

2014

Corporate Report

Year Ended March 31, 2014

Profile

Established in 1918, Kansai Paint Co., Ltd. has grown into Japan's most progressive manufacturer in various fields related to coatings. Today, the company enjoys a well-established position as one of the world's leading paint manufacturers.

The various products provided by the Kansai Paint Group are highly valued and trusted in a broad variety of fields, due to the important role our coatings play such as protection, beautification, special functionality and environmental sensitivity.

Moreover, with Kansai Paint's proprietary research and development capabilities at its core, the Company is providing its clients around the world with unparalleled customer service by expanding its manufacturing, distribution and sales activities worldwide.

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Corporate Brand

Our "ALESCO" brand name is formed from the Latin word "ALES", meaning "wing" and "ESCO", which stands for "Excellent Specialty Company". In Latin, "alesco" itself means to grow and mature. Therefore, "ALESCO" expresses the concept of Kansai Paint growing continuously and flying with its wings spread toward the future as a leading specialty company.

The "ALESCO" corporate brand expresses to the world the image of the superb quality and excellent value of Kansai Paint and its Group companies.

Five-Year Summary of Selected Financial Data

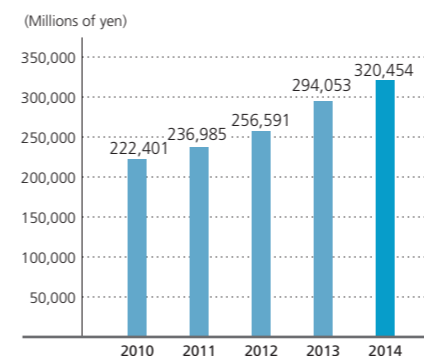
Years ended March 31, 2014, 2013, 2012, 2011, and 2010

Consolidated Basis

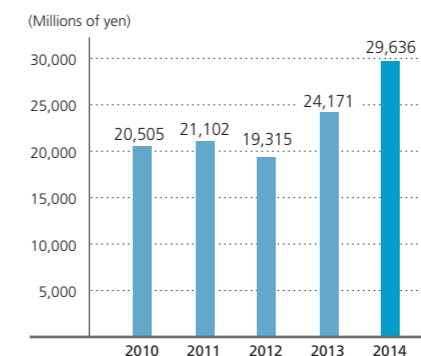
	Millions of yen					Thousands of U.S. dollars (Note 1)
	2014	2013	2012	2011	2010	2014
For the year:						
Net sales	¥ 320,454	¥ 294,053	¥ 256,591	¥ 236,985	¥ 222,401	\$ 3,113,622
Operating income	29,636	24,171	19,315	21,102	20,505	287,952
Income before income taxes	39,087	32,437	25,636	23,375	22,401	379,780
Net income	21,560	17,758	13,996	12,675	11,831	209,483
At year-end:						
Total assets	¥ 400,092	¥ 362,625	¥ 319,410	¥ 271,244	¥ 270,373	\$ 3,887,408
Owners' equity	225,875	197,860	171,261	167,195	161,230	2,194,665
Per share amounts (in yen and U.S. dollars):						
Net income	¥80.91	¥66.62	¥ 52.70	¥ 47.73	¥ 44.56	\$0.79

For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen at the rate of ¥102.92 to U.S. \$1.00, the exchange rate at March 31, 2014. Owners' equity comprises total shareholders' equity and total accumulated other comprehensive income. Net income per share is computed based on the weighted average number of shares outstanding.

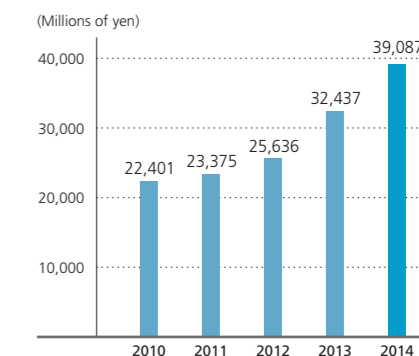
● Net sales



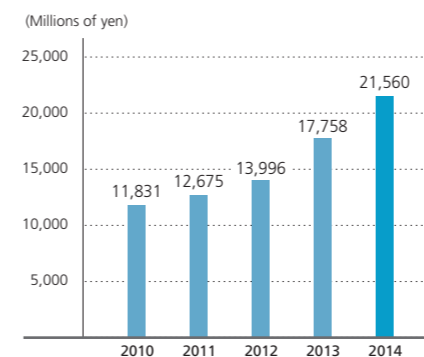
● Operating income



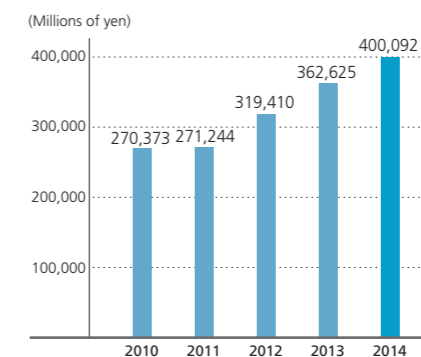
● Income before income taxes



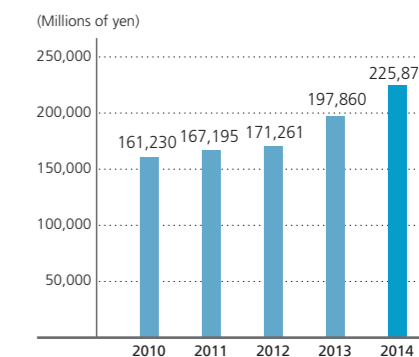
● Net income



● Total assets



● Owners' equity





To all of our stakeholders:
Here at Kansai Paint and its Group companies, our fundamental business philosophy is to contribute to society by providing products and services that satisfy our customers.

The coating business, the core business of the Kansai Paint Group, is supported by our customers in a wide range of industries, including various industrial products centering on automobiles, buildings, structures, ships and other products. The foundation of the Kansai Paint Group's very existence is the concept of continuously working to improve our level of customer satisfaction, and through these efforts, we are working to increase the value of our stock, strengthen our operational foundations and contribute widely to society.

Overview of the Fiscal Year Ended March 2014

Detailed figures for this consolidated fiscal year (fiscal year 2013 ended on March 31, 2014) are included in the latter half of this corporate report. To summarize, we attained consolidated net sales of ¥320,454 million (US\$3,114 million, a year-on-year increase of 9.0%), consolidated operating income of ¥29,636 million (US\$288 million, a year-on-year

increase of 22.6%), and consolidated net income of ¥21,560 million (US\$209 million, a year-on-year increase of 21.4%). For the term under review, annual dividends were ¥15 per share.

In the global economy for the term under review, despite a slowdown in the growth of the emerging economies including India and Africa, the global economy has continued to expand. Gradual improvement has continued in Europe and America, where these economies are continuing on a weak track to recovery. The Japanese domestic economy registered steady growth for the term under review, thanks in part to the anti-deflationary effects of Abenomics*, as well as from last minute market demand before the increase in consumption tax.

The consolidated business results of the Kansai Paint Group were affected domestically by a downturn in the automobile production sector in the beginning of this fiscal year, however, a recovery in this sector, along with earthquake disaster reconstruction, in addition to last minute buying before the consumption tax increase, led to a greater demand for coating products, which contributed to an increase in our profits from the second quarter onward. In markets outside of Japan, despite the economic slowdown in India and Africa, we experienced an increase in demand for our coating products and sales growth continued as before. In Asia, even though our business was affected by the instability of the political situation in Thailand and China, the business results for this fiscal year was greater than the previous fiscal year. In Indonesia, our business performance expanded due to increased automobile production and other factors. Furthermore, the business performance at our Indonesian subsidiary that was newly consolidated last year, contributed to an expansion of our consolidated business performance. In addition, we recorded some special income from sales of fixed assets by selling off domestic land, etc.

Outlook for the Fiscal Year Ending March 2015

In the forecast for the global economy, even as there are indications of recovery in the developed economies, and despite a slowdown in the pace of growth of the emerging economies, we still expect the emerging economies to continue to grow. Here in Japan, it is hoped that the effects of financial and economic policies will lead to a full-scale economic recovery. On the other hand, there are concerns that a downturn in demand due to the consumption tax increase, as well as a steep rise in the price of raw materials will depress earnings.

Under these circumstances, the Kansai Paint Group will focus on our three-year mid-term

management plan, which is based on the important policies of accelerated globalization, increased profitability, and strengthening the management foundations of the group. This plan will be the guiding principle for improving our business performance and expanding our business activities.

As for the outlook for this term (fiscal year 2014), we have set targets as follows: consolidated net sales of ¥350,000 million (US\$3,401 million), consolidated operating income of ¥34,000 million (US\$330 million) and consolidated net income of ¥21,000 million (US\$204 million). Furthermore, for this term, we intend to set annual dividends to be ¥15 per share.

Management Strategies

Fiscal year 2013 marked the first year of a new three-year mid-term business plan. Accordingly, we are following the important policies detailed below in order to expand our business activities.

1. Accelerated Globalization

Focusing on emerging economies where the prospects for growth are most positive, our overseas businesses will look to strengthen competitiveness by optimizing costs and product quality to meet the needs of the market. We will also increase the pace in which we enter and develop businesses in new territories and fields, as well as areas that can make a significant contribution to our consolidated business performance.

2. Increase Profitability

By increasing the size and efficiency of our businesses overseas, we plan to increase profitability further. Domestically, in addition to reducing total costs by looking to optimize our organizational structure and work processes, by strengthening our competitiveness we plan to maintain and then increase our market share, which in turn will increase our profitability.

3. Strengthen the Management Foundations of the Group

Through the effective use of shared management resources across the Kansai Paint Group, we shall meet the needs of fast-paced globalization and maximize synergies through reinforcing our management foundations.

In Closing

Kansai Paint and its Group companies are working to provide highly competitive products and services in markets all over the world, and through its global activities our aim is to develop into a truly global company.

As part of these efforts, Kansai Paint has signed an Official Global Partner agreement with Manchester United, one of the most famous soccer teams in the world. This cooperative relationship serves to increase awareness of the Kansai Paint Group and our brands, as well as contributing effectively to the development of our business in countries and regions in all parts of the world.

In the same way that Manchester United are supported by fans all over the world, the Kansai Paint Group is working towards realizing growth by satisfying the needs of our global customers through the provision of our coatings.

We sincerely hope that you find this corporate report useful in providing you with information pertaining to the activities of Kansai Paint and its Group companies.

*The term "Abenomics" is a *portmanteau* of Prime Minister Shinzo Abe's last name and economics. Abenomics is based upon the "three arrows" of fiscal stimulus, monetary easing and structural reforms.

Hiroshi Ishino
President, Representative Director



OFFICIAL PAINT PARTNER OF MANCHESTER UNITED

Kansai Paint is proud to be party to a 3-year agreement as the Global Paint Partner of Manchester United, known as the club with 650 million fans worldwide. This affiliation will serve to improve the image of the Kansai Paint brand and we intend to utilize this relationship in promotional campaigns in all our territories.

Management Philosophy and Vision

Corporate Mission

(Established January 1967)

1. To further build company credibility with the public and to contribute to society by providing products and services that achieve customer satisfaction.
2. To build on our knowledge and strive for technological innovations in order to improve the company's performance.
3. To harness the collective efforts of all individuals in order to maximize company returns.

Management Philosophy

Our corporate mission is to contribute to society by providing eco-friendly and value-added coating materials and services that satisfy our customers. To realize new innovations in coating materials, we have defined our philosophy so that our employees are eager to undertake

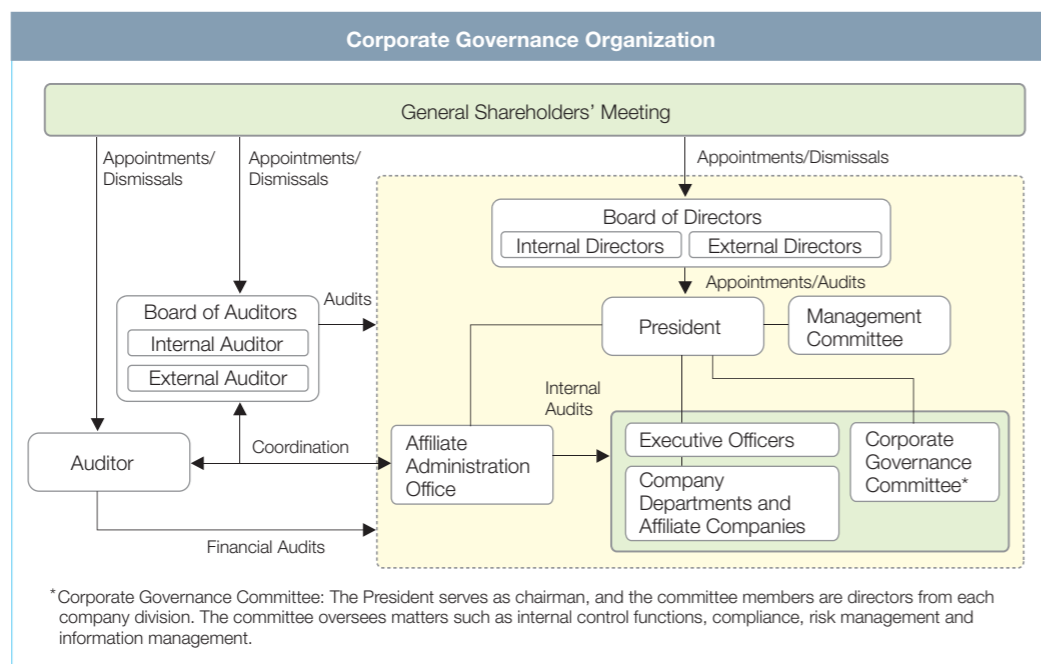
new challenges, and so that we can combine our wisdom and knowledge to create future products. We aim to use our products and services to make continuous contributions to society.

Basic Activity Guidelines (Established January 2001)

1. We shall conduct all phases of our business operations while adhering to high ethical standards, will comply with laws and social norms, and will engage in fair and transparent business activities to win the trust of societies throughout the world.
2. We shall respect the cultures of each country and region, observe local customs for better coexistence with such societies, and will use our business operations to contribute to the development of these societies.
3. We shall actively and voluntarily get involved in environmental conservation while we manufacture and provide eco-friendly products.
4. We shall develop and provide products and services based on the principle of "customer first", with the goal of satisfying our customers.
5. We shall respect each employee's individuality and create a workplace environment that nurtures the spirits of challenge and teamwork.
6. We shall respond to the expectations of our customers, employees and shareholders by sustaining the continuous growth of our global business operations.

Corporate Governance Organization (As of June 2014)

This internal control organization assures healthy business administration and audits.



The Kansai Paint Concept of Corporate Social Responsibility

We aim to be one of the world's leading and most trusted companies by synchronizing business and environmental conservation. As our business advances globally, we strive to develop superior coatings that are high quality, high-performance and deliver new functionality as well as offering outstanding cost effectiveness, while also being strongly aware of the issues of compliance and risk management.

Through these sound and continuous business practices we aspire to contribute to the development of a sustainable society.

• Kansai Paint Stakeholders



Compliance Promotion

Kansai Paint strives to comply with laws and regulations, and to fulfill the company's social responsibilities. To that end, the company has set forth guidelines by defining a Code of Ethics, a Code of Conduct and a Code of Behavior so that it can carry out appropriate business operations based on the corporate spirit of "Profit and Fairness".

We also distribute a handbook of our corporate ethics to our employees, and continue in-company education via our company newsletters. Furthermore, we have created a consultation desk for the purpose of accurate collection and disclosure of information, to ensure that issues of non-compliance that may occur are dealt with properly.

Risk Management

The Risk Management Committee was established for the purpose of proactively taking measures against critical risks that might affect company operations. Furthermore, the Risk Management Guidelines and the Risk Management Manual were put together in order to deal with the various risks that could be foreseen.

Additionally, the Action Manual was prepared to counteract risks closely related to our operations and regardless of whether said risk is located in Japan or overseas, the company needs a system to facilitate rapid access to information related to every type of risk and to implement appropriate countermeasures based on an accurate grasp of the situation. The company ensures that the operations of the risk management organization are well controlled and maintained.

In fiscal 2013, when an accident occurred at one of our domestic raw material suppliers, we acted to secure our supply chain by assessing the situation and planning countermeasures, centering on the relevant departments in Kansai Paint, as well as maintaining close communications with our business partners. Overseas, typhoons and other

natural disasters took place (such as heavy rainfall in the Philippines, flooding in Thailand, etc.), and strikes and demonstrations caused by political instability occurred one after another (mainly in Thailand and Indonesia). In every case, we worked with our affiliated companies to collect information and assess the situation, and successively disclosed information on our findings. Needless to say, when these types of situations occurred we took the most comprehensive action we could to ascertain that our employees and their families are safe, our supply chain is secure, and performed studies to assess the post-crisis impact on our BCP (Business Continuity Plan), and Kansai Paint will continue to make efforts to collect information and pre-detect crises before they occur, regardless of whether the risk is located in Japan or overseas, so that we can take appropriate action.

Going forward, we continue to look to reinforce our BCP (Business Continuity Plan) System as we strive to contribute to society through stable management of our businesses that provide our customers with products that satisfy their needs.



Mitsuhiro Fukuda
Representative Director

Hiroshi Ishino
President, Representative Director

(as of June 30, 2014)

President

Hiroshi Ishino

Directors

Mitsuhiro Fukuda
Masanobu Ota
Kunishi Mouri
Masaru Tanaka
Yoshikazu Takahashi
Koji Kamikado
Hidenori Furukawa
Shigeaki Nakahara*

Corporate Auditors

Hiroshi Suwa
Koji Maekawa
Mineo Imamura
Yoko Miyazaki

*Indicates an external director as provided for in Article 2-15 of the Companies Act.



Business Review

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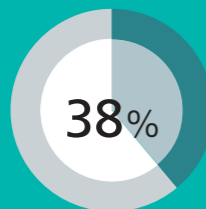
Automotive Coatings

Main Products and Services

Automotive coatings are classified as coatings for new cars used by automobile manufacturers and as automotive refinish paints used in auto body shops.

Automotive coatings for new cars are paints applied by automobile manufacturers and paints applied at auto parts factories, using automatic application lines with high temperature curable paints. Automotive refinish paints are intended for use in body shops for vehicles damaged in accidents, etc.

Product Sales Ratio



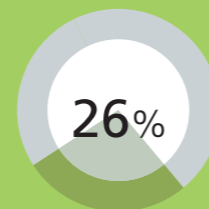
Industrial Coatings

Main Products and Services

Industrial coatings are used with a wide range of industrial products, including construction vehicles, industrial machines, agricultural equipment, home electronics, beverage cans, pre-coated metals and various types of building materials.

For this area, different types of coating performance, coating methods and application conditions are required for various types of industrial products. In order to meet these needs, we provide an exceptionally wide and diverse range of paints, coatings and services.

Product Sales Ratio



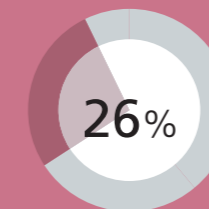
Decorative Coatings

Main Products and Services

Decorative coatings include coatings to protect structures such as residential houses and buildings from deterioration, as well as coatings used to enhance the beauty of structures. These coatings are classified as exterior coatings or interior coatings, depending on where they are used, and are also classified according to the type of application — coatings for new structures and coatings for repairs.

These coatings are used in close proximity to the human living environment, so recently there has been a growing demand for eco-friendly products in this area.

Product Sales Ratio

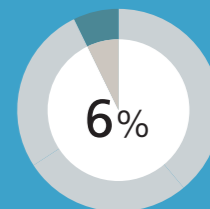


Marine and Protective Coatings

Main Products and Services

This area encompasses marine coatings used with marine structures in order to provide long-term protection from corrosion for steel structures and protective coatings for structures on land. Marine structures include ships, offshore structures and marine containers, while structures on land include bridges, tanks and plants. Coatings are available for new structures and for maintenance applications.

Product Sales Ratio



Business Overview by Segment

Japan

In the field of automotive OEM coatings, in the first quarter of the year the government ended their policy of subsidies for the purchase of so-called eco-cars which along with other factors caused a reduction in the number of new cars produced, and this in turn led to a decline in our sales. However, we made a transition to recovery in the second quarter of the year onward. In the field of industrial coatings, we saw recovery in the demand for coatings applied to automotive components, along with last minute purchasing before the consumption tax increase and other factors. In the field of decorative coatings, along with a rise in home improvement work on houses and apartments prior to the increase in consumption tax, we also implemented a sales promotion for our strategic products. In the field of protective coatings, there was a growth in demand from various sectors including public works projects, and we experienced sales growth in each field. However, there was a slowdown in the market conditions in the fields of automotive refinish paints and marine coatings that led to weak sales. As a

result, overall sales increased in this segment. On the other hand, the cost of raw materials increased which put pressure on our profits, so we continued to make efforts to reduce the total cost.

As a result, our sales in Japan totaled ¥154,287 million, an increase of 5.0% from the previous term, and our ordinary profit totaled ¥18,348 million, an increase of 17.9% from the previous term.

India

In the field of automotive coatings, worsening business confidence combined with the high cost of fuel and high interest rates allowed weak market conditions to continue. However, our principal customers increased their production volume and this, in addition to an increase in our sales prices, has meant that sales of coatings for the entire period under review have continued to grow. In the field of decorative coatings, despite the slowdown in the domestic economy, continuing expansion of demand as well as an increase in our sales prices during the second half of the term under review has driven a growth in

our sales. At the same time, the depreciation of the rupee in the latter half of this term has led to a rise in the cost of raw materials which put pressure on our profits.

As a result, our sales in India totaled ¥54,957 million, an increase of 9.7% from the previous term, and our ordinary profit totaled ¥5,393 million, a decrease of 0.6% from the previous term.

Asia

In Thailand, despite the domestic economy being weakened by political turmoil in the latter half of the period under review, our performance for this term was higher than last year. In addition, increased automobile production and domestic demand remained firm in Indonesia, and just as in Thailand, there was an increase in our revenue and profits. In China, a worsening in relations between Japan and China occurred, but key customer demand picked up in the second half of the period, which combined with effects of the foreign exchange rate, led to a recovery in business performance.

In addition, the business results of

PT. Kansai Prakarsa Coatings, an Indonesian company that became a consolidated subsidiary in April 2012, contributed to our consolidated business results. In accordance with the acquisition of shares in this subsidiary, amortization of goodwill was continuously accounted.

As a result, our sales in Asia totaled ¥59,548 million, an increase of 18.9% from the previous term, and our ordinary profit totaled ¥8,363 million, an increase of 46.6% from the previous term.

Africa

The South African economy suffered from sluggish growth due to the European economic downturn, along with the impact of soaring raw material prices. However, sales growth continued at an increased pace following signs of recovery in the European economy in the latter half of the term, which led to improved revenue. In addition, the business results of Astra Industries Ltd., a Zimbabwean company that became a consolidated subsidiary in July 2013, contributed to our consolidated business results. In accordance with the

acquisition of shares of Kansai Plascon Africa Ltd. in 2011, amortization of goodwill was continuously accounted.

As a result, our sales in Africa totaled ¥34,802 million, an increase of 8.4% from the previous term, and our ordinary profit totaled ¥1,186 million, an increase of 148.9% from the previous term.

Other Regions

There were signs of recovery in the European economy, and the trend was towards increased domestic demand in Turkey, which led to a rise in sales, especially in the field of industrial coatings. Sales growth was further supported by the acquisition of new customers in the automotive sector. Moreover, with the increase in automotive sales in North America, equity in earning of affiliates increased, which also contributed to this growth in revenue.

As a result, our sales for Other Regions totaled ¥16,860 million, an increase of 13.4% from the previous term, and our ordinary profit totaled ¥2,181 million, an increase of 83.9% from the previous term.



Research and Development Operations

With 5 research institutes and 1 research center, the Kansai Paint Group, through coordination with the technological departments of the Group companies, is aiming for effective, broad-based research activities that will enable the company to respond to what the market needs in a more timely fashion. Through our focus on global development and by strengthening coordination between all companies in the Kansai Paint Group, we are also working to promote technological development in order to meet the needs and standards of countries around the world, as well as fostering human resources capable of working on a global scale.

During the consolidated term under review, the total R&D expenditure of the Kansai Paint Group amounted to ¥5,269 million, and a total of 571 people have been involved in R&D activities in the Kansai Paint Group as a whole.

The following is an overview of the company's R&D activities by business segment.

In our basic research, we are striving to accumulate fundamental technologies that are useful for coatings. Our fundamental technologies focus on polymer synthesis, new cross-linking reactions, pigment dispersion, surface control, rheology control and environmental improvement technology. Our aim is to create new materials for business that can be applied globally.

In the field of fundamental analysis and evaluation, we are working to establish new analytical technologies to contribute to the development of products based on more precise technological foundations in areas where establishing evaluative technologies is extremely difficult, such as observing phenomena related to the film formation stage as well as the performance and functions of films. Through these acquired technologies, our shared plan for each of our group companies is to place particular focus on our services, such as quality control, guidance on safety and environmental effects as well as consulting for our customers. To this end we are also promoting the establishment of

reliable, global operation systems.

In the field of color design, with regard to automotive coatings we have developed and proposed advanced color groups for our customers through research and analysis of the latest color trends as well as through investigating colors used in motor shows held in Japan and overseas. Furthermore, we undertook a survey of automotive color trends in Asian countries and we have started to put together color proposals based on this research.

In regard to the field of decorative and industrial coatings, we looked to contribute to the development of a new market through putting together design proposals for building facilities. In the field of color application technology, we moved forward with the technological development of our water-based coatings, specifically their weatherproof performance and color stability.

In the field of color optical science, we conducted research on the application of a computer-based color matching system, and we are moving forward with improvements to the efficiency of our color matching

process.

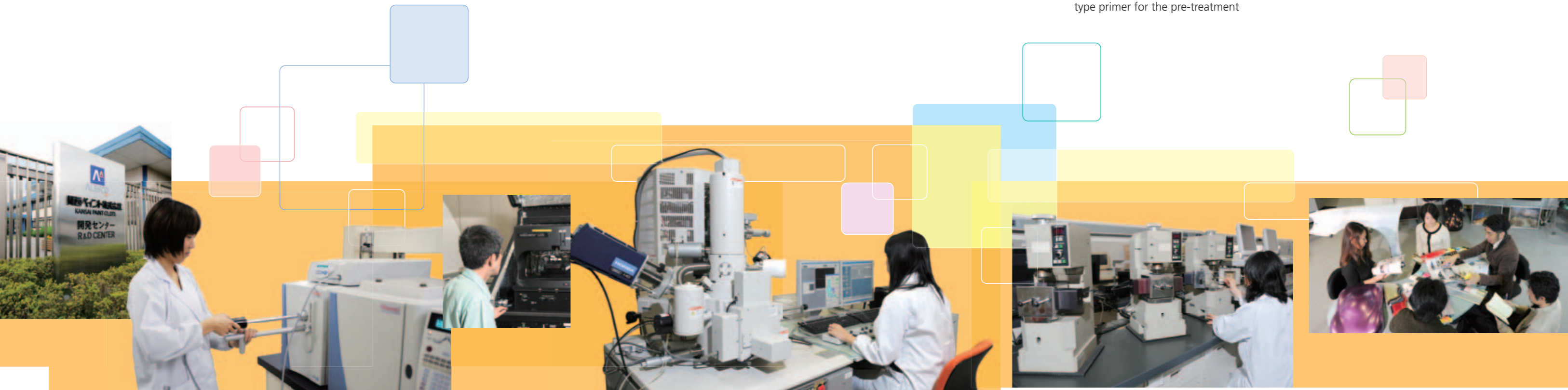
In regard to the field of coatings and coating system development, we are developing eco-friendly technologies in order to contribute to a sustainable society, with particular effort being put into development of technologies to create paints and coatings that are sensitive to the global environment. Our research and development specifically focuses on reducing the amount of greenhouse gases, volatile organic compounds and toxic substances.

In the field of automotive coatings, we continue to work on expanding and diversifying the use of our highly evaluated Waterborne 3-Wet Coating System, which is manufactured using eco-friendly technologies that are both process- and energy-efficient. Furthermore, in order to achieve finer finishes, we are conducting fundamental technological development in rheology control and pigment dispersion, etc. We are also developing high value-added coatings with high scratch-resistant finishes, etc.

In the field of industrial coatings, we have developed a non-chromium type primer for the pre-treatment

processing of steel plates and we are making plans as to how best to apply this product. In the fields of decorative coatings and protective coatings, we are promoting the conversion to water-based coatings as well as putting our efforts into researching and commercializing coating products with high functionality, such as heat shielding and anti-bacterial functions as well as multiple colors and patterns. We are also working to develop evaluation technologies and equipment as required to develop these coatings. The aim is to facilitate efficient development of coatings as well as increasing the perfection rate for products in development.

During the term under review, expenditure on research and development by segment amounted to ¥4,597 million for Japan, ¥272 million for India, ¥11 million for Asia, ¥54 million for Africa, and ¥335 million for Other Regions.



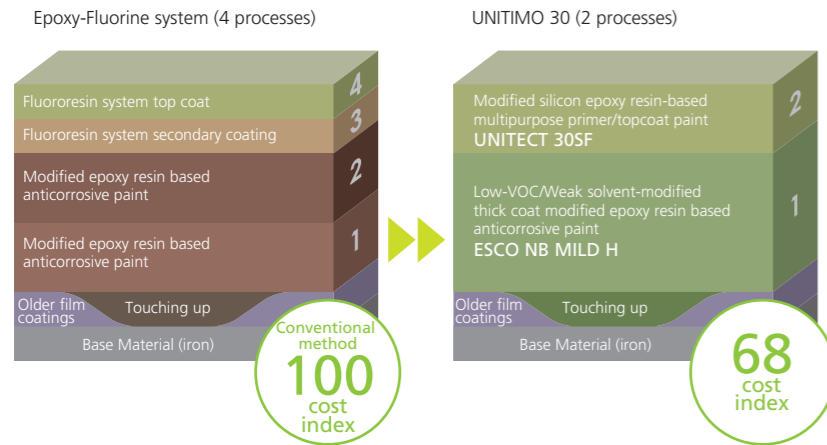
New Products

UNITIMO, an Environmentally Friendly Heavy-Duty Anticorrosive Coating System with a Simplified Process

Features of UNITIMO

- An extremely simple process that is superior to and uses fewer steps than conventional methods in film thickness and durability.
- A synthesis of ESCO NB MILD H, a low-VOC, weak solvent-modified epoxy resin based anticorrosive coating, and UNITECT SERIES, having both properties of primer and topcoat.

Overview of Coating Techniques/Index Comparison of Coating Costs



Outstanding Protection against Rust

Delivers a higher level of rust protection performance than a conventional (strong solvent type) epoxy resin-type anticorrosive coating.

— One year of exposure to marine conditions —



Modified epoxy resin anticorrosive coating 2 coats of 60µm (total thickness: 120µm)

ESCO NB Mild H 1 coat of 120µm (total thickness: 120µm)

* Cumulative price (including both materials and process costs) as a base, an index comparison of the conventional method when taken as 100.

ALES SHIKKUI Plaster Coating

The main ingredient in making shikkui is slaked lime, and this paste-like Japanese traditional plaster coating with its unique texture and feel was traditionally used for walls in castles and kura warehouses. In addition to its unique appearance, shikkui has outstanding properties, such as deodorant, antibacterial qualities and incombustibility. However, the proper application of shikkui requires skills and training that translates into time and cost, which in turn has prevented shikkui from being widely adopted. In response to this issue, Kansai Paint developed ALES SHIKKUI that retains the properties of shikkui and is easy to apply. ALES SHIKKUI does not contain any volatile organic compounds such as film formation or anti-freezing agents, which are essential when using regular water-based paints.



In addition, the system with ALES SHIKKUI SEALER NEO, our ultralow VOC priming coat material, is an environmentally friendly product that can be used as a base coating for a wide variety of building interior applications including plaster board, concrete, and PVC wallpaper.



Environmental Activities

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Policies on Environmental Conservation

Corporate Policies on Environmental Conservation

(Stipulated in Fundamental Rules regarding the Conservation of the Global Environment)

Basic Policies	1. To supply products after full consideration of their potential impacts on people and the environment.	3. To contribute to society while raising awareness about the environment, safety and health.
	2. To undertake proactive countermeasures to cope with the potential effects of products on people and the environment.	4. To disclose and provide information related to the environment, safety and health.

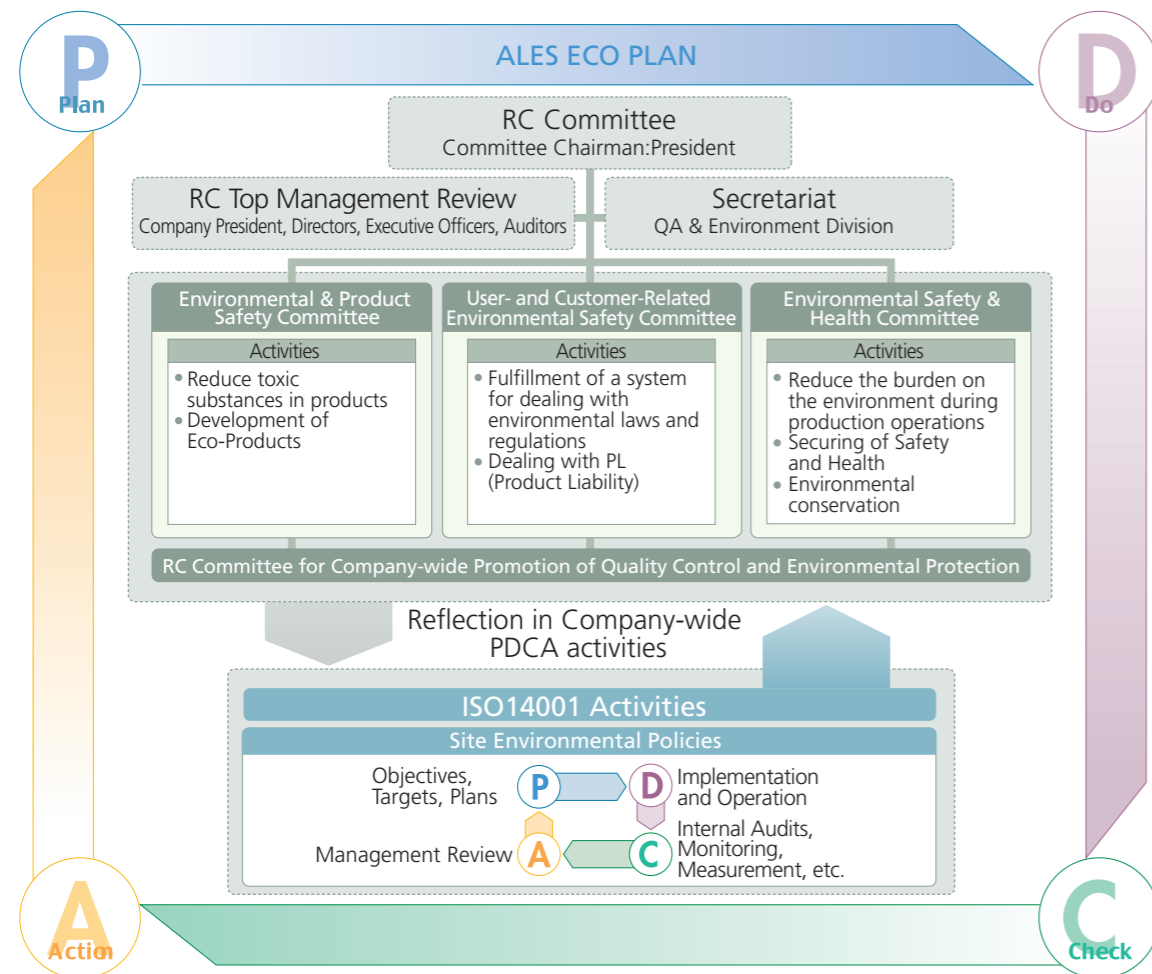


Responsible Care

It is recognized that regulations alone cannot completely ensure eco-friendliness, human safety and health. In response to current demands, the world's chemical industries have begun working on self-imposed controls to protect the

environment, safety and health at all stages of chemical processing, from development right through to disposal. This activity is called Responsible Care (RC).

Environmental Conservation (Responsible Care) Organization Chart



Environmental Management

Audit by Top Management, RC Committee

The committees we have formed, which are the Environmental & Product Safety Committee, the User- and Customer-Related Environmental Safety Committee, and the Environmental Safety & Health Committee report on the status and result of their activities to top management, including the President, in his role as the Chair of the Responsible Care (RC) Committee. These committees then ask senior management for their confirmation of their activities as well as instructions for future activities.

During the top-level diagnosis for fiscal 2013, the initial year of the ALES ECO PLAN 2015, the RC Committee reported and discussed environmental regulations and appropriate safety/hygiene compliance both at home and abroad. The following instructions have been made in order to ensure that these operations are efficient and effective throughout the company, taking the production, technology and sales divisions as one integrated body.

2013 Instructions by Top Management

1. Endeavor to grasp regulatory trends, both in Japan and overseas, and tackle further enhancements to our management system to cope with the diversification of customer needs and deal with compliance.
2. Continue to push for our overseas locations to be independent and self-sufficient in terms of quality, the environment, safety and hygiene, and drive our efforts to focusing on creating closer relationships between our businesses to drive improvements in these areas.
3. Move forward with our efforts to attain our goals as stated in the ALES ECO PLAN 2015



Global Compliance

In order to reduce the risks involved with the use of chemical substances, the initiatives related to the legislation and management of chemical substances have been taken in all countries and localities. Among them, initiatives to acquire and communicate information about toxicity and relevant regulations and efforts have been actively carried out in Europe and Asia.

Kansai Paint operates in Europe, North America, China, Taiwan, South Korea, Southeast Asian countries, India, and Africa, and we have to deal in accordance with the laws and regulations of each country to acquire and communicate information about toxicity.

Efforts to understand overseas regulatory information

We work to collect the proper foreign regulatory information through industry associations, consulting companies, and our group companies, as well as via other routes. Furthermore, we continually make efforts to grasp how these substances are being used, reduce and abolish our use of hazardous substances that are regulated, due to concerns about toxicity, by international conventions or the like, as one of the global product safety activities of the Kansai Paint Group.

Implementation of EU REACH Regulations and CLP Regulations

In the EU, aiming for the comprehensive and integrated regulations regarding the management of chemical substances, the REACH regulations (No. 1907/2006) and the CLP regulations on classification, labeling and packaging of chemical substances and compounds (No. 1272/2008) are enforced, and regulations for chemical products are being phased in based on REACH and CLP.

Efforts related to chemical product management regulations in Asian countries

In Asian countries, legal reform related to chemicals management is underway, including registration systems for new chemical substances as well as the introduction of the Globally Harmonized System of Classification and Labeling of Chemicals (GHS). Compulsory GHS labeling on safety data sheets (SDS) as well as labels for mixtures is scheduled for introduction in Indonesia, Thailand and Vietnam, and GHS has already been introduced in China, South Korea, and Taiwan. We will continue to respond appropriately to GHS labeling requirements as laws are introduced in other countries.

	Activities	Items Targeted	Targets for Fiscal Year 2013	Fiscal Year 2013 Achievements	Evaluation	Targets for Final Fiscal Year (FY2015)
Environmental & Product Safety	Product Safety Activities	Collect information on environmental laws and regulations both in Japan and overseas, and reflect this data in our coating designs	<ul style="list-style-type: none"> Maintain strict compliance with laws and regulations related to the environment in Japan Study of chemical control regulation - related international treaties as management objectives 	<ul style="list-style-type: none"> Maintain strict compliance to revisions of environmentally-related laws and regulations in Japan Select international treaties to be surveyed 	Target value achieved	<ul style="list-style-type: none"> Maintain strict compliance with environmentally-related laws and regulations in Japan Settle on administrative guidelines for regulations to control specific chemical substances provided in international treaties
	Reduction of Hazardous Substances in Products	1. The amount of lead in products sold*1	74% reduction from fiscal 2003 results: 513 tons → 133 tons	124 tons/annual shipments (76% reduction compared with fiscal 2003)	Target value achieved	80% reduction compared with fiscal 2003
		2. The amount of hexavalent chrome in products sold*2	67% reduction from fiscal 2003 results: 64 tons → 21 tons	22 tons/annual shipments (66% reduction compared with fiscal 2003)	Target value roughly achieved	70% reduction compared with fiscal 2003
		3. The amount of T, X, EB*3 in coating products sold*4 (T: Toluene, X: Xylene, EB: Ethyl benzene)	28% reduction from fiscal 2003 results: 37,200 tons → 26,800 tons	26,400 tons/annual shipments (29% reduction compared with fiscal 2003)	Target value achieved	30% reduction compared with fiscal 2003
		4. VOC rate contained in coating products sold*5	Maintenance of 22.8% (fiscal 2012 results) or less	22.7%	Target value achieved	22.8% (fiscal 2012 results) or less
Spread of environmentally friendly coatings		Maintenance of 98% (fiscal 2012 results) or higher	98%	Target value achieved	98% (fiscal 2012 results) or more	
Environmental Safety and Health	Environmental Conservation Activities	1. ISO 14001 activities	Ongoing implementation	Ongoing implementation	Ongoing implementation	Ongoing implementation
		2. Preparation for environmental accounting	Ongoing publication	Ongoing publication	Ongoing publication	Ongoing publication
		3. Prevention of environmental pollution	1) Environmental measurement values	Within standard values	Within standard values	Target value achieved
	2) Security and disaster prevention (occurrence of fires, outflows, etc.)		0 cases	0 cases	0 cases	0 cases
	Securing Safety and Health	1. Number of occupational accidents	Work time loss of over 1 day due to accidents 0 cases	Work time loss of over 1 day due to accidents 0 cases	Target value achieved	Work time loss of over 1 day due to accidents 0 cases
		2. Organic solvent and specially controlled substance handling operations in Class-II Class-III workplaces	0 cases	<ul style="list-style-type: none"> Organic Solvent: Class II Workplaces – 12 cases; Class III Workplaces – 0 cases Specialization Rule (formaldehyde): Class II Workplaces – 8 cases; Class III Workplaces – 3 cases 	Target value not achieved Verify improvements through strengthened local exhaust ventilation systems, and repair lids (hermetically-sealing) and others	0 cases
		3. Safety assurance at affiliated companies overseas	Conduct safety diagnosis at overseas affiliated companies, and at the same time implement staff safety training for local employees	Conducted in China (COSCO Kansai Paint & Chemicals (Tianjin) Co., Ltd., Tianjin Winfield Kansai Paint & Chemicals Co., Ltd., Kansai Paint (Shenyang) Co., Ltd.) and India	Target value achieved	Conduct safety diagnosis at overseas affiliated companies and at the same time implement staff safety training for local employees
	Reduction of Environmental Burden in Operations	1. Energy consumption (per unit of production)	1.0% reduction from fiscal 2012 results	4.5% decrease compared with fiscal 2012	Target value achieved	3.0% reduction compared with fiscal 2012
		2. CO2 emissions (total: Including incinerators)	15% reduction from fiscal 1990 results	19.3% decrease compared with results for fiscal 1990	Target value achieved	21% reduction compared with fiscal 1990
		3. Waste generated unit production volume	1.0% reduction from fiscal 2012 results	4.6% decrease compared with fiscal 2012	Target value achieved	3.0% reduction compared with fiscal 2012
		4. Waste recycling ratio	Maintenance of 99% or higher	Annual average: 99.4%	Target value achieved	Maintenance of 99% or higher
	Assurance of Environmental Safety during Transportation	1. Total energy during shipping (basic unit by ton/km method)	1.6% reduction from fiscal 2011 results	19.4% reduction compared with the results for fiscal 2011	Target value achieved	5.0% reduction compared with fiscal 2011
		2. Assurance of transportation safety	Establishment of operation	Labelling 100% maintained	Target value achieved	Establishment of operation
User- and Customer-Related Environmental Safety	User- and Customer-Related Environmental Safety Activities	1. Compliance with domestic and overseas environmental laws	<ul style="list-style-type: none"> Adherence to a system to comply with all Japanese environmental regulations Consideration and construction of a system to comply with the environmental regulations in each of our overseas locations in accordance with market developments 	<ul style="list-style-type: none"> Keep track of amendments to the Specified Chemical Ordinance of the Industrial Safety and Health Law, and the Poisonous and Deleterious Substances Control Law Revise display methods in regards to international transport of dangerous goods 	Implementation of each item was continued	<ul style="list-style-type: none"> Adherence to a system to comply with all Japanese environmental regulations Consideration and construction of a system to comply with the environmental regulations in each of our overseas locations in accordance with market developments
		2. Enhanced environment management system	Construction of the required system	System revision for color tone product labels/SDS		Construction of the required system
		3. PL claims 0 cases	Aim for 0 claims related to PL Law	0 claims for Kansai Paint, Kansai Paint Sales, NKM Coatings, Kanpe Hapio		Aim for 0 claims related to PL law
Disclosure of Environmental Information	1. Publishing of environmental report	Ongoing publication	"Environment and Social Report 2013" (Japanese) published in June	Information was released as planned	Ongoing publication	
	2. Publishing of Corporate Report		"Corporate Report 2013" (English) published in August			

*1) Amount of lead (Pb): amount of elemental lead content

*2) Amount of hexavalent chromium (Cr VI): amount of elemental hexavalent chromium content

*3) "T, X, and EB" indicates "toluene, xylene, and ethylbenzene"

*4) Finished product: including thinners sold

*5) Coating products excluding thinners sold

Involving the Environment in our R&D and Procurement

Kansai Paint's Basic Technologies Look to the Future

Kansai Paint's core technologies are represented by coating material, coating processes and coloring technologies.

Furthermore, these technologies are supported by fundamental technologies that include polymer synthesis, molecular cross-linking, photochemistry and material coloring. These core technologies are used in a wide range of applications to improve surfacing results and increase product value.

The entire Kansai Paint Group has taken initiatives in regards to environmental issues since we established our "Company Policy on Global Environmental Issues" in 1992, followed by our declaration on the implementation of Responsible Care in 1995.

In order to assure the original mission of paint and coating, the protection of a product, ensure a beautiful appearance and reduce the burden on the environment

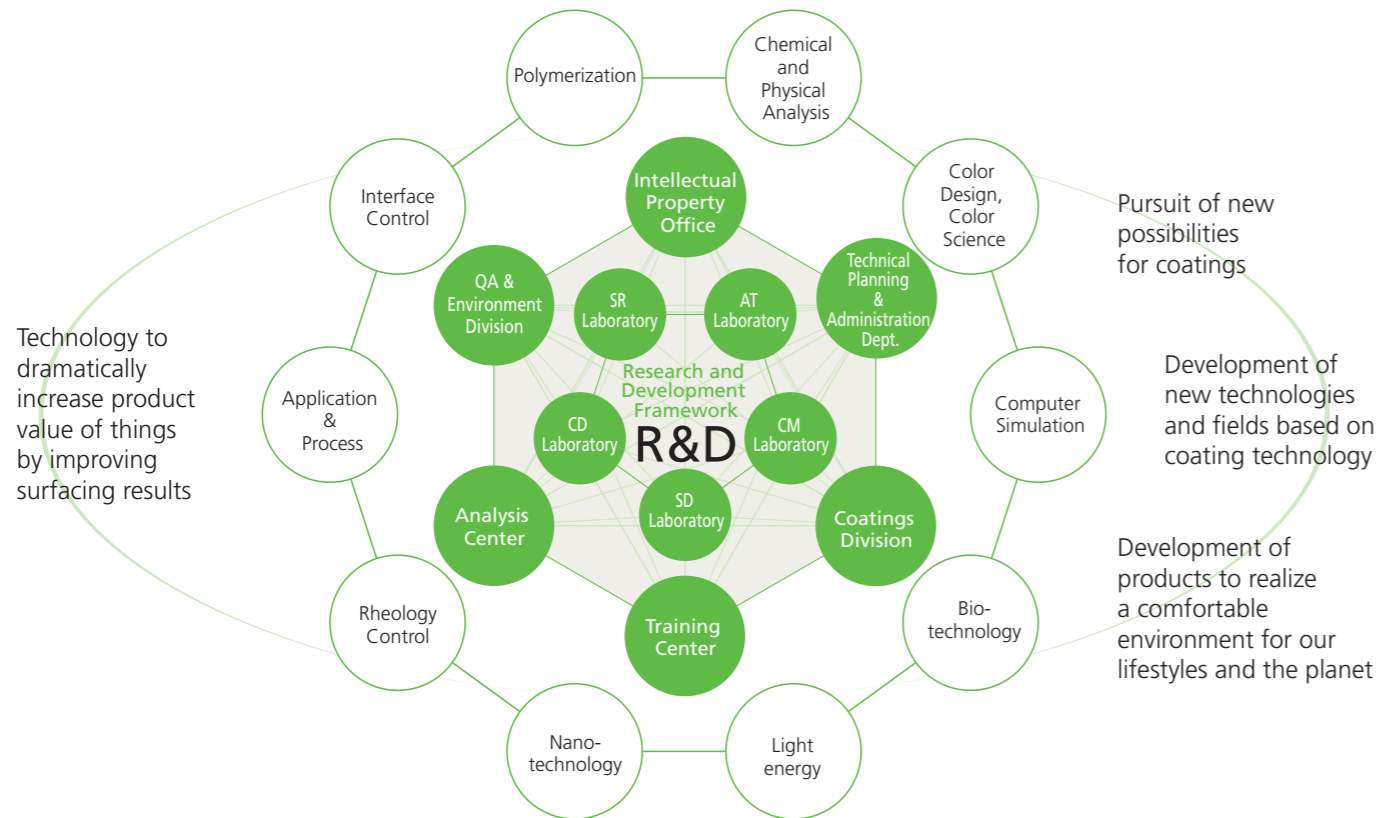
throughout the lifecycle of the product, we are concentrating on research and development that will ensure a low-environment burden, high performance and highly functional products.

In our role as both corporate citizens and inhabitants of the earth, we aim to establish environmental technologies for the entire service life of our coating materials, coating processes and coating films, in order to contribute to the conservation of the global environment.



Development Center, main Center for Research and Development (Hiratsuka City, Kanagawa Prefecture)

● Coating Technology



Proportion of Environmentally Considerate Coatings Sold by Volume

Based on the classifications of the Japan Paint Manufacturers Association, coatings that are considerate to humans and the environment are hereby defined as environmentally considerate coatings, and the proportion of coatings sold that match this definition will be evaluated. The proportion of our sales turnover for FY2013 that was made up of environmentally considerate coatings was 98%.

Evaluation Items	Content
Reducing Atmospheric Pollution	<ul style="list-style-type: none"> • Products with low VOC content (waterborne coatings, high solid coatings, powder type coatings)
Reducing the Burden on the Environment and Our Health	<ul style="list-style-type: none"> • Coatings that contain reduced amounts of toluene, xylene and ethyl benzene • Coatings that contain reduced amounts of formaldehyde • Coating films that are difficult to soil, or coatings that are self-cleaning • Coatings that suppress the multiplication of bacteria on the film surface
Conserving Resources	<ul style="list-style-type: none"> • Coatings with excellent weather resistance • Coatings that use natural, organic compounds in their organic ingredients
Conserving Energy	<ul style="list-style-type: none"> • Coatings with heat shielding properties • Coatings that require less energy during the drying and hardening processes

Our LCA (Life Cycle Assessment) Initiatives

In order to reduce the environmental burden of coating materials and coating films throughout their lifecycle, we incorporate techniques in our product design such as using plant-derived raw materials, increasing coating film durability, and conforming to a simplified drying process.

During the product design stage, the LCA method is one

of the most useful tools to quantitatively ascertain a coating's environmental burden. Based on the LCA method, we research both the functions of coatings and their environmental burden, which is useful to evaluate the environmental burden reduction properties of our products during the product design phase.

Green Procurement

Green procurement involves choosing and procuring materials that are environmentally friendly for our containers, wrappings, parts and raw materials. The corporate philosophy of the Kansai Paint Group is to "Conserve resources and protect the environment to build and sustain an affluent society", and we have implemented a strict management system with regards to materials procurement.

Kansai Paint procurement policies

- Kansai Paint promises to conduct fair and impartial business transactions following a "legal mindset".
- Kansai Paint shall work to open doors widely for business transactions, both in Japan and abroad.
- In the spirit of green procurement, Kansai Paint shall give preference to business partners that have established environmental management systems.
- Kansai Paint shall create a fair relationship of cooperation within which the company is on equal footing with business partners as we continue to work to enhance our partnerships.

Classifications of materials used

In regard to the materials used by Kansai Paint, we shall clearly classify materials, make specific details available to our business partners, etc., using such documents as the Kansai Paint Environmental Management Substances List and shall work to obtain materials that minimize the burden on the environment.

Banned Raw Materials	Materials that contain more than a defined amount of banned substances, and may not be used regardless of the reason.
Restricted Raw Materials	Raw materials which contain more than a defined amount of restricted substances, for reduction, limited use applications, or other purposes.
Dangerous and Hazardous Raw Materials	Raw materials that contain more than a defined amount of dangerous or hazardous substances, requiring stricter supervision than general raw materials.
Regular Raw Materials	Raw materials that can be used with normal supervision.

Management of Chemical Substances

Corporate Rules Regarding the Selection of Raw Materials at the Product Design Stage

We have prepared a system to evaluate the chemical substances contained in raw materials to be used

Hazardous Material Reduction Results

1) Amount of elemental lead contained in products sold

The "Amount of Lead Contained in Products Sold" was used as an index for our activities as we strove to decrease the amount of lead compounds used.

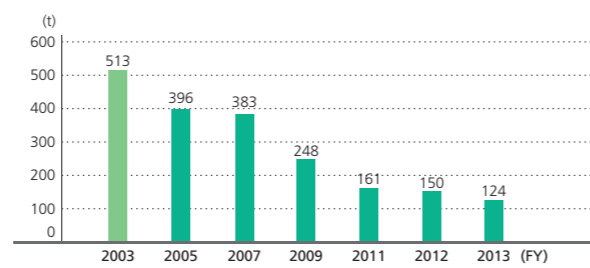
Compared with FY2003, the amount of lead compounds in products sold was 24% (124 tons) in FY2013.

We were able to register a reduction on the previous term due to our further transition from rustproof coatings containing lead to rustproof coatings that are both chromium- and lead-free, as well as partly promoting alternatives to color coatings that contain lead or chromium.

beforehand and as such pre-evaluations are carried out voluntarily, we endeavor to secure the environment, safety and health for our business sites and neighboring residents as well as for the use and final disposal of our products.

We will continue to proceed with reduction of elemental lead in products sold in the same way.

● Transition of the Amount of Elemental Lead Contained in Products Sold



2) Amount of elemental hexavalent chromium contained in products sold

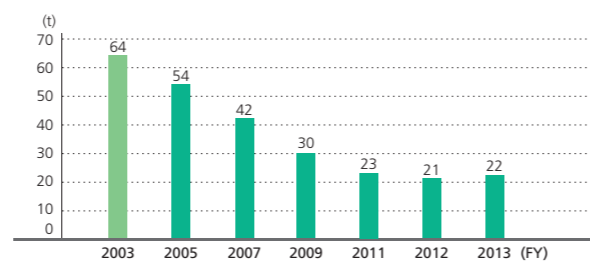
The "Amount of Hexavalent Chromium Contained in Products Sold" was used as an index for our activities as we strove to reduce the amount of hexavalent chromium compounds used.

By partly promoting alternatives to color coatings that contain lead or chromium, in FY2013 the amount of hexavalent chromium in products sold was 34% (22 tons) compared with FY2003, due to a partial increase in the use of anti-rust pigments.

Reducing the amount of hexavalent chromium in our coatings raises other issues, such as confirming the long-term functions of the coating such as its weatherproof capabilities and durability, etc., as well as alternatives that result in higher costs, nevertheless, we

will continue to work to develop and expand alternative products and curtail our use of hexavalent chromium.

● Transition of the Amount of Elemental Hexavalent Chromium Contained in Products Sold



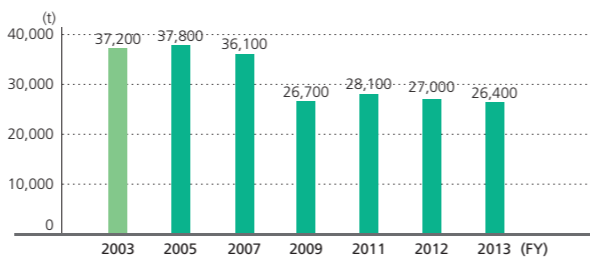
3) Toluene, xylene, and ethyl benzene contained in products sold

We are continuing our efforts to reduce the amount of toluene, xylene, and ethyl benzene (hereafter, T, X, and EB) in our products. We have transitioned from solvent-based coatings to water-based coatings and due to our progress in finding alternatives low in hazardous substances for coatings that contain T, X, and EB, as well as our progress in developing a market for coatings that do not contain PRTR substances, in FY2013 there was a decrease of 29% in the use of these materials compared with the figure for FY2003, representing a reduction to 26,400 tons, thus achieving our target for the year.

In the future, we will continue to develop products to replace

those containing T, X, and EB, and further promote the reduction in the use of these substances.

● Transition of the Amount of T, X, and EB in Our Coating and Thinner Products Sold

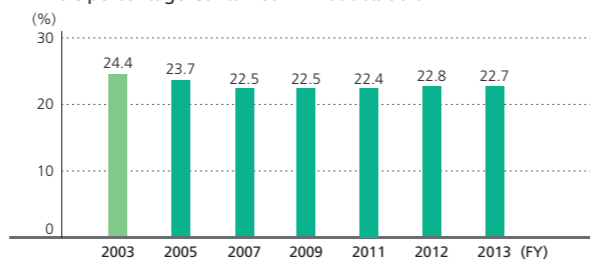


4) VOC percentage contained in products sold

ALES ECO PLAN 2015 is an initiative for maintaining a VOC ratio for the coating products sold at the level of our FY2012 results, namely 22.8% or less. FY2013 was the initial year of this plan and we achieved our goal with a VOC ratio of 22.7%, which was below our FY2012 results.

We will continue our work towards expanding the market for water-based paint products, high-solid paints and other low-VOC products to prevent VOC levels from increasing.

● VOC percentage Contained in Products Sold



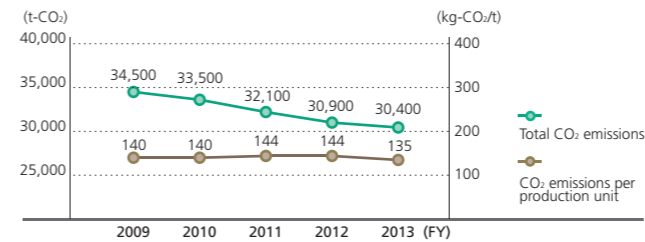
Environmental Conservation Activities

Reduction of CO₂ Emissions

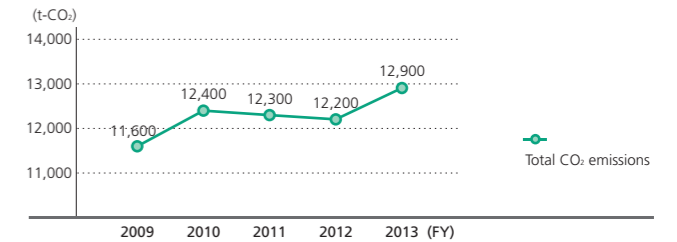
The carbon dioxide emission volume for the production division in FY2013 was 30,400 tons. Production volume increased by 5.3% compared with FY2012, and the basic

unit for CO₂ emissions was 135kg-CO₂/ton, decreased by 6.3% compared with FY 2012.

● CO₂ Emissions in Production Plants (Including incinerators)



● CO₂ Emissions in R&D Divisions



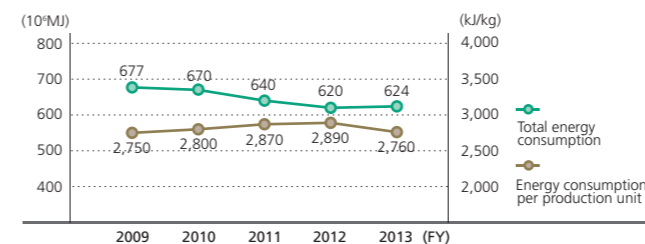
Promotion of Energy-Saving Activities

The amount of energy used by the production division in FY2013 increased by approx. 0.6% compared with FY2012, but energy used per basic unit decreased by 4.5% compared with FY2012. We believe this was the result of thorough power-saving measures taken since the Great East Japan

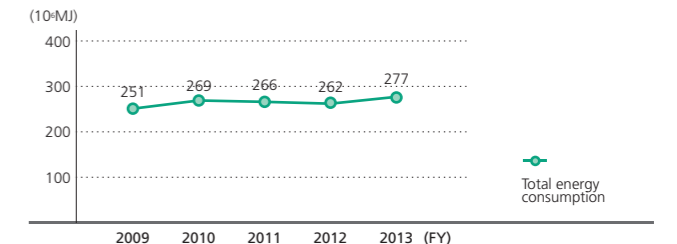
Earthquake, and our ongoing commitment to efficient production.

In the future we will continue to expand our energy-saving activities.

● Transitions in Energy Consumption in Production Plants

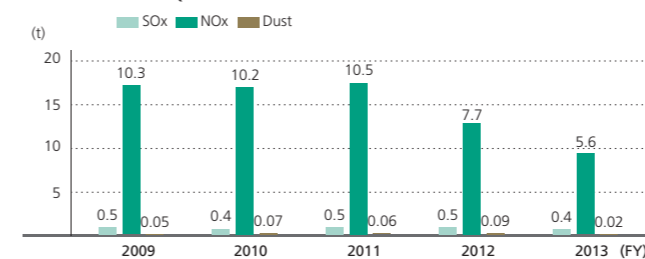


● Transitions in Amounts of Energy Used by Technology and R&D Divisions



Air Pollution Controls (at Production Plants)

● SO_x Emissions Quantities, NO_x Emissions Quantities, Dust Emissions Quantities



SO_x (sulfur oxide)
SO_x is released when fuels such as heavy oil or kerosene, etc. are burned or when waste materials that contain sulfur are burned. The symbol SO_x refers to sulfur dioxide and small amounts of sulfur trioxide.

NO_x (nitrogen oxide)
NO_x, comprises nitrogen monoxide, nitrogen dioxide, etc., and is contained in exhaust gases from boilers, incinerators and trucks.

Dust
Dusts are particulate matters comprising soot and cinders, and are defined by the Air Pollution Control Law as particles discharged when fuels and other materials are burned or used as thermal sources.

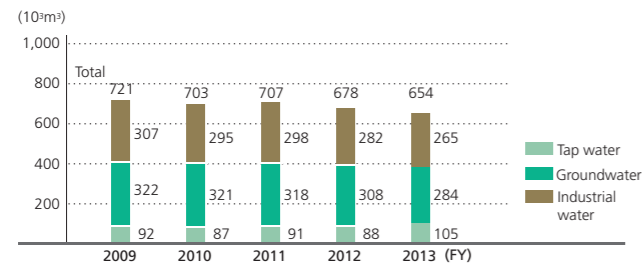
Environmental Conservation Activities

Water Resources Reduction and Water Pollution Prevention

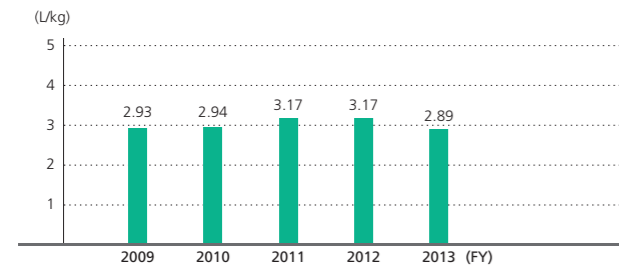
Water conservation efforts at production plants

The amount of water used in FY2013 registered a decrease of approx. 3.5% from FY2012, with a decrease of 8.8% on a per-unit basis. In the future we will continue with our efforts to efficiently use cooling water and boiler steam water.

● Amount of Water Used



● Amount of Water Used per Production Unit

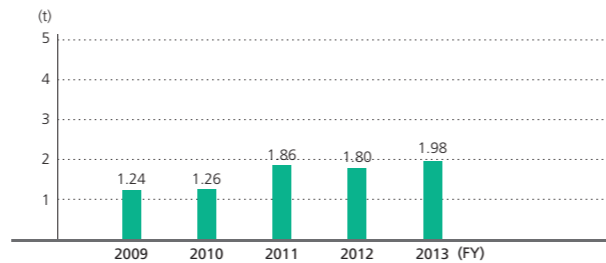


Water pollution prevention at production plants

The amount of COD discharge, an indicator of the emission volume of water pollutants, registered an increase since our introduction of activated sludge treatment in 2011 following the decommissioning of our waste fluid incinerator, which had been used for disposing of high concentration waste fluids.

The COD discharge amount in FY2013 increased when compared against levels from FY2012. We believe that this was a result of our increased production of water-based paints.

● Transitions in COD Emissions



COD (Chemical Oxygen Demand)
COD is an index of water pollution resulting from organic matter, and expresses the amount of oxygen consumed during the oxidation decomposition of the organic matter.

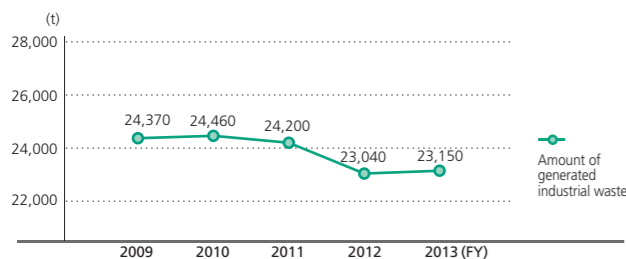
Waste Reduction

Kansai Paint started a company-wide waste reduction system in 1999 to promote the "3Rs" of industrial waste required by a resource cycling society — A reduction in the generation of industrial wastes (Reduce), recycling of waste that is generated (Recycle), and the reutilization of materials (Reuse). We have set our sights on the achievement of zero emissions for industrial waste generated through our

manufacturing activities. As a result, we were able to achieve zero emissions by our production plants in FY2005 and have been able to maintain zero emissions since that time.

As for "Recycle" and "Reuse", as shown in the graphs below, our production plants achieved a very high standard for the ratio of recycling, 99.4%, in FY2013.

● Amount of Industrial Waste Generated (Production Plants)



A definition of zero waste emissions: wherein a recycling ratio of over 99% is achieved annually, a zero emission state is said to have been attained at Kansai Paint.

$$\text{Recycling ratio} = \frac{(\text{Reuse} + \text{Sell} + \text{Recycle Externally})}{\text{Amount of Waste Generated}} \times 100$$



- 26 Occupational Safety and Health
- 28 Treatment of Employees
- 29 Consumer Protection
- 30 Social Action Programs

Occupational Safety and Health

Activities for Occupational Safety and Health

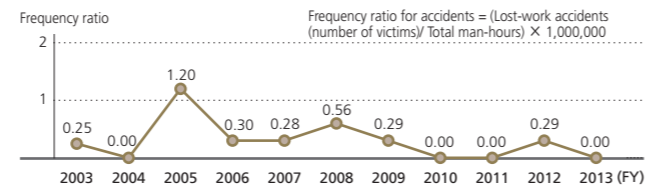
Kansai Paint conducts various activities each year with the goal of realizing zero accidents and disasters. In July, all employees across the whole Group participate in a comprehensive safety inspection. During September and October, central environmental safety diagnoses by senior management were conducted at 17 worksites. Moreover, safety diagnoses are also conducted at our 39 CCs (color centers) around the country every year and at our overseas locations once every 2 to 3 years. In conjunction with the implementation of risk prediction training, which includes other non-regular types of work, seminars regarding zero accidents in the workplace are used to disseminate information horizontally and efforts are also being made to thoroughly implement safe work.

During FY2013 we registered zero incidents that resulted in cessation of work, and this is the first time this has happened in two years. However, FY2013 marked the third successive year that we experienced an increase in incidents that did not result in cessation of work. Our work involves many hazardous situations, so we will actively engage in safety promotion activities, and work to increase awareness of safety issues in each employee, which in turn will act to prevent accidents and incidents.

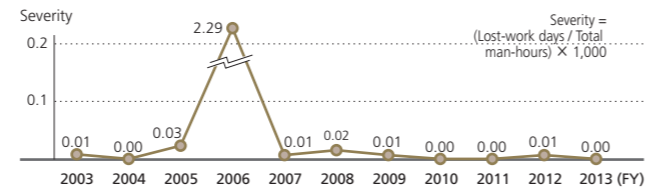
Annual Changes in Accidents at Work



Annual Changes in Frequency Ratios for Accident



Change in Severity



Environmental Safety and Health Inspections by Management

In fiscal 2013, the slogan "Why does it happen? Let's discover the root causes of accidents and create a culture of safety together" was adopted for the Central Environmental Health and Safety Diagnoses that were conducted in September and October at 7 operation plants, 1 center, 6 affiliated companies and 3 color centers. These diagnoses focused on promoting countermeasures to prevent static electricity, countermeasures to prevent leakage, management status of reactive raw materials, the current progress and situation of daily inspections and intensified measures as well as the status of safety and disaster planning and training, in addition to 3A KYT practical training (actual place, actual goods, actual conditions).

A ten-person team is performing these diagnoses. The team is led by the central safety and environmental

management officer and includes central hygiene managers, a general management team as well as a team of experts in machinery and electricity. Reflecting on the current state of events, whereby other companies in the chemical industry sector have experienced accidents and incidents, the team has been especially strict when implementing their diagnoses with regard to safety preservation, disaster prevention and measures for static electricity. The team issues guidance and calls for each and every employee to take responsibility for safety management every single day and not to leave these important tasks to other people or machinery/equipment.



Kanuma Plant

Safety Diagnoses at Foreign Affiliated Companies

With the goal of preventing accidents and disasters at foreign affiliated companies, safety diagnoses are planned and conducted in each region every year, limiting the number of affiliates subject to these diagnoses. During fiscal 2013, China was subject to a safety diagnosis in December, followed by India in January, with the focus on safety work

practices, static electricity countermeasures and the 5S standards. We will also continue to conduct diagnoses in the future.



KANSAI NEROLAC PAINTS LTD.

Safety Measures of Overseas Affiliates

Currently, the number of production plants run by overseas affiliates in China, Taiwan, ASEAN, India, Pakistan and Turkey stands at 38. We will be expanding our business activities globally in the future. Kansai Paint employees are stationed at our overseas production plants and work in safety, production or quality management and support.

Number of Overseas Safety Diagnosis Sites

Fiscal Year	Number of Sites (Countries Visited)
2004	9 (ASEAN, India, China)
2005	8 (ASEAN, China, Taiwan)
2006	8 (ASEAN, China)
2007	Training seminars held in Japan, India
2008	9 (ASEAN, China, Taiwan)
2009	6 (Thailand, India)
2010	12 (China, India)
2011	8 (ASEAN, India, China, Taiwan)
2012	9 (Indonesia, India, Thailand)
2013	5 (China, India)

Health Care

Starting in FY2013 we worked with an outside specialist to introduce an Employee Assistance Program (EAP) service as an effort to improve mental health care for our employees.

Mental health care and treatment for lifestyle-related diseases

- During a training course for new employees, participants were given instructions on general health management and stress measures by our industrial physicians and external expert instructors on the theme of "Health Management for Adults" as a part of the process of transition from being a student to becoming a fully-fledged member of society. This increased awareness of "health management for mind and body" concept as well as raising self-awareness of the importance of self-care.
- Aiming for the creation of a workplace that promotes health and an easy-to-work-in environment, we provided instructions on the basics of line care for newly appointed administrators, based on the theme of "Mental Health in the Workplace" and we are also promoting safety-awareness activities.
- Self-care training for mental health was carried out for mainly younger employees with up to five years of experience at our company, as well as for employees from some of our affiliated companies.

- Ahead of the revision of the Industrial Safety and Health Law, we implemented stress check tests for our employees, as well as following up with counseling and other services offered by external contractors.
- In order to deepen our employee's understanding of mental health care and lifestyle-related diseases, regular training seminars are being held in each region. Furthermore, following on from the regular annual health check, Kansai Paint has developed a system to follow up on employees who are diagnosed with some sort of condition. We are continuing to strive to promote and maintain good health in our employees.



Mental Health Seminar (Head Office)

Treatment of Employees

Human Resource Development and Training

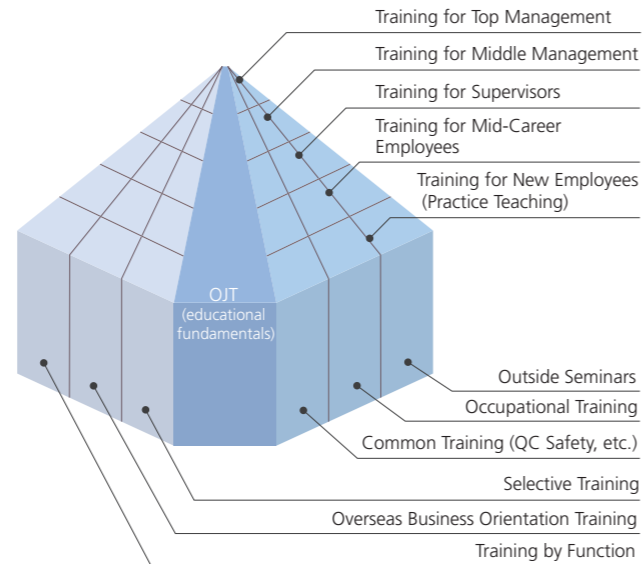
Our human resource development plan has been designed to motivate our employees, as we consider that motivation is one of the most important factors in human development.

Human resource development system

Five themes have been defined for human resource development training: a self-development program, a long-term training plan, expansion of job capabilities, a revolution in corporate culture and a training structure.

Systematically established training system

Our training system has been systemized as a matrix corresponding to the various types of study objectives and levels. Our goal is to enhance the specialized skills of each employee and to foster the comprehensive abilities of our professionals.



Equal Employment Opportunities

Kansai Paint complies with the ideology of the Equal Employment Opportunity Law for Men and Women. We implement many measures to ensure the rights of our female employees and the health of the mother are protected, etc. and we acknowledge the broad nature of the

rights of the female employee.

Moreover, we do not discriminate between male and female employees in terms of equal pay and benefits, nor would we treat an employee differently due to the fact that she was female. We are actively appointing female employees to managerial roles.

Employment of Disabled Persons

We make our workplace friendly to disabled personnel, and offer job openings for disabled personnel throughout the year as well as working to expand the employment

opportunities for disabled people.

In FY2013, our ratio of disabled personnel was 1.63% and this is below our legal requirement to have 2.0% of our workforce consist of disabled people. We will continue to work hard to make improvements.

Benefit Programs

We provide benefit programs based on the idea of respecting individual lifestyles and individuality.

Our benefit programs include annual paid holidays, special paid holidays, accumulated paid holidays used for nursing care, volunteer work, sick leave and refreshing holidays, in addition to 28 half-day paid holidays (amounting to 14 workdays) per year to encourage our employees to utilize their paid holidays.

We are making progress with our efforts to support our

employees at work and with their families, for example with regard to child rearing, whereby an employee with a small child, until said child starts their elementary school education, shall be permitted to work shorter hours, etc.

We completed the construction of our combined training facility and dormitory "Shioe Club", which has become a new place for employee communication.



Addressing Human Rights Issues

The Kansai Paint Group's fundamental stance as a corporation is to contribute to happier people and society, and the Company strives to maintain a wholesome

workplace environment by eliminating harassment and discrimination due to race, nationality, age, gender, religious beliefs, lineage, or physical handicap, etc. To this end, we are implementing training programs and seminars dedicated to increasing employee awareness about human rights.

Consumer Protection

Principle of Consumer Protection

In order to ensure product safety for consumers when conducting market development for new products and when using new materials, the Kansai Paint Group implements investigations based on internal company standards related to safety verification, providing customers with safe products. The provision of safer products is also linked to improvements in the working environments of our coatings manufacturers.

Safety Information

Based on the idea that even a safe product could lead to an accident if used incorrectly, we provide SDSs (safety data

sheets), product catalogs, technical information and container labeling that detail the usage precautions for the product in question to ensure safe use by consumers.

Implementation of GHS, Labeling and SDS (Safety Data Sheet)

The Globally Harmonized System of Classification and Labeling of Chemicals (GHS) is an international standard hazard classification system applied to chemical substances. The results of GHS classification are displayed on labels and SDS. The system is designed to prevent accidents as well as protecting people's health and the environment.

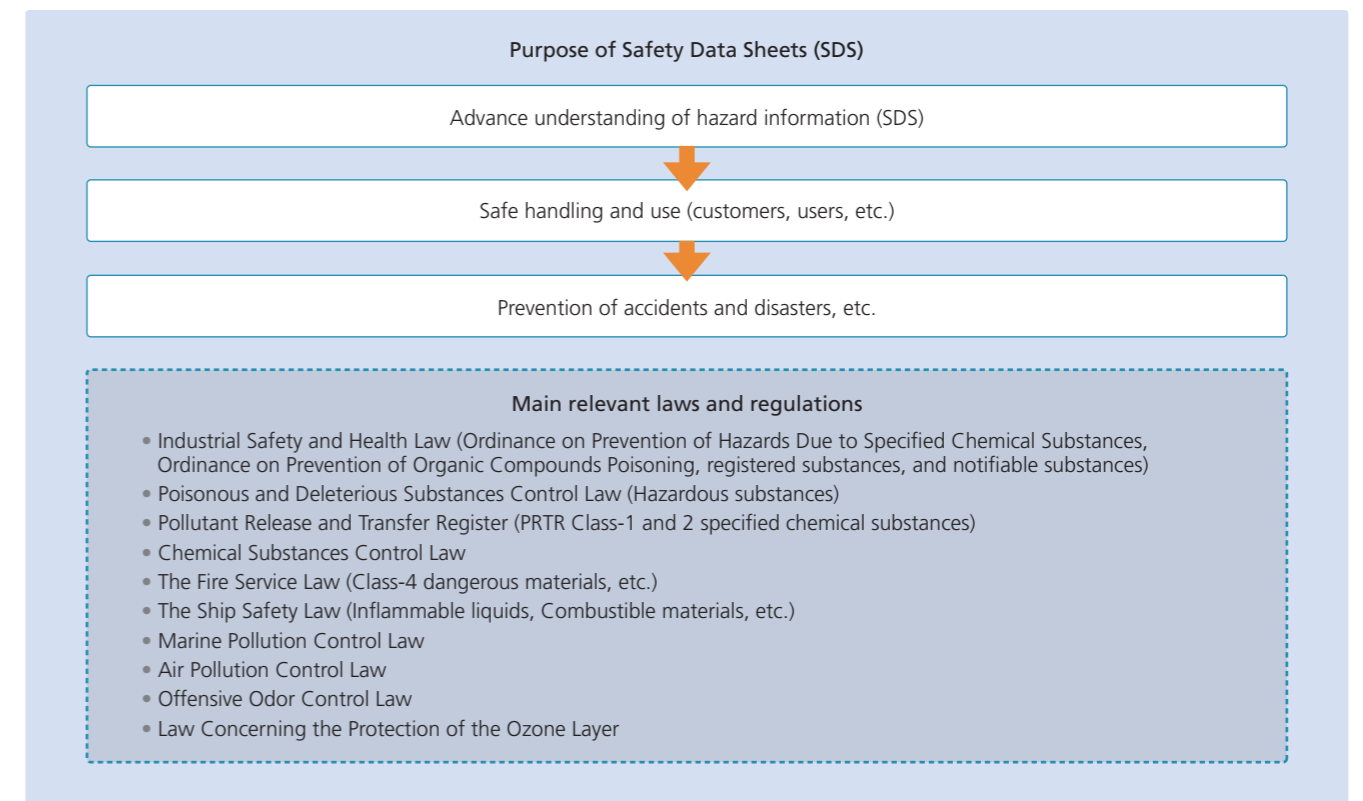
Kansai Paint has introduced GHS into labeling and SDS based on guidelines set by the Japan Paint Manufacturers Association on GHS. Moreover, in light of ongoing globalization and with GHS being implemented overseas, we

plan to coordinate with our overseas affiliates with regard to compliance.

We issue Safety Data Sheets (SDS) in compliance with applicable laws and regulations and voluntary industry standards, which provide in-depth information to prevent accidents when using our coating products.

Placing emphasis on the importance of compliance, Kansai Paint reviews the content of these SDSs and incorporates the latest legal information into the documents.

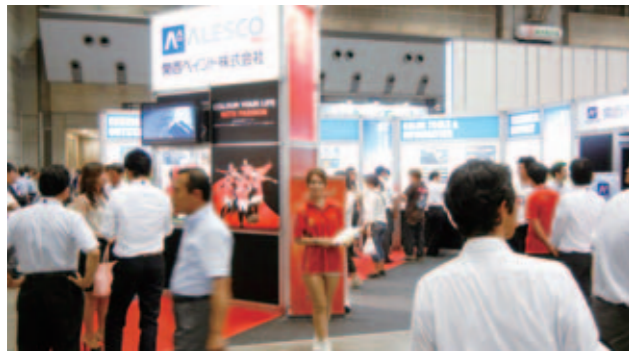
Looking forward, with regard to revisions and updates to laws both at home and overseas, etc., we shall perform regular reviews of our labeling and SDS compliance.



Social Action Programs

Status of Product Explanation Meetings and Exhibitions

The Kansai Paint Group actively conducts promotional activities both domestically and internationally to introduce and cultivate a better understanding of our products and technologies. In FY2013 we held a total of 155 product explanation meetings, and featured at trade exhibitions a total of 83 times.



33rd Auto Service Show 2013 (Tokyo Big Sight)

We also held seminars and hands-on sessions for the general public and interior coordinators to teach about and spread awareness of our paints.



JAPAN DIY HOME CENTER SHOW 2013 (Makuhari Messe)

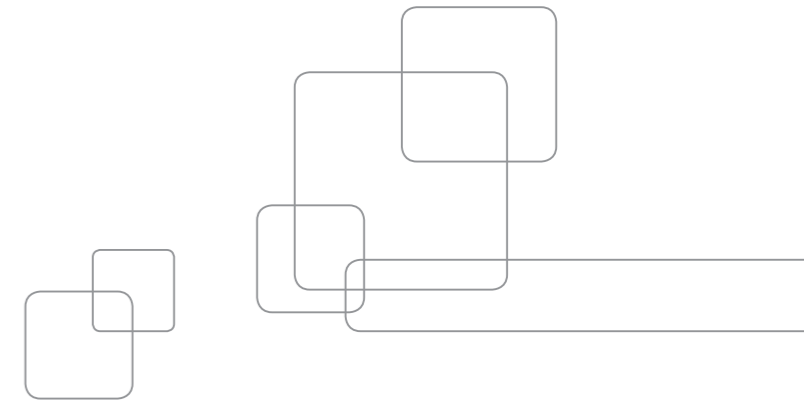
Participation in the Osaka Marathon Clean-Up Challenge

The Osaka Marathon Clean-Up Challenge, organized by Osaka City Hall, has been associated with the Osaka Marathon since 2011 and was held this year too. Kansai Paint participated in this event on October 21, 2013 and employees working at the Head Office collected garbage and litter from around the Head Office building and the surrounding area.



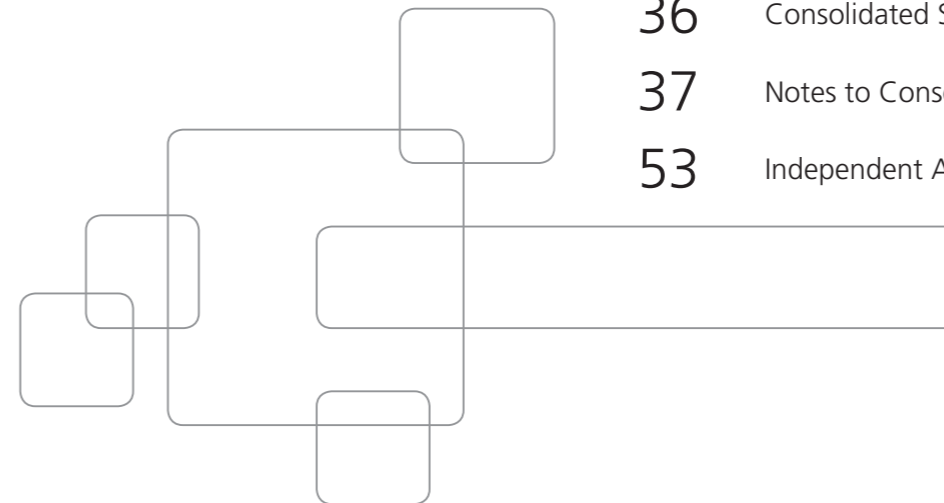
Amagasaki Plant Wins Distinguished Safety Award from the Minister for Internal Affairs and Communications

On July 5, 2013 at the Todofuken Kaikan Hall in Tokyo, the daily safety efforts by our Amagasaki Plant were evaluated and we were awarded with a Distinguished Safety Award from the Minister for Internal Affairs and Communications.



Financial Section

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Consolidated Balance Sheets

Kansai Paint Co., Ltd. and Consolidated Subsidiaries
March 31, 2014 and 2013

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Current assets:			
Cash and deposits (Notes 2, 3, 6 and 11)	¥ 61,759	¥ 53,538	\$ 600,068
Receivables (Note 3):			
Trade notes and accounts:			
Unconsolidated subsidiaries and affiliates	11,873	11,522	115,361
Other	75,345	70,018	732,073
Loans (Note 3)	343	256	3,333
Other	2,495	2,746	24,242
Allowance for doubtful receivables	(818)	(1,322)	(7,948)
Total	89,238	83,220	867,061
Inventories:			
Finished goods	25,550	22,726	248,251
Work-in-process	4,365	3,970	42,412
Raw materials and supplies	13,972	13,820	135,756
Total	43,887	40,516	426,419
Deferred tax assets (Note 13)	2,765	3,123	26,866
Other current assets (Note 3)	2,477	2,626	24,067
Total current assets	200,126	183,023	1,944,481
Property, plant and equipment (Note 6):			
Land	17,508	17,585	170,113
Buildings, machinery and equipment	206,062	189,772	2,002,157
Construction in progress	5,608	8,303	54,489
Total	229,178	215,660	2,226,759
Accumulated depreciation	(140,056)	(136,500)	(1,360,824)
Net property, plant and equipment	89,122	79,160	865,935
Investments and other assets:			
Investments in and loans to unconsolidated subsidiaries and affiliates	22,791	18,517	221,444
Investment securities (Notes 3, 4 and 6)	51,408	44,291	499,495
Loans receivable (Note 3)	104	48	1,010
Prepaid pension costs (Note 12)	–	3,806	–
Net defined benefit asset (Note 12)	7,408	–	71,978
Deferred tax assets (Note 13)	2,317	2,016	22,513
Other	4,000	3,413	38,865
Allowance for doubtful receivables	(2,255)	(1,522)	(21,910)
Total investments and other assets	85,773	70,569	833,395
Intangible assets:			
Goodwill	12,192	15,763	118,461
Other intangible assets	12,879	14,110	125,136
Total intangible assets	25,071	29,873	243,597
Total assets	¥ 400,092	¥ 362,625	\$ 3,887,408

See accompanying notes.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Current liabilities:			
Short-term borrowings (Notes 3 and 5)	¥ 7,826	¥ 16,004	\$ 76,040
Current portion of long-term debt (Notes 3 and 5)	36	127	350
Payables (Note 3):			
Trade notes and accounts:			
Unconsolidated subsidiaries and affiliates	1,194	1,267	11,601
Other	53,272	53,163	517,606
Other	6,560	6,295	63,739
Total	61,026	60,725	592,946
Income and enterprise taxes payable	5,105	4,937	49,602
Accrued expenses	10,737	10,407	104,324
Deferred tax liabilities (Note 13)	18	24	175
Other current liabilities	4,897	4,599	47,580
Total current liabilities	89,645	96,823	871,017
Long-term liabilities:			
Long-term debt (Notes 3 and 5)	18,676	15,084	181,461
Employees' severance and retirement benefits (Note 12)	–	7,065	–
Retirement benefits for directors and corporate auditors	176	175	1,710
Net defined benefit liability (Note 12)	7,827	–	76,049
Deferred tax liabilities (Note 13)	23,596	18,361	229,266
Other long-term liabilities	2,156	2,319	20,949
Total long-term liabilities	52,431	43,004	509,435
Net Assets (Note 9):			
Shareholders' equity:			
Common stock:			
Authorized — 793,496,000 shares in 2014 and 2013			
Issued — 272,623,270 shares in 2014 and 2013	25,659	25,659	249,310
Capital surplus	27,154	27,154	263,836
Retained earnings	160,892	142,807	1,563,272
Treasury stock, at cost:			
6,199,003 shares in 2014			
6,131,804 shares in 2013	(4,945)	(4,852)	(48,047)
Total shareholders' equity	208,760	190,768	2,028,371
Accumulated other comprehensive income:			
Net unrealized holding gains on securities	22,250	18,663	216,187
Deferred losses on derivatives under hedge accounting	–	(4)	–
Foreign currency translation adjustments	(6,566)	(11,567)	(63,797)
Remeasurements of defined benefit plans	1,431	–	13,904
Total accumulated other comprehensive income	17,115	7,092	166,294
Minority interests	32,141	24,938	312,291
Total net assets	258,016	222,798	2,506,956
Total liabilities and net assets	¥ 400,092	¥ 362,625	\$ 3,887,408

See accompanying notes.

Consolidated Statements of Income

Kansai Paint Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net sales	¥ 320,454	¥ 294,053	\$ 3,113,622
Cost of sales	222,390	206,260	2,160,804
Selling, general and administrative expenses	68,428	63,622	664,866
Operating income	29,636	24,171	287,952
Other income (expenses):			
Interest and dividend income	1,734	1,189	16,848
Interest expense	(994)	(861)	(9,658)
Gain on sale of marketable and investment securities, net	35	704	340
Write-down of marketable and investment securities	(18)	(147)	(175)
Loss on disposal of inventories	(260)	(263)	(2,526)
Gain on sale or disposal of property, plant and equipment, net	3,556	3,712	34,551
Foreign currency exchange gain	908	552	8,822
Equity in earnings of unconsolidated subsidiaries and affiliates	3,526	2,261	34,260
Loss on impairment of fixed assets	(36)	(161)	(350)
Other, net	1,000	1,280	9,716
Other income (expenses), net	9,451	8,266	91,828
Income before income taxes and minority interests	39,087	32,437	379,780
Income taxes (Note 13):			
Current	10,952	9,952	106,413
Deferred	2,351	1,739	22,843
Total income taxes	13,303	11,691	129,256
Minority interests in net income of consolidated subsidiaries	(4,224)	(2,988)	(41,041)
Net income	¥ 21,560	¥ 17,758	\$ 209,483
	Yen		U.S. dollars (Note 1)
	2014	2013	2014
Net income per share	¥ 80.91	¥ 66.62	\$ 0.79
Cash dividends per share	15.00	12.00	0.15

See accompanying notes.

Consolidated Statements of Comprehensive Income

Kansai Paint Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Income before minority interests	¥ 25,783	¥ 20,746	\$ 250,515
Other comprehensive income (Note 10):			
Net unrealized holding gains on securities	3,728	4,305	36,222
Deferred gains (losses) on derivatives under hedge accounting	4	(4)	39
Foreign currency translation adjustments	4,955	7,288	48,144
Shares in other comprehensive income of equity method affiliates	1,309	1,320	12,719
Total other comprehensive income	9,996	12,909	97,124
Comprehensive income	¥ 35,779	¥ 33,655	\$ 347,639
Comprehensive income attributed to:			
Owners of the parent	¥ 30,152	¥ 28,791	\$ 292,965
Minority interests	5,627	4,864	54,674

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Kansai Paint Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at April 1, 2012	¥ 25,659	¥ 27,154	¥ 128,100	¥ (5,712)	¥ 175,201	¥ 13,621	¥ -	¥ (17,561)	¥ -	¥ (3,940)	¥ 21,527	¥ 192,788
Cash dividends paid — ¥11.00 per share	-	-	(2,936)	-	(2,936)	-	-	-	-	-	-	(2,936)
Net income	-	-	17,758	-	17,758	-	-	-	-	-	-	17,758
Purchase of treasury stock	-	-	-	(26)	(26)	-	-	-	-	-	-	(26)
Disposal of treasury stock	-	-	(46)	890	844	-	-	-	-	-	-	844
Changes in treasury stock due to changes in interest in equity method companies	-	-	-	(4)	(4)	-	-	-	-	-	-	(4)
Other	-	-	(69)	-	(69)	-	-	-	-	-	-	(69)
Net changes in items other than shareholders' equity	-	-	-	-	-	5,042	(4)	5,994	-	11,032	3,411	14,443
Balance at April 1, 2013	¥ 25,659	¥ 27,154	¥ 142,807	¥ (4,852)	¥ 190,768	¥ 18,663	¥ (4)	¥ (11,567)	¥ -	¥ 7,092	¥ 24,938	¥ 222,798
Cash dividends paid — ¥13.00 per share	-	-	(3,475)	-	(3,475)	-	-	-	-	-	-	(3,475)
Net income	-	-	21,560	-	21,560	-	-	-	-	-	-	21,560
Purchase of treasury stock	-	-	-	(93)	(93)	-	-	-	-	-	-	(93)
Net changes in items other than shareholders' equity	-	-	-	-	-	3,587	4	5,001	1,431	10,023	7,203	17,226
Balance at March 31, 2014	¥ 25,659	¥ 27,154	¥ 160,892	¥ (4,945)	¥ 208,760	¥ 22,250	¥ -	¥ (6,566)	¥ 1,431	¥ 17,115	¥ 32,141	¥ 258,016
	Thousands of U.S. dollars (Note 1)											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at April 1, 2013	\$ 249,310	\$ 263,836	\$ 1,387,553	\$ (47,143)	\$ 1,853,556	\$ 181,335	\$ (39)	\$ (112,388)	\$ -	\$ 68,908	\$ 242,305	\$ 2,164,769
Cash dividends paid — ¥13.00 per share	-	-	(33,764)	-	(33,764)	-	-	-	-	-	-	(33,764)
Net income	-	-	209,483	-	209,483	-	-	-	-	-	-	209,483
Purchase of treasury stock	-	-	-	(904)	(904)	-	-	-	-	-	-	(904)
Net changes in items other than shareholders' equity	-	-	-	-	-	34,852	39	48,591	13,904	97,386	69,986	167,372
Balance at March 31, 2014	\$ 249,310	\$ 263,836	\$ 1,563,272	\$ (48,047)	\$ 2,028,371	\$ 216,187	\$ -	\$ (63,797)	\$ 13,904	\$ 166,294	\$ 312,291	\$ 2,506,956

See accompanying notes.

Consolidated Statements of Cash Flows

Kansai Paint Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 39,087	¥ 32,437	\$ 379,780
Depreciation and amortization	8,447	6,984	82,073
Loss on impairment of fixed assets	36	161	350
Amortization of goodwill	1,715	1,876	16,664
Decrease in provision for severance and retirement benefits	–	(216)	–
Increase in allowance for doubtful receivables	211	78	2,050
Decrease in net defined benefit liability	(704)	–	(6,840)
Interest and dividend income	(1,734)	(1,189)	(16,848)
Interest expense	994	861	9,658
Equity in earnings of unconsolidated subsidiaries and affiliates	(3,526)	(2,261)	(34,260)
Write-down of marketable and investment securities	18	147	175
Gain on sale or disposal of property, plant and equipment, net	(3,556)	(3,712)	(34,551)
Decrease (increase) in trade receivables	(4,085)	2,708	(39,691)
Increase in inventories	(1,838)	(2,666)	(17,859)
Decrease in trade payables	(1,581)	(4,757)	(15,361)
Other	859	1,804	8,346
Subtotal	34,343	32,255	333,686
Interest and dividends received	2,906	2,045	28,236
Interest paid	(984)	(856)	(9,561)
Income taxes paid	(10,779)	(8,365)	(104,732)
Net cash provided by operating activities	25,486	25,079	247,629
Cash flows from investing activities:			
Payments into time deposits	(11,021)	(2,193)	(107,083)
Proceeds from withdrawal of time deposits	7,135	2,879	69,326
Purchase of marketable securities	(16,721)	(16,995)	(162,466)
Proceeds from sale of marketable securities	16,721	16,995	162,466
Purchase of property, plant and equipment	(15,512)	(16,527)	(150,719)
Proceeds from sale of property, plant and equipment	5,232	6,311	50,836
Purchase of intangible assets	(459)	(525)	(4,460)
Purchase of investment securities	(1,703)	(8,739)	(16,547)
Proceeds from sale of investment securities	642	12,764	6,238
Payments of loans receivable	(424)	(236)	(4,120)
Collection of loans receivable	303	238	2,944
Purchase of shares in subsidiaries	(57)	(540)	(554)
Proceeds from sale of investments in a subsidiary	562	2,217	5,461
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 11)	(558)	(8,606)	(5,422)
Other	(286)	(404)	(2,779)
Net cash used in investing activities	(16,146)	(13,361)	(156,879)
Cash flows from financing activities:			
Proceeds from short-term borrowings	5,609	12,456	54,499
Repayments of short-term borrowings	(13,863)	(5,435)	(134,697)
Proceeds from long-term debt	3,469	–	33,706
Repayments of long-term debt	(125)	(6,562)	(1,215)
Purchase of treasury stock	(93)	(26)	(904)
Proceeds from sale of treasury stock	–	2	–
Cash dividends paid	(3,475)	(2,936)	(33,764)
Cash dividends paid to minority shareholders	(1,098)	(790)	(10,669)
Proceeds from stock issuance to minority shareholders	3,233	–	31,413
Other	(168)	(133)	(1,632)
Net cash used in financing activities	(6,511)	(3,424)	(63,263)
Effect of exchange rate changes on cash and cash equivalents	1,474	1,224	14,322
Increase in cash and cash equivalents	4,303	9,518	41,809
Cash and cash equivalents at beginning of year	52,512	42,924	510,222
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	2	70	19
Cash and cash equivalents at end of year (Note 11)	¥ 56,817	¥ 52,512	\$ 552,050

See accompanying notes.

Notes to Consolidated Financial Statements

Kansai Paint Co., Ltd. and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Kansai Paint Co., Ltd. (the "Company") and its consolidated subsidiaries (together the "Companies") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and their related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance

Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 to U.S. \$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements in the fiscal year ended March 31, 2014 include the accounts of the Company and its 80 (77 at March 31, 2013) significant subsidiaries. Intercompany transactions and accounts have been eliminated.

Investment in 13 unconsolidated subsidiaries and 29 affiliates in the fiscal year ended March 31, 2014 (14 and 28, respectively, at March 31, 2013) are stated at cost, adjusted for equity in undistributed earnings and losses since acquisition.

The accounts of 65 consolidated subsidiaries in the fiscal year ended March 31, 2014 (60 at March 31, 2013) are included on the basis of their respective fiscal year ends, one of which ends on February 28 and the others on December 31. These subsidiaries do not prepare for consolidation purposes statements for the period which corresponds with the fiscal year of the Company, which ends March 31. For these consolidated subsidiaries, when there are significant transactions between their respective fiscal year end and that of the Company, necessary adjustments are made to reflect the transactions in the consolidated financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

Unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements

Accounting Standards Board of Japan ("ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, *Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*. PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the presentation of the consolidated financial statements. Moreover, if the financial statements of foreign subsidiaries are prepared in accordance with IFRS or U.S. GAAP, they may tentatively be used for the consolidation process. However, if the five specified items are material to the group's consolidated financial statements, then they should be adjusted for in the consolidation process.

Allowance for doubtful receivables

The allowance for doubtful receivables is determined by adding the estimated uncollectible amounts of individual receivables to an amount calculated using a rate based on past experience.

Securities

The Companies do not hold trading securities. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available quoted market prices are stated at the quoted market prices. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income. Realized gains and losses on the sale of such securities are computed using moving average cost. Securities with no available quoted market prices are stated mainly at moving average cost.

If the quoted market price of equity securities issued by unconsolidated subsidiaries or affiliated companies not on the equity method or the quoted market price of available-for-sale securities declines significantly, the securities are stated at the quoted market price, and the difference between the quoted market price and the carrying amount is recognized as loss in the period of the decline. If the quoted market price of equity securities issued by unconsolidated subsidiaries or affiliated companies not on the equity method is not readily available, the securities are written down to net asset value with a corresponding charge in the consolidated statements of income in the event the net asset value declines significantly. In these cases, the quoted market price or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Inventories

Inventories held for the purpose of ordinary sale are stated principally at the lower of moving average cost or net realized value.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation is computed primarily using the declining balance method for the Company and the domestic consolidated subsidiaries and the straight-line method for overseas consolidated subsidiaries. For the Company and the domestic consolidated subsidiaries, buildings acquired after March 31, 1998 are depreciated using the straight-line method. Depreciation of fixed assets for which acquisition costs are between ¥100 thousand and ¥200 thousand is provided using the straight-line method over three years.

Software costs

Internal use software, recorded in intangible assets, is amortized using the straight-line method over the estimated useful life of five years.

Amortization of goodwill

Goodwill is amortized in equal amounts over an appropriate period not to exceed 20 years.

Research and development expenses

Research and development expenses are charged to income as incurred. Research and development expenses for the years ended March 31, 2014 and 2013 were ¥5,269 million (\$51,195 thousand) and ¥5,141 million, respectively.

Income taxes

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax. Enterprise tax is deducted from taxable income when paid.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Finance leases

Finance leases which do not transfer ownership of the lease assets are capitalized and depreciated by the straight-line method over the term of the lease with the assumption of no residual value.

Retirement benefits

(1) Method to attribute expected benefit payments to periods of service

In determining projected benefit obligations, expected benefit payments are attributed to periods of service on a straight-line basis.

(2) Actuarial gains and losses and prior service costs

Actuarial gains and losses and prior service costs are recognized in expenses using the straight-line method mainly over 13 years, which is within the average of the estimated remaining service years of the employees.

Retirement benefits for directors and corporate auditors

Retirement benefits for directors and corporate auditors of certain domestic consolidated subsidiaries are provided on an accrual basis in accordance with the Companies' established rules.

Cash and cash equivalents

In preparing the consolidated statement of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Derivatives

The Companies state derivative financial instruments at fair value and recognize any change in the fair value as gain or loss, unless the derivative financial instruments are used for hedging purposes.

Significant hedge accounting methods

(1) Hedge accounting method

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from changes in the fair value until the related loss or gain on the hedged item is recognized. However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, the foreign currency receivables or payables are translated at the contracted rate.

(2) Hedging instruments and hedged items

Hedging instruments consist of forward foreign exchange contracts.

Hedged items comprise receivables and payables denominated in foreign currencies and forecasted transactions denominated in foreign currencies.

(3) Hedging policy

The Companies utilize forward exchange contracts to reduce the risk of exchange rate fluctuations associated with receivables, payables and forecasted transactions denominated in foreign currencies within the actual demand.

(4) Assessment method for hedge effectiveness

Hedge effectiveness is not assessed for forward exchange contracts as the substantial terms and conditions of the hedging instruments and hedged items are the same and they are considered highly counterbalanced.

(5) Transaction risk management structure

The finance department of the Company administers hedging transactions based on the Company's rules and with the approval of management.

Net income and cash dividends per share

The computation of net income per share is based on the weighted average number of shares outstanding during the period. Diluted net income per share of common stock for the years ended March 31, 2014 and 2013 is not shown since there were no outstanding convertible bonds or other common stock equivalents.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

Changes in accounting principles, procedures and presentation methods for the year ended March 31, 2014

Reclassification

Certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2013 to conform to the presentation for the year ended March 31, 2014.

Adoption of a new accounting standard for retirement benefits

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have adopted the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, "Statement No. 26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, "Guidance No. 25")) (except Article 35 of Statement No. 26 and Article 67 of Guidance No. 25). Accordingly, unrecognized actuarial gains and losses and prior service costs have been recognized, and net defined benefit asset (liability) is determined as the difference between retirement benefit obligations and plan assets.

In accordance with Article 37 of Statement No. 26, the effect of the change in accounting policies arising from initial application has been recognized in remeasurements of defined benefit plans in accumulated other comprehensive income. As a result of the application, net defined benefit asset in the amount of ¥7,408 million (\$71,978 thousand) and net defined benefit liability in the amount of ¥7,827 million (\$76,049 thousand) have been recognized, and accumulated other comprehensive income increased by ¥1,431 million (\$13,904 thousand) at the end of the current fiscal year. Also, net assets per share increased by ¥5.0 (\$0.05).

Accounting standards issued but not yet effective

-Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012)

-Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(1) Summary

The standards are revised to change the accounting treatment of unrecognized actuarial gains and losses and prior service costs, the calculation method of retirement benefit obligations and service costs and the scope of disclosures, etc.

(2) Effective date

The Company and its domestic consolidated subsidiaries will adopt the accounting standard effective from the beginning of the fiscal year ending March 31, 2015. The accounting standard provides for transitional treatment that does not require retrospective application to financial statements for prior fiscal years.

(3) Impact by the adoption of the accounting standard

By adopting the accounting standard, the beginning balance of retained earnings is expected to decrease by ¥1,006 million (\$9,775 thousand) for the year ending March 31, 2015.

The impact on the consolidated statements of income is expected to be minimal.

3. Financial Instruments

1. Status of financial instruments

(1) Policies on financial instruments

The Companies procure funds necessary for capital investment and raise short-term working capital mainly through bank loans and the issuance of bonds. The Companies manage temporary surplus funds through financial assets that have a high level of safety. The Companies use derivative financial instruments to hedge foreign currency exchange rate fluctuation risk and do not enter into derivative transactions for trading or speculative purposes.

(2) Details of financial instruments and associated risks

Trade notes and accounts receivable are exposed to customer credit risk. In addition, receivables denominated in foreign currencies from overseas operations are exposed to the risk of exchange rate fluctuations. Investment securities are primarily the stocks of business partners and customers and are exposed to market price fluctuation risk.

Most trade notes and accounts payable are due for payment within one year. Those denominated in foreign currencies are exposed to the risk of exchange rate fluctuations.

The Companies use forward foreign exchange contracts to reduce the risk of exchange rate fluctuations associated with receivables, payables and forecasted transactions denominated in foreign currencies within the actual demand. Refer to "Significant hedge accounting methods" in Note 2, "Summary of Significant Accounting Policies," for a description of the Company's accounting policies related to hedging activities.

(3) Risk management framework for financial instruments

1) Credit risk management (counterparty risk)

The Company has established internal rules and procedures for receivables under which the Business Planning & Administration Division and Finance and Accounting Department are primarily responsible for monitoring counterparty status. The departments manage amounts and settlement dates by counterparty and work to quickly identify and mitigate payment risk that may result from situations such as the deterioration of the financial condition of a counterparty. Consolidated subsidiaries of the Company are subject to the same risk management rules. In using derivative transactions, the Company mitigates counterparty risk by conducting transactions with financial institutions with high credit ratings.

2) Market risk management (risk of exchange rate and interest rate fluctuations)

For some receivables and payables denominated in foreign currencies, the Companies use forward foreign exchange contracts to hedge the risk of exchange rate fluctuations on a monthly and currency-by-currency basis.

For investment securities, the Companies periodically examine the fair value of the instruments and the financial condition of the issuing entities. In addition, the Companies regularly evaluate whether securities other than those classified as held-to-maturity should be maintained taking into account their fair values and relationship with the issuing entities.

For derivative transactions, the Finance & Accounting Department handles the transactions after receiving approval from those with final approval authority in accordance with the Company's internal rules. Administrative reports on the results are periodically provided to the Management Committee.

3) Management of liquidity risk associated with capital procurement (payment default risk)

In the Companies, the Financial & Accounting Department is responsible for maintaining adequate liquidity and manages liquidity risk by creating and updating a capital deployment plan based on reports from each division.

(4) Supplementary explanations about matters concerning fair value of financial instruments

The fair value of financial instruments is based on their market price and, in cases where market price is not available, a reasonably calculated price. Such prices are calculated using certain assumptions and may differ if the assumptions change.

2. Fair value of financial instruments

Book values of the financial instruments included in the consolidated balance sheets and their fair values at March 31, 2014 and 2013 were as follows (Financial instruments for which the fair values were extremely difficult to determine were not included.):

	2014		Millions of yen	
	Book value	Fair value	Difference	
(1) Cash and deposits	¥ 61,759	¥ 61,759	¥	–
(2) Trade receivables - notes and accounts	87,218	87,218		–
(3) Investment securities				
Other securities	50,428	50,428		–
(4) Trade payables - notes and accounts	54,466	54,466		–
(5) Derivative transactions	(18)	(18)		–
	2013		Millions of yen	
	Book value	Fair value	Difference	
(1) Cash and deposits	¥ 53,538	¥ 53,538	¥	–
(2) Trade receivables - notes and accounts	81,540	81,540		–
(3) Investment securities				
Other securities	43,340	43,340		–
(4) Trade payables - notes and accounts	54,430	54,430		–
(5) Derivative transactions	(106)	(106)		–
	2014		Thousands of U.S. dollars (Note 1)	
	Book value	Fair value	Difference	
(1) Cash and deposits	\$ 600,068	\$ 600,068	\$	–
(2) Trade receivables - notes and accounts	847,434	847,434		–
(3) Investment securities				
Other securities	489,973	489,973		–
(4) Trade payables - notes and accounts	529,207	529,207		–
(5) Derivative transactions	(175)	(175)		–

Derivative assets and liabilities were on a net basis.

Fair value measurement of financial instruments

(1) Cash and deposits

Book value approximates the fair value due to the short maturity.

(2) Trade receivables - notes and accounts

Book value approximates the fair value due to the short maturity.

(3) Investment securities

The fair value of equity securities is determined by the quoted market price. The fair value of debt securities is determined by the quoted market price or the price provided by financial institutions.

(4) Trade payables - notes and accounts

Book value approximates the fair value due to the short maturity.

(5) Derivative transactions

The fair value of derivative transactions is determined by the quoted price obtained from the relevant financial institutions.

Book values of financial instruments for which the fair value was extremely difficult to measure

Classification	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2014	2013	2014	
Non-listed equity securities	¥ 980	¥ 952	\$	9,522
Non-listed investment securities of unconsolidated subsidiaries and affiliates	14,274	12,433		138,690

The redemption schedule for money claims subsequent to the consolidated balance sheet date

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2014		2013		2014	
	Cash and deposits	Receivables -trade notes and accounts	Cash and deposits	Receivables -trade notes and accounts	Cash and deposits	Receivables -trade notes and accounts
Within 1 year	¥ 61,759	¥ 87,218	¥ 53,538	¥ 81,540	\$ 600,068	\$ 847,434
From 1 year to 5 years	–	–	–	–	–	–
From 5 years to 10 years	–	–	–	–	–	–
Over 10 years	–	–	–	–	–	–

4. Securities

(1) The following table summarizes acquisition costs and book values of available-for-sale securities with available fair values at March 31, 2014 and 2013.

	2014		Difference
	Acquisition cost	Book value	
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 14,169	¥ 46,437	¥ 32,268
Investment trust funds	836	837	1
Total	¥ 15,005	¥ 47,274	¥ 32,269
Securities with book value not exceeding acquisition cost:			
Equity securities	¥ 4,278	¥ 3,154	¥ (1,124)
Investment trust funds	-	-	-
Total	¥ 4,278	¥ 3,154	¥ (1,124)
	2013		Difference
	Acquisition cost	Book value	
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 12,578	¥ 39,590	¥ 27,012
Investment trust funds	-	-	-
Total	¥ 12,578	¥ 39,590	¥ 27,012
Securities with book value not exceeding acquisition cost:			
Equity securities	¥ 4,477	¥ 2,831	¥ (1,646)
Investment trust funds	919	919	-
Total	¥ 5,396	¥ 3,750	¥ (1,646)
	2014		Difference
	Acquisition cost	Book value	
Securities with book value exceeding acquisition cost:			
Equity securities	\$ 137,670	\$ 451,195	\$ 313,525
Investment trust funds	8,123	8,133	10
Total	\$ 145,793	\$ 459,328	\$ 313,535
Securities with book value not exceeding acquisition cost:			
Equity securities	\$ 41,566	\$ 30,645	\$ (10,921)
Investment trust funds	-	-	-
Total	\$ 41,566	\$ 30,645	\$ (10,921)

(2) The following table summarizes book values of available-for-sale securities with no available fair value at March 31, 2014 and 2013.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Non-listed equity securities	¥ 980	¥ 952	\$ 9,522

(3) Total sales of available-for-sale securities for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Selling amount	¥ 17,231	¥ 31,287	\$ 167,421
Realized gains	23	909	223
Realized losses	-	0	-

(4) Impairment loss on securities

In the year ended March 31, 2014, impairment loss of ¥18 million (\$175 thousand) was recognized for available-for-sale securities, consisting of non-listed equity securities in the amount of ¥18 million (\$175 thousand).

In the year ended March 31, 2013, impairment loss of ¥147 million was recognized for available-for-sale securities, consisting of listed equity securities in the amount of ¥135 million and non-listed equity securities in the amount of ¥12 million.

Impairment loss is recognized if the fair value is less than 50% of the acquisition cost. If the fair value is less than the acquisition cost by an amount between 30% and 50% of the acquisition cost, impairment loss is recognized as deemed necessary considering the recoverability of the value. Impairment loss on securities which do not have readily determinable fair value is basically recognized if the financial condition is deteriorating and the value is less than 50% of the acquisition cost unless the value is considered to be recoverable on an individual basis.

5. Short-Term Borrowings and Long-Term Debt

Annual interest rates on the short-term borrowings ranged from 0.11% to 9.71% at March 31, 2014 and from 0.13% to 12.00% at March 31, 2013.

Short-term borrowings at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Bank loans	¥ 5,246	¥ 13,424	\$ 50,972
Loans from unconsolidated subsidiaries and affiliates	2,580	2,580	25,068
Total	¥ 7,826	¥ 16,004	\$ 76,040

Long-term debt at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Bank loans with interest rates ranging from 1.390% to 9.500% in 2014 (from 1.250% to 14.500% in 2013) due serially to 2018	¥ 3,712	¥ 211	\$ 36,067
0.564% unsecured bonds, due January 2017	15,000	15,000	145,744
Total	18,712	15,211	181,811
Less current portion	36	127	350
Long-term debt	¥ 18,676	¥ 15,084	\$ 181,461

The aggregate annual maturities of long-term debt subsequent to March 31, 2014 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2015	¥ 36	\$ 350
2016	13	126
2017	15,962	155,091
2018	52	505
2019 and thereafter	2,649	25,739
Total	¥ 18,712	\$ 181,811

6. Pledged Assets

At March 31, 2014, the following assets were pledged as collateral for certain trade notes and accounts payable, short-term borrowings of ¥82 million (\$797 thousand), long-term debt of ¥58 million (\$564 thousand) and other long-term liabilities of ¥16 million (\$155 thousand).

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2014	2014
Cash and deposits	¥ 20	\$ 194	
Inventories	229	2,225	
Property, plant and equipment	823	7,997	
Investment securities	13	126	
Total	¥ 1,085	\$ 10,542	

At March 31, 2013, the following assets were pledged as collateral for certain trade notes and accounts payable, short-term borrowings of ¥55 million, current portion of long-term debt of ¥104 million, other current liabilities of ¥36 million, long-term debt of ¥82 million and other long-term liabilities of ¥16 million.

	Millions of yen	
	2013	
Cash and deposits	¥ 20	
Property, plant and equipment	1,060	
Investment securities	11	
Total	¥ 1,091	

7. Derivative Transactions

(1) Derivative transactions to which the Companies didn't apply hedge accounting as of March 31, 2014 and 2013 were as follows:

2014	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Contract amount	Fair value *	Unrealized gain (loss)	Contract amount	Fair value *	Unrealized gain (loss)
Foreign currency forward contracts						
Buy						
U.S. dollar	¥ 112	¥ 1	¥ 1	\$ 1,088	\$ 10	\$ 10
Japanese yen	486	(6)	(6)	4,722	(58)	(58)
Sell						
U.S. dollar	632	(13)	(13)	6,141	(127)	(127)
Total	¥ 1,230	¥ (18)	¥ (18)	\$ 11,951	\$ (175)	\$ (175)
2013						
Foreign currency forward contracts						
Buy						
U.S. dollar				¥ 0	¥ (0)	¥ (0)
Euro				7	(0)	(0)
British pound				0	(0)	(0)
Japanese yen				1,320	(104)	(104)
Sell						
U.S. dollar				355	1	1
Australian dollar				122	3	3
Total				¥ 1,804	¥ (100)	¥ (100)

* The fair values of derivative transactions are determined at the quoted prices obtained from the relevant financial institutions.

(2) Derivative transactions to which the Companies applied hedge accounting as of March 31, 2013.

Classification	2013	Millions of yen	
		Contract amount	Fair value *
Deferral hedge accounting	Forecasted transactions denominated in foreign currencies	Foreign currency forward contracts Buy South African rand	¥ 1,024 ¥ (6)

* The fair values of derivative transactions are determined at the quoted prices obtained from the relevant financial institutions.

There were no applicable items for derivative transactions to which the Companies applied hedge accounting as of March 31, 2014.

8. Related Party Transactions

During the years ended March 31, 2014 and 2013, a consolidated subsidiary of the Company had operational transactions with OHGI SHOKAI CO., LTD., an affiliate of the Company. The significant transactions with OHGI SHOKAI CO., LTD. for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
For the year:			
Sales of automotive and industrial coatings	¥ 16,150	¥ 14,731	\$ 156,918
At year-end:			
Trade notes and accounts receivable	¥ 7,233	¥ 6,639	\$ 70,278

9. Net Assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting. All additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 27, 2014, the shareholders approved cash dividends of ¥8.0 (\$0.08) per share amounting to ¥2,139 million (\$20,783 thousand). This appropriation was not accounted for in the consolidated financial statements at March 31, 2014. Such appropriations are recognized in the period in which they are approved by the shareholders.

10. Comprehensive Income

Reclassification adjustments and tax effects for each component of other comprehensive income for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net unrealized holding gains on securities:			
Gains (losses) arising during the year	¥ 5,799	¥ 7,451	\$ 56,345
Reclassification adjustments	(19)	(773)	(185)
Amount before income tax effect	5,780	6,678	56,160
Income tax effect	(2,052)	(2,373)	(19,938)
Net unrealized holding gains on securities	3,728	4,305	36,222
Deferred gains (losses) on derivatives under hedge accounting:			
Gains (losses) arising during the year	6	(6)	58
Reclassification adjustments	-	-	-
Adjustments of acquisition costs of assets	-	-	-
Amount before income tax effect	6	(6)	58
Income tax effect	(2)	2	(19)
Deferred gains (losses) on derivatives under hedge accounting	4	(4)	39
Foreign currency translation adjustments:			
Gains (losses) arising during the year	4,578	7,114	44,481
Reclassification adjustments	377	174	3,663
Amount before income tax effect	4,955	7,288	48,144
Income tax effect	-	-	-
Foreign currency translation adjustments	4,955	7,288	48,144
Shares in other comprehensive income of equity method affiliates:			
Gains (losses) arising during the year	1,309	1,290	12,719
Reclassification adjustments	0	30	0
Shares in other comprehensive income of equity method affiliates	1,309	1,320	12,719
Total other comprehensive income	¥ 9,996	¥ 12,909	\$ 97,124

11. Supplementary Cash Flow Information

(1) Reconciliation of cash and cash equivalents in the consolidated statements of cash flows and cash and deposits in the consolidated balance sheets as of March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Cash and deposits	¥ 61,759	¥ 53,538	\$ 600,068
Time deposits with original maturity of more than three months	(4,942)	(1,026)	(48,018)
Cash and cash equivalents	¥ 56,817	¥ 52,512	\$ 552,050

(2) Acquisition cost and net payments for assets and liabilities of PT.Kansai Prakarsa Coatings, a newly consolidated subsidiary acquired through a stock purchase, for the year ended March 31, 2013 were as follows:

	Millions of yen
	2013
Current assets	¥ 3,556
Fixed assets	5,168
Goodwill	5,713
Current liabilities	(2,734)
Long-term liabilities	(1,292)
Minority interests	(470)
Acquisition cost	9,941
Cash and cash equivalents	(1,451)
Net payments for the acquisition	¥ 8,490

12. Employees' Severance and Retirement Benefits

The Company and some of the consolidated subsidiaries have defined benefit plans, corporate pension funds and lump-sum payment plans. Several of the other domestic consolidated subsidiaries have defined benefit plans in the form of lump-sum payment plans. Most of the overseas consolidated subsidiaries have various types of pension benefit plans, mainly defined contribution plans and defined benefit plans.

1. Information on employees' severance and retirement benefits for the year ended March 31, 2014

(1) Defined benefit plans

1) Reconciliation of beginning and ending balances of the projected benefit obligation (except plans applying the simplified method) at March 31, 2014 was as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Projected benefit obligation at beginning of year	¥ 40,782	\$ 396,250
Service costs	1,239	12,038
Interest costs	816	7,929
Actuarial losses (gains)	478	4,644
Benefits paid	(2,490)	(24,194)
Foreign currency exchange difference	141	1,370
Projected benefit obligation at end of year	¥ 40,966	\$ 398,037

2) Reconciliation of beginning and ending balances of fair value of plan assets (except plans applying the simplified method) at March 31, 2014 was as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Fair value of plan assets at beginning of year	¥ 36,936	\$ 358,881
Expected return on plan assets	859	8,346
Actuarial losses (gains)	3,098	30,101
Contributions from the employer	2,321	22,552
Benefits paid	(1,897)	(18,432)
Foreign currency exchange difference	21	204
Fair value of plan assets at end of year	¥ 41,338	\$ 401,652

3) Reconciliation of beginning and ending balances of net defined benefit liability applying the simplified method at March 31, 2014 was as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Net defined benefit liability at beginning of year	¥ 888	\$ 8,628
Net periodic benefit costs	110	1,069
Contributions from the employer	(104)	(1,010)
Benefits paid	(103)	(1,001)
Net defined benefit liability at end of year	¥ 791	\$ 7,686

4) Reconciliation of ending balances of projected benefit obligations and fair value of plan assets with net defined liability and net defined asset recognized in the consolidated balance sheets at March 31, 2014 was as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Projected benefit obligation (unfunded plans)	¥ 39,181	\$ 380,694
Fair value of plan assets	(42,088)	(408,939)
	(2,907)	(28,245)
Projected benefit obligation (unfunded plans)	3,326	32,316
Net amount of asset and liability recognized in the consolidated balance sheets	419	4,071
Net defined benefit liability	7,827	76,049
Net defined benefit asset	(7,408)	(71,978)
Net amount of asset and liability recognized in the consolidated balance sheets	¥ 419	\$ 4,071

Note: Including plans applied simplified method

5) The components of net periodic benefit costs for the year ended March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Service costs	¥ 1,239	\$ 12,038
Interest costs	816	7,929
Expected return on plan assets	(859)	(8,346)
Recognized actuarial losses	1,511	14,681
Amortization of prior service costs	(415)	(4,032)
Net periodic benefit costs calculated using the simplified method	110	1,069
Net periodic benefit costs	2,402	23,339
Additional retirement payments	76	738
Total	¥ 2,478	\$ 24,077

6) The amounts recognized in remeasurements of defined benefit plans (before the tax effect) at March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Unrecognized actuarial losses	¥ (800)	\$ (7,773)
Unrecognized prior service costs	(1,400)	(13,603)
Total	¥ (2,200)	\$ (21,376)

7) The component ratio of the plan assets by asset category at March 31, 2014 was as follows:

Debt securities	35%
Equity securities	40
Life insurance company general accounts	21
Cash and deposits	2
Other	2
Total	100%

8) The expected long-term rate of return on plan assets is determined based on the current and expected future distribution of plan assets and the current and expected future long-term rate of return of various assets of which plan assets are composed.

9) The weighted-average rate for assumptions used for the actuarial computation of the retirement benefit obligations for the year ended March 31, 2014 was primarily as follows:

Discount rate	2.0%
Expected long-term rate of return on plan assets	2.5%

(2) Defined contribution pension plans

The amounts of contribution to defined contribution plans of certain consolidated subsidiaries were ¥1,126 million (\$10,941 thousand) for the year ended March 31, 2014.

2. Information on employees' severance and retirement benefits for the year ended March 31, 2013

(1) The liability for severance and retirement benefits at March 31, 2013 consisted of the following:

	<i>Millions of yen</i>
Projected benefit obligation	¥ 42,353
Fair value of plan assets	(37,619)
Unrecognized actuarial losses	(3,291)
Unrecognized prior service costs	1,816
Prepaid pension costs	3,806
Net liability for severance and retirement benefits	¥ 7,065

(2) The components of net periodic benefit costs for the year ended March 31, 2013 were as follows:

	<i>Millions of yen</i>
Service costs	¥ 2,047
Interest costs	776
Expected return on plan assets	(784)
Amortization of prior service costs	(415)
Recognized actuarial losses	1,761
Net periodic benefit costs	¥ 3,385

(3) Assumptions used for the year ended March 31, 2013 were as follows:

Discount rate	Mainly 1.8%
Expected rate of return on plan assets	Mainly 2.5%
Amortization period of prior service costs	Mainly 13 years
Recognition period of actuarial gains and losses	Mainly 13 years

13. Deferred Income Taxes

(1) The following table summarizes the significant differences between the statutory tax rate and the Companies' effective income tax rate for financial statement purposes for the years ended March 31, 2014 and 2013.

	2014	2013
Statutory tax rate	38.0%	38.0%
Amortization of goodwill	1.7	2.2
Elimination of dividends from subsidiaries	2.1	2.2
Equity in earnings of affiliates	(3.4)	(2.7)
Undistributed foreign earnings	2.7	(1.9)
Difference in statutory tax rates of foreign subsidiaries	(4.7)	(4.1)
Reduction of the amount of deferred tax assets resulting from the change in tax rate	0.4	-
Other	(2.8)	2.3
Effective tax rate	34.0%	36.0%

(2) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2014 and 2013 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2014	2013	2014
Deferred tax assets:			
Valuation loss on inventories	¥ 155	¥ 161	\$ 1,506
Elimination of unrealized gain on inventories	568	581	5,519
Excess allowance for doubtful receivables	786	891	7,637
Excess accrued expenses	426	247	4,139
Excess bonuses accrued	1,276	1,309	12,398
Retirement benefits	-	1,479	-
Net defined benefit liability	408	-	3,964
Other	2,516	2,813	24,446
Subtotal	6,135	7,481	59,609
Valuation allowance	(293)	(263)	(2,846)
Total deferred tax assets	5,842	7,218	56,763
Deferred tax liabilities:			
Adjustments of allowance for doubtful accounts	63	24	612
Adjustments to fixed assets based on corporate tax laws	4,899	3,905	47,600
Net unrealized holding gains on securities	11,056	9,005	107,423
Revaluation of assets of subsidiaries on consolidation	4,812	5,021	46,755
Tax effect of foreign subsidiaries' and affiliates' undistributed earnings	3,544	2,509	34,435
Total deferred tax liabilities	24,374	20,464	236,825
Net deferred tax liabilities	¥ (18,532)	¥ (13,246)	\$ (180,062)

Note: Certain prior year amounts have been reclassified to conform to the current year presentation.

(3) Adjustment of the amount of deferred tax assets and liabilities resulting from the change in income tax rate
Following the promulgation of the "Act on Partial Revision of the Income Tax Act, etc." (Act No. 10 of 2014) on March 31, 2014, the special reconstruction corporation tax has been abolished from the fiscal years beginning on or after April 1, 2014. In line with this change, the effective statutory tax rate used to measure deferred tax assets and deferred tax liabilities has been revised from 38.0% to 35.5% for temporary differences expected to be resolved from the fiscal year beginning on April 1, 2014. As a result of this change in tax rate, deferred tax assets (net amount after deduction of deferred tax liabilities) decreased by ¥165 million (\$1,603 thousand) and income taxes-deferred increased by the same amount.

14. Segment Information

1. Segment information

(1) General information for reportable segments

The reportable segments of the Kansai Paint Group are defined as components of the Group for which separate financial information is available and reviewed regularly by the Board of Directors in determining how to allocate management resources and evaluate operating performance.

The Company and its consolidated subsidiaries and affiliates are primarily engaged in the manufacturing and sale of paints and coatings. The Company is mainly in charge of business activities in Japan while locally incorporated overseas subsidiaries are in charge in each region. Locally incorporated overseas subsidiaries are independent business units that develop their own business activities and establish their own comprehensive strategies in each region.

Accordingly, the Kansai Paint Group, being composed of regional segments based on manufacturing and selling systems, has the following four reportable segments: Japan, India, Asia and Africa.

(2) Methods of measurement for sales, profit and loss, assets and other items for each reportable segment

The accounting methods applied to reportable segments are almost the same as those described in Note 2, "Summary of Significant Accounting Policies." Intersegment sales and transfers are based on prevailing market prices.

(3) Information about sales, profit and loss, assets and other material items by reportable segment

Segment information for the fiscal years ended March 31, 2014 and 2013 was as follows:

2014	Reportable segments					Other *1	Total	Adjustment *2	Consolidated financial statements*3
	Japan	India	Asia	Africa	Total				
<i>Millions of yen</i>									
Net sales									
Sales to customers	¥ 154,287	¥ 54,957	¥ 59,548	¥ 34,802	¥ 303,594	¥ 16,860	¥ 320,454	¥ -	¥ 320,454
Intersegment sales and transfers	12,675	23	59	66	12,823	28	12,851	(12,851)	-
Total sales	166,962	54,980	59,607	34,868	316,417	16,888	333,305	(12,851)	320,454
Segment income	¥ 18,348	¥ 5,393	¥ 8,363	¥ 1,186	¥ 33,290	¥ 2,181	¥ 35,471	¥ 0	¥ 35,471
Segment assets	¥ 233,952	¥ 37,603	¥ 79,229	¥ 41,445	¥ 392,229	¥ 12,230	¥ 404,459	¥ (4,367)	¥ 400,092
Other items									
Depreciation and amortization	¥ 3,412	¥ 999	¥ 2,396	¥ 1,389	¥ 8,196	¥ 251	¥ 8,447	¥ -	¥ 8,447
Amortization of goodwill	1	52	422	1,256	1,731	-	1,731	-	1,731
Amortization of negative goodwill	16	-	-	-	16	-	16	-	16
Interest income	29	55	165	354	603	1	604	(6)	598
Interest expense	14	31	157	604	806	111	917	(7)	910
Equity in earnings of unconsolidated subsidiaries and affiliates	827	-	1,212	243	2,282	1,244	3,526	-	3,526
Investments in unconsolidated subsidiaries and affiliates	9,594	-	9,181	1,829	20,604	1,873	22,477	-	22,477
Increase in tangible fixed assets and intangible fixed assets	5,518	2,113	5,672	1,310	14,613	896	15,509	-	15,509
<i>Millions of yen</i>									
2013	Reportable segments					Other *1	Total	Adjustment *2	Consolidated financial statements*3
	Japan	India	Asia	Africa	Total				
Net sales									
Sales to customers	¥ 146,901	¥ 50,076	¥ 50,100	¥ 32,106	¥ 279,183	¥ 14,870	¥ 294,053	¥ -	¥ 294,053
Intersegment sales and transfers	12,019	10	127	74	12,230	17	12,247	(12,247)	-
Total sales	158,920	50,086	50,227	32,180	291,413	14,887	306,300	(12,247)	294,053
Segment income	¥ 15,562	¥ 5,423	¥ 5,704	¥ 477	¥ 27,166	¥ 1,186	¥ 28,352	¥ 1	¥ 28,353
Segment assets	¥ 215,743	¥ 34,568	¥ 66,777	¥ 40,834	¥ 357,922	¥ 8,864	¥ 366,786	¥ (4,161)	¥ 362,625
Other items									
Depreciation and amortization	¥ 3,327	¥ 693	¥ 1,473	¥ 1,287	¥ 6,780	¥ 204	¥ 6,984	¥ -	¥ 6,984
Amortization of goodwill	1	50	408	1,442	1,901	-	1,901	-	1,901
Amortization of negative goodwill	20	-	-	-	20	5	25	-	25
Interest income	35	51	160	7	253	1	254	(9)	245
Interest expense	17	12	86	593	708	77	785	(9)	776
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	590	-	899	305	1,794	467	2,261	-	2,261
Investments in unconsolidated subsidiaries and affiliates	8,942	-	5,983	2,042	16,967	830	17,797	-	17,797
Increase in tangible fixed assets and intangible fixed assets	6,050	4,654	6,174	1,151	18,029	839	18,868	-	18,868

2014	Reportable segments					Other *1	Total	Adjustment *2	Consolidated financial statements*3
	Japan	India	Asia	Africa	Total				
<i>Thousands of U.S. dollars (Note 1)</i>									
Net sales									
Sales to customers	\$ 1,499,096	\$ 533,978	\$ 578,585	\$ 338,146	\$ 2,949,805	\$ 163,817	\$ 3,113,622	\$ -	\$ 3,113,622
Intersegment sales and transfers	123,154	223	574	641	124,592	272	124,864	(124,864)	-
Total sales	1,622,250	534,201	579,159	338,787	3,074,397	164,089	3,238,486	(124,864)	3,113,622
Segment income	\$ 178,274	\$ 52,400	\$ 81,257	\$ 11,524	\$ 323,455	\$ 21,191	\$ 344,646	\$ 0	\$ 344,646
Segment assets	\$ 2,273,144	\$ 365,362	\$ 769,812	\$ 402,691	\$ 3,811,009	\$ 118,830	\$ 3,929,839	\$ (42,431)	\$ 3,887,408
Other items									
Depreciation and amortization	\$ 33,152	\$ 9,706	\$ 23,280	\$ 13,496	\$ 79,634	\$ 2,439	\$ 82,073	\$ -	\$ 82,073
Amortization of goodwill	10	505	4,100	12,204	16,819	-	16,819	-	16,819
Amortization of negative goodwill	155	-	-	-	155	-	155	-	155
Interest income	282	534	1,603	3,440	5,859	10	5,869	(59)	5,810
Interest expense	136	301	1,525	5,869	7,831	1,079	8,910	(68)	8,842
Equity in earnings of unconsolidated subsidiaries and affiliates	8,036	-	11,776	2,361	22,173	12,087	34,260	-	34,260
Investments in unconsolidated subsidiaries and affiliates	93,218	-	89,205	17,771	200,194	18,199	218,393	-	218,393
Increase in tangible fixed assets and intangible fixed assets	53,614	20,531	55,111	12,728	141,984	8,706	150,690	-	150,690

Notes:

*1 The "Other" category includes business activities of subsidiaries and affiliates in the U.S. and Europe, etc.

*2 Adjustments for segment income, segment assets and other items represent the elimination of intersegment transactions.

*3 Segment income was based on operating income adjusted for interest and dividend income, equity in earnings of unconsolidated subsidiaries and affiliates, interest expense, loss on disposal of inventories, foreign currency exchange gain or loss and other items.

*4 Reportable segments other than Japan include the following countries:

India : India, Nepal

Asia : Thailand, China and Indonesia, etc.

Africa : South Africa, Zimbabwe and Namibia, etc.

2. Related information

(1) Information by products and services

2014	Reportable segments					Other	Total
	Automotive	Industrial	Decorative	Marine and protective	Other		
<i>Millions of yen</i>							
Sales to customers	¥ 121,472	¥ 81,945	¥ 83,233	¥ 18,999	¥ 14,805	¥ -	¥ 320,454
<i>Millions of yen</i>							
2013	Automotive	Industrial	Decorative	Marine and protective	Other		Total
Sales to customers	¥ 109,360	¥ 75,031	¥ 77,104	¥ 19,097	¥ 13,461	¥ -	¥ 294,053
<i>Thousands of U.S. dollars (Note 1)</i>							
2014	Automotive	Industrial	Decorative	Marine and protective	Other		Total
Sales to customers	\$ 1,180,256	\$ 796,201	\$ 808,715	\$ 184,600	\$ 143,850	\$ -	\$ 3,113,622

(2) Information by geographical segment

2014	Reportable segments					Other	Total
	Japan	India	Asia	Africa	Other		
<i>Millions of yen</i>							
Total sales	¥ 142,192	¥ 54,958	¥ 67,188	¥ 35,166	¥ 20,950	¥ -	¥ 320,454
Tangible fixed assets	40,354	14,634	22,951	7,302	3,881	-	89,122
<i>Millions of yen</i>							
2013	Japan	India	Asia	Africa	Other		Total
Total sales	¥ 137,134	¥ 50,079	¥ 56,081	¥ 32,711	¥ 18,048	¥ -	¥ 294,053
Tangible fixed assets	39,037	13,765	16,856	6,191	3,311	-	79,160
<i>Thousands of U.S. dollars (Note 1)</i>							
2014	Japan	India	Asia	Africa	Other		Total
Total sales	\$ 1,381,578	\$ 533,989	\$ 652,818	\$ 341,683	\$ 203,556	\$ -	\$ 3,113,622
Tangible fixed assets	392,091	142,188	222,999	70,948	37,709	-	865,935

(3) Information by major customers

No information is disclosed as there were no customers accounting for 10% or more of the Companies' total net sales for the fiscal years ended March 31, 2014 or 2013.



Independent Auditor's Report

3. Impairment loss on fixed assets by reportable segment

For the fiscal years ended March 31, 2014 and 2013, the Japan segment recognized an impairment loss of ¥36 million (\$350 thousand) and ¥161 million, respectively.

4. Unamortized balance of goodwill by reportable segment

(1) Unamortized balance of goodwill by reportable segment for the fiscal years ended March 31, 2014 and 2013 was as follows:

2014	Millions of yen								Consolidated financial statements
	Reportable segments					Other	Total	Adjustment	
	Japan	India	Asia	Africa	Total				
Unamortized balance of goodwill	¥ 0	¥ 19	¥ 3,322	¥ 8,852	¥ 12,193	¥ -	¥ 12,193	¥ -	¥ 12,193

2013	Millions of yen								Consolidated financial statements
	Reportable segments					Other	Total	Adjustment	
	Japan	India	Asia	Africa	Total				
Unamortized balance of goodwill	¥ 1	¥ 71	¥ 4,194	¥ 11,514	¥ 15,780	¥ -	¥ 15,780	¥ -	¥ 15,780

2014	Thousands of U.S. dollars (Note 1)								Consolidated financial statements
	Reportable segments					Other	Total	Adjustment	
	Japan	India	Asia	Africa	Total				
Unamortized balance of goodwill	\$ 0	\$ 185	\$ 32,277	\$ 86,009	\$ 118,471	\$ -	\$ 118,471	\$ -	\$ 118,471

(2) Unamortized balance of negative goodwill attributed to business combinations prior to April 1, 2010 for the fiscal years ended March 31, 2014 and 2013 was as follows:

2014	Millions of yen								Consolidated financial statements
	Reportable segments					Other	Total	Adjustment	
	Japan	India	Asia	Africa	Total				
Unamortized balance of negative goodwill	¥ 1	¥ -	¥ -	¥ -	¥ 1	¥ -	¥ 1	¥ -	¥ 1

2013	Millions of yen								Consolidated financial statements
	Reportable segments					Other	Total	Adjustment	
	Japan	India	Asia	Africa	Total				
Unamortized balance of negative goodwill	¥ 17	¥ -	¥ -	¥ -	¥ 17	¥ -	¥ 17	¥ -	¥ 17

2014	Thousands of U.S. dollars (Note 1)								Consolidated financial statements
	Reportable segments					Other	Total	Adjustment	
	Japan	India	Asia	Africa	Total				
Unamortized balance of negative goodwill	\$ 10	\$ -	\$ -	\$ -	\$ 10	\$ -	\$ 10	\$ -	\$ 10

5. Gain on negative goodwill by reportable segment

The Japan segment recognized gain on negative goodwill in the amount of ¥21 million (\$204 thousand) and ¥156 million for the fiscal years ended March 31, 2014 and 2013, respectively. This resulted from the acquisitions of additional stocks of subsidiaries. Furthermore, the Africa segment recognized gain on negative goodwill in the amount of ¥432 million (\$4,197 thousand) for the fiscal year ended March 31, 2014. This resulted from the acquisition of stock of certain consolidated subsidiaries.

To the Board of Directors of KANSAI PAINT Co., Ltd.:

We have audited the accompanying consolidated financial statements of KANSAI PAINT Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KANSAI PAINT Co., Ltd. and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 16, 2014
Osaka, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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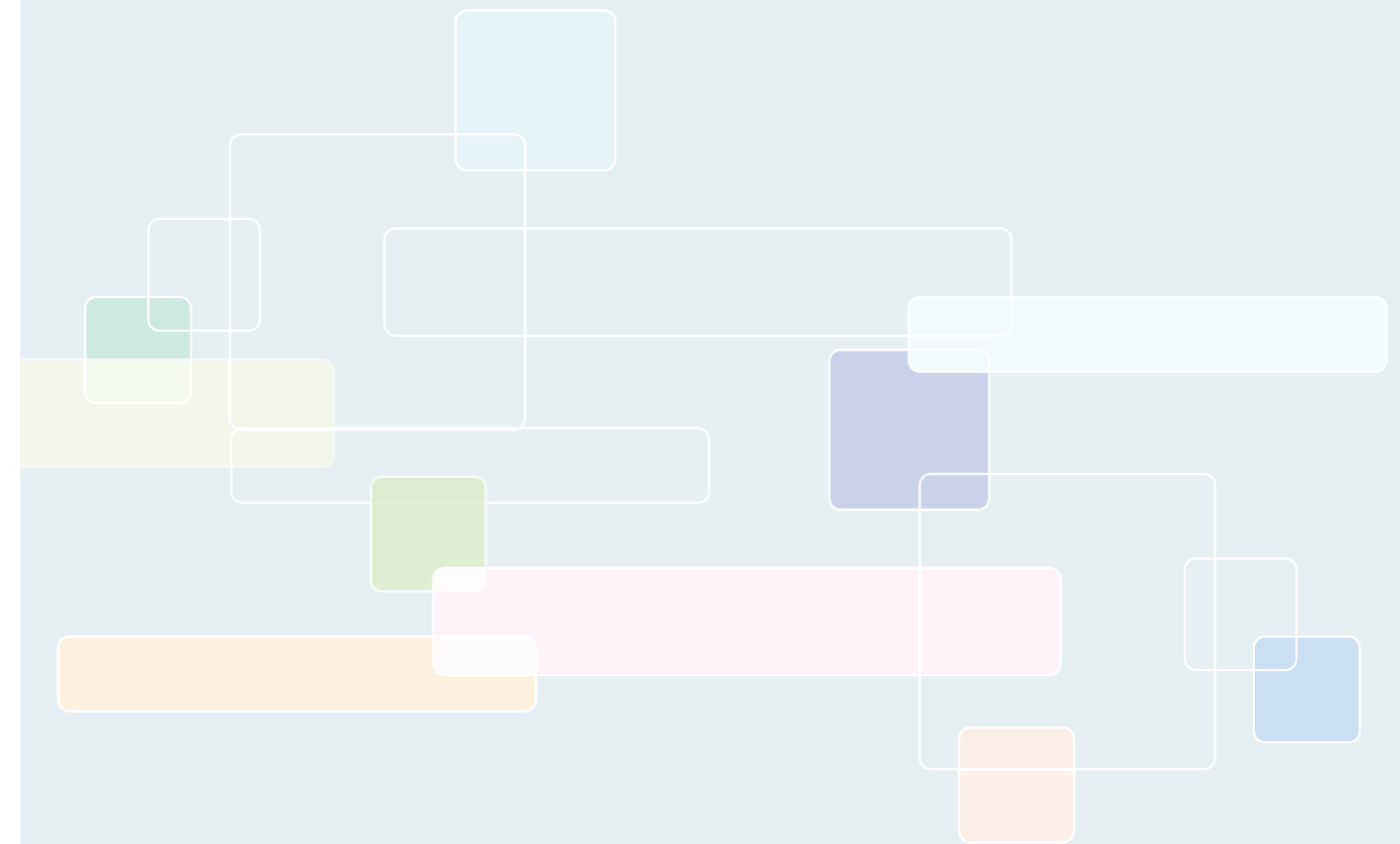
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