

# Acquisition of Asian JV Stake and Indonesia Business

~Establishing Dominance in Asia to Pursue Global Growth~

August 21, 2020

Masaaki Tanaka (Chairman, President & CEO)

Nippon Paint Holdings Co., Ltd.



# Today's Agenda

**1. 100% Ownership of Asian JV**

**2. Acquisition of Indonesia Business**

**3. Synergy Creation**

**4. Financial Impact**

**5. Future Strategies**

# Introduction (1)

- ✓ **NPHD agreed with Wuthelam to increase its stake in Asia JVs to 100% and acquire its Indonesia business**
- ✓ **This agreement will bring our 60-year-long partnership to perfection and build a strong foundation for accelerated growth**
- ✓ **Profit attributable to shareholders to increase by c. 60%<sup>(1)</sup> and EPS by 10% or more<sup>(2)</sup>**
- ✓ **Structure to strengthen balance sheet allowing for future growth**

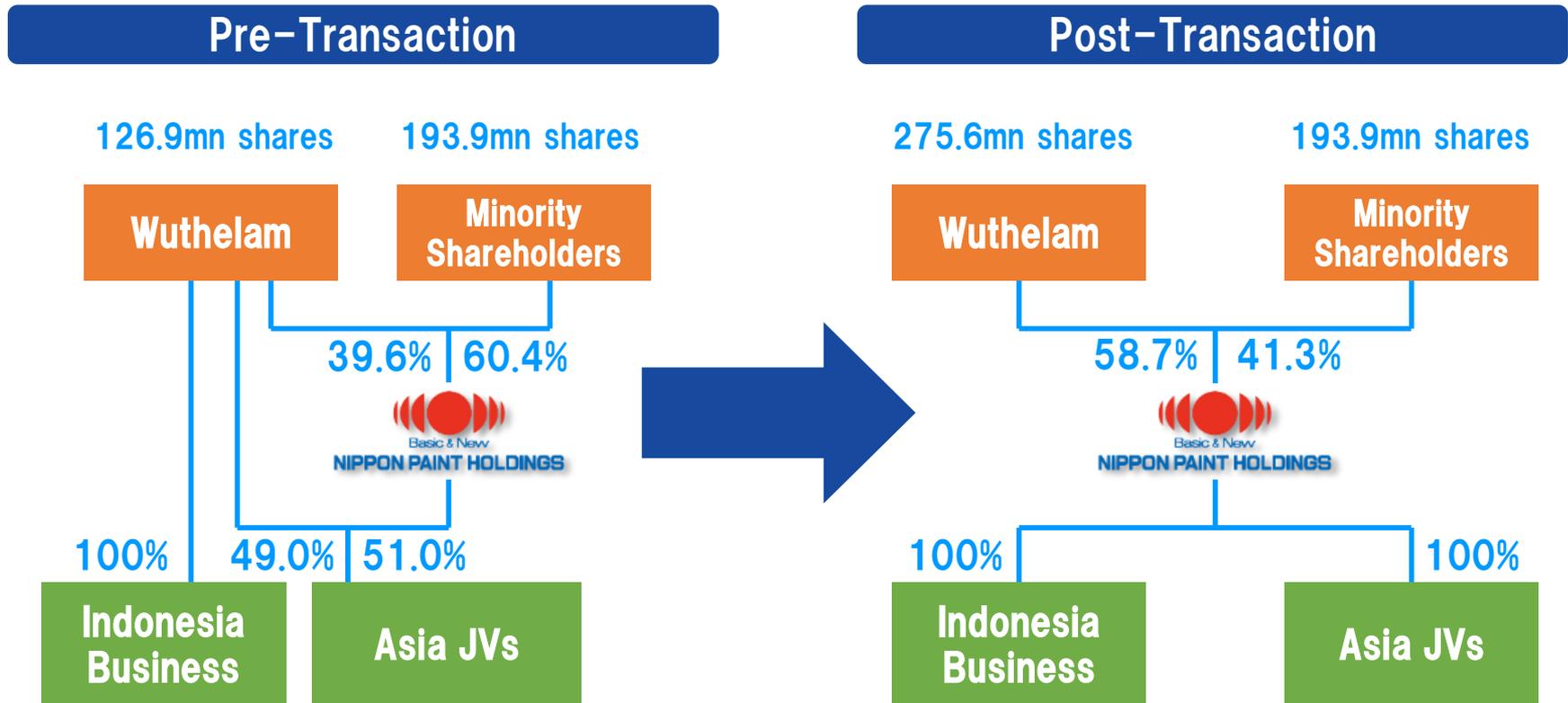


**Transaction enables full capture of growing Asian businesses, realizing substantial profit increase, minority shareholder protection, and maximization of shareholder value (MSV)**

- (1) For 2019 actual results, the figures for DuluxGroup and Betek Boya are adjusted on a full-year basis based on certain assumptions (Refer to page 42 for details). Interests and amortization of intangible assets associated with the transaction are also included based on certain assumptions.
- (2) One-time cost items incurred for the transaction in the first year are excluded.

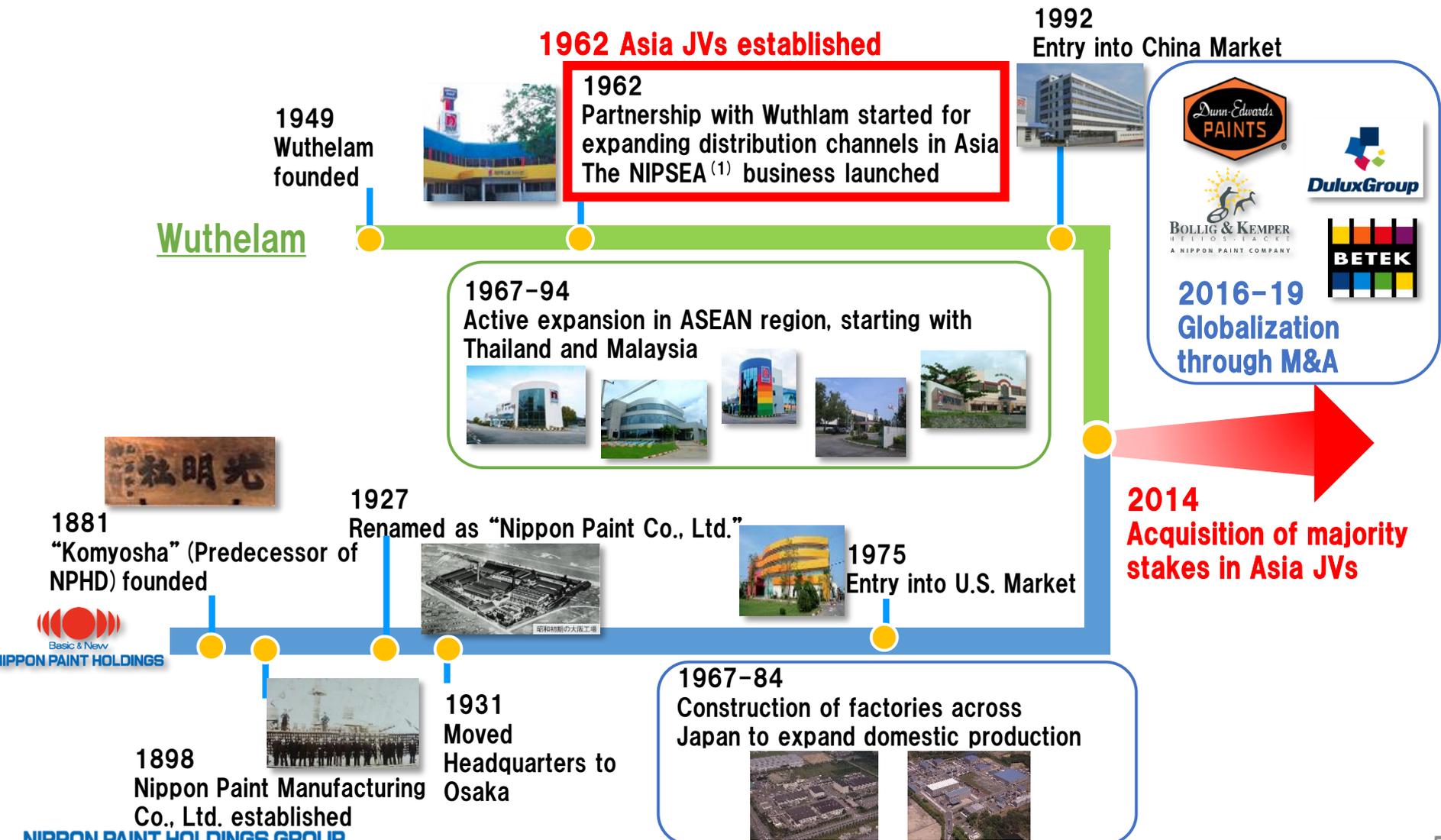
# Introduction (2)

Transaction will simplify the ownership structure and resolve the potential conflict of interest between the major and minority shareholders



# History of Strategic Partnership with Wuthelam (1)

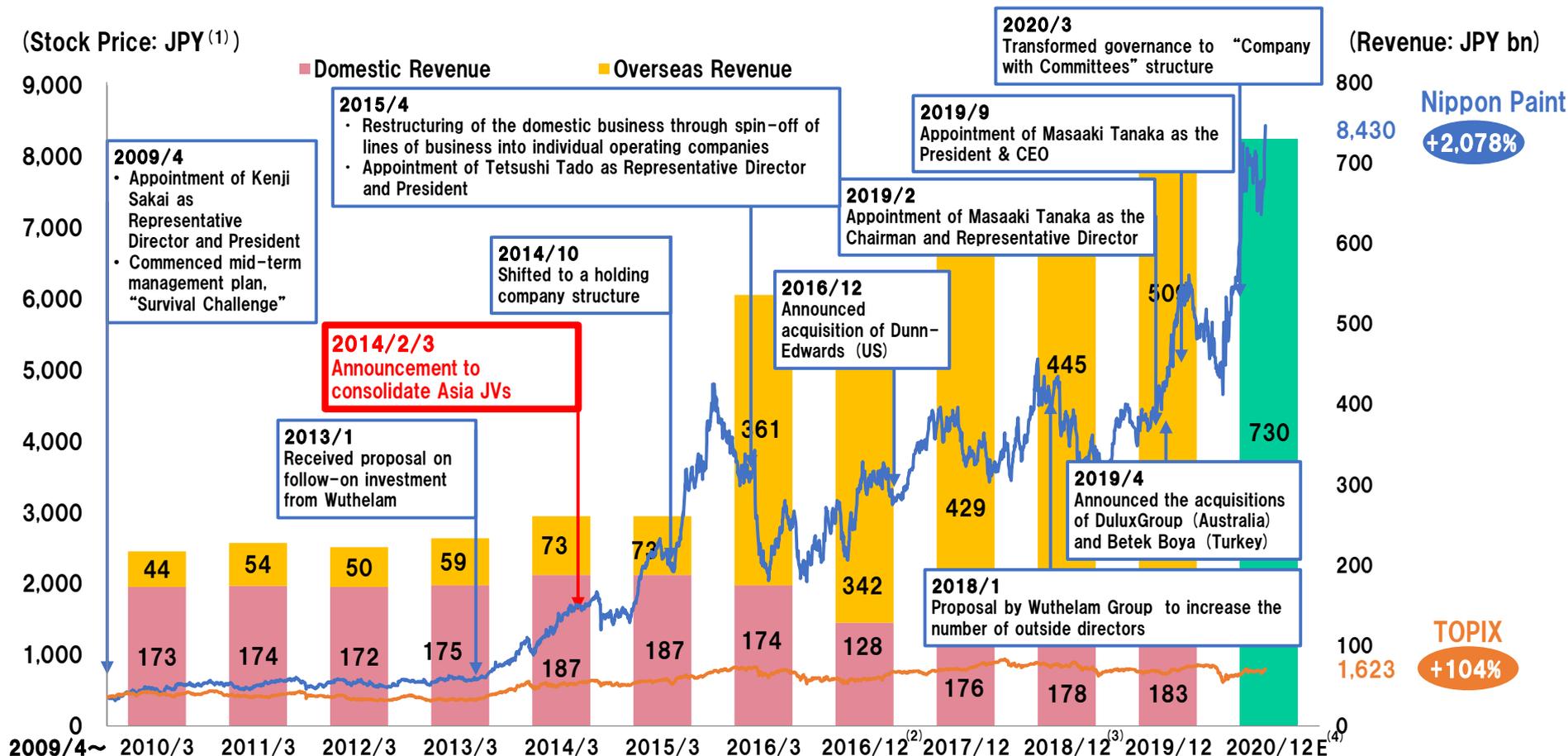
Our partnership with Wuthelam dates back nearly 60 years/ Driver for global expansion after acquiring majority stake in 2014



(1) Acronym of Nippon Paint Southeast Asia

# History of Strategic Partnership with Wuthelam (2)

Business expanded after acquiring majority stake in 2014  
Share price increased nearly 22x over the past 10 years

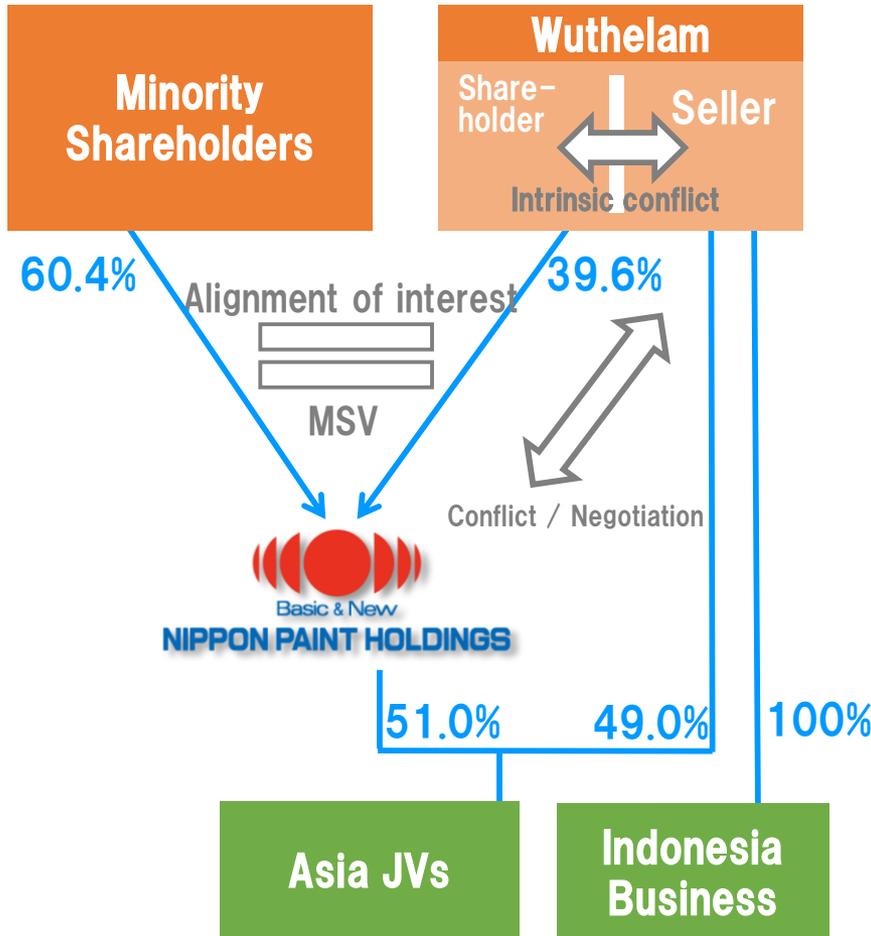


(1) Normalized TOPIX based on the share price of Nippon Paint as of April 1, 2009.  
 (2) Fiscal year-end changed to December from FY2016/12, hence revenue based on Apr to Dec 2016 only.  
 (3) Figures after FY2019/12 are based on IFRS while figures before FY2018/12 are based on JGAAP.  
 (4) Based on company full-year earnings forecast, as announced on August 14, 2020.

# Addressing the Perceived Conflict of Interest

## Intrinsic conflict within Wuthelam both as seller and buyer

### Pre-Transaction



- Wuthelam’s current 39.6% ownership in NPHD is aligned with interest of minority shareholders. Wuthelam and NPHD have pursued MSV together and achieved steady gains in NPHD share price
- However, intrinsic conflict of interest exists: Wuthelam as a seller would seek to sell Asia JV shares at high price; as NPHD’s shareholder, it would look to acquire JV shares at its low
- Under NPHD’s management policy predicated on “protection of minority shareholder interest,” the transaction was reviewed by NPHD’s highly independent and objective board as well as special committee comprising 3 independent directors with expertise, which reported that the acquisition would not be disadvantageous to minority shareholders
- Wuthelam decided to sell its shares at relatively low valuation, with high expectations for NPHD’s future growth and recognition that minority shareholder protection and their understanding are essential for NPHD’s future growth and maximization of shareholder value

# Ensuring Minority Shareholder Protection

Special Committee established under new governance system reviewed the transaction in detail

## Reviewing Structure (1)



# Transaction Overview

## Acquisition of the remaining shares in Asia JVs and 100% Indonesia business

### Purchase Price

- Total purchase price will be ¥1,285.1bn based on NPHD's Aug. 20 closing price of ¥7,970
  - Asia JVs will be purchased for ¥1,049.6bn, with Wuthelam subscribing to 131.7mn NPHD new shares through third-party allotment
    - Implied PER 44.4 x (2019/12A)
    - Cf. NPHD PER 60.1 x (2019/12A<sup>(1)</sup>)
  - Indonesia business will be purchased for ¥235.5bn, comprising ¥135.5bn to be subscribed for 17mn NPHD new shares through third-party allotment and ¥100bn in cash
    - Implied PER 29.9 x (2019/12A)

### Financing

- ¥100bn of the total consideration will be paid in cash
- The remaining amount of Claim for Payment of Consideration<sup>(2)</sup> will be contributed to NPHD as payment-in-kind for the issuance of the total 148.7mn new shares to Wuthelam through third-party allotment (Wuthelam shareholding will be 58.7% after the transaction)
- Cash payment will be funded with cash on hand and with external loans

### Review

- NPHD's Board is to receive Special Committee's report (conflict of interest review with Wuthelam as major shareholder)

### Closing

- Closing scheduled for Jan. 1<sup>st</sup>, 2021, subject to regulatory approvals and other conditions

(1) Earning contribution of acquired Dulux and Betek are annualized (See P42). Calculation based on Aug. 20 closing price of ¥7,970.

(2) In exchange for a contribution in kind consisting of the Claim for Payment of Consideration (equivalent to ¥1,185.1bn)

# Strategic Rationale

## Establishing a dominant “Asia x Construction” model

1

### 100% ownership of Asia JVs

- Acquiring remaining interests in the Asia business, the profit from which accounts for over 60% of NPHD’s operating profit
- A simple governance structure easier to understand

2

### Acquisition of Indonesia business

- Highly profitable business with top share in high-growth Indonesian market
- NIPSEA-style management team with minimum post-merger integration risk

3

### Synergy creation

- Enhancing cross-selling of products among group companies through “spider web management”
- Building a global platform for integrated industrial coatings business

4

### EPS accretion from year one with strengthened balance sheet

- Profit to increase by 60%, EPS to rise 10% or more, contributing to MSV
- Reinforced financial base well positioned to seize future M&A opportunities
- Solidify business platform to be the #1 player in Asia to accelerate growth



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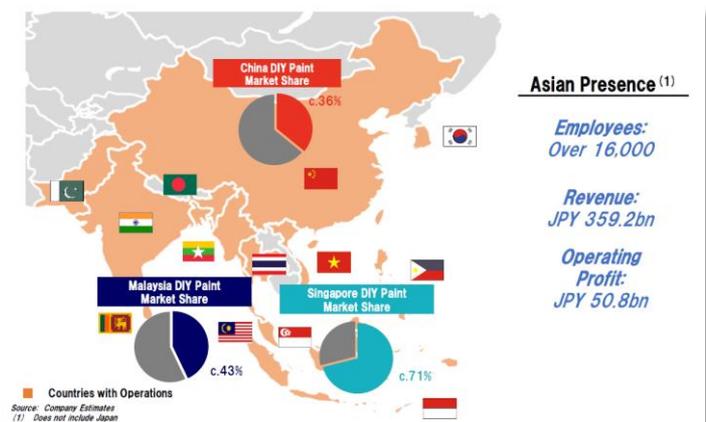
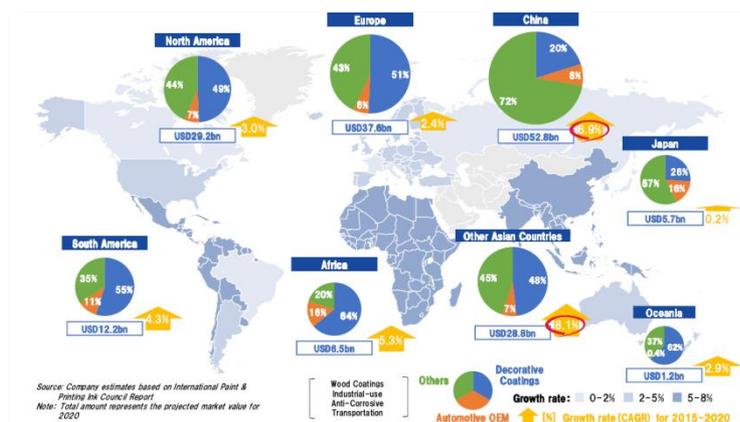
**5. Future Strategies**

# Our Position in the Fast-Growing Paint Market

Leading position in China/Asian region, the largest growth market



Paint market is expected to grow larger globally



Asia (including China) has the largest market, commanding high growth rates

Operating in 15 geographical locations including China, Malaysia, and Singapore

# Benefits from Acquiring 100% of Asia JVs

Acquisition of remaining minority interests in Asia JVs allows to fully capture the profit that represents over 60% of NPHD's operating profit

Pro-forma basis

(Unit: JPY bil)

	FY2018	FY2019			Simple sum of DGL and Betek annualized + Asia JVs <sup>(2) (3)</sup>
	Actual	Actual	DGL and Betek annualized and consolidated <sup>(1)</sup>	Impact of transaction <sup>(2) (3)</sup>	
<b>Revenue</b>	<b>627.7</b>	<b>692.0</b>	<b>803.3</b>		<b>C. 827.3</b>
Asia JVs revenue <sup>(1)</sup> (% of total revenue)	386.7 (62%)	390.1 (56%)	390.1 (49%)	+C. 24.0	C. 414.0 (C. 50%)
<b>Operating profit<sup>(4)</sup></b>	<b>86.5</b>	<b>78.1</b>	<b>88.6</b>		<b>C. 89.6</b>
Asia JVs OP <sup>(1)</sup> (% of total OP)	54.5 (63%)	54.7 (70%)	54.7 (62%)	+C. 1.0	C. 55.7 (C. 62%)
<b>Profit attributable to parent<sup>(4)</sup></b>	<b>45.4</b>	<b>36.7</b>	<b>42.5</b>		<b>C. 64.9</b>
Asia JVs profit attributable to parent <sup>(1)</sup> (% of total profit attributable to parent)	22.3 (49%)	23.3 (63%)	23.3 (55%)	+C. 22.3	C. 45.6 (C. 70%)

(1) See page 42 for details on the impact of full-year adjustment/consolidation of DGL and Betek.

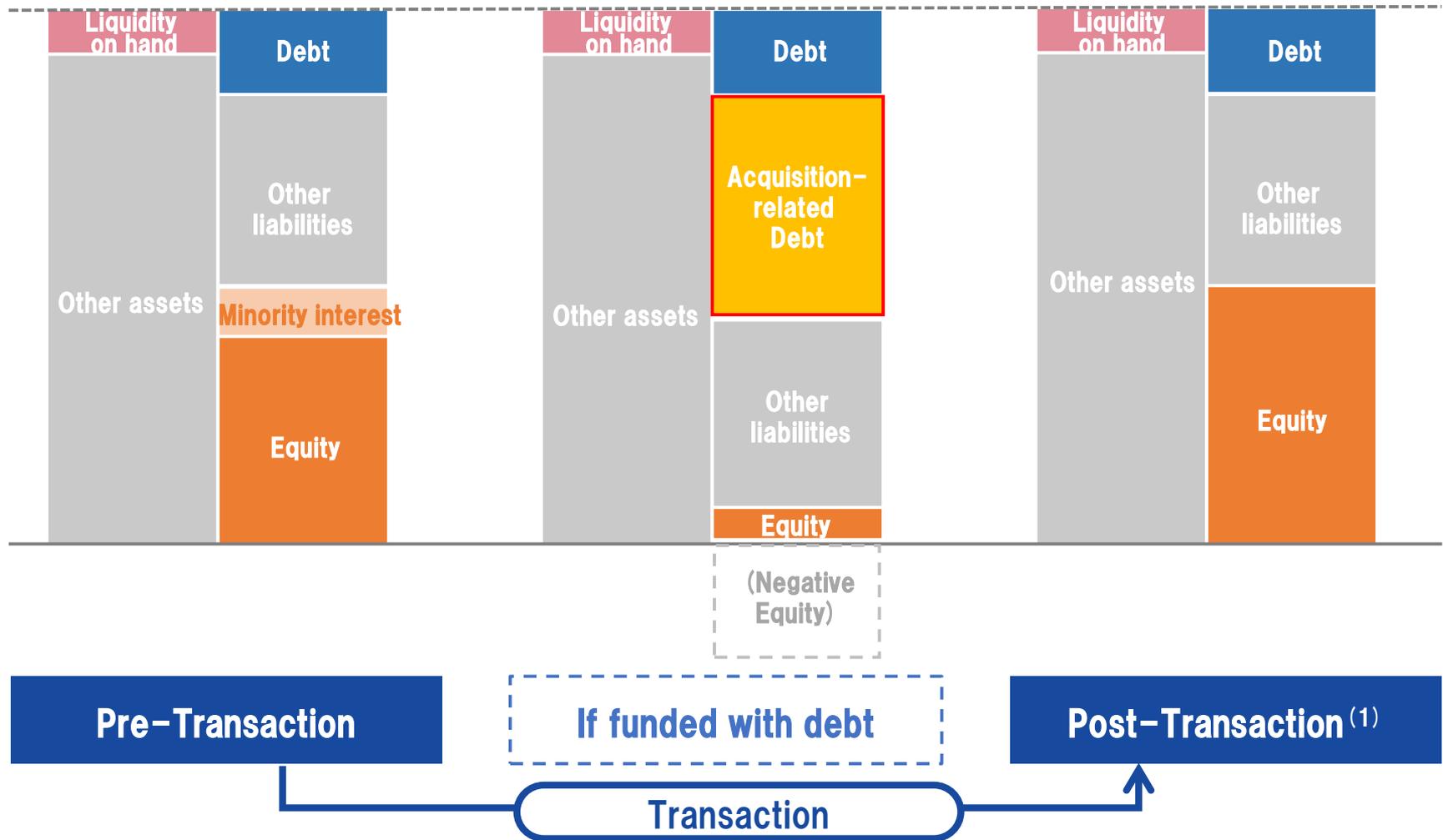
(2) Figures are from management accounts, without consolidation adjustments.

(3) Revenues and operating profit include NPI and NMC as consolidated subsidiaries (formerly equity-method affiliates). (Figures from management accounts only. Net profit of NPI and NMC are not reflected). Net profit only reflects existing consolidated subsidiaries. Estimated impact based on fiscal 2019 results.

(4) One-time cost items associated with the transaction are not included.

# Scheme Features

Capital reinforcement through third-party share allotment avoiding equity impairment, building stronger financial base



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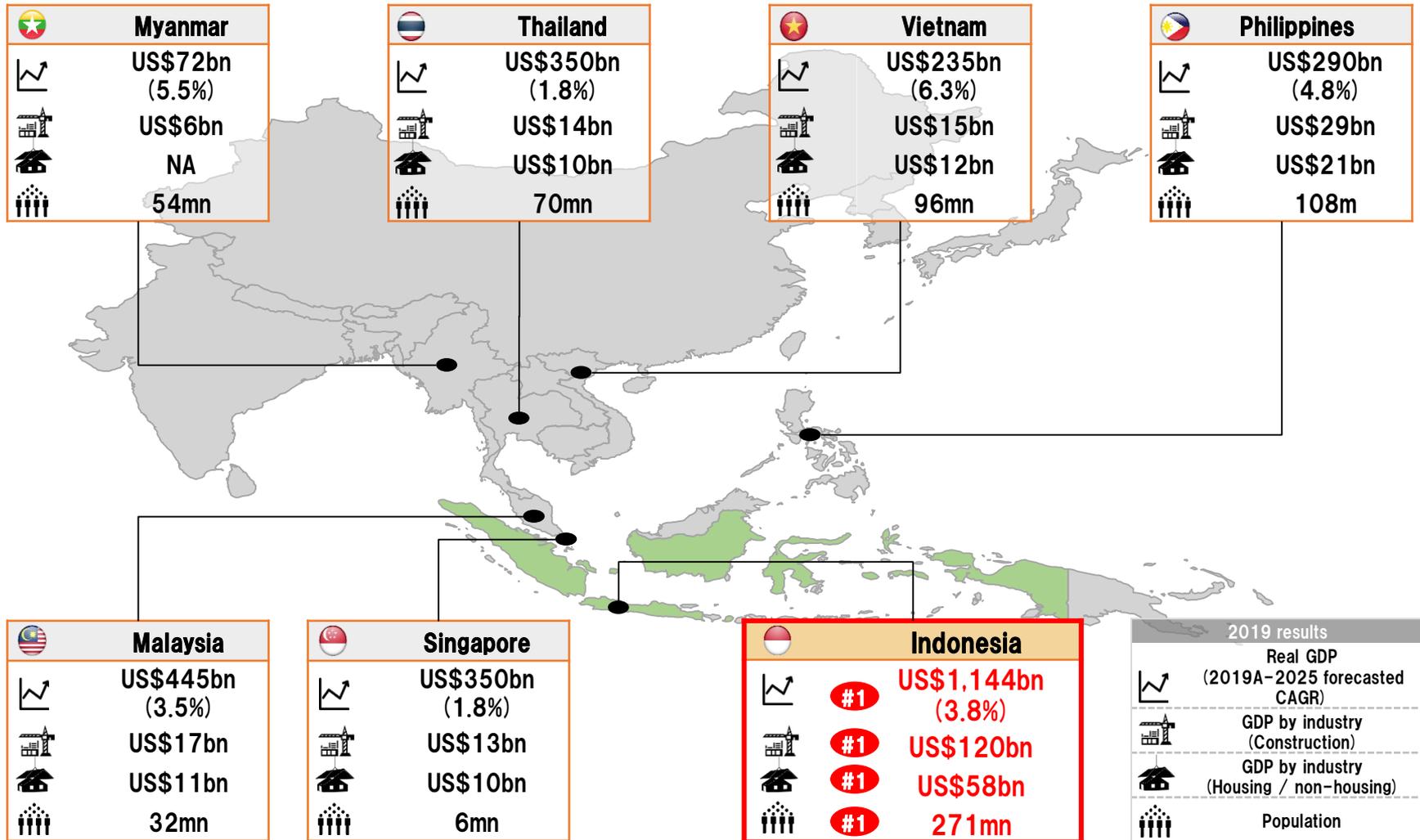
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# Indonesian Market (1) Positioning in Southeast Asia

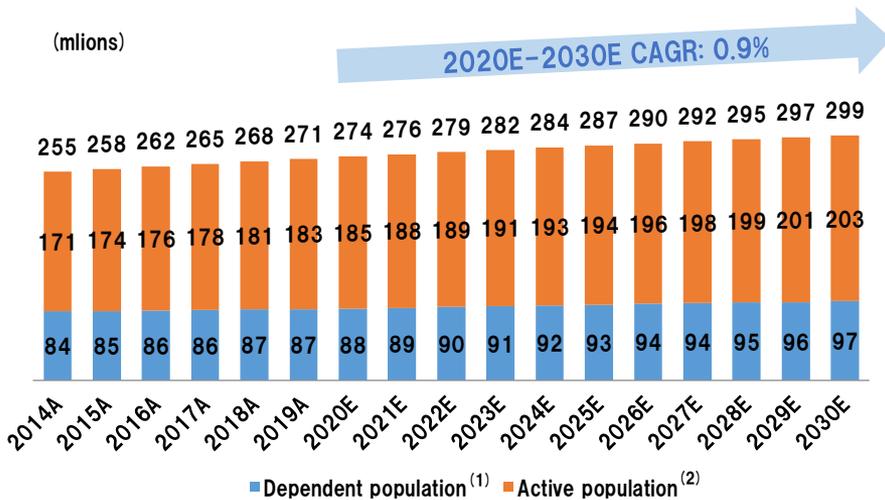
With population of 270mn, Indonesia is the largest economy in ASEAN with high growth potential



# Indonesian Market (2) Population and GDP Growth

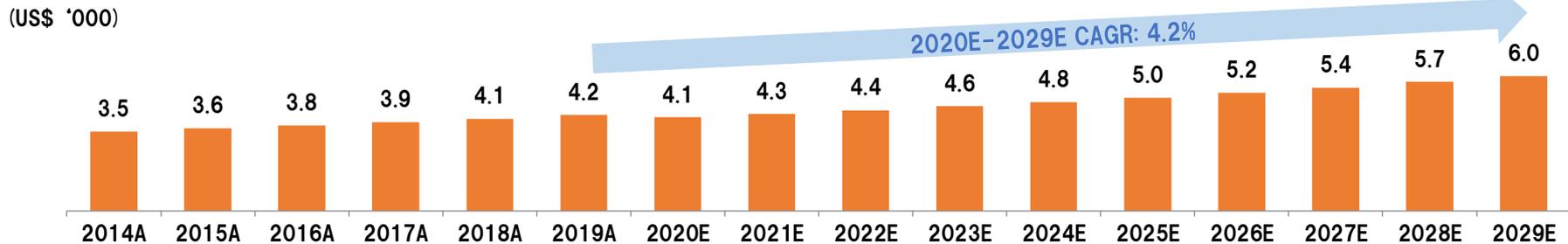
Per capita GDP exceeded \$4,000 in 2018 with continuing growth momentum

## Indonesian population



Source: Fitch Solutions, UN Statistics Division

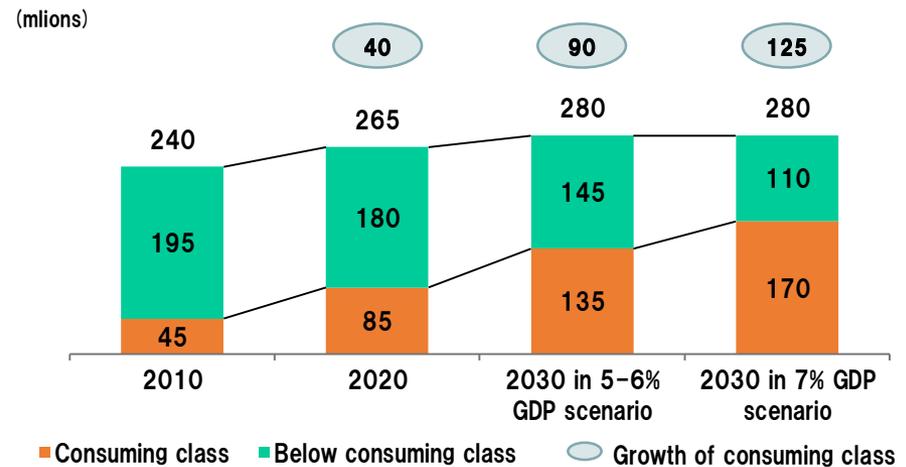
## Per capita GDP trend



Source: IMF, Fitch Solutions, UN Statistics Division

- (1) "Dependent population" refers to population less than 15 years old or more than 65 years old.
- (2) "Active population" refers to labor force or workforce population between 15 years old and 65 years old.
- (3) "Consuming class" defined as individuals with an annual net income of above \$3,600 on purchasing power parity basis.

## Expanding Consuming Class (3)

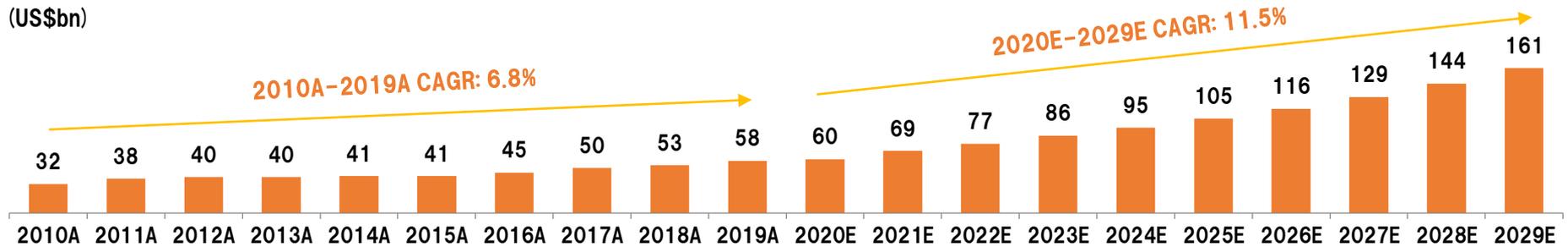


Source: McKinsey

# Indonesian Market (3) Construction Market/Government Policy

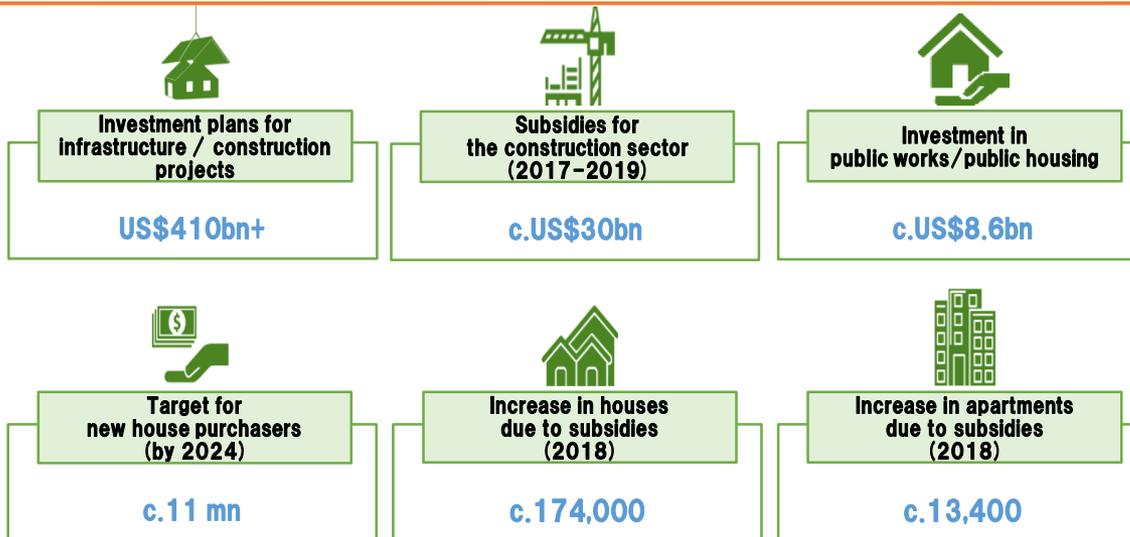
Paint demand to show steady growth driven by infrastructure investment

## Construction demand (housing/non-housing)



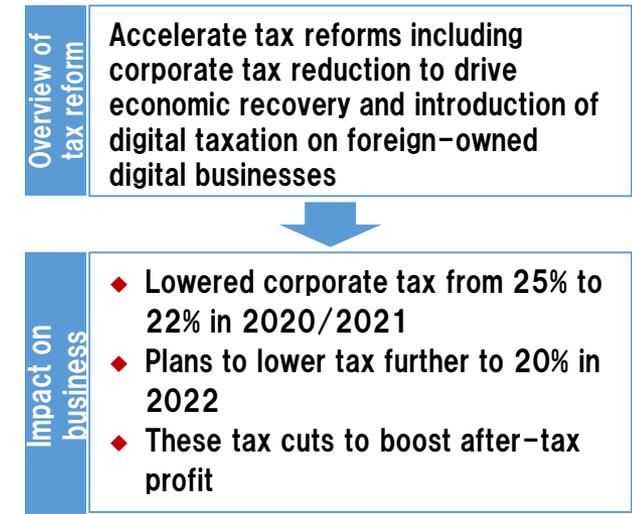
Source: Statistics Indonesia, Fitch Solutions

## Government policy for the paint/coating sector



Source: Modor Intelligence, Jakartapost  
NIPPON PAINT HOLDINGS GROUP

## Tax reforms



Source: JETRO

# Indonesia Business (1) History and Overview

Maintained leading market share in Indonesia for c.40 years

## History

1969

Established first paint plant in Jakarta

1970s

Established paint plants in Medan and Surabaya

1980s

Became No.1 paint company in Indonesia with the largest national network consisting of 4 manufacturing plants and 30 distribution centers

1993

Established its largest plant in Purwakarta (80ha)

2015~

Launched comprehensive reform centered on enhancing sales capability, streamlining distribution network, and utilizing CCM and rolled out active brand advertising

## Main business areas

Protective Coatings



Automotive Coatings



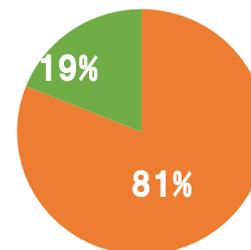
Industrial Coatings



Decorative Paints

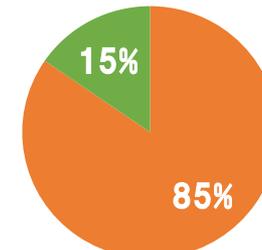


## Composition by segment (2019)



Company-wide:  
4,578 IDR bil

Sales



Company-wide:  
1,374 IDR bil

Operating profit

Decorative  
Industrial

# Indonesia Business (2) Financial Information

Excellent business with high profitability and growth

(IDR bil)

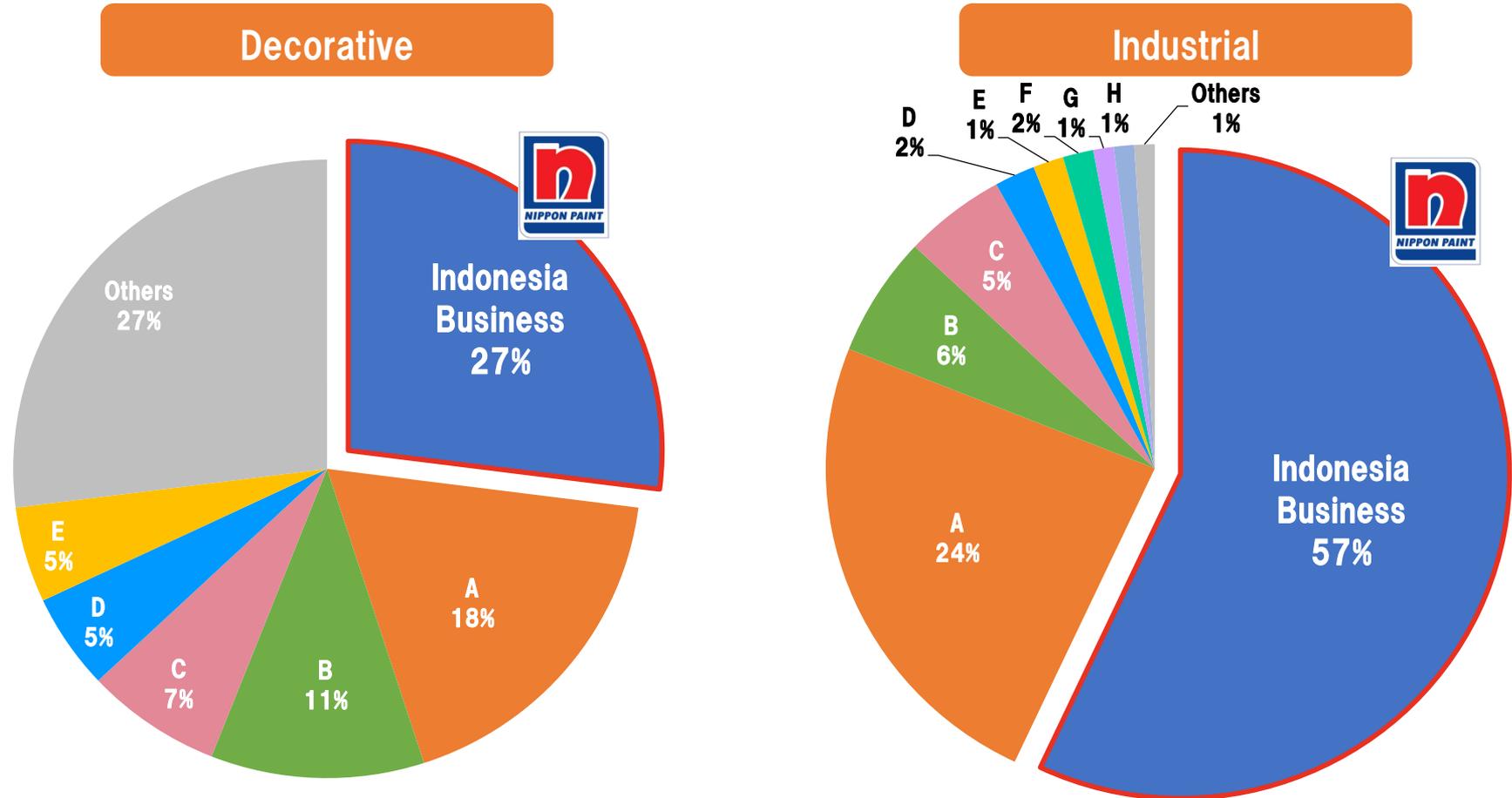
		FY2016	FY2017	FY2018	FY2019
Revenue	Decorative	3,021	3,244	3,747	3,710
	Industrial	1,046	947	921	868
	Consolidated	4,101	4,191	4,669	4,578
Revenue growth	Decorative	-	7.4%	15.5%	(1.0%)
	Industrial	-	(9.5%)	(2.7%)	(5.8%)
	Consolidated	6.60%	2.2%	11.4%	(1.9%)
Operating income	Decorative	-	1,029	1,160	1,162
	Industrial	-	304	261	212
	Consolidated	1,331	1,334	1,421	1,374
Operating margin	Decorative	-	31.7%	31.0%	31.3%
	Industrial	-	32.1%	28.3%	24.4%
	Consolidated	32.5%	31.8%	30.4%	30.0%
Net income	Consolidated	1,043	1,013	1,045	1,022

Decorative business increased market share despite shrinking market in 2019 due to presidential election

# Indonesia Business (3) Market Share

“Nippon Paint” is already the #1 brand in Indonesia, recognized as the “Top-of-Mind” brand

## Indonesian Paints Market Share (2019)



# Indonesia Business (4) Production and Distribution Network

Overwhelming competitive advantage with three production bases and c.40 distribution centers covering the entire country

## Distribution/sales centers (1)

## Business transformation through CCM (2)



**Jakarta (Headquarters)**  
Head office and auto/industrial coatings plant

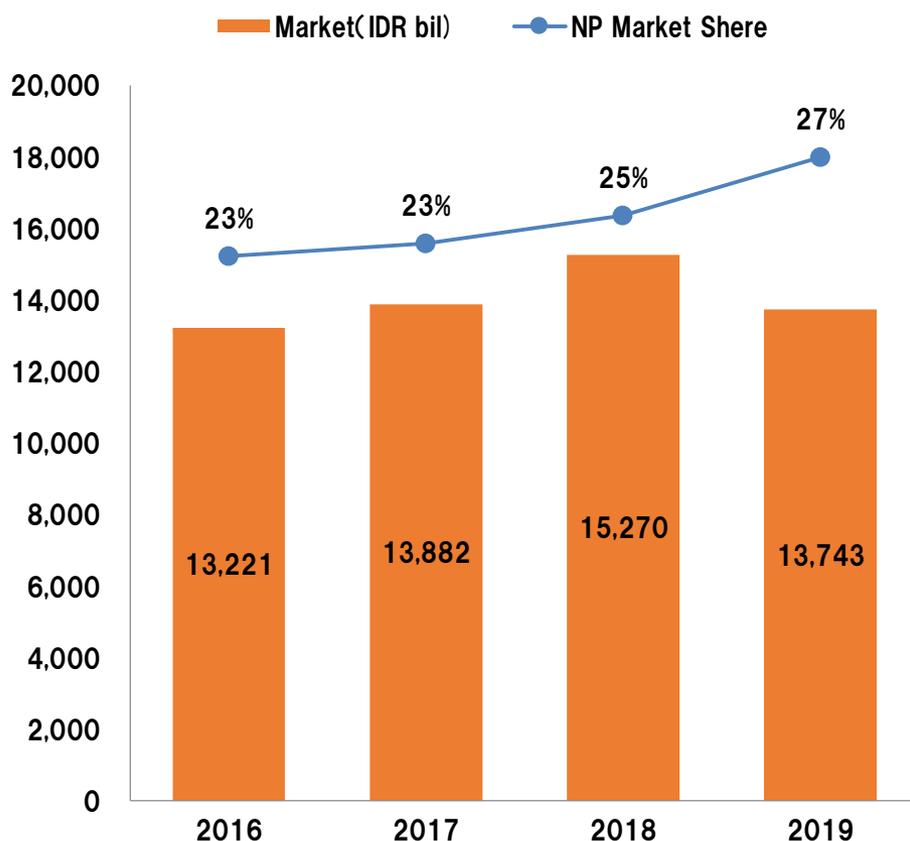
**Purwakarta**  
Office and decorative/protective coating plant

**Surabaya**  
Office and decorative paint plant

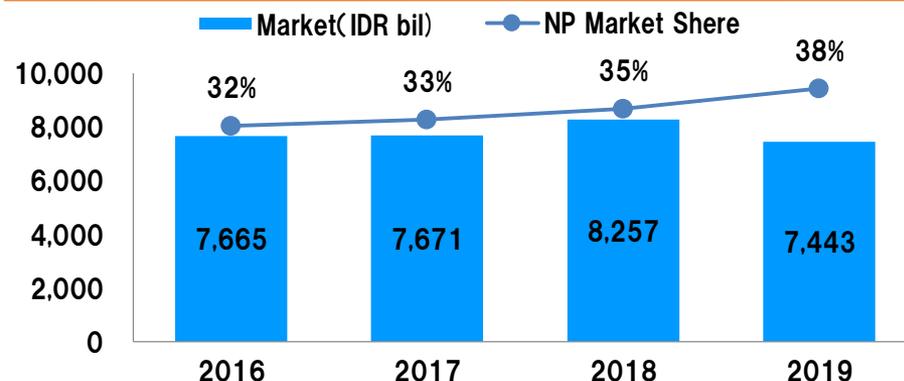
# Indonesia Business (5) Solid Position in Decorative

Focusing on the expanding premium market while maintaining leading position in the economy market

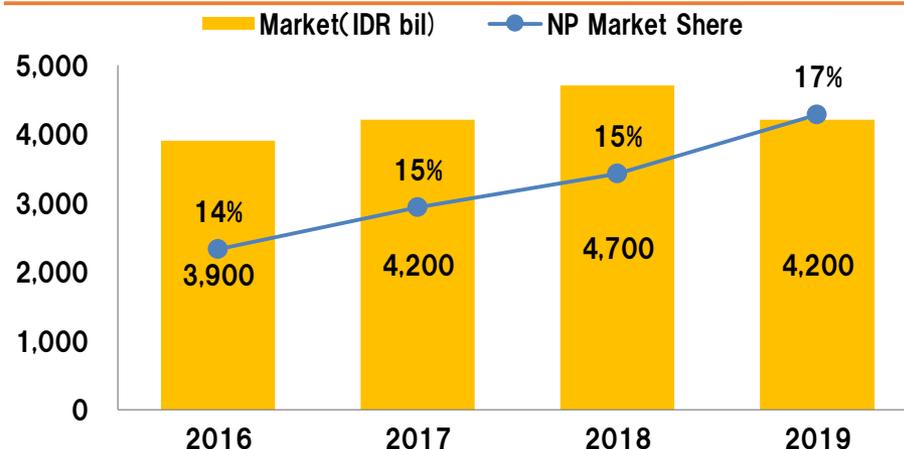
Decorative paint market/NP Market share <sup>(1)</sup>



Economy Segment /NP Market share <sup>(1)</sup>



Premium Segment <sup>(2)</sup> /NP Market share <sup>(1)</sup>



(1) Shares based on sales value.

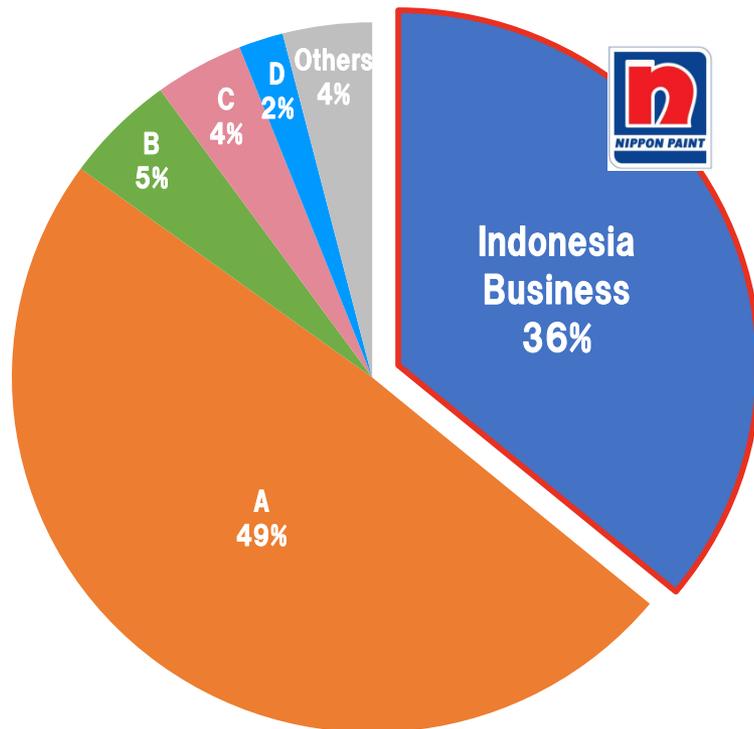
(2) The premium segment in Indonesia is defined as price above 50,000 IDR per Liter and pack size (1L, 2.5L and 20L).

Source: Nippon Paint estimates

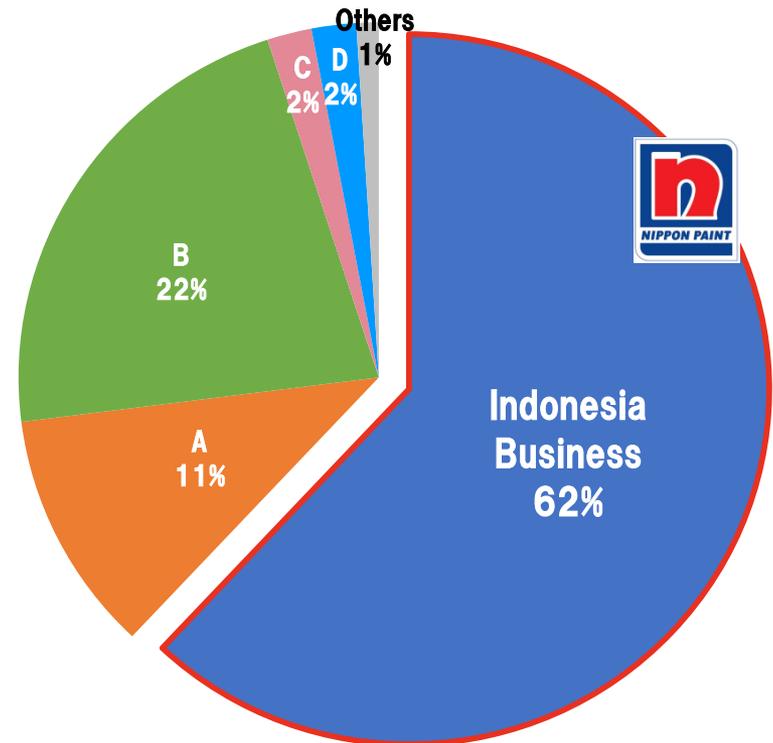
# Indonesia Business (6) Strong Customer Relations in Industrial

Leading market shares in the automotive OEM and motorcycle coatings markets, leveraging strong customer relationships and superior cost control

Market shares in Automotive OEM market (2019)



Market Shares in Motorcycle market (2019)



# Indonesia Business (7) Established Management Team

NIPSEA-style management team with minimum post-merger integration risk



**Decorative**

Potential to replicate success in China with NIPSEA expertise

**Industrial**

Collaboration with NPHD to grow auto and other paint businesses

→ Competent management team with above capability

	<b>Commissioner</b> Eric Tan Jong Kim
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	<b>CEO</b> (in charge of IU segment) Budi Fianto Buna
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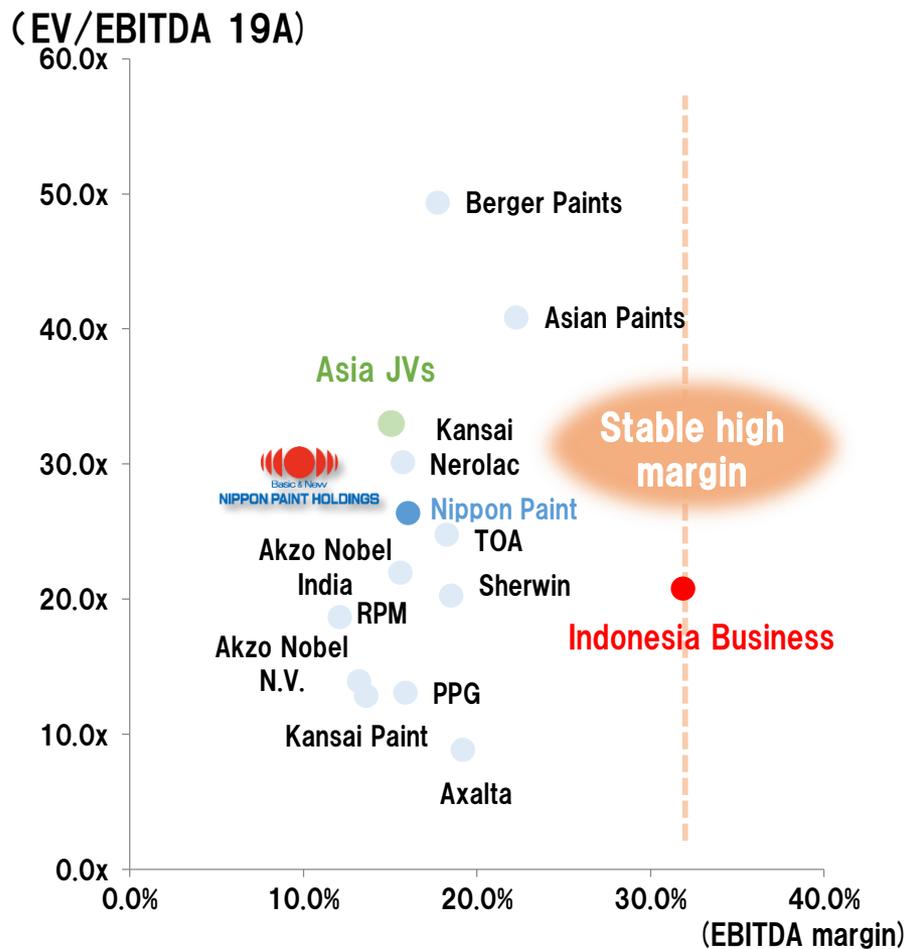
	<b>CEO</b> (in charge of TU segment) Jon Tan
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	<b>Finance Director</b> Chow K. C.
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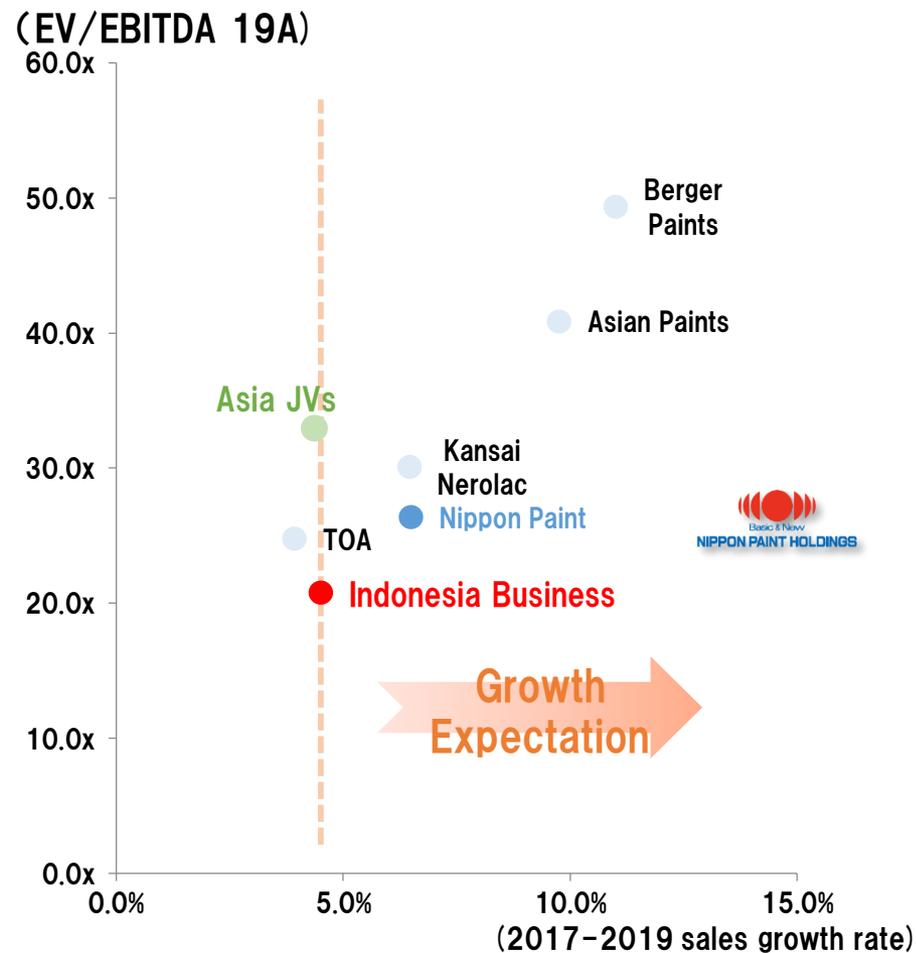
# Indonesia Business (8) Relative Valuation

Acquisition of highly profitable business with growth potential at an attractive price

EBITDA margin (2019)



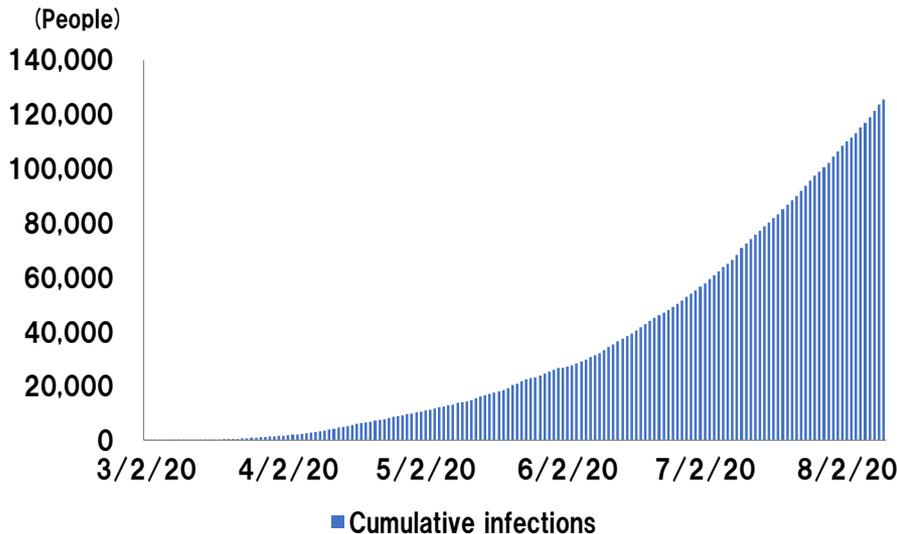
Sales growth rate (2017-2019)



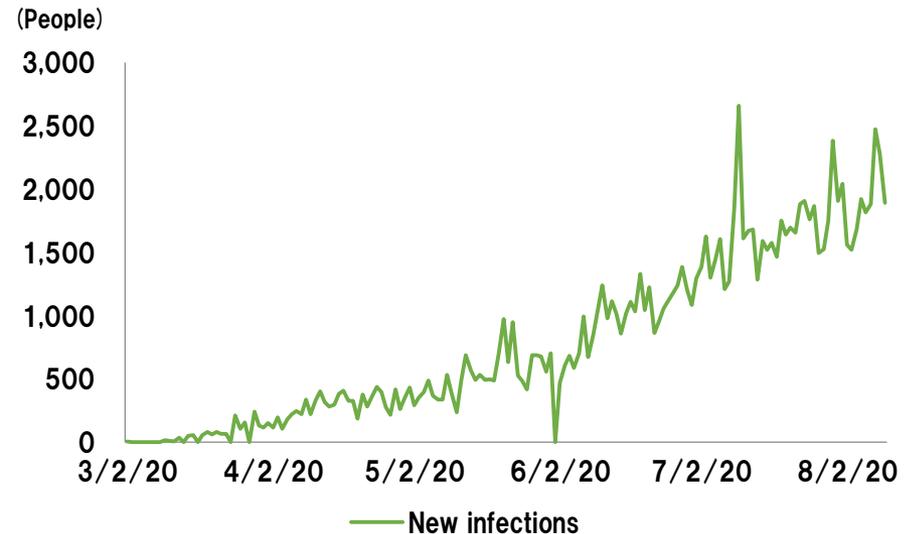
# COVID-19 Figures in Indonesia

With expansion of COVID-19 infections continuing, Indonesian government has announced various economic stimulus programs

Cumulative infections



New infections



## Indonesian initiatives to mitigate the impact of COVID-19

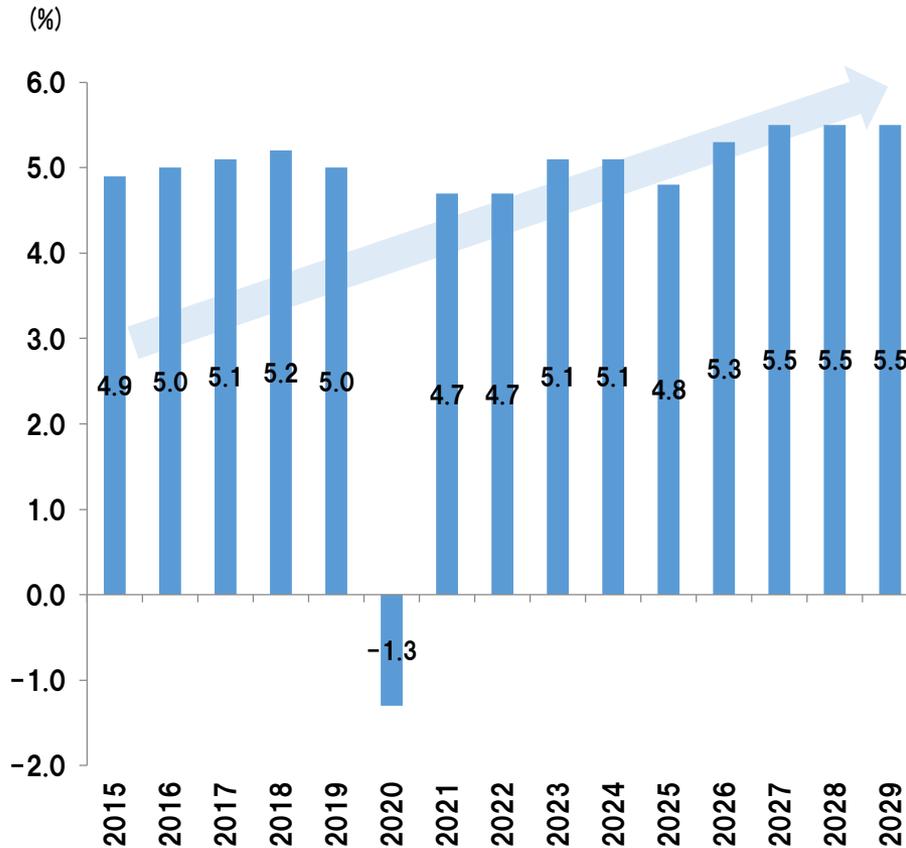
The Indonesian government has announced initiatives to mitigate the impact of COVID-19

- Triaging medical care
- Subsidies for permanent employees and abolition of withholding tax
- Supporting sectors heavily impacted by the pandemic
- Relaxing the fiscal deficit cap
- Financial/macro policies

# Impact of COVID-19 in Indonesia

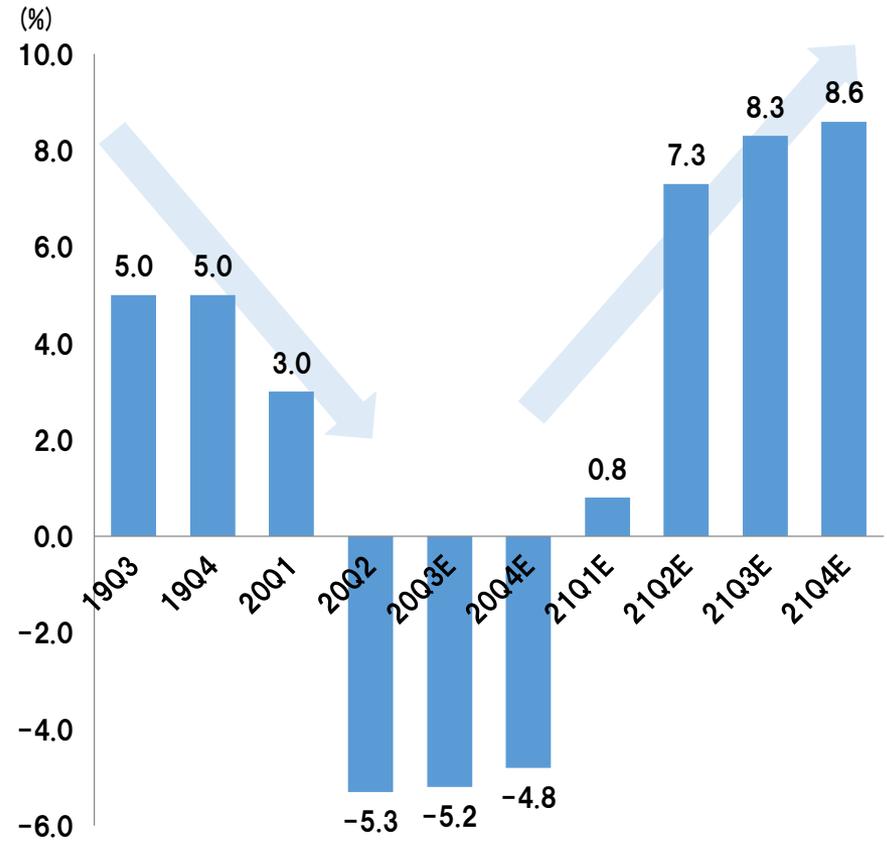
Real GDP growth expected to return positive from 1Q of 2021

Real GDP growth rate (annual)



Source: BMI Research.

Real GDP growth rate (YoY)



Source: Nomura.

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# Synergy Creation (1)

Generating synergies through “Spider Web Management” (i.e. organic collaboration among our partner companies)



- 1 Minimizing profit outflows, enabling optimization of resource allocation
- 2 Building global platform for industrial coatings business



- 3 Enhancing cross-selling and sharing know-how among group companies
- 4 Acquiring competent management team with strong execution capabilities



# Synergy Creation (2)

Creating new business opportunities with new regions and expanded management teams



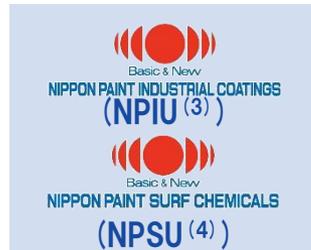
## Global integration of industrial coatings business

- Reorganizing operations by business rather than by region, enabling more efficient decision making and strategy execution
- e.g. Integration of automotive business across regions



## Launch of Selleys brand in Indonesia

- Expanding sales of DuluxGroup's Selleys brand (adhesives, sealants, etc.) through sales channel of NIPSEA Indonesia



## Expansion to other coating areas in Indonesia

- Entering into areas such as coils, construction machinery, and surface treatment through collaboration with industrial and fine chemicals businesses in Japan



## Management know-how sharing through participation of strong management

- Creating new growth opportunities with an addition of management team familiar with the growing market

(1) Nippon Paint (China) Co., Ltd.

(2) Nippon Paint Automotive Coatings Co., Ltd.

(3) Nippon Paint Industrial Coatings Co., Ltd.

(4) Nippon Paint Surf Chemicals Co., Ltd.

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# Financial Impact (1) Income Statement

Profit attributable to parent will increase by c. 60% and EPS by 10% or more

FY2019				
	Actual	DGL and Betek annualized and consolidated <sup>(1)</sup>	Impact of transaction <sup>(2)</sup>	DGL and Betek annualized + Impact of transaction <sup>(2)</sup>
Revenue	692.0	803.3	+c. 59.0	c. 862.0
Operating profit	78.1	88.6	+c. 12.0	c. 100.0
Operating margin	11.3%	11.0%	+c. 0.6 %	11.6%
Profit attributable to parent	36.7	42.5	+c. 60% <sup>(3)</sup>	
NPHD EPS (JPY)	114.5	132.6	+10% or more <sup>(3)</sup>	

Pro-forma basis

(Unit: JPY bil)

(1) Refer to page 42 for details of DGL and Betek Boya adjustments to annualized basis.

(2) Revenue represents a simple sum including the sales of equity-method affiliates (Asia JVs) to be consolidated and the sales of Indonesia business. Operating profit is not considering amortization of intangible assets. Estimated impact is based on fiscal 2019 results.

(3) Intangible amortization (Pre-PPA) and acquisition related interest cost are considered, but excludes one-time cost items

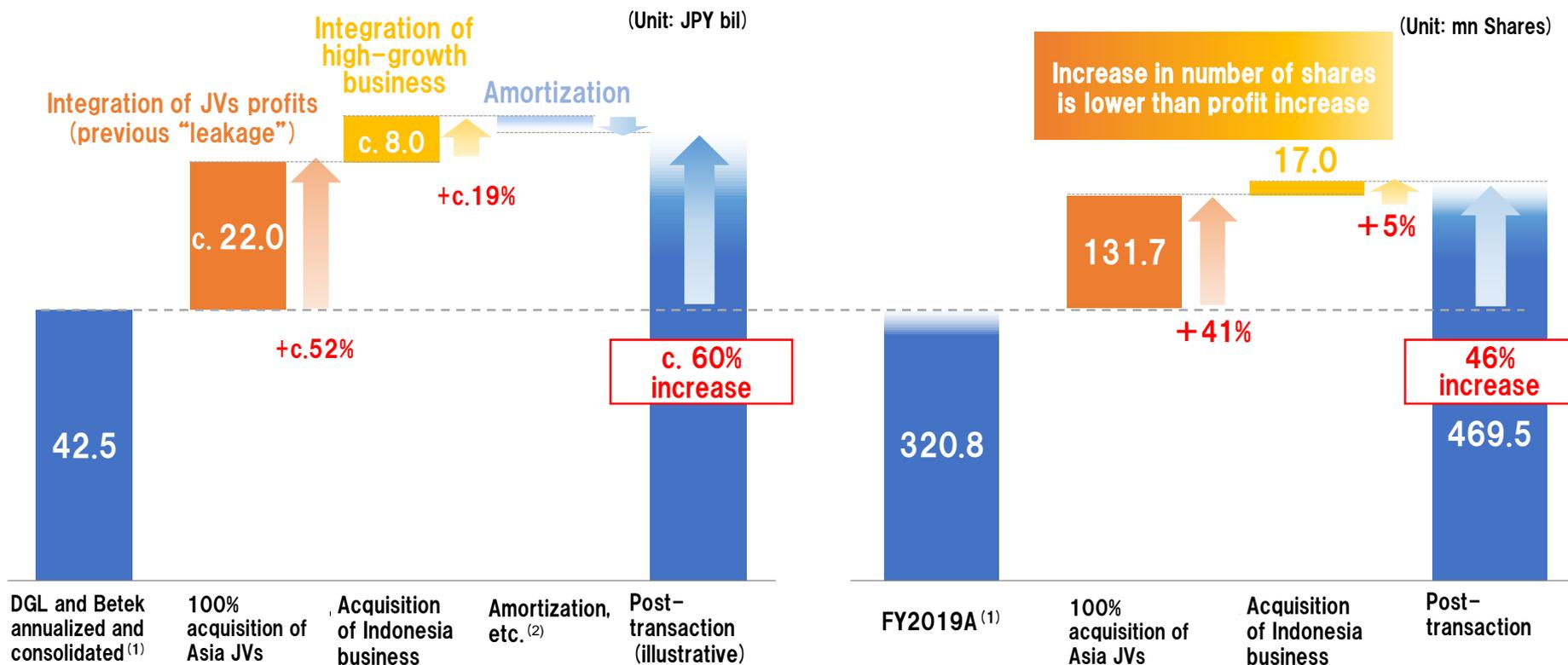
# Financial Impact (2) Pro-forma Profit and New Share Issuance

Profit increase greater than share count increase, delivering EPS accretion

Significant EPS accretion expected from year one through JV stake consolidation, coupled with future EPS upside from growth investment in the Indonesia business

## Net profit increase through the transaction

## Share issuance through the transaction



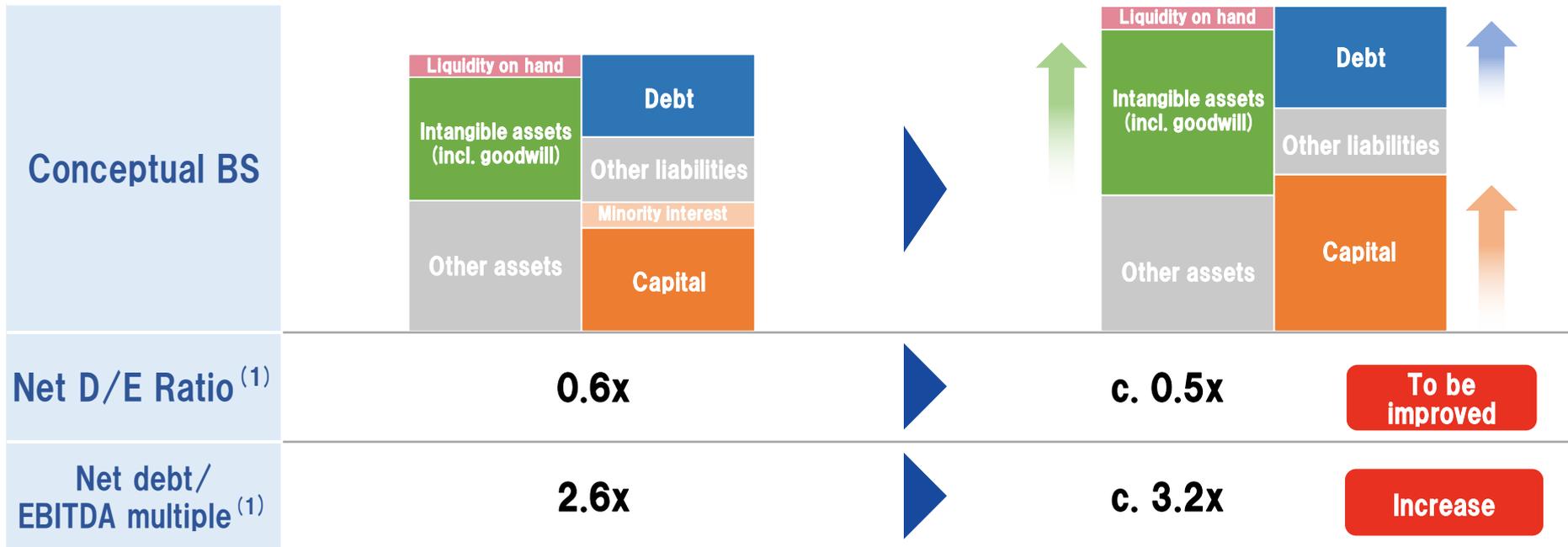
# Financial Impact (3) Balance Sheet

Net D/E ratio to improve via capital reinforcement for stronger balance sheet

Financial capacity secured for next M&A opportunity for MSV realization

FY2019 (DGL and Betek Boya annualized and consolidated) <sup>(2)</sup>

Post-Acquisition (illustrative) <sup>(3)</sup>



(1) Net Debt = long term loan + other financial liabilities – cash and cash equivalents – other financial assets (current). EBITDA = Operating income + Depreciation and amortization

(2) Refer to page 42 for details of DGL and Betek Boya adjustments to annualized basis..

(3) Conceptual BS is based on the full-year forecast announced on August 14, 2020, adjusted for the impact of this transaction. EBITDA is calculated by taking into account the consolidated full-year effect of DGL and Betek Boya for FY 2019 and Indonesia business results for FY2019. One-time cost items associated with the transaction are not included.



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# Future Strategy (1) Invest in Japan for Improved Productivity

NPHD is currently undergoing thorough supply chain reform, incorporating BCP with new normal as a premise

## Building a digital supply chain

Examining ways to visualize and enhance productivity by drawing on best practices of overseas partner companies

Promoting the SC dashboard



Promoting work sophistication through digitization



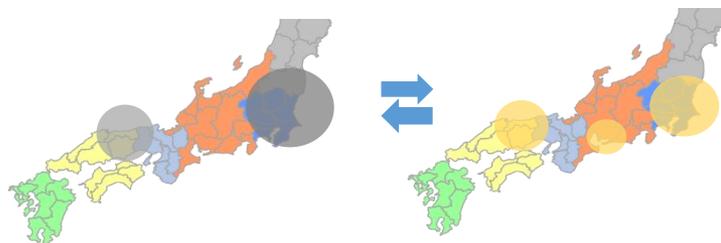
Enabling remote work through paperless operations.

Reducing heavy tasks

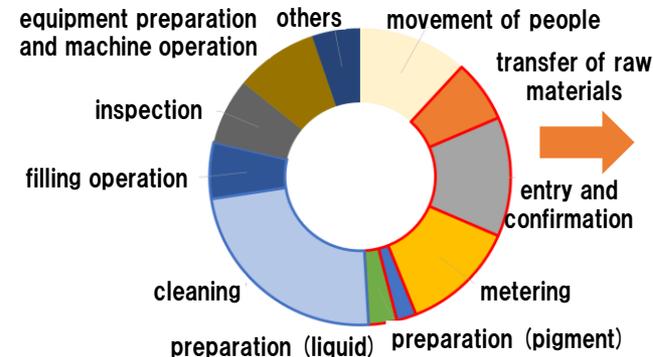
## Reconstruction of supply chains

Promoting realignment of Japanese production bases based on SC, BCP, etc.

Examining manufacturing centers based on SC and BCP



Sophistication of manufacturing processes also considered



Technological development is being considered for bottleneck processes

# Future Strategy (2) Development of Antiviral Products

## Upgrading R&D and product supply to resolve social issues

### Enhancement of open innovation activities

- Entered into an industry-academic cooperation agreement with The University of Tokyo in May 2020
  - Opening a seminar “Creation of Innovative Coating Technology” to discuss on societal cooperation (starting October 2020)
- Leverage every technology in the group to expand cooperative efforts with universities, research institutions, and other companies going forward



Right: Masaaki Tanaka, Chairman of the Board, Representative Executive officer, President & CEO, Nippon Paint Holdings Co., Ltd.

Left: Makoto Gonokami, President, The University of Tokyo

### “Perfect Interior Air Clean”

- Nippon Paint’s antiviral / antibacterial paints are the first of their kind, and the only emulsion paints certified by the Photocatalysis Industry Association of Japan (PIAJ)
- Rapid increase in inquiries and uses by hospitals, schools, nursing homes, dance studios, and more



On sale since October 2017

Free provision to hospitals, public facilities, dance studios, etc. (June 2020)

# Future Strategies (3) Further Growth through M&A

## Promoting M&A to maximize shareholder value

### Basic Principles of M&A

- Constant review of deals in pipeline
- Earning a return higher than capital cost and delivering EPS accretion
- Priority setting with financial discipline maintained
- Synergy creation through “spider web management”
  - Respecting autonomy of acquiring companies
  - Sharing growth opportunities, including technology, among partner companies
  - Synergies realization through strong talent acquisition
  - Sharing best practices



# Summary

**c.60% profit increase and 10%+ EPS accretion, ensuring protection of “minority shareholders’ interest”**

- Achieving significant profit increase by incorporating earnings of fast-growing Asia JVs and Indonesia business
- Capital reinforcement with EPS accretion, ensuring protection of minority shareholders’ interest

**Strong partnership continues with shared common goal of “Maximization of Shareholder Value”**

- Based on strong partnership cultivated for nearly 60 years, NPHD will accelerate its growth through streamlined governance structure to further pursue global growth opportunities
- Full alignment of shareholders’ interests to be achieved, enabling further acceleration of “maximization of shareholder value”

**Establishing Dominance in Asia to Pursue Global Growth**



**Appendix**

# Annualization of DuluxGroup and Betek Boya for FY2019

Financials of DuluxGroup and Betek Boya have been annualized to examine the contribution of the JVs to the whole of the group businesses post acquisition

The pro forma FY2019 numbers are calculated by first subtracting the FY2019 consolidated results of DuluxGroup (for 4 months) and Betek Boya (for 6 months) from the total of FY2019 actual results, then adding back the full-year forecast of both companies for FY2020/12.

(Unit: ¥bil)

	FY2019 Actual	FY2019 Excl. DGL and Betek	Adjustment for DGL and Betek annualization <sup>(1)</sup>	DGL and Betek annualized and consolidated
Revenue	692.0	629.3	+174.0	803.3
Operating profit	78.1	70.0	+18.6	88.6
Profit attributable to parent	36.7	31.1	+11.5	42.5

(1) Forecast of DuluxGroup and Betek Boya for FY2020/12: DGL's revenue and OP are ¥143bn and ¥17bn, respectively; Betek Boya's revenue and OP are ¥31bn and ¥2.6bn, respectively. Amortization of intangible assets is included in the adjustment.

# Acquisition Target

The acquisition of remaining minority interests of Asian JV and 100% Indonesian business from major shareholder Wuthelam

## Target Company

Target Company	Location	Acquisition ratio (Ownership ratio after acquisition)
<b>Asian JVs</b>		
NIPSEA PTE. LTD.	Singapore	100% (100%)
NIPPON PAINT (CHINA) COMPANY LIMITED	China	49% (100%)
GUANGZHOU NIPPON PAINT CO., LTD.	China	49% (100%)
NIPPON PAINT (CHENGDU) CO., LTD.	China	49% (100%)
NIPPON PAINT (H.K.) COMPANY LIMITED	Hong Kong, China	49% (100%)
NIPPON PAINT MARINE COATINGS CO., LTD.	Japan	40% (100%)
NIPPE TRADAING CO., LTD.	Japan	40% (100%)
NIPSEA MANAGEMENT COMPANY PTE. LTD.	Singapore	50% (100%)
NIPPON PAINT (INDIA) PRIVATE LIMITED	India	49.9% (99.9%)
NIPPON PAINT (THAILAND) COMPANY LIMITED	Thailand	48.9% (99.9%)
NIPPON PAINT COATINGS (TAIWAN) CO., LTD.	Taiwan	49% (100%)
NIPSEA CHEMICAL CO., LTD.	South Korea	49% (100%)
NIPPON PAINT (Malaysia) SDN. BHD.	Malaysia	49% (100%)
PAINT MARKETING CO. (M) SDN. BHD.	Malaysia	49% (100%)
NIPPON PAINT (SINGAPORE) COMPANY PRIVATE LIMITED	Singapore	49% (100%)
NIPSEA TECHNOLOGIES PTE. LTD.	Singapore	49% (100%)
NIPPON PAINT (SABAH) SDN. BHD.	Malaysia	37% (49%)
<b>Indonesia business</b>		
Neave Limited	Hong Kong	100% (100%)
PT Nipsea Paint And Chemicals	Indonesia	99.9% (99.9%)

This document represents the Company's judgment based on the information available to the Company at the time of preparation, and includes risk and uncertainty. Therefore, the Company's actual performance and other facts may differ from the statements made herein. The Company and the provider of this information are in no way liable for any damage incurred due to this information.

