation in China in the previous year. Consolidated profit before tax decreased by 10.7% from the previous year to ¥79,518 million, and profit attributable to owners of parent decreased by 19.0% from the previous year to ¥36,717 million.

Results by business segment are as follows.

“Oceania” has been added as a reportable segment since the third quarter ended September 30, 2019.

Japan

In this region, revenue for automotive coatings was at the same level as the previous year in an environment where the number of automobiles manufactured remained solid, despite the effects of the consumption tax increase and a decrease in the export of products. As for industrial coatings, revenue was at the same level as the previous year, impacted by a decline in market conditions resulting from the disasters that occurred in the fourth quarter of the fiscal year under review and the tax increase, despite an increase in demand for the fiscal year under review in line with restoration works following the natural disasters that occurred in the previous year. As for decorative paints, under solid market conditions, revenue was higher than the previous year due to factors such as efforts to expand sales in the retail sector.

As a result, consolidated revenue for the Japan segment decreased by 0.1% from the previous year to ¥182,585 million. Consolidated operating profit decreased by 15.2% from the previous year to ¥36,990 million due to factors such as the recording of share acquisition-related expenses associated with the corporate acquisition announced in April 2019. ¥13,585 million of dividend income from overseas group companies (¥14,012 million in the previous year) is included in the consolidated operating profit. All of this dividend income is eliminated under intersegment eliminations and other adjustments as it is an internal transaction.

Asia

In this region, revenue for automotive coatings was lower than the previous year due to a decrease in the number of automobiles manufactured in China, India, and Thailand from the previous year. As for decorative paints, a primary business in Asia, revenue was higher than the previous year as a result of focusing on sales promotion activities for mainstay interior residential paints and achieving favorable sales of decorative paints for exteriors in China, in spite of stagnant market conditions in Singapore, etc.

As a result, consolidated revenue for the Asia segment increased by 1.0% from the previous year to ¥359,213 million. Consolidated operating profit decreased by 3.1% from the previous year to ¥50,769 million due to the effects of yen appreciation, the subsidy income related to the removal of factories resulting from an environmental regulation in China in the previous year, and the recording of an impairment loss on an Indian automotive business company, despite a decline in raw material prices.

Oceania

In this region, the profit or loss of DuluxGroup Limited since September 2019 has been reflected in the Group’s consolidated financial results. The decorative paint business and the paint peripheral business remained solid by virtue of sales promotion activities and a share increase under weak new housing market conditions in Australia.

As a result, consolidated revenue for the Oceania segment was ¥47,578 million, and consolidated operating profit was ¥5,861 million.

Americas

In this region, revenue for automotive coatings decreased from the previous year due to factors such as the sluggish production of automobiles in the United States, a core region. In decorative paints, revenue increased from the previous year due to the sales expansion of high value-added products and an increase in the number of shops.

As a result, consolidated revenue for the Americas segment decreased by 0.8% from the previous year to ¥74,618 million. Consolidated operating profit increased by 0.4% from the previous year to ¥5,010 million due to factors such as improved product mix for decorative paints.

Other

In this segment, revenue for automotive coatings decreased from the previous year due to the effects of yen appreciation in addition to the sluggish production of automobiles in the region. The financial results of Betek Boya ve Kimya Sanayi Anonim Sirketi, whose profit or loss since July 2019 has been reflected in the Group's consolidated financial results, remained solid.

As a result, consolidated revenue for the segment increased by 101.5% from the previous year to ¥28,012 million, and consolidated operating loss was ¥6,972 million, compared to an operating loss of ¥529 million in the previous year, due to the recording of an impairment loss on the Europe Automotive Business Group.

(2) Overview of Financial Position for the Period under Review

Total assets at the end of the fiscal year ended December 31, 2019 increased by ¥524,657 million from the end of the previous fiscal year to ¥1,478,646 million. Current assets increased by ¥63,001 million from the end of the previous fiscal year mainly due to increases in trade and other receivables and inventories, despite a decrease in cash and cash equivalents. Additionally, non-current assets increased by ¥461,656 million from the end of the previous fiscal year. The increase was primarily attributable to factors such as an increase in property, plant and equipment in line with the application of IFRS 16 and increases in property, plant and equipment, intangible assets, and goodwill resulting from the acquisition of DuluxGroup Limited and Betek Boya ve Kimya Sanayi Anonim Sirketi.

Liabilities increased by ¥484,297 million from the end of the previous fiscal year to ¥790,667 million mainly due to an increase in borrowings in line with the acquisition of DuluxGroup Limited and Betek Boya ve Kimya Sanayi Anonim Sirketi.

Equity increased by ¥40,360 million from the end of the previous fiscal year to ¥687,979 million. This was mainly attributable to an increase in foreign currency translation adjustment and an increase in retained earnings due to the recording of profit attributable to owners of parent.

As a result, equity attributable to owners of parent to total assets fell from 54.5% at the end of the previous fiscal year to 37.4%.

(3) Overview of Cash Flows for the Period under Review

In the fiscal year ended December 31, 2019, operating activities resulted in an inflow of ¥92,076 million, investing activities resulted in an outflow of ¥352,769 million, and financing activities resulted in an inflow of ¥254,018 million, resulting in cash and cash equivalents (hereinafter "cash") of ¥123,300 million, a decrease of ¥6,333 million compared to the end of the previous fiscal year.

(Cash flows from operating activities)

Net cash provided by operating activities increased by ¥30,542 million from the previous year to ¥92,076 million. Primary factors include an increase in cash of ¥1,813 million due to a decrease in operating capital and income taxes paid of ¥22,849 million, despite a cash inflow (excluding increases and decreases in operating

capital) of ¥113,112 million, reflecting mainly non-cash expenses such as depreciation and amortization on profit before tax.

(Cash flows from investing activities)

Net cash used in investing activities increased by ¥315,329 million from the previous year to ¥352,769 million. This was mainly attributable to an outflow of ¥318,655 million due to the acquisition of subsidiaries and an outflow of ¥22,764 million due to the purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash provided by financing activities increased by ¥247,789 million from the previous year to ¥254,018 million. Primary factors include an inflow of ¥301,178 million due to an increase in short-term borrowings, an outflow of ¥21,209 million due to repayments of long-term borrowings, and an outflow of ¥26,743 million due to dividends paid.

(4) Future Outlook

The consolidated financial results forecast for the fiscal year ending December 31, 2020 is yet to be determined as the Company is monitoring the epidemic situation of the novel coronavirus and cannot determine the financial results forecast reasonably at this time. The financial results forecast will be disclosed promptly when it becomes possible to make a forecast.

2. Basic Approach to Selection of Accounting Standards

In order to further promote global management, improve the comparability of financial information, and enhance disclosure by standardizing accounting procedures amongst group companies, the Group has voluntarily adopted International Financial Reporting Standards (IFRS) for consolidated financial statements in its annual securities reports from the fiscal year ended December 31, 2018.

3. Consolidated Financial Statements and Primary Notes

(1) Consolidated Statements of Profit or Loss and Comprehensive Income

Consolidated Statement of Profit or Loss

(Million yen)

	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019
Revenue	627,670	692,009
Cost of sales	(385,506)	(416,359)
Gross profit	242,164	275,649
Selling, general and administrative expenses	(164,142)	(190,435)
Other income	10,700	6,717
Other expenses	(2,179)	(13,871)
Operating profit	86,542	78,060
Finance income	4,432	5,749
Finance costs	(3,134)	(5,729)
Share of profit of investments accounted for using equity method	1,235	1,438
Profit before tax	89,075	79,518
Income tax expense	(22,758)	(23,251)
Profit	66,316	56,267
Profit attributable to		
Owners of parent	45,351	36,717
Non-controlling interests	20,965	19,550
Profit	66,316	56,267
Earnings per share		
Basic earnings per share (yen)	141.41	114.48
Diluted earnings per share (yen)	141.39	114.45

Consolidated Statement of Comprehensive Income

(Million yen)

	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019
Profit	66,316	56,267
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	(4,895)	3,229
Remeasurements of defined benefit plans	(1,353)	(828)
Total of items that will not be reclassified to profit or loss	(6,248)	2,400
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(23,070)	7,080
Cash flow hedges	—	(32,737)
Share of other comprehensive income of investments accounted for using equity method	(914)	(346)
Total of items that may be reclassified to profit or loss	(23,985)	(26,003)
Total other comprehensive income	(30,233)	(23,602)
Comprehensive income	36,083	32,664
Comprehensive income attributable to		
Owners of parent	22,752	14,929
Non-controlling interests	13,330	17,735
Comprehensive income	36,083	32,664

(2) Consolidated Statement of Financial Position

(Million yen)

	As of December 31, 2018	As of December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	129,633	123,300
Inventories	65,807	92,860
Trade and other receivables	179,269	212,844
Other financial assets	59,775	65,158
Other current assets	9,456	12,623
Subtotal	443,941	506,787
Assets held for sale	272	428
Total current assets	444,214	507,216
Non-current assets		
Property, plant and equipment	140,550	240,319
Goodwill	203,722	427,091
Other intangible assets	95,496	230,986
Investments accounted for using equity method	11,612	12,680
Other financial assets	40,942	54,381
Other non-current assets	14,374	2,818
Deferred tax assets	3,075	3,151
Total non-current assets	509,774	971,430
Total assets	953,988	1,478,646

(Million yen)

	As of December 31, 2018	As of December 31, 2019
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	121,999	153,277
Bonds and borrowings	51,583	384,049
Other financial liabilities	5,050	12,470
Income taxes payable	4,735	6,739
Provisions	992	2,197
Other current liabilities	31,415	39,413
Total current liabilities	215,776	598,147
Non-current liabilities		
Bonds and borrowings	37,881	58,147
Other financial liabilities	5,558	44,681
Retirement benefit liability	19,572	24,382
Provisions	385	900
Other non-current liabilities	1,209	1,847
Deferred tax liabilities	25,986	62,560
Total non-current liabilities	90,593	192,519
Total liabilities	306,370	790,667
Equity		
Share capital	78,862	78,862
Capital surplus	63,247	62,927
Treasury shares	(6,444)	(6,378)
Retained earnings	390,287	411,941
Other components of equity	(5,905)	5,568
Total equity attributable to owners of parent	520,047	552,922
Non-controlling interests	127,570	135,056
Total equity	647,618	687,979
Total liabilities and equity	953,988	1,478,646

(3) Consolidated Statement of Changes in Equity

(Million yen)

	Equity attributable to owners of parent						Non-controlling interests	Total
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total		
Balance as of January 1, 2018	78,862	63,262	(6,454)	360,249	15,471	511,392	125,549	636,941
Profit	—	—	—	45,351	—	45,351	20,965	66,316
Other comprehensive income	—	—	—	—	(22,599)	(22,599)	(7,634)	(30,233)
Comprehensive income	—	—	—	45,351	(22,599)	22,752	13,330	36,083
Purchase of treasury shares	—	—	(7)	—	—	(7)	—	(7)
Disposal of treasury shares	—	18	16	—	(35)	0	—	0
Dividends	—	—	—	(14,110)	—	(14,110)	(12,325)	(26,436)
Share-based payment transactions	—	—	—	—	54	54	—	54
Changes in ownership interest in subsidiaries	—	(33)	—	—	—	(33)	(197)	(231)
Change in scope of consolidation	—	—	—	—	—	—	521	521
Transfer from other components of equity to retained earnings	—	—	—	(1,202)	1,202	—	—	—
Transfer from other components of equity to non-financial assets	—	—	—	—	—	—	—	—
Capital increase of consolidated subsidiaries	—	—	—	—	—	—	790	790
Other	—	—	—	—	—	—	(97)	(97)
Total transactions with owners	—	(15)	9	(15,313)	1,222	(14,096)	(11,309)	(25,406)
Balance as of December 31, 2018	78,862	63,247	(6,444)	390,287	(5,905)	520,047	127,570	647,618
Profit	—	—	—	36,717	—	36,717	19,550	56,267
Other comprehensive income	—	—	—	—	(21,787)	(21,787)	(1,815)	(23,602)
Comprehensive income	—	—	—	36,717	(21,787)	14,929	17,735	32,664
Purchase of treasury shares	—	—	(11)	—	—	(11)	—	(11)
Disposal of treasury shares	—	162	77	—	(5)	234	—	234
Dividends	—	—	—	(14,433)	—	(14,433)	(12,047)	(26,481)
Share-based payment transactions	—	—	—	—	10	10	—	10
Changes in ownership interest in subsidiaries	—	(481)	—	—	—	(481)	(441)	(922)
Change in scope of consolidation	—	—	—	—	—	—	493	493
Transfer from other components of equity to retained earnings	—	—	—	(629)	629	—	—	—
Transfer from other components of equity to non-financial assets	—	—	—	—	32,626	32,626	—	32,626
Capital increase of consolidated subsidiaries	—	—	—	—	—	—	1,793	1,793
Other	—	—	—	—	—	—	(47)	(47)
Total transactions with owners	—	(319)	66	(15,063)	33,261	17,945	(10,249)	7,695
Balance as of December 31, 2019	78,862	62,927	(6,378)	411,941	5,568	552,922	135,056	687,979

(4) Consolidated Statement of Cash Flows

(Million yen)

	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019
Cash flows from operating activities		
Profit before tax	89,075	79,518
Depreciation and amortization	18,390	25,769
Impairment loss	32	11,315
Interest and dividend income	(2,432)	(4,640)
Interest expenses	1,261	4,782
Share of loss (profit) of investments accounted for using equity method	(1,235)	(1,438)
Loss (gain) on sale and retirement of property, plant and equipment, and intangible assets	(5,158)	(918)
Decrease (increase) in inventories	1,220	(2,306)
Decrease (increase) in trade and other receivables	(9,176)	(586)
Increase (decrease) in trade and other payables	(1,625)	4,706
Increase (decrease) in retirement benefit liability	(121)	(820)
Increase (decrease) in provisions	(2,128)	(834)
Other	(4,015)	36
Subtotal	84,087	114,583
Interest received	1,384	2,543
Dividends received	1,930	2,095
Interest paid	(1,348)	(4,297)
Income taxes paid	(24,521)	(22,849)
Net cash provided by (used in) operating activities	61,533	92,076
Cash flows from investing activities		
Net decrease (increase) in time deposits	(34,472)	(4,518)
Net decrease (increase) in marketable securities	12,333	(1,167)
Purchase of property, plant and equipment	(18,399)	(22,764)
Proceeds from sale of property, plant and equipment	6,202	4,205
Purchase of intangible assets	(1,676)	(2,679)
Purchase of investment securities	(63)	(237)
Payments for acquisition of subsidiaries	(1,868)	(318,655)
Payments for sale of shares of subsidiaries	—	(57)
Payments for acquisition of businesses	—	(2,622)
Payments for loans receivable	(543)	(3,612)
Other	1,048	(658)
Net cash provided by (used in) investing activities	(37,439)	(352,769)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	22,354	301,178
Proceeds from long-term borrowings	16,995	7,054
Repayments of long-term borrowings	(7,104)	(21,209)
Repayments of lease obligations	(629)	(8,133)
Capital contribution from non-controlling interests	689	1,881
Dividends paid	(14,110)	(14,433)
Dividends paid to non-controlling interests	(12,038)	(12,310)
Other	70	(8)
Net cash provided by (used in) financing activities	6,228	254,018
Effect of exchange rate changes on cash and cash equivalents	(2,565)	341
Net increase (decrease) in cash and cash equivalents	27,757	(6,333)
Cash and cash equivalents at beginning of period	101,876	129,633
Cash and cash equivalents at end of period	129,633	123,300

(5) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Changes in accounting policies)

The major standard which the Group has applied since the fiscal year ended December 31, 2019 is as follows.

IFRS	Details of new/amended standard
IFRS 16 “Leases”	For all leases of a lessee, in principle, the rights to use the assets and the obligations associated with payments shall be reflected in the consolidated financial statements.

In applying IFRS 16, the Group has applied transitional provisions stipulated in paragraph C5 (b) and recognized the cumulative effect of initial application at the date of initial application (January 1, 2019). Due to transition to IFRS 16, right-of-use assets increased by ¥32,985 million, lease obligations increased by ¥20,860 million, and other non-current assets decreased by ¥12,429 million. Right-of-use assets and lease obligations are included in property, plant and equipment and other financial liabilities (current and non-current), respectively.

The Group has used practical expedients stipulated in paragraph C10 (a)-(e) of IFRS 16 when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

(Changes in presentation)

(Consolidated statement of cash flows)

“Impairment loss,” which was included in “Other” under “Cash flows from operating activities” during the previous fiscal year, has become significant in value, and is separately presented from the fiscal year ended December 31, 2019. To reflect this change, the consolidated financial statements for the previous fiscal year have been rearranged.

As a result, “Other” of ¥(3,982) million, which was presented in “Cash flows from operating activities” on the consolidated statement of cash flows during the previous fiscal year, has been rearranged to “Impairment loss” of ¥32 million and “Other” of ¥(4,015) million.

“Income taxes refund,” which was separately presented in “Cash flows from operating activities” during the previous fiscal year, is no longer significant in value, and is included in “Income taxes paid” from the fiscal year ended December 31, 2019. To reflect this change, the consolidated financial statements for the previous fiscal year have been rearranged.

As a result, “Income taxes paid” of ¥(24,968) million and “Income taxes refund” of ¥447 million, which were presented in “Cash flows from operating activities” on the consolidated statement of cash flows during the previous fiscal year, have been rearranged to “Income taxes paid” of ¥(24,521) million.

“Payments into time deposits” and “Proceeds from withdrawal of time deposits,” which were separately presented in “Cash flows from investing activities” during the previous fiscal year, are no longer significant in value, and are presented as “Net decrease (increase) in time deposits” from the fiscal year ended December 31, 2019. To reflect this change, the consolidated financial statements for the previous fiscal year have been rearranged.

As a result, “Payments into time deposits” of ¥(37,021) million and “Proceeds from withdrawal of time deposits” of ¥2,549 million, which were presented in “Cash flows from investing activities” on the consolidated statement of cash flows during the previous fiscal year, have been rearranged to “Net decrease (increase) in time deposits” of ¥(34,472) million.

“Payments for loans receivable,” which was included in “Other” under “Cash flows from investing activities” during the previous fiscal year, has become significant in value, and is separately presented from the fiscal year ended December 31, 2019. To reflect this change, the consolidated financial statements for the previous fiscal year have been rearranged.

As a result, “Other” of ¥505 million, which was presented in “Cash flows from investing activities” on the consolidated statement of cash flows during the previous fiscal year, has been rearranged to “Payments for loans receivable” of ¥(543) million and “Other” of ¥1,048 million.

“Repayments of lease obligations,” which was included in “Other” under “Cash flows from financing activities” during the previous fiscal year, has become significant in value, and is separately presented from the fiscal year ended December 31, 2019. To reflect this change, the consolidated financial statements for the previous fiscal year have been rearranged.

As a result, “Other” of ¥(558) million, which was presented in “Cash flows from financing activities” on the consolidated statement of cash flows during the previous fiscal year, has been rearranged to “Repayments of lease obligations” of ¥(629) million and “Other” of ¥70 million.

(Segment information)

(1) Summary of reportable segments

The reportable segments of the Group categorize the business composition of the Group for which separate financial information is available and are subject to periodical evaluation by the Board of Directors, which is the highest decision-making body, in order to make decisions regarding management resource allocation and performance assessment. The Group’s primary businesses are the paint and coating business which manufactures and sells automotive coatings, decorative paints, industrial coatings, fine chemicals, and other paints, and the paint peripheral business which manufactures and sells paint-related products such as adhesives. The Company and separate local companies are responsible for domestic activities, and overseas, separate local companies are responsible for the Asia, Oceania, Americas, and other regions. Each company is an individual management unit, and concerning which items to carry, comprehensive strategic proposals are made for each region to foster business growth.

As a result, the Group consists of segments divided by region with manufacture and sales structure as a base, and the four reportable segments are “Japan,” “Asia,” “Oceania,” and “Americas.”

“Other” contains business activities by overseas subsidiaries in Europe, etc. Those business activities are managed individually, but are not material enough to be disclosed separately as an independent segment of the Group.

(Changes in reportable segments)

“Oceania” has been added to the reportable segments as a result of the acquisition of all shares in DuluxGroup Limited and the inclusion of the company and its 42 subsidiaries in the scope of consolidation in the fiscal year ended December 31, 2019.

Segment information for the previous fiscal year is presented based on the changed reportable segment categories.

(2) Information on reportable segments

For the fiscal year ended December 31, 2018 (From January 1, 2018 to December 31, 2018)

(Million yen)

	Reportable segment					Other	Total	Adjustment (Note 1)	Consolidated financial statements
	Japan	Asia	Oceania	Americas	Subtotal				
Revenue									
Revenue from external customers	182,817	355,746	—	75,207	613,770	13,900	627,670	—	627,670
Intersegment revenue	34,911	3,480	—	217	38,609	738	39,348	(39,348)	—
Total	217,729	359,226	—	75,424	652,380	14,638	667,018	(39,348)	627,670
Segment profit (loss)	43,636	52,418	—	4,989	101,044	(529)	100,514	(13,972)	86,542
Finance income									4,432
Finance costs									(3,134)
Share of profit of investments accounted for using equity method									1,235
Profit before tax									89,075
Other items									
Depreciation and amortization	3,815	11,507	—	2,850	18,174	216	18,390	—	18,390
Impairment loss	16	—	—	—	16	16	32	—	32
Capital expenditures (Note 2)	3,990	13,129	—	2,608	19,728	2,725	22,453	—	22,453

Note 1: Adjustments to “intersegment revenue” and “segment profit (loss)” are primarily due to intersegment eliminations.

Note 2: These mainly consist of expenditures for property, plant and equipment and intangible assets.

For the fiscal year ended December 31, 2019 (From January 1, 2019 to December 31, 2019)

(Million yen)

	Reportable segment					Other	Total	Adjustment (Note 1)	Consolidated financial statements
	Japan	Asia	Oceania	Americas	Subtotal				
Revenue									
Revenue from external customers	182,585	359,213	47,578	74,618	663,996	28,012	692,009	—	692,009
Intersegment revenue	34,028	4,051	—	142	38,221	846	39,067	(39,067)	—
Total	216,614	363,264	47,578	74,760	702,218	28,858	731,077	(39,067)	692,009
Segment profit (loss)	36,990	50,769	5,861	5,010	98,632	(6,972)	91,659	(13,599)	78,060
Finance income									5,749
Finance costs									(5,729)
Share of profit of investments accounted for using equity method									1,438
Profit before tax									79,518
Other items									
Depreciation and amortization	4,284	13,491	2,169	4,617	24,562	1,207	25,769	—	25,769
Impairment loss	734	2,630	131	—	3,497	7,818	11,315	—	11,315
Capital expenditures (Note 2)	7,077	15,651	1,383	7,313	31,426	3,836	35,263	—	35,263

Note 1: Adjustments to “intersegment revenue” and “segment profit (loss)” are primarily due to intersegment eliminations.

Note 2: These mainly consist of expenditures for property, plant and equipment and intangible assets.

(3) Information on products and services

Sales categories by business have been changed to the “paint and coating business” and the “paint peripheral business” in the fiscal year ended December 31, 2019.

Revenue for the previous fiscal year is presented based on the changed sales categories by business.

For the fiscal year ended December 31, 2018 (From January 1, 2018 to December 31, 2018)

	(Million yen)					
	Japan	Asia	Oceania	Americas	Other	Total
Paint and coating business	182,817	355,746	—	75,207	13,900	627,670
Automotive coatings	45,837	74,188	—	27,310	12,846	160,182
Decorative paints	46,823	231,056	—	44,630	—	322,511
Industrial coatings	40,616	27,886	—	—	261	68,764
Fine chemicals	8,907	6,626	—	3,095	759	19,390
Other paints	40,632	15,987	—	170	31	56,822
Paint peripheral business	—	—	—	—	—	—
Total	182,817	355,746	—	75,207	13,900	627,670

For the fiscal year ended December 31, 2019 (From January 1, 2019 to December 31, 2019)

	(Million yen)					
	Japan	Asia	Oceania	Americas	Other	Total
Paint and coating business	182,585	359,213	26,582	74,618	23,462	666,462
Automotive coatings	44,879	67,070	—	25,915	11,777	149,643
Decorative paints	48,248	243,671	24,577	45,389	8,804	370,690
Industrial coatings	40,690	25,643	2,004	—	1,832	70,170
Fine chemicals	8,693	6,047	—	3,135	1,043	18,920
Other paints	40,074	16,779	—	177	4	57,036
Paint peripheral business	—	—	20,996	—	4,550	25,547
Total	182,585	359,213	47,578	74,618	28,012	692,009

(Impairment loss)

In the fiscal year ended December 31, 2019, an impairment loss of ¥11,315 million was recorded partly due to a profitability decline in line with revisions to the business plans of some consolidated subsidiaries of the Company. The impairment loss is included in “Other expenses” on the consolidated statement of profit or loss. The main components of the impairment loss are as follows.

(Million yen)		
Reportable segment	Type	Amount
Asia	Property, plant and equipment	718
	Goodwill	1,125
	Other intangible assets	786
Other	Property, plant and equipment	6,749
	Goodwill	1,046
	Other intangible assets	23

(Business combinations, etc.)

For the fiscal year ended December 31, 2018 (From January 1, 2018 to December 31, 2018)

There is no relevant information.

For the fiscal year ended December 31, 2019 (From January 1, 2019 to December 31, 2019)

(Acquisition (acquisition of ownership) of Australian DuluxGroup Limited)

(1) Overview of business combination

1) Name and business of acquiree

Name of acquiree : DuluxGroup Limited and its 42 subsidiaries

Description of business : Manufacture and sale of premium branded paint & coatings and home improvement products mainly in Oceania

* DuluxGroup Limited has an associate accounted for using equity method.

2) Date of acquisition

August 21, 2019

3) Percentage of voting equity interests acquired

100%

4) Method of obtaining control of acquiree

Share acquisition in exchange for cash as consideration

5) Primary reasons for the acquisition

Although the paints market in Australia and New Zealand (hereinafter referred to as “ANZ”) is an attractive market that continues to grow steadily even in developed countries, DuluxGroup Limited has the largest share of the ANZ paints market. DuluxGroup Limited is a leading company in ANZ with a wealth of iconic brands especially in the decorative paint segment and continues to expand its market share ahead of the No. 2 ranking player. Therefore, it is expected that the share acquisition will further strengthen the business foundation of the Company, since the share acquisition enables the Company to secure a strong position in the decorative paint business, which has a great demand for paints in the world and high potential for growth, and to balance the Company’s portfolio in both fast-growing regions and stable-growth expected regions, and will greatly contribute to the progress of the medium-term management plan of the Company. Therefore, the Company decided to conduct the share acquisition.

(2) Fair values of assets and liabilities as of the date of business combination

	(Million yen)
	Fair value
Cash and cash equivalents	2,906
Property, plant and equipment	54,141
Intangible assets	125,809
Other assets	52,342
Fair value of liabilities assumed	(134,350)
Fair value of assets acquired and liabilities assumed, net	100,848

Trade and other receivables

	(Million yen)	
	Contractual amount due	Fair value
Trade receivables	18,924	18,541
Receivables	163	163
Total	19,087	18,704
Best estimate of contractual cash flows not expected to be collected	(382)	—
Net total	18,704	18,704

Note: Consideration for acquisition is allocated to assets and liabilities based on the fair value at the date of obtaining control. The allocation of consideration for acquisition was completed at the end of the fiscal year ended December 31, 2019. Revisions to the initial provisional amounts are as follows.

Property, plant and equipment	¥6,468 million increase
Intangible assets	¥120,099 million increase
Fair value of liabilities assumed	¥37,970 million increase
Goodwill	¥88,597 million decrease

(3) Consideration transferred and goodwill

		(Million yen)
		Amount
Consideration transferred (cash)	A	262,932
Basis adjustments	B	31,720
Fair value of assets acquired and liabilities assumed, net	C	100,848
Non-controlling interests (Note 1)	D	(156)
Goodwill (Note 2)	A+B-(C-D)	193,647

Note 1: Non-controlling interests are measured at the proportion of non-controlling interests to the fair value of the acquiree's identifiable net assets.

Note 2: Goodwill primarily reflects the ability to generate excess earnings in the future and synergies with existing businesses. The goodwill does not include any amount which is expected to be deductible for tax purposes.

(4) Acquisition-related expenses

Line item	: Selling, general and administrative expenses
Amount	: ¥1,425 million

(5) Effects on the consolidated statement of profit or loss

1) Acquiree's financial results on and after the date of acquisition recognized in the consolidated statement of profit or loss

	(Million yen)
	For the fiscal year ended December 31, 2019 (From September 1, 2019 to December 31, 2019)
Revenue	47,578
Profit	3,628

- 2) Effects on the consolidated statement of profit or loss in the case where the business combination is assumed to have been executed at beginning of period

	(Million yen)
	For the fiscal year ended December 31, 2019 (From January 1, 2019 to December 31, 2019)
Revenue	138,128
Profit	6,320

The pro forma information (unaudited information) has not been audited.

- (6) Effects of business combination on cash flows

	(Million yen)
	Amount
Consideration paid for acquisition	294,652
Cash and cash equivalents	(2,906)
Purchase of shares of subsidiaries	291,745

(Acquisition (acquisition of ownership) of Turkish Betek Boya ve Kimya Sanayi Anonim Sirketi)

- (1) Overview of business combination

- 1) Name and business of acquiree

Name of acquiree : Betek Boya ve Kimya Sanayi Anonim Sirketi and its 8 subsidiaries

Description of business : Manufacture and sale of decorative paint and construction materials

* Betek Boya ve Kimya Sanayi Anonim Sirketi has an entity accounted for using equity method.

- 2) Date of acquisition

July 10, 2019

- 3) Percentage of voting equity interests acquired

99.71%

- 4) Method of obtaining control of acquiree

Share acquisition in exchange for cash as consideration

- 5) Primary reasons for acquisition

The decorative paint market in Turkey is an appealing market for which high growth is expected. Betek Group, which is the group of companies the Company is acquiring shares, was founded in 1988 and handles ETICS (External Thermal Insulation Composite System: insulation materials), etc. in addition to decorative paint and industrial coatings for construction. Betek Group is a leading company that has the top share in the decorative paint market in Turkey. Its major brands Filli Boya and Fawori have a large market share and a high brand-recognition level. In addition to the regions in Asia and China, where the Company has had a strong presence, the Company will position itself as a leading player in the Turkish markets with strong expected growth, capturing the high growth potential of the Turkish markets. Furthermore, by contributing know-how and business resources the Company has accumulated through its Asian paint and coatings business into Betek Boya ve Kimya Sanayi Anonim Sirketi, it will be possible to further accelerate the speed at which Betek Boya ve Kimya Sanayi Anonim Sirketi will expand its business. Accordingly, the Company

decided to conduct the share acquisition, firmly believing that the transaction will greatly contribute to the progress of the Company's medium-term management plan and the realization of its medium/long-term management policies.

(2) Fair values of assets and liabilities as of the date of business combination

	(Million yen)
	Fair value
Cash and cash equivalents	3,813
Property, plant and equipment	8,235
Intangible assets	7,917
Other assets	22,623
Fair value of liabilities assumed	(36,812)
Fair value of assets acquired and liabilities assumed, net	5,777

Trade and other receivables

	(Million yen)	
	Contractual amount due	Fair value
Trade receivables	17,251	14,566
Receivables	327	327
Total	17,579	14,893
Best estimate of contractual cash flows not expected to be collected	(2,685)	—
Net total	14,893	14,893

Note: Consideration for acquisition is allocated to assets and liabilities based on the fair value at the date of obtaining control. The allocation of consideration for acquisition was completed at the end of the fiscal year ended December 31, 2019. Revisions to the initial provisional amounts are as follows.

Intangible assets	¥7,897 million increase
Fair value of liabilities assumed	¥1,584 million increase
Non-controlling interests	¥18 million increase
Goodwill	¥6,295 million decrease

(3) Consideration transferred and goodwill

		(Million yen)
		Amount
Consideration transferred (cash)	A	26,456
Basis adjustments	B	906
Fair value of assets acquired and liabilities assumed, net	C	5,777
Non-controlling interests (Note 1)	D	531
Goodwill (Note 2)	A+B-(C-D)	22,116

Note 1: Non-controlling interests are measured at the proportion of non-controlling interests to the fair value of the acquiree's identifiable net assets.

Note 2: Goodwill primarily reflects the ability to generate excess earnings in the future and synergies with existing businesses. The goodwill does not include any amount which is expected to be deductible for tax purposes.

(4) Acquisition-related expenses

Line item : Selling, general and administrative expenses
Amount : ¥556 million

(5) Effects on the consolidated statement of profit or loss

1) Acquiree's financial results on and after the date of acquisition recognized in the consolidated statement of profit or loss

	(Million yen)
	For the fiscal year ended December 31, 2019 (From July 1, 2019 to December 31, 2019)
Revenue	15,080
Profit	2,068

2) Effects on the consolidated statement of profit or loss in the case where the business combination is assumed to have been executed at beginning of period

	(Million yen)
	For the fiscal year ended December 31, 2019 (From January 1, 2019 to December 31, 2019)
Revenue	29,220
Profit	1,212

The pro forma information (unaudited information) has not been audited.

(6) Effects of business combination on cash flows

	(Million yen)
	Amount
Consideration paid for acquisition	27,362
Cash and cash equivalents	(3,813)
Purchase of shares of subsidiaries	23,548

(Per-share information)

The basis of calculations of basic earnings per share and diluted earnings per share is as below.

	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019
Profit attributable to owners of parent (million yen)	45,351	36,717
Adjustment to profit used in the calculation of diluted earnings per share (million yen)	—	—
Diluted earnings (million yen)	45,351	36,717
Weighted-average number of common shares issued (thousands of shares)	320,704	320,732
Increase in the number of common shares used in the calculation of diluted earnings per share (thousands of shares)		
Increase due to exercise of stock options (thousands of shares)	50	72
Increase due to restricted share compensation plan (thousands of shares)	—	20
Weighted-average number of common shares used in the calculation of diluted earnings per share (thousands of shares)	320,754	320,805
Basic earnings per share (yen)	141.41	114.48
Diluted earnings per share (yen)	141.39	114.45

(Significant subsequent events)

There is no relevant information.